

REMARKS OF CHAIRMAN PATRICIA WORTHY,  
PUBLIC SERVICE COMMISSION OF THE DISTRICT  
OF COLUMBIA, CONCERNING TELEPHONE DEREGULATION  
AND THE EFFECT ON CONSUMERS

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HOW EFFECTIVE IS STATE PUC REGULATION  
OF TELECOMMUNICATIONS AND WHAT CHANGES

ARE NEEDED?

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I'M DELIGHTED TO BE HERE TODAY I HAVE BEEN ASKED TO DISCUSS WITH YOU HOW EFFECTIVE STATE REGULATION HAS BEEN AND WHAT CHANGES, IF ANY, ARE NEEDED. I ASSUME THE PANEL TOPIC HAS BEEN PROMPTED BY THE RECENT REGULATORY REFORM EFFORTS UNDERTAKEN BY THE FCC AND VARIOUS STATE REGULATORY COMMISSIONS.

IT HAS BECOME FASHIONABLE DURING THE REAGAN ADMINISTRATION TO ATTACK ESTABLISHED INSTITUTIONS, TO DRIVE TOWARD LESS AND LESS GOVERNMENT OVERSIGHT, AND TO PROMOTE COMPETITION IN INDUSTRIES LONG CONSIDERED NATURAL MONOPOLIES. I THINK IN LARGE PART THIS SHOW OF DEREGULATORY ZEAL IS THE PRODUCT OF A "FAST-FIX"

MENTALITY AND A FAILURE ON THE PART OF THE LEGISLATIVE AND EXECUTIVE BRANCHES OF OUR FEDERAL GOVERNMENT TO PROPERLY ANALYZE, DEVELOP, COORDINATE AND IMPLEMENT A NATIONAL COMMUNICATIONS POLICY. HOWEVER, FOR OUR PURPOSES THIS MORNING, I WILL SHARE WITH YOU MY VIEWS ON TELECOMMUNICATIONS REGULATION BY STARTING WITH A FAIRYTALE.

ONCE UPON A TIME, THERE WAS A LITTLE SOUTHERN TOWN WITH A VERY BIG PROBLEM. THE TOWN WAS GROWING, DEMAND FOR TELEPHONE SERVICE WAS HIGH, TECHNOLOGY HAD DEVELOPED RAPIDLY, AND INSTANTANEOUS VOICE COMMUNICATIONS AMONG LARGE NUMBERS OF ITS CITIZENS WAS APPROACHING REALITY. THE TELEPHONE COMPANY KNEW ALL THIS, OF COURSE, AND IT ALSO KNEW, HAVING RECENTLY PURCHASED THE EXCLUSIVE LOCAL FRANCHISE, THAT IT WAS THE ONLY COMPANY AVAILABLE TO PEOPLE DESIRING TELEPHONE SERVICE. THERE WAS COMPETITION, OF SORTS. THE CITIZENS COULD STILL USE PUBLIC TELEGRAPH LINES TO RELAY MESSAGES, AND DISTANCES WERE SHORT, SO HAND DELIVERY OF WRITTEN MESSAGES WAS AN EFFECTIVE MEANS OF COMMUNICATIONS. NEVERTHELESS, THERE WAS ONLY ONE COMPANY THAT

OWNED THE TELEPHONE WIRES RUNNING THROUGH TOWN, HAD THE SOLE RIGHT TO INSTALL MORE, AND THAT HAD THE CAPABILITY TO SWITCH CALLS FROM ONE SUBSCRIBERS' LINE TO ANOTHER.

THERE COULD BE NO OTHER TELEPHONE COMPANIES. AS A RESULT THE COMPANY WAS ABLE TO MAKE INTERNAL CORPORATE DECISIONS WITHOUT EXTERNAL REGULATORY RESTRAINT. THESE DECISIONS COULD, THEREFORE, BE SELF-SERVING AND DRIVEN SOLELY BY THE "BOTTOM-LINE". AS A PRACTICAL MATTER, THE COMPANY HAD NO CONSTRAINTS ON ITS MONOPOLY POWER. THERE WERE NO OTHER TELEPHONE COMPANIES, NOR HAD THE GOVERNMENT PROVIDED ANY OVERSIGHT TO ENSURE THE PROVISION OF QUALITY SERVICE AT A FAIR PRICE.

