

REMARKS OF THE HONORABLE PATRICIA M. WORTHY,
CHAIRMAN, PUBLIC SERVICE COMMISSION
OF THE DISTRICT OF COLUMBIA

"TELECOMMUNICATIONS ISSUES"

BEFORE THE

NATIONAL SOCIETY OF RATE OF RETURN ANALYSTS

RAMADA RENAISSANCE HOTEL

MAY 10, 1989 - 9:00 - 10:30 A.M.

I AM DELIGHTED TO BE HERE THIS MORNING. I HAVE BEEN ASKED TO DISCUSS THE POTENTIAL EFFECTS OF VARIOUS ALTERNATIVES TO RATE OF RETURN REGULATION ON LOCAL EXCHANGE CARRIERS AND THEIR CUSTOMERS.

LET ME BEGIN BY OBSERVING THAT OVER THE PAST SEVERAL YEARS IT HAS BEEN FASHIONABLE TO ATTACK ESTABLISHED INSTITUTIONS, TO DRIVE TOWARD LESS AND LESS GOVERNMENT OVERSIGHT, AND TO PROMOTE COMPETITION IN INDUSTRIES LONG CONSIDERED TO BE NATURAL MONOPOLIES. THIS "FREE MARKET" APPROACH HAS COME TO MEAN THAT ESSENTIALLY MONOPOLY FIRMS ARE FREE TO PURSUE THEIR OBJECTIVES WITHOUT THE ALLEGED DISCOMFORT AND INEFFICIENCY OF GOVERNMENT INTRUSION. I BELIEVE THAT, IN LARGE PART, THIS TREND IS SHORT-SIGHTED, LACKS ADEQUATE JUSTIFICATION, AND IS POLITICALLY MOTIVATED. WHILE RATE OF RETURN LEGISLATION HAS NEVER BEEN CONSTRUED AS A PANACEA AND DOES IN FACT BURDEN UTILITIES AND RATEPAYERS WITH SIGNIFICANT REGULATORY COSTS, I HAVE YET TO SEE AN ALTERNATE REGULATORY

PROPOSAL THAT HAS PROVEN TO BE AS EFFECTIVE AS TRADITIONAL COST OF SERVICE REGULATION AT CURBING INCENTIVES TO EXERCISE ABUSIVE MONOPOLY POWER. HOWEVER, I AM COMMITTED TO MAINTAINING AN OPEN MIND.

WHILE THE INITIAL IMPETUS FOR INTRODUCING COMPETITION INTO THE TELEPHONE INDUSTRY RESULTED FROM LEGAL AND FEDERAL DECISIONS, REVISIONS TO THE METHODS OF REGULATING THE TELEPHONE COMPANIES THEMSELVES HAVE LARGELY BEEN SPEARHEADED BY THE STATES. THESE ACTIONS HAVE RESULTED FROM LEGISLATIVE INITIATIVES, REGULATORY PROCEEDINGS, OR BOTH.

WHAT THE STATES HAVE DONE

MORE THAN 75% OF THE STATES HAVE TAKEN STEPS TO REMOVE SOME LOCAL TELECOMMUNICATIONS SERVICES FROM THE TRADITIONAL RATE BASE, RATE OF RETURN METHOD OF REGULATION. OF THE THIRTEEN STATES THAT HAVE YET TO RELAX ANY TELECOMMUNICATIONS REGULATION, SEVEN (AS WELL AS THE DISTRICT OF COLUMBIA) HAVE FORMAL OR INFORMAL STUDIES OF REGULATORY REFORM UNDERWAY. OF THE THIRTY-SEVEN STATES THAT HAVE RELAXED THEIR REGULATION OF TELEPHONE COMPANIES TO SOME DEGREE, SIX (ALABAMA, CONNECTICUT, FLORIDA, KENTUCKY, NEW YORK AND WISCONSIN) HAVE OPTED FOR INCENTIVE PLANS THAT PERMIT THE COMPANIES TO EARN MORE THAN THEIR ALLOWED RATE OF RETURN SO LONG AS THE EXCESS EARNINGS ARE SHARED WITH THE RATEPAYERS THROUGH REFUNDS OR RATE CUTS. THE STATE OF DELAWARE HAS ENABLED COMPANIES TO HAVE THE BEST OF BOTH WORLDS. ITS INCENTIVE PLAN ALLOWS A LEC TO RETAIN ANY AND ALL OVEREARNINGS SO LONG AS BASIC RATES ARE NOT INCREASED. 1/

THE TWO STATES WHICH HAVE DONE THE MOST FOR TELCOS THROUGH

REGULATORY RESTRUCTURING ARE IDAHO AND NEBRASKA. IN BOTH STATES, THE RESTRUCTURING WAS MANDATED BY LEGISLATION.

