

E. Regulation of Terminating Access is Not Required. (Paragraphs 271-280)

The passage of the 1996 Act ensures sufficient competition to provide the necessary pricing discipline for terminating access service. Major telecommunications companies will be integrated suppliers, providing both interexchange and local exchange service. "Winning the end user" will be the primary goal. Thus, there will be no incentive to increase terminating access rates. Competition in the local exchange market will provide alternative methods of call termination which will also serve to keep rates reasonable.

The availability of substitutable termination and competitive marketplace conditions provide sufficient pricing discipline to constrain terminating access prices. Regulation of terminating access is not required. However, if the Commission determines that regulatory constraints on terminating access is required, it should ensure that all providers of terminating access are treated in the same manner. If the Commission is concerned that competition will not provide sufficient discipline, that concern should be addressed regardless of whether the provider is an incumbent LEC or a CLEC. In fact, since incumbent LEC prices are already constrained through regulation, the Commission should focus on ensuring that CLEC prices for terminating access are similarly constrained.

IV. LECS MUST BE PROVIDED AN OPPORTUNITY TO FULLY RECOVER THEIR COSTS. (Paragraphs 246-270)

As discussed above, the use of forward-looking costs to prescribe access prices will not permit a LEC a reasonable opportunity to recover its costs. There are costs associated with the under recovery of capital investment, the allocation of costs to the interstate jurisdiction in accordance with the Part 36 rules and, as explained above, with portions of the TIC that are not reflected in the forward-looking cost models that LECS must be provided an opportunity to recover.⁹⁰ These are legitimate costs of doing business. Failure to permit recovery, as noted above, represents poor economic policy. In addition, it exposes regulators to liability for an unconstitutional taking of property.

The Commission requests comment on how any reductions in interstate costs should be reduced to reflect revenues received from any new universal service mechanism for rate of return companies. (¶ 246). This underscores the points discussed earlier regarding the interrelationship among the interconnection, universal service and access reform proceedings. Failure to consider the inextricable linkages of these three proceedings will be detrimental to rate of return companies. It is difficult for these companies to plan for future plant deployment, upgrades and improvements in order to continue providing high quality, affordable, universal service without knowing the full impacts of the final outcomes of these proceedings.

⁹⁰Recovery of the TIC is discussed in Section III above.

Universal service is a long-standing national telecommunications policy objective. Its importance is underscored in the 1996 Act. Many rate of return LECs rely heavily on the current implicit high cost assistance mechanisms, such as DEM weighting and long term support (LTS) to provide affordable, high quality service. If the Commission ultimately requires the explicit recovery of DEM weighting and LTS, the 1996 Act requires that the recovery be sufficient as well.⁹¹

In addition, rate of return companies continue to rely heavily on explicit universal service support. They should be permitted to use the funding from new universal service support mechanisms to offset existing explicit universal service requirements before reducing any other Part 69 rates. To the extent that new universal service fund revenues exceed existing explicit universal service requirements, Part 69 rate reductions should reduce implicit support amounts.

A. The Regulatory Contract Requires that LECs Be Provided an Opportunity to Recover All of Their Economic Costs.

In an affidavit appended hereto, Sidak and Spulber explain that the regulatory contract between regulators and utilities obligates the regulator to provide the utility with a reasonable opportunity to recover all of its economic costs, *i.e.*, the full cost of providing service, including direct expenditures, the time cost of money expended for capital investment and any other opportunity costs. “The utility cannot be asked to provide services in the competitive market at

⁹¹Section 254(b)(5).

regulated prices that are noncompensatory--that is, at prices that do not allow for full cost recovery, particularly when the firm is mandated to offer unbundled services. Moreover, the introduction of resale and network unbundling does not eliminate the responsibilities of regulatory authorities to allow the incumbent utility the opportunity to recover costs *already incurred* to satisfy the utility's obligation to serve. Regulators have a continuing responsibility to allow the utility the opportunity to recover those costs."⁹²

As the Commission notes, AT&T and MCI claim that much of the difference between the revenues generated by access prices based on embedded costs as opposed to forward-looking costs is the result of inefficiency. Such claims ignore the fact that investments included in the rate base were judged to have been prudently made and based on expectations regarding capacity, technology and customer requirements when they were made. Sidak and Spulber explain further that