ONE OF THE COMPANY'S FAVORITE PASTIMES WAS RAISING TELEPHONE RATES, WHICH IT DID FREQUENTLY. WHEN THE COMPANY FIRST STARTED BUSINESS, IT CHARGED \$12 FOR A TELEPHONE HOOK-UP, AND TOLD CUSTOMERS THAT WHEN THE NUMBER OF SUBSCRIBERS REACHED 200 IT WOULD LOWER RATES. THIS MARKETING STRATEGY ATTRACTED ADDITIONAL CUSTOMERS QUICKLY. HOWEVER, WHEN CUSTOMER SUBSCRIBERSHIP EXCEEDED 200, RATES ROSE TO \$25. THE PROMISE OF RATE REDUCTION

HAD BEEN VIOLATED. CUSTOMERS COMPLAINED, OF COURSE, BUT THERE EXISTED NO GOVERNMENT BODY WITH THE AUTHORITY OR INCLINATION TO RESPOND TO CONSUMER CONCERNS. SO, THE COMPANY RAISED ITS RATES AGAIN, THIS TIME TO \$40, AND THEN TO \$60. AND THEN, ULTIMATELY, TO \$125 A LINE FOR PREMIUM SERVICE.

AT THE SAME TIME, THE COMPANY PLACED ONEROUS USE RESTRICTIONS ON SUBSCRIBERS, AND ENFORCED THEM VIGOROUSLY. IT PROHIBITED ANYONE BUT THE ACTUAL SUBSCRIBER FROM USING THE TELEPHONE. FOR EXAMPLE ONLY THE FATHER IN THE HOUSEHOLD COULD USE THE TELEPHONE. ANY ADDITIONAL FAMILY MEMBER WHO WANTED TO MAKE CALLS HAD TO PAY A SPECIAL PREMIUM. THE TELEPHONE COMPANY ALSO CHARGED EXORBITANT RATES AT PAY PHONES.

THE COMPANY ALSO ACTIVELY MONITORED EACH TELEPHONE CALL, DISCONNECTING CALLS AT WILL. FOR EXAMPLE, A SUBSCRIBER USING HIS BUSINESS LINE TO PLACE A PERSONAL CALL WOULD BE INTERRUPTED BY AN OPERATOR DEMANDING ADDITIONAL PAYMENT. IF PAYMENT WAS NOT AGREED TO, THE CALL WAS TERMINATED. NATURALLY, THE OPERATORS MONITORING EACH CALL SOMETIMES HEARD MORE THAN SHE SHOULD HAVE,

AND HAD NO COMPUNCTION ABOUT RELAYING IMPORTANT INFORMATION OVERHEARD TO HIGHER RANKED TELEPHONE EMPLOYEES. THIS PROBLEM WAS PARTICULARLY ACUTE IN THIS TOWN, SINCE IT WAS HERE THAT MANY HIGH RANKING GOVERNMENT OFFICIALS BOTH WORKED AND LIVE.

FINALLY, THE PEOPLE OF THE TOWN, OVERWHELMED BY THESE AND OTHER ABUSIVE AND UNETHICAL PRACTICES, CREATED A SPECIAL GOVERNMENT AGENCY TO POLICE THE TELEPHONE COMPANY AND ENSURE THAT IT COULD NO LONGER USE ITS MONOPOLY POSITION TO VIOLATE THE PUBLIC TRUST. AS A RESULT, RATES CAME DOWN, SERVICE IMPROVED, AND THE MONITORING OF TELEPHONE CALLS CEASED. ORDER HAD BEEN RESTORED. IT REMAINS TO BE SEEN, HOWEVER, WHETHER, EVERYONE WILL LIVE HAPPILY EVER AFTER.