THE IDAHO LAW GIVES TELEPHONE COMPANIES THE RIGHT TO CHOOSE PRICE AND PROFIT DEREGULATION OF EVERYTHING EXCEPT BASIC LOCAL EXCHANGE SERVICE. 2/

IN NEBRASKA, BASIC LOCAL SERVICE IS PRICE CAPPED UNTIL 1991. AT THAT TIME, THE CAPS WILL EXPIRE AND BASIC LOCAL SERVICE WILL BE DEREGULATED. PRICES AND PROFITS FOR ALL OTHER TELECOMMUNICATIONS SERVICES HAVE ALREADY BEEN DEREGULATED. REGULATORS HAVE RETAINED THEIR AUTHORITY OVER SERVICE QUALITY, MARKET ENTRY, AND THE SETTLEMENT OF CONSUMER COMPLAINTS.

THE NEBRASKA PUBLIC SERVICE COMMISSION VIGOROUSLY OPPOSED PASSAGE OF THIS LEGISLATION AND INITIATED COURT ACTION TO REPEAL THE LAW AS UNCONSTITUTIONAL. THE COURT RULED AGAINST THE COMMISSION AND A FURTHER APPEAL IS PENDING. MEANWHILE, THE REGULATORS ARE ABIDING BY THE LAW. IN ITS ANNUAL REPORT ON THE IMPACT OF DEREGULATION WHICH IT IS REQUIRED TO FILE WITH THE LEGISLATURE, THE COMMISSION NOTED THAT "IF THE INDUSTRY CONTINUED TO ACT RESPONSIBLY, THE LAW WOULD NOT BE AS HARMFUL AS PREDICTED." 3/ MOREOVER, THE COMMISSION HAS AGAIN ASKED THE LEGISLATURE TO RE-REGULATE THOSE SERVICES WHICH ARE INDISPENSABLE AND FOR WHICH NO ALTERNATIVE IS AVAILABLE. IT ALSO REQUESTED THAT IT BE AUTHORIZED TO REVIEW EFFECTIVE RATES IF COMPLAINTS ARE RECEIVED AND BE ALLOWED TO RE-REGULATE ANY DEREGULATED SERVICE OR COMPANY. FINALLY, THE PSC SOUGHT REPEAL OF TWO SUNSET PROVISIONS WHICH PROVIDED THAT MANDATORY GEOGRAPHIC TOLL AVERAGING AND CONSUMERS' RIGHTS TO

PETITION AGAINST RATE INCREASES WOULD EXPIRE IN 1991. THE LEGISLATURE HAS NOT ACTED ON THESE REQUESTS. 4/

OHIO HAS A DEREGULATION LAW WHICH GIVES THE COMMISSION AUTHORITY TO DEREGULATE ANY SERVICES IT FINDS TO BE COMPETITIVE. UNTIL 1997, THE PUC MAY RE-REGULATE A SERVICE. AFTER 1997, THE COMPANY MUST AGREE TO HAVE A SERVICE RE-REGULATED. THE COMMISSION ALSO HAS THE OPTION TO END PRICE AND PROFIT REGULATION FOR BASIC LOCAL SERVICE. FINALLY, THE LAW CREATED A TELECOMMUNICATIONS ADVISORY COUNCIL WHICH CONSISTS OF REPRESENTATIVES OF STATE ADMINISTRATION, LOCAL GOVERNMENTS, STATE LEGISLATORS, THE TELECOMMUNICATIONS INDUSTRY, CONSUMERS AND BUSINESS CUSTOMERS.

NOT ALL REGULATORY REFORM INITIATIVES HAVE THEIR ORIGINS IN THE STATE LEGISLATIVE BODIES. SOME RESULT FROM THE COMBINED COOPERATIVE EFFORTS OF THE STATE COMMISSIONS AND THE COMPANIES. IT WAS THIS TYPE OF EFFORT THAT LED TO THE IMPLEMENTATION OF A SOCIAL CONTRACT IN THE STATE OF VERMONT.