Incumbent utilities have not yet recovered the costs of their assets that are specific to a regulated market, and entrants meanwhile can invest in facilities that have considerably less asset specificity or can provide service with minimal investment... [I]t is often the case that the types of facilities that are needed to meet regulatory requirements are ill-suited to competitive markets. That fact does not in itself indicate that the regulated firm failed to invest wisely or that it embraced obsolete technology. Rather, the capacity that is best adapted for one type of market structure should not be expected to fit another type of market structure. For example, after airline deregulation, as airlines switched from direct routes to a hub and spoke system, they needed different airport accommodations and different types of planes...[C]ompared with a firm whose capital investment

⁹²Sidak and Spulber at 16.

is designed to serve all in a uniform manner, entrants can target service offerings to specific customer needs...[T]he incumbent regulated firm built a system with substantial capacity... to meet periods of peak traffic loads. Moreover, “standby capacity must be sufficient to meet the needs of customers who elect to depart or reduce their usage of the system and then return to the existing system as needed...”⁹³

Sidak and Spulber discuss the origins as well as the principle components of the regulatory contract under which utilities were required to make capital investments and obligated to provide service to all customers subject to regulations regarding price, service, investment and accounting procedures in return for the reasonable opportunity to recover that investment. Regulators cannot simply breach their obligations under the contract, by permitting entry into the market served by the regulated LEC or by failing to permit recovery of stranded costs. To do so will result in the confiscation of the shareholders’ property and ultimately the inability to maintain financial solvency. “It would breach the regulatory contract for the regulator to make unilateral changes in regulation that might prevent a utility from recovering the economic costs of investments that it made to discharge its regulatory obligations to serve. Contractual protections of the interests of the utility and its investors exist so that the state and private companies can continue to make agreements requiring investments in highly specialized capital. The regulatory contract depends on protections to reduce and allocate the risk of cost recovery

⁹³Id. at 17, 35-36.

for specialized assets that cannot be salvaged if the contract is not performed.”⁹⁴

Failure to permit incumbent LECs a reasonable opportunity to recover its total costs would constitute a taking of property in violation of the Fifth Amendment of the Constitution.⁹⁵

The Commission must allow for full recovery of costs as will be discussed below.

B. Recovery of the Depreciation Reserve Deficiency is Required.

Since 1950, the Commission has prescribed depreciation rates for subject carriers as required by the 1934 Act. Many state commissions have followed similar procedures. These depreciation rates were intended to allocate the cost of assets over their service life in a straight line manner. Service life was, as a practical matter, defined as the time from when the investment was recorded in a plant account until it was retired. Since increases in depreciation generally translated directly into price increases, there was a tendency by regulators to err on the side of under allocation. After all, pursuant to the regulatory contract, recovery would only be delayed by the use of low depreciation rates, not denied. Over the years, this tendency has resulted in a problem about which the Commission needs to take corrective action.

The system of regulatory depreciation was never intended to reflect loss in economic value. It was a tool of rate base regulation and focused on the accounting allocation of costs. Economic value typically declines at a rate faster than straight line and does not typically parallel

⁹⁴Id. at 43.

⁹⁵Id. at 76-107.

the regulatory definition of service life. Even AT&T and MCI recognize, by default, the inadequacy of the LECs regulated depreciation.

In a competitive market, even delayed recovery is denied recovery. The over-stated book value of the LEC's equipment is the result of past regulatory depreciation practices. Since a fully competitive future market will only allow recovery of the economic value of embedded investment, a transition mechanism is needed to allow LECs the opportunity to recover its embedded investment.

1. The Depreciation Reserve Deficiency Must Not Be Understated.

The Commission must not rely on flawed analyses to determine the extent of the LECs' reserve deficiency. (¶¶ 247, 252). For example, the MiCRA study submitted by MCI grossly understates the reserve deficiency problem. In its comments submitted in CC Docket No. 94-1 and appended hereto at Attachment 12, USTA filed a comprehensive response to the MiCRA study.⁹⁶ As USTA pointed out, the MiCRA study was flawed because of the circularity of its reasoning as well as its reliance on data which is no longer valid. MiCRA did not perform an independent study of the life of telecommunications technology, rather it relied upon lives that the Commission prescribed for accounting purposes in the early 1990's. Those Commission prescriptions were made pursuant to the 1934 Act and were never intended to reflect economic value. These lives, which underlie prescribed depreciation rates, were the ones used to

⁹⁶See, also, USTA Ex Parte, CC Docket No. 94-1, November 19, 1996.

accumulate depreciation reserves. Using those same lives to measure the adequacy of the reserves would, of course, result in the incorrect conclusion that reserves are adequate. Using appropriate life estimates to determine the adequacy of reserves results in a far different and more economically meaningful conclusion.