THE SOUTHERN TOWN IN OUR STORY WAS, OF COURSE, THE DISTRICT OF COLUMBIA, AND THE COMPANY WAS THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY. THE STORY IS IN FACT TRUE. ALL THESE INCIDENTS CAN BE FOUND IN THE TRANSCRIPT OF HEARINGS BEFORE CONGRESS HELD IN 1898, IN THE DAYS BEFORE PUBLIC UTILITY REGULATION CAME TO THE DISTRICT OR WAS WIDESPREAD THROUGHOUT OUR

NATION. AS A RESULT OF THESE HEARINGS, IN 1913, CONGRESS CREATED THE PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA. AT ABOUT THE SAME TIME, STATES THROUGHOUT THE COUNTRY WERE CREATING SIMILAR COMMISSIONS, ALL OF WHICH IN MY OPINION CONTINUE TO SERVE THE PUBLIC WELL.

HOWEVER, THE PENDULUM IS NOW SWINGING AWAY FROM REGULATION TO THE "FREE MARKET" APPROACH THAT ALL OF US HAVE READ ABOUT IN ECONOMICS 101. THAT IS TO SAY, THAT ESSENTIALLY MONOPOLY FIRMS ARE FREE TO PURSUE THEIR OBJECTIVES WITHOUT THE DISCOMFORT AND ALLEGED 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 REGULATION HAS NEVER BEEN CONSTRUED AS A PANACEA, AND DOES BURDEN UTILITIES AND RATEPAYERS ALIKE WITH SIGNIFICANT REGULATORY COSTS, I HAVE YET TO SEE AN ALTERNATIVE REGULATORY PROPOSAL THAT HAS BEEN PROVEN AS EFFECTIVE AS TRADITIONAL COST OF SERVICE REGULATION AT CURBING INCENTIVES TO EXERCISE ABUSIVE MONOPOLY POWER. I AM, HOWEVER, COMMITTED TO MAINTAINING AN OPEN MIND.

IT IS SAID THAT THE STATES ARE LABORATORIES FOR TESTING GOVERNMENTAL POLICIES. THOSE POLICIES SUCCESSFUL AT THE STATE LEVEL OFTEN FIND THEIR WAY INTO FEDERAL REGULATION AND LAW. THE TREND TOWARD COMMUNICATIONS REFORM IS A PERFECT EXAMPLE. WHILE THE INITIAL IMPETUS FOR INTRODUCING COMPETITION INTO THE TELEPHONE INDUSTRY RESULTED FROM LEGAL AND FEDERAL REGULATORY 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. WHILE TIME DOES NOT PERMIT A DISCUSSION OF EACH STATE'S APPROACH TO REGULATORY REFORM, I THOUGHT IT WOULD BE USEFUL TO OUTLINE BRIEFLY THE EFFORTS BEING TAKEN IN A FEW OF THE MID-ATLANTIC JURISDICTIONS.

THE D.C. PSC IS PRESENTLY INVESTIGATING THE COMPETITIVE ENVIRONMENT FACING THE CHESAPEAKE AND POTOMAC TELEPHONE COMPANY, AS WELL AS ALTERNATIVES TO RATE OF RETURN REGULATION, IN FORMAL CASE NO. 814, WHICH COMMENCED IN SEPTEMBER OF 1987. THE COMMISSION HAS FORMED A WORKING GROUP WHICH IS COMPRISED OF

REPRESENTATIVES OF THE COMMISSION STAFF, THE OFFICE OF THE PEOPLE'S COUNSEL, AND OTHER INTERESTED PARTIES WITH C&P SERVING AS BOTH A PARTICIPANT AND PROVIDER OF TECHNICAL INFORMATION. THE WORKING GROUP IS TO FORWARD RECOMMENDATIONS TO THE COMMISSION IN A REPORT DUE AT THE END OF 1988. AMONG THE QUESTIONS THE GROUP MUST ADDRESS ARE:

WHAT IS THE NATURE AND SCOPE OF CURRENT AND ANTICIPATED COMPETITION FACING C&P?

