March 8, 2011

Secretary Marlene Dortch
Federal Communications Commission
445 Twelfth Street, SW
Washington, DC 20554

Re: *Ex Parte* Notice
CG Docket No. 10-207 and 09-158 (Bill Shock)

Dear Ms. Dortch,

On Monday, March 7, 2011 Michael Livermore, Jennifer Rosenberg and Scott Holladay from the Institute for Policy Integrity (IPI) at the New York School of Law participated in a call with FCC staff Jonathan Baker, Joel Gurin, Paul Lafontaine, Ellen Satterwhite, and David Tannenbaum about the Bill Shock proceeding, docket number 10-207. We discussed aspects of a cost-benefit analysis of proposed bill shock rules.

The staff from IPI expressed their belief that the proposed bill shock rules would make the market for mobile services more efficient by (1) spurring equilibrium pricing of mobile services, leading to optimal consumption of services by consumers and optimal investment, and (2) lower risk consumption by consumers. In the current wireless market, consumers suffer from an information deficit that leads to market inefficiencies. Overage alerts would encourage optimal pricing by allowing users to know the true price of the consumption of wireless services at all times. Many consumers are unaware of the prices they face when they are over their usage limits and the current wireless pricing model exploits this by charging substantially higher prices for all calls above this limit. As a result, wireless customers are consuming more wireless services than is optimal in this market. Alerts would also lower risk consumption by allowing consumers to reduce the variance of the distribution of cell phone bill charges they face. Assuming that consumers are risk averse, this could be a positive and substantial benefit, even if the average monthly bill consumers pay to wireless firms remains the same.

The staff from IPI analogized to credit card providers, who have asymmetrical information about which consumers will generate revenue by paying interest fees or other finance charges. Credit card providers therefore offer incentives to spend and low introductory fees to all consumers. Consumers who keep balances on their cards from month to month or make late payments are charged additional fees, keeping prices artificially low by cross subsidizing consumers who do not run balances and make on time payments. This is inefficient in both cases because consumers do not perceive the true price of services they are consuming and thus the market is out of equilibrium. We discussed how to quantify these issues for a cost-benefit analysis.

IPI staff offered analogous examples of complex cost-benefit analyses in environmental contexts where there are differentiated rates for different consumption levels. The staff noted that, in the case of water consumption, giving consumers more information allowed them to optimize their use of that resource. They shared their belief that the proposed rules would provide mobile consumers with similar actionable information.