Attachment 13 provides empirical data regarding the amount of past under-depreciation, *i.e.*, a depreciation reserve catch-up, using a standard theoretical reserve equation. The specific theoretical reserve calculation utilized is the one prescribed by the Commission's depreciation study procedures.⁹⁷ This calculation is a measure of the adequacy of past accounting allocations of cost, assuming straight-line depreciation. It is a reasonable, yet conservative, estimate of the past under-depreciation problem. The size of the depreciation reserve catch-up also presumes that ongoing depreciation is corrected, *i.e.*, future depreciation is based upon the same economic lives used in the historical theoretical reserve calculation. The projected lives used by the LECs to develop this calculation have been reviewed and recommended by Dr. Lawrence Vanston of Technology Futures Inc. as documented in the affidavit appended hereto at Attachment 14.

According to USTA's estimate, the unseparated 1996 depreciation reserve catch-up for the price cap LECs amounts to \$17.9 billion. The interstate depreciation reserve catch-up is \$4.48 billion.

⁹⁷Federal Communications Commission Depreciation Study Guide, 1996 at C-1 and C-7.

The Commission is correct in its explanation that new technology reduces the lives of embedded plant. (¶ 251). The service lives prescribed by the Commission have been decreasing in partial recognition of the impact of technology. However, although these decreases resulted in improvement, the decrease have not been sufficient to fully recognize the impact of technology and a changing telecommunications market. In addition, service lives were never intended to be used to determine the economic value of embedded plant.

In a competitive environment, capital recovery cannot be extended past the economic life of a particular technology. If LECs are effectively prevented from providing improved technologies to their customers, customers will seek alternative providers. Regulatory practices which continue to substitute the Commission's judgment of the economic life of telecommunications equipment for the companies' will, at best, impede the development of an efficient market. In the worst case, it will make the market a sham by economically diffusing the most effective potential competitors.

The utilization of plant can be impacted by a transition to new technology or the introduction of additional competition. (¶ 255). The use of economic lives and elimination of the economic reserve deficiency that already exists will permit LECs a reasonable opportunity to recover their investment before the marketplace makes this recovery impossible.⁹⁸ "Valuing net

⁹⁸There are a number of individual company studies which support economic lives on file with the Commission. In addition, in CC Docket No. 94-1, USTA filed a study prepared by
(continued...)

plant at economic value is essential in order for competition to yield efficient outcomes.

Competitive battles should go to the more efficient firm. The incumbent should not lose simply because of past regulatory depreciation practices. If competitive battles are determined on the latter basis, the outcome will be misallocation of resources and loss of productivity for the industry.”⁹⁹

As noted above, the issue of whether past investment decisions of LECs were prudent are without merit. (¶ 257). LECs have been subject to intense regulatory scrutiny at both the state and federal levels. Their investment decisions have been continually reviewed by regulators in various rate case, depreciation and audit proceedings. Investment decisions were based on regulatory contracts that required LECs to provide service to any and all customers throughout their service areas.

The existence of spare capacity does not infer imprudent investment. Spare capacity is necessary to accommodate new customers and growth of customer needs on a timely basis and pursuant to quality standards as required by regulation. Spare capacity also is typically required to facilitate the economic transition to a replacement technology.

⁹⁸(...continued)

Technology Futures Inc.(TFI) entitled “Depreciation Lives for Telecommunications Equipment”. (March 1, 1996). TFI has worked extensively in the telecommunications industry since 1984 to assess the impacts of rapidly changing technology on the current network. Its studies support lives considerably shorter than those currently prescribed by the Commission.

⁹⁹Strategic Policy Research, “The Depreciation Shortfall”, Attachment 15 at 7.

2. Recovery of the Federal Depreciation Reserve Deficiency.

Competition, as authorized by the Act, will make it increasingly difficult for telephone companies to recover investment that should have been recovered in the past. Many state regulators have abandoned their rigid depreciation policies to provide LECs with greater flexibility to set depreciation rates. However, in the Federal jurisdiction, the Commission still prescribes depreciation rates.