WHAT IS THE NATURE AND EXTENT OF BYPASS OF C&P FACILITIES BY LARGE USERS AND INTEREXCHANGE CARRIERS?

WHAT IMPACT DOES RATE OF RETURN REGULATION HAVE ON C&P'S COMPETITIVENESS? AND

DOES RATE OF RETURN PROVIDE ADEQUATE INCENTIVES TO REGULATED TELEPHONE COMPANIES TO IMPROVE AND MODERNIZE THEIR SERVICES?

MARYLAND HAS ALSO USED THE WORKING GROUP CONCEPT TO INVESTIGATE THE NEED FOR REGULATORY CHANGE. THE MARYLAND GROUP WAS COMPOSED OF REPRESENTATIVES FROM COMMISSION STAFF, THE OFFICE OF THE PEOPLE'S COUNSEL, C&P OF MARYLAND, INTEREXCHANGE CARRIERS, C&P CUSTOMERS, AND THE MARYLAND DEPARTMENT OF ECONOMIC AND EMPLOYMENT DEVELOPMENT. C&P SUBMITTED A PROPOSAL FOR ITS OWN



CONSENSUS REPORT TO THE MARYLAND COMMISSION BY THE END OF 1987.

C&P OF MARYLAND'S PROPOSAL WOULD HAVE FROZEN CERTAIN BASIC SERVICE RATES FOR THREE YEARS, IN EXCHANGE FOR WHICH MARYLAND WOULD ALLOW MARKET BASED PRICING OF OPTIONAL SERVICES OR THOSE DEEMED EXPOSED TO SIGNIFICANT COMPETITION. THESE SERVICES WOULD INCLUDE CENTREX, PUBLIC TELEPHONES, CUSTOM CALLING FEATURE, WATS, PRIVATE LINE, AND SPECIAL AND SWITCHED ACCESS, BILLING AND COLLECTION, AUDIOTEX 976, YELLOW PAGES, AND INSIDE WIRING.

THE TASK FORCE WAS UNABLE TO CARY OUT ITS CHARGE, HOWEVER. THE PARTIES TO THE TASK FORCE COULD NOT REACH A CONSENSUS, WITH STRONGEST OPPOSITION APPARENTLY COMING FROM INTEREXCHANGE CARRIERS CONCERNED WITH ACCESS CHARGES, SEPARATION OF COSTS, AND CRITERIA FOR COMPETITIVE SERVICES. THE COMMISSION STAFF APPARENTLY SAW DIFFICULTIES WITH RESTRICTIONS ON SERVICE RESALE. AS A RESULT OF THESE CONFLICTS, THE TASK FORCE CHAIRMAN DECIDED TO ASK FOR ADDITIONAL PUBLIC COMMENT AND THEN TO FORWARD THE GROUP'S COMPILED RECORD AND ITS MEMBERS' POSITION TO THE COMMISSION FOR ITS REVIEW. THE COMMISSION HAS RECENTLY CONCLUDED

HEARINGS AND WILL RENDER ITS DECISIONS IN THE NEAR FUTURE.

VIRGINIA HAS ADOPTED A VARIETY OF DEREGULATORY INITIATIVES. IN 1984, IN LIGHT OF NEW LEGISLATION, THE VIRGINIA CORPORATION COMMISSION DEREGULATED INTER-LATA LONG DISTANCE AND CERTIFICATED FIVE NEW INTER-LATA CARRIERS.

WITH RESPECT TO LOCAL EXCHANGE CARRIERS, OR LECS THE VIRGINIA GENERAL ASSEMBLY HAS ALREADY DEREGULATED TELEPHONE COMPANIES WITH REVENUES OF \$20 MILLION OR LESS. THESE COMPANIES MAY CHARGE RATES WITHOUT COMMISSION HEARINGS UNLESS 5% OF THE CUSTOMERS PROTEST, OR IF THE COMMISSION ITSELF CHOOSES TO INVESTIGATE.

