

PREPARED REMARKS OF  
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PUBLIC SERVICE COMMISSION OF THE DISTRICT OF COLUMBIA  
FOR  
NATIONAL CONSUMER LAW CENTER, INC.  
FAIRMONT HOTEL  
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KEYNOTE SPEAKER

I'M DELIGHTED TO BE HERE THIS AFTERNOON. I HAVE BEEN ASKED TODAY TO DISCUSS THE EFFECTS OF TELEPHONE DEREGULATION ON CONSUMERS, A TOPIC OF PARTICULAR MOMENT GIVEN THE RECENT TRENDS AT THE FCC, STATE AND FEDERAL LEGISLATURES, AND STATE REGULATORY COMMISSIONS.

THE PENDULUM IS SWINGING AWAY FROM TRADITIONAL 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.

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 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 JURISDICTIONS.

ACCORDING TO A RECENT STUDY,\*/ 10 JURISDICTIONS ARE ACTIVELY REVIEWING SOME DEGREE OF ALTERNATIVE RATEMAKING, 21 STATES HAVE ADOPTED A NON-TRADITIONAL RATEMAKING PROCEDURE FOR LOCAL OPERATING COMPANIES, 24 STATES HAVE ENACTED LEGISLATION WHICH HAS AT LEAST ESTABLISHED THE FRAMEWORK FOR ALTERNATIVE REGULATION AND 18 STATES CURRENTLY HAVE SOME TYPE OF RETURN-RELATED INCENTIVE MECHANISM IN PLACE. THESE NEW FORMS OF REGULATION CAN GENERALLY BE PLACED INTO FOUR CATEGORIES:

1. BANDED PRICING - WHICH ALLOWS THE TELEPHONE COMPANY TO SET RATES FOR A GIVEN SERVICE AT ANY LEVEL BETWEEN A PRE-SET FLOOR AND CEILING WITH NO FURTHER REGULATORY APPROVAL AND MINIMUM NOTICE OF CHANGE.

THE IMPACT OF BANDED PRICING UPON CONSUMERS CAN VARY GREATLY DEPENDING ON THE WIDTH OF THE BANDS, THE SERVICES CHOSEN FOR BANDING, THE EXTENT OF COMPETITION, AND THE CARRIER'S OVERALL ABILITY TO MANIPULATE PRICES.

EXAMPLE OF STATES THAT HAVE BANDED PRICING INCLUDE MARYLAND, MINNESOTA AND VIRGINIA.

2. SERVICE-BY-SERVICE CLASSIFICATION - IS WHERE SERVICES ARE

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\*/ REPORT ON ALTERNATIVE REGULATION PLANS BY STATE BY THE MISSOURI OFFICE OF THE PUBLIC COUNSEL, SEPTEMBER, 1989

CLASSIFIED AS COMPETITIVE, NON-COMPETITIVE, ESSENTIAL OR NON-ESSENTIAL FOR THE PURPOSE OF OBTAINING STREAMLINED REGULATORY TREATMENT OR DEREGULATORY TREATMENT OF A SPECIFIC SERVICE.

EXAMPLES OF STATES THAT HAVE SERVICE-BY-SERVICE CLASSIFICATION INCLUDE NORTH DAKOTA, WASHINGTON STATE, COLORADO AND ILLINOIS.

3. SOCIAL CONTRACTS - IS GENERALLY A SITUATION WHERE THE TELEPHONE COMPANY AGREES TO A FREEZE OF LOCAL RESIDENTIAL AND SMALL BUSINESS RATES IN RETURN FOR DEREGULATION OR PRICING FLEXIBILITY FOR OTHER SERVICES. THIS ALTERNATIVE IS SUPPOSED TO BE ATTRACTIVE TO REGULATORS BECAUSE IT PROMISES RESIDENTIAL RATEPAYERS SOME RELIEF. THE STATE OF VERMONT WAS THE FIRST JURISDICTION TO ADOPT THIS REGULATORY APPROACH.

4. PRICE CAPS - IS A METHOD WHICH INVOLVES SETTING A MAXIMUM PRICE OR "CAP" FOR THOSE SERVICES IN A PARTICULAR "BASKET". THIS CAP IS PERIODICALLY ADJUSTED TO REFLECT CHANGES IN SUCH FACTORS AS INFLATION AND OTHER COSTS THAT ARE BEYOND THE COMPANY'S CONTROL. IT ALSO INCLUDES A PRODUCTIVITY FACTOR WHICH IS DESIGNED TO PASS THE SAVINGS OF IMPROVED EFFICIENCY TO CONSUMERS.