There are two problems to be dealt with at the Federal level. The first problem arises from past depreciation practices and the regulatory contract discussed above. There is now a significant deficiency in the amount of depreciation expense that has been booked when compared to how much expense should have been booked considering the economic value of the plant under the 1996 Act. The interstate component of this deficiency (i.e. the amount of depreciation expense that would need to be booked to “catch-up” the interstate depreciation reserve to economic levels) is approximately \$4.48 billion. In addition to this past problem, there is also the problem of the depreciation rates that are still in effect. If LECs were given the flexibility to set their own depreciation rates, the rates would generally be higher even excluding the deficiency amortization.

In order to resolve this problem, the Commission should permit price cap LECs to recover the reserve deficiency on an accelerated basis. Price cap LECs should bill IXCs a pro-rata amount to recover the reserve deficiency over an accelerated recovery period. This, of

course requires additional revenues over the recovery period. A separate charge would be billed to each IXC. Concurrently, LECs should be permitted flexibility to set their own depreciation rates in a competitive environment.

There are many advantages to this approach. It resolves the reserve deficiency in a timely manner. It ensures a smooth and equitable transition to a market based approach to telecommunications. It provides an opportunity for the recovery of embedded investment made pursuant to the regulatory contract. It allows LECs sufficient flexibility to manage ongoing capital recovery.

This recovery mechanism would be calculated as follows:

1. Identify the amount of the reserve deficiency associated with the Interstate jurisdiction. USTA has determined that the interstate reserve deficiency is \$4.48 billion. Based on the fact that prescribed lives still differ considerably from economic lives, USTA assumes that there is no recovery for the reserve deficiency built into current booked depreciation expense.
2. Determine the desired recovery period and amortize the reserve deficiency over that number of years. If 5 years is used, then the recovery amount would be $\$4.485\text{B}/5 = \897 million per year. This amount would be billed each year for 5 years. The \$897 million is bulk billed to interexchange carriers based on their share of interstate revenues over the last three years. Each incumbent LEC would bill the IXCs based on their own company data. Example: If AT&T had 61% of the revenues paid to incumbent LECs from 1994-1996, it would be billed 61% of \$897 million. They would pay \$547 million directly to the incumbent LECs. This billing is made each year for the specified number of years in the recovery period (in this example -5 years). At the end of the recovery period, the reserve deficiency element is no longer billed. Note: The reserve deficiency amount would not be subject to price cap reductions. It is a discrete amount calculated as of 12/31/96, it is associated with past regulatory practices, and productivity improvements would have no impact on its size.

C. The Costs Allocated to the Interstate Jurisdiction as a Result of Past Regulatory Decisions.

As discussed in detail in Attachment 2, current interstate access rates are set at levels necessary to recover not only the actual economic cost of providing access, but also a significant portion of other costs, particularly NTS and other common costs. Federal and state regulators decided to allocate a large share of these costs to the interstate jurisdiction in order to further explicit public policy objectives, notably the promotion of universal service and the maintenance of low local telephone service rates. In their affidavit, former state and federal regulators, James M. Fischer, Albert P. Halprin, Henry M. Rivera and Marvin R. Weatherly, trace the origins of the current structure and summarize the Commission's intimate involvement in the long history of the decisions about which costs would be recovered through interstate access charges. As they conclude, until and unless the separations rules are changed the Commission must provide the LECs a way to recover the prudently incurred costs that they are required by the separations rules to allocate to the interstate level. "Although historically there has been a hot debate between Federal and state regulators regarding the appropriate allocation of non-traffic-sensitive costs, there always remained a general agreement among these regulators that such costs are real and legitimate expenses which should be recovered, in the aggregate, from LEC customers in the interstate and intrastate jurisdictions."¹⁰⁰ USTA

¹⁰⁰Fischer, et.al. at 6.

recommends that these costs continue to be recovered through access prices.

The affidavit describes the evolution of the jurisdictional separations process and the gradual increase in the allocation of LEC costs to the interstate jurisdiction. It also examines the effect which the current rules have on the allocation of costs.

USTA has quantified the amount of costs (defined as interstate revenue requirements pursuant to the Commission's rules) allocated to the interstate jurisdiction by several major Part 36 rules. This quantification focuses specifically on: the allocations of loop costs based on the 25 percent gross allocator, the use of weighted dial equipment minutes (DEM) for study areas with less than 50,000 access lines and the allocation of marketing expense based on revenues. As depicted in the empirical analysis contained in Attachment 16, for the price cap LECs, the current Part 36 rules allocate \$9.3 billion of loop costs, \$2.5 billion in local switching costs and \$2.2 billion in marketing expense to the interstate jurisdiction. As noted above, until the separations rules are changed, incumbent LECs should continue to recover these costs in current access prices. The portion of the CCL which is not addressed in universal service should be recovered on a flat rate, per-prescribed line basis. The marketing expense allocated to Common Line should remain in Common Line. The Commission should provide flexibility for incumbent LECs to determine the most efficient way to set rates applicable to Local Switching.¹⁰¹

¹⁰¹The separations-related costs related to the TIC are described in Section III above. As USTA recommended, the identifiable costs associated with the TIC would be recovered from
(continued...)