WITH RESPECT TO THE LARGE LECS, IN NOVEMBER OF 1987, A VIRGINIA COMMISSION TASK FORCE RECOMMENDED IN AN INTERIM REPORT THAT RATE OF RETURN REGULATION AS APPLIED TO LECS IS NO LONGER ADEQUATE TO MEET THE NEEDS OF A COMPETITIVE MARKETPLACE. IT RECOMMENDED ADOPTION OF LEGISLATION EMPOWERING THE COMMISSION TO APPLY NON-TRADITIONAL REGULATORY MEASURES TO EXCHANGE CARRIERS AND "TO PROVIDE GREATER DISCRETION [TO THE COMMISSION] TO DEAL

WITH CHANGES IN THE TELECOMMUNICATIONS INDUSTRY." THE TASK FORCE ALSO RECOMMENDED THAT IF THE LEGISLATION IS PASSED, THE COMMISSION "PROPOSE FORMAL RULES PERMITTING LECS TO APPLY TO HAVE THEIR RATES GOVERNED BY THE FORCES OF COMPETITION FOR THOSE SERVICES THE COMMISSION DEEMS APPROPRIATE."

IN PENNSYLVANIA, THERE HAVE ALSO BEEN CALLS FOR LEGISLATIVE REVISION COMING DIRECTLY FROM THE INDUSTRY. AFTER AN ABORTIVE ATTEMPT AT DEREGULATORY LEGISLATION BY BELL OF PENNSYLVANIA EARLY IN 1987, THE PENNSYLVANIA TELEPHONE ASSOCIATION PROPOSED DRAFT LEGISLATION SEEKING SWEEPING DEREGULATORY CHANGES. THE BILL WOULD IMMEDIATELY DEREGULATE BILLING AND COLLECTION, YELLOW PAGES DIRECTORY ADVERTISING, WHITE PAGES DIRECTORY SERVICES, MOBILE TELEPHONE AND PAGING, AND OPERATOR SERVICES. MOREOVER, ALL NEW NON-BASIC SERVICES INTRODUCED AFTER THE EFFECTIVE DATE OF THE LEGISLATION WOULD NOT BE REGULATED. THE COMPANIES WOULD BE REQUIRED TO REPORT CERTAIN FINANCIAL AND OTHER DATA TO THE PENNSYLVANIA COMMISSION, AND TO COMPLY WITH NEW ACCOUNTING AND AUDIT RULES. THE BILL WOULD COMPLETELY DEREGULATE CARRIERS WITH

FEWER THAN FIFTY THOUSAND ACCESS LINES, ALTHOUGH RATE PROCEEDINGS WOULD BE HELD FOR INCREASES OF MORE THAN TEN PER CENT.

ON THE FEDERAL LEVEL, THE FCC HAS, OF COURSE, REVISED ITS PROCEEDING TO APPLY PRICE CAP REGULATION TO AT&T'S REGULATED OPERATIONS AND TO THE INTERSTATE ACCESS SERVICES PROVIDED BY LOCAL EXCHANGE CARRIERS. THE LENGTHY, COMPLEX PROPOSAL SEEKS TO CURE MANY OF THE DEFECTS IN PRIOR, INDUSTRY-ORIGINATED PROPOSALS, AND IN DOING SO APPEARS TO HAVE AROUSED THE CONCERN OF THE COMPANIES THAT HAD INITIALLY PROMOTED THE NEW METHODOLOGY.

THE CURRENT PROPOSAL WOULD CREATE PRICE CAPS AS A VOLUNTARY ALTERNATIVE TO RATE OF RETURN REGULATION. AT&T AND LOCAL EXCHANGE CARRIERS COULD CHOOSE TO ADOPT PRICE CAP REGULATION OR NOT. THOSE CHOOSING PRICE CAPS WOULD HAVE THEIR CURRENT TARIFFED RATES ESTABLISHED AS THE INITIAL CAPPED RATES. FOR EACH OF THE NEXT FOUR YEARS, THE CAPPED RATES WOULD BE ADJUSTED FOR INFLATION BASED ON A DEPARTMENT OF COMMERCE INDEX DERIVED FROM THE GROSS NATIONAL PRODUCT.