THE VERMONT DEPARTMENT OF PUBLIC SERVICE WORKED WITH THE NEW ENGLAND TELEPHONE COMPANY (NET) TO OBTAIN A RATE FREEZE IN EXCHANGE FOR PRICING FLEXIBILITY. THE AGREEMENT REQUIRES NET TO FREEZE BASIC RESIDENTIAL AND BUSINESS RATES THROUGH 1991. RATES FOR TOLL, WATS, CENTREX, ANALOG PRIVATE LINES AND DIRECTORY ASSISTANCE ARE FROZEN THROUGH 1989. AFTER THAT, THE RATES FOR THESE SERVICES WILL BE REGULATED THROUGH A SYSTEM OF PRICE CAPS. DIGITAL DATA SERVICES, DIGITAL PRIVATE LINE SERVICES, CUSTOM CALLING AND ANY NEW OR REPACKAGED SERVICE INTRODUCED AFTER DECEMBER 31, 1988 ARE FREE OF REGULATORY CONTROLS OTHER THAN A 15 DAY NOTICE REQUIREMENT FOR

RATE CHANGES. IN ADDITION TO THE FREEZE ON RATES, NET AGREED TO SPEND \$284 MILLION ON NETWORK IMPROVEMENTS. 5/

THE VIRGINIA CORPORATION COMMISSION INITIATED A PROPOSAL WHICH ESSENTIALLY COMBINED SOCIAL CONTRACT AND INCENTIVE REGULATION. IN EXCHANGE FOR AGREEING TO AN IMMEDIATE RATE CUT, A TELCO COULD OBTAIN DEREGULATION OF SOME SERVICES AND STREAMLINED REGULATORY TREATMENT FOR OTHERS. THE COMMISSION WOULD USE RATE OF RETURN RANGE OF 12% - 14% TO DETERMINE THE RATE CUT. MOST TELCOS IN VIRGINIA HAVE AN AUTHORIZED RATE OF RETURN OF 15%. THE PROPOSAL CREATED SEVERAL CATEGORIES OF SERVICE:

1. "ACTUALLY COMPETITIVE" WHICH WOULD BE DEREGULATED AND BELOW-THE-LINE. SUCH SERVICES INCLUDE YELLOW PAGES, INSIDE WIRE MAINTENANCE, CENTREX AND BILLING AND COLLECTION.

2. "POTENTIALLY COMPETITIVE" SERVICES WOULD BE TREATED ABOVE-THE-LINE AND TARIFFS WOULD BE FILED. HOWEVER, SUCH TARIFFS WOULD BECOME EFFECTIVE UPON 30 DAYS NOTICE. PRIVATE LINE, SPECIAL ACCESS, 3-WAY CALLING, CALL FORWARDING, AND TIME AND WEATHER SERVICES ARE IN THIS CATEGORY.

3. "MONOPOLY SERVICES" WOULD BE DIVIDED INTO DISCRETIONARY AND NON-DISCRETIONARY SERVICES, BUT THERE WOULD BE NO DIFFERENCE IN HOW THESE CATEGORIES WERE REGULATED. IF THE TELCO WANTED TO RAISE MONOPOLY RATES, THE COMMISSION COULD REQUIRE IT TO RETURN TO TRADITIONAL REGULATION FOR ALL SERVICES. 6/

C&P, GTE, CONTEL, CENTAL AND UNITED TELEPHONE COMPANIES HAVE AGREED TO REDUCE LOCAL RATES BY A COMBINED TOTAL OF \$41.4 MILLION. THE C&P TELEPHONE COMPANY IS RESPONSIBLE FOR \$37.5 MILLION OF THE

REDUCTION. RATEPAYERS ARE EXPECTED TO SAVE BETWEEN 25 CENTS AND \$1.65 PER MONTH DEPENDING ON THE TYPE OF SERVICE AND THE TELCO PROVIDING IT. IN EXCHANGE FOR CUTTING RATES, THE TELCOS RECEIVED PRICE AND PROFIT DEREGULATION OF ELEVEN COMPETITIVE SERVICES, INCLUDING THE INTERCOM PORTION OF CENTREX, PAYPHONES, MOBILE PHONE SERVICE, PAGING, SPEED CALLING, BILLING AND COLLECTION, CENTRAL OFFICE BASED LANS, WIRING, AND DIRECTORY ASSISTANCE. NINE OTHER SERVICES, INCLUDING BULK PRIVATE LINES, BULK SPECIAL ACCESS, OPERATOR SERVICES AND CERTAIN CUSTOM CALLING FEATURES RECEIVED STREAMLINED REGULATION. FOR THESE SERVICES, RATE CHANGE REQUESTS ARE DECIDED WITHIN THIRTY DAYS. 7/