V. INTERSTATE INFORMATION SERVICE PROVIDERS, LIKE ALL USERS, SHOULD PAY FOR SERVICE BASED ON THE COSTS THEY INCUR (Paragraphs 282-290).

USTA supports the Commission's commitment to the continued growth of interstate information services. Its members value Internet and other advanced information service providers as customers. Many USTA members or their affiliates are themselves providing Internet or other information services. An example of USTA's commitment to growth in this industry sector is its longstanding support for proposals to allocate no more than one EUCL per ISDN facility. USTA agrees with the Commission's tentative conclusion that interstate information service providers should not pay access charges as currently constituted. (¶ 288).

However, as these comments demonstrate, the existing system should not be maintained. As the Commission moves the overall access charge system to more efficient cost recovery principles, those principles should apply to all customers, including information service providers.

Cost recovery from information service providers is an area ripe for reform. The network congestion issues that USTA members have already raised with the Commission¹⁰² are a direct

¹⁰¹(...continued)
other interstate access elements and any remaining TIC would continue to be recovered as transport and bulk billed.

¹⁰²See, e.g., Letter from Joseph J. Mulieri, Bell Atlantic to James Schlichting, FCC, July 10, 1996; Letter from Glen Brown, US West, to James Schlichting, FCC, June 28, 1996; Letter
(continued...)

result of current pricing policies, under which many information service providers pay flat rates for usage-sensitive services.¹⁰³ As a result, pricing signals fail to allocate resources in an efficient manner. The network costs associated with the heavy network usage of many information service providers are not being recovered from them. The nearly flat-rate pricing for end users typical in the Internet service provider industry only exacerbates these distortions. The resulting congestion raises significant reliability issues for the public switched network, as well as delays in introducing new technologies. (¶¶ 282, 285).

Current pricing policies applicable to enhanced service providers effectively create an implicit subsidy for interstate information services.¹⁰⁴ To the extent that any network users, including information service providers, fail to pay for network resources that they use based on

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from Kenneth Rust, NYNEX, to James Schlichting, FCC, July 10, 1996; Letter from Alan Ciamporcero, Pacific Telesis, to James Schlichting, FCC, July 2, 1996.

¹⁰³See MTS and WATS Market Structure, Memorandum Opinion and Order, Docket No. 78-72, 97 FCC 2d 682, 711-22 (1983) (establishing exemption from access charges for enhanced service providers); see also Amendments of Part 69 of the Commission's Rules Relating to Enhanced Service Providers, CC Docket No. 87-215, 3 FCC Rcd 2631 (1989) ("ESP Exemption Order"); Amendments of Section 64.702 of the Commission's Rules, Report and Order & Order on Further Reconsideration & Supplemental Notice of Proposed Rulemaking, 6 FCC Rcd 4524, 4534 (1991).

¹⁰⁴Although the NPRM declines to address questions about whether some Internet-based services could be considered "telecommunications" under the 1996 Act, *id.* at n. 390, it is not at all clear that such providers satisfy the Act's definition of information services, 47 U.S.C. § 153(41), or the Commission's definition of enhanced services, 47 C.F.R. § 64.702.

the costs they incur, those costs must be recovered from others. Maintaining such a subsidy is inconsistent with the efforts of the Commission and the 1996 Act to eliminate hidden subsidies in other contexts.¹⁰⁵ Indeed, in a competitive marketplace, enforcing price differentials among different classes of users that utilize the network in similar ways is ultimately fruitless. Changing such an inefficient and inequitable structure should be a central goal of the Commission's reform efforts.

Accordingly, the Commission immediately should establish the principle that all network users should pay for service based on the type and amount of network costs they incur. If a customer, such as many information service providers, incurs usage-based costs, it should pay on a usage-sensitive basis for those portions of the network that are usage-sensitive, and it should cover the costs that it incurs. Users that incur network costs in similar ways should be charged on the same basis. Implementation of this principle will provide incentives for efficient use of the public switched network and the development of innovative services.¹⁰⁶

Once this cost-based principle is established, the Commission should establish the proper rate structure through a fast-track rulemaking proceeding or a negotiated rulemaking, in order

¹⁰⁵See, e.g., 47 U.S.C. § 254(b)(5) (requiring specific and predictable support mechanisms for universal service).