EACH YEAR, THE CAPPED RATES WOULD BE REDUCED BY THREE

PERCENT: TWO AND ONE HALF PERCENT REPRESENTING PRODUCTIVITY INCREASES THE TELEPHONE INDUSTRY HAS HISTORICALLY REALIZED, AND ONE HALF OF ONE PERCENT REPRESENTING A "CONSUMER PRODUCTIVITY DIVIDEND, OR CPD. THE CPD IS INTENDED TO RETURN TO CONSUMERS PRODUCTIVITY SAVINGS THE FCC EXPECTS THE COMPANIES TO REALIZE AS A DIRECT RESULT OF ADOPTING PRICE CAPS. ALL TOLD, THE FCC ANTICIPATES REAL RATE REDUCTIONS OF \$9.6 BILLION, OF WHICH \$1.6 BILLION DERIVES FROM THE CPD.

COMPANIES ADOPTING PRICE CAP REGULATION WOULD HAVE BROAD LATITUDE TO ADJUST RATES FOR PARTICULAR SERVICES, PROVIDED THAT RATES ARE NOT INCREASED OR DECREASED MORE THAN 5 PERCENT PER YEAR. SERVICES WILL BE AGGREGATED INTO SPECIFIC SERVICE GROUPINGS, OR "BASKETS", AND RATES FOR SERVICES WITHIN EACH BASKET MAY BE ADJUSTED WITHIN THE FIVE PERCENT ANNUAL LIMITS PROVIDED THE COMBINED RATES FOR ALL SERVICES WITHIN A BASKET DO NOT EXCEED THE PREESTABLISHED CAP. THE FCC HAS PROPOSED AGGREGATION OF AT&T AND LEC SERVICES INTO TWO BASKETS OF SERVICES, CORRESPONDING ROUGHLY TO SWITCHED AND PRIVATE LINE

SERVICES.

NEW SERVICES WOULD NOT BE SUBJECT TO PRICE CAP REGULATION, AND THE FCC'S EXISTING TARIFF PROCEDURES WOULD CONTINUE TO APPLY. ONCE NEW SERVICES HAS ESTABLISHED "HISTORICAL PRICE AND DEMAND FIGURES," THE SERVICES WOULD BE BROUGHT UNDER THE PRICE CAP UMBRELLA. ALSO EXCLUDED FROM PRICE CAP REGULATION WOULD BE SPECIAL CONSTRUCTION AND INDIVIDUAL CASE BASED TARIFFS.

AS I NOTED EARLIER, PRICE CAP REGULATION WOULD BE WHOLLY VOLUNTARY, AND COMPANIES COULD CHOOSE TO REMAIN WITHIN THE EXISTING MODE OF REGULATION. LECS CHOOSING TO ADOPT PRICE CAPS, HOWEVER, MUST WITHDRAW FROM THE POOLING PROCESS THROUGH WHICH RATES FOR LOCAL NETWORK ACCESS ARE AVERAGED.

THE FCC HAS TARGETED IMPLEMENTATION OF PRICE CAPS TO BEGIN APRIL 1, 1989, IF IT ADOPTS THE FINAL PROPOSAL. THE FCC HAS AFFORDED THE PUBLIC A TOTAL OF 90 DAYS IN WHICH TO COMMENT.

THIS LATEST PROPOSAL IS CLEARLY AN IMPROVEMENT ON THE PRIOR PRICE CAP PROPOSAL IF FOR NO OTHER REASON THAN THAT IT PROVIDES SOME MEAT ON THE BONES, GREATER LEVEL OF DETAIL, AND BECAUSE IT

ENSURES THAT CONSUMERS ARE GUARANTEED A FLOW THROUGH OF SAVINGS IN THE FORM OF THE CONSUMER PRODUCTIVITY DIVIDEND. NEVERTHELESS, MANY OF THE CONCERNS VOICED IN THE FIRST ROUND OF COMMENTS REMAIN UNADDRESSED. FIRST, BY ALLOWING CURRENT RATES TO SERVE AS INTRODUCTORY CAPS, THE FCC PERPETUATES BUILT-IN INEFFICIENCIES. MORE APPROPRIATE WOULD BE AN ACROSS THE BOARD RATE REDUCTION PRIOR TO CAPPING, AS SUGGESTED BY FCC COMMISSIONER QUELLO.