THE REGULATORY DILEMMA

REGULATORS ARE CAUGHT BETWEEN COMPANIES WHICH BELIEVE THAT DEREGULATION IS ESSENTIAL FOR SURVIVAL AND CONSUMERS WHO WANT LOW RATES. FURTHER, MANY STATE COMMISSIONS HAVE A STATUTORY MANDATE TO SET REASONABLE AND NON-DISCRIMINATORY RATES WHILE ALLOWING COMPANIES TO EARN A FAIR RATE OF RETURN. SOME COMMISSIONS BELIEVE THAT A MOVE TO DEREGULATE WOULD CONSTITUTE AN ABANDONMENT OF THIS STATUTORY DUTY. THIS DILEMMA WAS RECENTLY ADDRESSED BY THE MARYLAND PUBLIC SERVICE COMMISSION.

ALTHOUGH FINDING THAT IT "LACKED THE LEGAL AUTHORITY" TO ACCEPT CERTAIN COMPONENTS OF C&P'S REGULATORY FLEXIBILITY PROPOSAL, THE MARYLAND COMMISSION DETERMINED THAT IT COULD PERMIT STREAMLINED REVIEW OF RATES FOR SOME INDIVIDUAL SERVICES. THUS, C&P COULD FILE NEW RATES FOR THESE SERVICES AND SUCH RATES WOULD BE EFFECTIVE IN 14 DAYS UNLESS THE COMMISSION ACTED. EVEN WITHOUT SUCH ACTION, THE

PSC COULD SUSPEND THE RATES AT ANY TIME AND HOLD FORMAL PROCEEDINGS. IN EXCHANGE FOR PRICING FLEXIBILITY ON CENTREX, WATS, 800 SERVICES, BILLING AND COLLECTION, CUSTOM CALLING AND AUDIOTEX, C&P HAS FROZEN THE RATES FOR BASIC LOCAL SERVICE AND BUSINESS MESSAGE RATE SERVICE FOR TWO YEARS.

DEREGULATION AND THE DISTRICT OF COLUMBIA

THE DISTRICT OF COLUMBIA IS SIGNIFICANTLY DIFFERENT FROM OTHER REGULATORY JURISDICTIONS. WE HAVE ONLY ONE LATA. WE HAVE NO INTRASTATE LONG DISTANCE. WE HAVE A HIGH PERCENTAGE OF LOW INCOME HOUSEHOLDS. TWENTY PERCENT OF OUR SENIOR CITIZENS LIVE AT OR BELOW THE POVERTY LEVEL. BECAUSE OF OUR SMALL GEOGRAPHIC CONFIGURATION AND THE HIGH POLITICAL INVOLVEMENT OF OUR CITIZENS, THE D.C. COMMISSION CONDUCTS ITS BUSINESS IN A HIGHLY VISIBLE AND POLITICALLY CHARGED ENVIRONMENT. MANY SEGMENTS OF OUR COMMUNITY REGULARLY VOICE THEIR OPINION AND OUR ACTIVITIES ARE PROMINENTLY FEATURED IN THE WASHINGTON POST AND OTHER MEDIA. UNLIKE MANY JURISDICTIONS, OUR LEGISLATORS PRIDE THEMSELVES AS BEING STRONGLY CONSUMER ORIENTED AND VIEW THE ROLE OF THE CONSUMER ADVOCATE AS ITS APPOINTED "WATCHDOG" OVER COMMISSION ACTIVITIES. BASED ON THESE FACTORS, IT IS NOT DIFFICULT TO UNDERSTAND WHY OUR JURISDICTION HAS NOT SEEN A GREAT DEAL OF DEREGULATION ACTIVITY. HOWEVER, THAT HAS RECENTLY CHANGED.

ON JULY 22, 1988, THE C&P TELEPHONE COMPANY, WHICH IS THE ONLY PROVIDER OF LOCAL SERVICE, FILED A PROPOSAL TO FREEZE BASIC SERVICE RATES FOR THREE YEARS IN EXCHANGE FOR PRICING FLEXIBILITY IN OTHER SERVICE AREAS. THE COMPANY WOULD RETAIN WHATEVER IT COULD EARN IN

THESE OTHER SERVICE AREAS. FURTHER, TO THE EXTENT THAT NON-MARKET EVENTS (SUCH AS TAX LAW CHANGES) AFFECTED C&P'S EARNINGS BY \$1 MILLION OR MORE (INCREASE OR DECREASE), THE IMPACT MAY BE PASSED THROUGH TO BASIC RATEPAYERS ON A PRO RATA BASIS. IF FLEXIBILITY PROVED TO BE UNFAVORABLE, THE COMPANY COULD RETURN TO TRADITIONAL REGULATION. OR, THE PSC MAY CHANGE ITS MIND DURING THE THREE YEAR PERIOD AND RE-REGULATE THE COMPANY. IF THIS HAPPENED, THE COMPANY WOULD BE FREE TO SEEK AN INCREASE IN BASIC RATES.