¹⁰⁶For example, such services could provide alternatives to the current heavy reliance by Internet service providers on the circuit switched portions of the LEC public switched networks.

to implement the principle expeditiously. However, USTA recognizes that a transition period may be required. As an interim measure during this transition, USTA recommends that the Commission develop an interim usage-sensitive charge for all users that incur usage-based costs. In developing its transition plan and interim charge, the Commission should consider such factors as possible "rate shock" to information service providers and technical constraints on the operations of those providers, which may not be designed for usage-based prices. Similarly, factors such as continued Internet congestion and growth, as well as network reliability, must be considered.

A key aspect of the transition to cost-based pricing in this area must be the elimination of competitive advantage due to regulation. For example, at present, CLECs that provide serving wire center service to major information service providers can obtain significant termination revenues for inbound traffic to these providers. Moreover, traffic and revenue flows are generally quite lopsided to the CLEC, since few if any such providers generate an equal volume of outbound traffic. Rather than permitting such unbalanced revenue flow, the Commission should consider addressing such issues by using mechanisms such as meet point rules.

By adopting the cost-based principle and transition mechanism noted above, the Commission will provide efficient and fair means for interstate information service providers, and others that use LEC networks similarly, to pay their own way. Doing so will provide strong incentives for further growth and innovation in such services.

VI. EQUAL ACCESS COSTS SHOULD NOT BE TREATED AS AN EXOGENOUS ADJUSTMENT (Paragraphs 291-293).

The Commission should not apply an exogenous cost adjustment to equal access costs. This issue was thoroughly considered by the Commission in its review of the 1994 annual access tariff filings. The Commission found no basis to require such an adjustment or to investigate LEC tariffs on this issue.

In its comprehensive review of LEC price cap regulation, the Commission reiterated its position that exogenous treatment of equal access costs would “under cut the Commission’s goal that the rates permitted under the price cap indexes be driven by competition and market economies”¹⁰⁷ The Commission concluded that the appropriate venue to consider that issue was the 1994 annual access proceeding. There is no reason for the Commission to alter its previous determination in order to consider that issue as part of access reform.

VII. CONCLUSION.

In order to comply with the intent of the 1996 Act, the Commission should adopt a market-based approach which is truly market-based. If the Commission continues to constrain access prices, the Commission has an obligation to ensure that prices are economic and compensatory. Increased regulatory controls are not warranted. Reform of the access charge system, as discussed herein, is essential to the evolution of a fair and efficient competitive marketplace

¹⁰⁷Price Cap Performance Review, CC Docket No. 94-1, First Report and Order, released April 7, 1995 at ¶ 305.

where the full benefits of competition will serve the public interest.

Respectfully submitted,

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ATTACHMENT 1

“ECONOMIC ASPECTS OF ACCESS REFORM”

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**USTA Comments
CC Docket No. 96-262
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ECONOMIC ASPECTS OF ACCESS REFORM

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QUALIFICATIONS

Richard Schmalensee is the Gordon Y. Billard Professor of Economics at the Massachusetts Institute of Technology (MIT), Deputy Dean of the MIT Sloan School of Management, and Director of MIT's Center for Energy and Environmental Policy Research. He also is a Special Consultant to National Economic Research Associates, Inc., a Director of the Long Island Lighting Company, a former Member of the EPA's Environmental Economics Advisory Committee, and a Member of the EPA's Clean Air Act Compliance Analysis Council. He served as a Member of President Bush's Council of Economic Advisors with primary responsibility for domestic and regulatory policy, including environmental and telecommunications policy and for U.S. assistance to Central and Eastern Europe. He served for several years as a consultant to the Bureau of Economics of the Federal Trade Commission.

Dr. Schmalensee has done extensive research on aspects of industrial organization and antitrust policy, particularly nonprice competition and conditions of entry. He has also studied the telecommunications industry, the electric power sector and general issues of regulation and regulatory reform. He has testified in both federal and state courts, before several Congressional committees, and before the Federal Trade Commission, and he has served as a consultant on regulatory and competitive issues to numerous organizations in the United States and abroad.

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