SECOND, THE FCC HAS PROPOSED ONLY TWO SERVICE BASKETS FOR EACH COMPANY. THIS WOULD PROVIDE CARRIERS WITH BROAD LATITUDE TO ADJUST PRICES FOR SPECIFIC SERVICES WITHIN EACH BASKET, THEREBY ALLOWING WIDE PRICING SWINGS FOR SPECIFIC SERVICES. OVER A FOUR YEAR PERIOD, A CARRIER COULD RAISE RATES FOR A SERVICE AS MUCH AS TWENTY PERCENT WITHOUT FCC REVIEW OR CONSIDERATION. SUCH WIDE SWINGS WOULD BE MADE MORE DIFFICULT IF SERVICES WERE GROUPED IN NARROWER BASKETS BASED ON MORE LOGICAL CRITERIA THAN WHETHER A SERVICE IS SWITCHED OR UNSWITCHED.

AND THIRD, THE MANDATORY THREE PERCENT PER YEAR PRODUCTIVITY RATE CUT MAY BE A PERVERSE INCENTIVE FOR PARTICIPATING CARRIERS

TO CUT CORNERS, THEREBY UNDERMINING THE QUALITY OF COMMUNICATIONS SERVICES. RATHER THAN COMMITTING THE NECESSARY LEVEL OF INVESTMENT TO PUT THE AMERICAN TELECOMMUNICATIONS NETWORK BACK INTO THE FOREFRONT OF WORLD TECHNOLOGY, PRICE CAPS COULD INDUCE THE DETERIORATION OF THE NETWORK AND INTRODUCE SERVICE DISRUPTIONS INTO WHAT HAS HISTORICALLY BEEN A SEAMLESS WEB TRANSPARENT TO USERS.

THESE AND OTHER FACTORS WILL NO DOUBT WEIGH HEAVILY IN THE COMMENTS FILED IN RESPONSE TO THE FCC'S NOTICE. MORE WILL CROP UP WHEN PARTICIPANTS HAVE HAD AN OPPORTUNITY TO EXAMINE MORE CLOSELY THE UNDERLYING COSTS IN RELATION TO THE PROPOSAL. WHILE IT IS TOO EARLY TO MAKE A FINAL DETERMINATION ON THE ACCEPTABILITY OF THE FCC'S PRICE CAP PLAN, THE \$1.6 BILLION CONSUMER PRODUCTIVITY DIVIDEND MAY BE AN INADEQUATE SUGAR COATING ON THE BITTER PILL PRICE CAPS MAY PROVE TO BE.

IN LIGHT OF MY REMARKS OF THE PAST FEW MINUTES, IT MAY SURPRISE YOU TO KNOW THAT I AM NOT OPPOSED TO REGULATORY REFORM. I BELIEVE, HOWEVER, THAT BEFORE WE REPLACE ONE FORM OF REGULATION



FOR ANOTHER IT MUST BE CLEAR THAT THE CHOSEN METHOD WILL IMPORVE  
THE OVERALL STATE OF TELECOMMUNICATIONS, THAT IT WILL INCREASE  
EFFICIENCES, YIELD TECHNOLOGICAL INNOVATIONS, CREATE SUSTAINED  
PRICE REDUCTIONS, AND THAT BENEFITS WILL APPRECIABLY EXCEED  
RISKS. I ALSO BELIEVE THAT REGULATORY REFORM SHOULD PROCEED  
SLOWLY, CAUTIOUSLY, ON A SERVICE-BY-SERVICE BASIS, AND ONLY AFTER  
A CONVINCING SHOWING THAT IT IS IN THE BEST INTEREST OF CUSTOMERS  
AND COMPANY ALIKE.

THANK YOU.