THE SERVICES FOR WHICH C&P PROPOSED TO FREEZE RATES INCLUDE LOCAL EXCHANGE SERVICE, DIRECTORY ASSISTANCE, E911, ADDITIONAL DIRECTORY LISTINGS, AND NON-LISTED AND NON-PUBLISHED TELEPHONE NUMBERS. FOR SERVICES NOT COVERED BY THE FREEZE, THE COMPANY WOULD FILE TARIFFS WHICH WOULD BE EFFECTIVE IN 35 DAYS.

ON DECEMBER 30, 1988, THE PSC STAFF FILED A REPORT WHICH SUGGESTED THAT THE COMMISSION SHOULD FIRST DECIDE THE CRITERIA TO BE APPLIED TO DETERMINE WHETHER DEREGULATION IS WARRANTED. THEN, THE CRITERIA SHOULD BE APPLIED TO C&P'S SERVICES TO DETERMINE WHETHER A REGULATORY CHANGE WAS MANDATED AND, IF SO, WHAT IT SHOULD BE. AMONG THE CRITERIA RECOMMENDED BY STAFF ARE THE EQUALITY, AVAILABILITY AND PRICE OF A SUBSTITUTE SERVICE; THE EASE OF ENTRY AND EXIT; AND THE POTENTIAL FOR PRICE DISCRIMINATION, PREDATORY PRICING AND OTHER ANTI-COMPETITIVE BEHAVIOR.

THE COMMISSION ESTABLISHED A BIFURCATED HEARING SCHEDULE TO EXAMINE THE CONCLUSIONS REACHED IN THE REPORT. THE COMMISSION WOULD FIRST INVESTIGATE THE APPROPRIATE MODEL TO DETERMINE WHETHER ACTUAL OR ANTICIPATED COMPETITION EXISTS WITHIN THE DISTRICT OF

COLUMBIA FOR TELECOMMUNICATIONS SERVICES. UPON REACHING A DECISION CONCERNING THE APPROPRIATE CRITERIA TO EXAMINE COMPETITION, PHASE II OF THIS PROCEEDING WOULD END. IN THE EVENT IT WAS NECESSARY, PHASE III WOULD APPLY THE CRITERIA TO CURRENT C&P ACTIVITIES TO DETERMINE WHETHER ACTUAL OR ANTICIPATED COMPETITION EXISTED AND WHETHER THE EXISTENCE OF SUCH COMPETITION, IF ANY, WARRANTED SOME FORM OF RELIEF FROM TRADITIONAL RATE OF RETURN REGULATION.

POTENTIAL PROBLEMS OF ALTERNATIVES TO RATE OF RETURN REGULATION

I DON'T BELIEVE ANYONE WOULD DISPUTE THE STATEMENT THAT TELCOS ARE NOT COMPETING FOR THE PROVISION OF LOCAL EXCHANGE SERVICE AND ARE NOT LIKELY TO COMPETE IN THE FORESEEABLE FUTURE. FURTHER, THESE COMPANIES KNOW THAT EITHER THE REGULATOR, THE LEGISLATURE, OR BOTH, WOULD DO WHATEVER WAS NECESSARY TO ENSURE THE AVAILABILITY OF BASIC SERVICE IN KEEPING WITH THE GOAL OF UNIVERSAL SERVICE. THUS, THIS EXPLAINS WHY EACH REGULATORY PROPOSAL OFFERED BY THE TELCOS INCLUDES SOME PROTECTION OR MONITORING WITH REGARD TO RESIDENTIAL RATES. I SUGGEST THAT AS REGULATORS OUR OBLIGATION IS GREATER, BROADER IN SCOPE. OUR LEGISLATIVE MANDATES ARE TO INSURE REASONABLE, FAIR AND NONDISCRIMINATORY RATES FOR ALL CUSTOMERS, LARGE AND SMALL. THUS, ANY REGULATORY REFORM MUST ADDRESS SUCH ISSUES AS THE APPROPRIATE ALLOCATION OF COST, COST RECOVERY, AND PRICING. THOUGH I HAVE EMBRACED THE NEED AND CONCEPT OF INDIVIDUALIZED TARIFFS FOR LARGE USERS, I DO AGREE WITH FCC COMMISSIONER DENNIS THAT FURTHER STUDY MUST BE CONDUCTED TO ENSURE THAT "TARIFF 12" TYPE FILINGS MEET OUR RESPECTIVE LEGISLATIVE MANDATES AND THAT IS THAT THE REMAINING CUSTOMER BASE IS NOT UNDULY

OR UNFAIRLY BURDENED BY THE ADOPTION OF THESE CUSTOMIZED RATES. MOREOVER, I HAVE YET TO BE CONVINCED THAT COST ACCOUNTING RULES AND PROCEDURES ADEQUATELY PROVIDE REGULATORS WITH THE NECESSARY TOOLS TO PROTECT AGAINST CROSS-SUBSIDIZATION, PREDATORY PRICING AND UNDUE DISCRIMINATION.

THERE IS ALSO A NON-MONETARY RISK ASSOCIATED WITH CERTAIN ASPECTS OF REGULATORY REFORM AND THAT IS SERVICE QUALITY. COMMISSIONS WHICH EXPERIMENT WITH ALTERNATIVE FORMS OF REGULATION MUST BE WILLING TO CLOSELY MONITOR THIS AREA AND HAVE THE WHEREWITHAL TO ENFORCE SERVICE STANDARDS. THIS IS ESPECIALLY TRUE IN LIGHT OF INDUSTRY SUGGESTIONS THAT QUALITY MAY AND SHOULD VARY FROM SERVICE CATEGORY TO SERVICE CATEGORY.

FOR EXAMPLE, I AM GREATLY DISTURBED THAT COMMENTS FILED IN THE FCC'S PRICE CAPS DOCKET SUGGEST THAT "PRICE CAPS COULD INCREASE ECONOMIC EFFICIENCY BY ENABLING CARRIERS TO RESPOND TO DIFFERING CONSUMER DEMANDS FOR QUALITY WITH QUALITY-PRICE DIFFERENTIALS." FURTHER, SEVERAL LECS STATED THAT CARRIERS COULD HAVE THE INCENTIVE TO DEGRADE QUALITY ON ONE SERVICE IN ORDER TO COMPEL A SWITCH TO A NEW, MORE EXPENSIVE SERVICE. FINALLY, THE LECS STATED THE BELIEF THAT A SIGNIFICANT PERCENTAGE OF CUSTOMERS WOULD BE WILLING TO TOLERATE SOME REDUCTION IN SERVICE QUALITY BECAUSE THE VALUE OF THE SERVICE IS GREATER THAN THE INCONVENIENCE OF SWITCHING.

CLOSING

I AM NOT OPPOSED TO THE IMPLEMENTATION OF ALTERNATIVES TO RATE OF RETURN REGULATION. HOWEVER, I BELIEVE SUCH ACTION MUST BE JUSTIFIED. I BELIEVE THAT IT MUST BE SHOWN THAT THE ALTERNATIVE WILL IMPROVE THE OVERALL STATE OF TELECOMMUNICATIONS, THAT IT WILL

RESULT IN EFFICIENCIES, TECHNOLOGICAL INNOVATIONS, SUSTAINED PRICE REDUCTIONS AND THAT, GENERALLY, THE BENEFITS WILL EXCEED THE RISKS BY SOME APPRECIABLE AMOUNT. I ALSO BELIEVE THAT ANY SUCH ALTERNATIVE SHOULD PROCEED SLOWLY, CAUTIOUSLY, ON A SERVICE-BY-SERVICE BASIS, AND ONLY AFTER A CLEAR SHOWING THAT IT IS IN THE BEST INTERESTS OF THE COMPANY AND ALL OF ITS RATEPAYERS.

FOOTNOTES

1. STATE TELEPHONE REGULATION REPORT, VOL. 7, No. 1 JANUARY 12, 1989
2. ID.
3. TELECOMMUNICATIONS REPORTS, FEBRUARY 13, 1989
4. ID.
5. STATE TELEPHONE REGULATION REPORT, VOL. 7, No. 1 JANUARY 12, 1989. TELECOMMUNICATIONS REPORTS, JANUARY 9, 1989; JULY 25, 1988; SEPTEMBER 5, 1988
6. TELECOMMUNICATIONS REPORTS, OCTOBER 3, 1988
7. STATE TELEPHONE REGULATION REPORT, VOL. 7, NO. 1, JANUARY 12, 1989.