NOW TO DISCUSS IN GREATER DEGREE SOME SPECIFICS AS TO THE PRESENT APPLICATIONS OF SEVERAL OF THOSE REGULATORY ALTERNATIVES.

#### PRICE CAPS

IN 1987, THE FCC CONCLUDED THAT IT WAS NOT LEGALLY OBLIGATED TO CONTINUE TO USE COST OF SERVICE REGULATION. THUS, IT PROPOSED A PRICE CAP MODEL WHICH IT SAID WOULD PROTECT CONSUMERS FROM EXORBITANT RATES AND ENCOURAGE COMPETITION. AFTER PUBLISHING SEVERAL NOTICES OF PROPOSED RULEMAKING AND REVIEWING SUBSTANTIAL

AND EXTENSIVE COMMENTS, THE FCC IMPLEMENTED PRICE CAPS FOR AT&T AND IS CURRENTLY CONSIDERING IMPOSING CAPS ON LOCAL TELEPHONE COMPANIES.

AS FORMULATED FOR AT&T, THE FCC INSTITUTED A SYSTEM OF SERVICE BASKETS AND BANDS IN ORDER TO RESTRAIN AT&T IN ITS PRICING OF RESIDENTIAL AND OTHER LESS COMPETITIVE SERVICES AND GREATER FLEXIBILITY IN MORE COMPETITIVE SERVICE AREAS.

THERE ARE THREE BASKETS UNDER THE FEDERAL APPROACH: THE FIRST, CONSISTING OF SERVICES USED PRIMARILY BY RESIDENTIAL AND SMALL BUSINESS USERS. RATE INCREASES FOR THIS GROUP CANNOT EXCEED 1% PER YEAR RELATIVE TO THE PRICE CAP INDEX WHICH IS TIED TO THE CPI. THE SECOND BASKET CONTAINS 800 SERVICES WITH A 5% UPPER AND LOWER BAND ON EACH SERVICE CATEGORY. THE FINAL BASKET CONSISTS OF THE REMAINING SERVICES AND IS ALSO SUBJECT TO THE 5% UPPER AND LOWER BAND.

ABOVE-BAND RATES MUST BE FILED ON 90 DAYS' NOTICE AND WILL BE REVIEWED UNDER A "SUBSTANTIAL CAUSE" TEST.

ABOVE-CAP RATES MUST BE FULLY COST-BASED AND AT&T WOULD BE REQUIRED TO FILE EXTENSIVE JUSTIFICATION FOR EXCEEDING THE CAP.

BELOW-BAND RATES MUST BE FILED ON 45 DAYS' NOTICE WITH A SHOWING THAT THE RATES COVER THE COST OF SERVICE AND ARE OTHERWISE JUST, REASONABLE AND NON-DISCRIMINATORY.

IN CALIFORNIA, THE PUBLIC UTILITIES COMMISSION IS ALSO CONSIDERING A CHANGE TO A FORM OF PRICE CAP REGULATION THAT WOULD ALLOW THE PACIFIC TELESIS GROUP TO EARN HIGHER PROFITS BY OPERATING MORE EFFICIENTLY. PACIFIC TELESIS AND GTE CALIFORNIA WOULD BE

ALLOWED A RATE OF RETURN OF 12.75% AND WOULD SHARE WITH RATEPAYERS A 50-50 RETENTION OF ANY PROFITS BETWEEN 12.75% AND 16.75%. CURRENTLY, THESE COMPANIES ARE LIMITED TO A RETURN OF 11.34%. THE TELCOS COULD REQUEST A RATE INCREASE IF RETURNS FELL BELOW 8.75% FOR TWO SUCCESSIVE YEARS.

BESIDES SPLITTING EXCESS PROFITS, CALIFORNIA WOULD LIMIT INCREASES IN BASIC PHONE RATES TO THE AMOUNT THAT INFLATION EXCEEDS A 4.5% PRODUCTIVITY INCREASE.

THE PLAN IS SCHEDULED TO TAKE EFFECT IN 1990 AND WOULD BE REVIEWED BY THE COMMISSION AFTER THREE YEARS. HOWEVER, THE CALIFORNIA SENATE OFFICE OF RESEARCH (SOR) HAS CRITICIZED THE PROPOSAL AS POSSIBLY BEING ANTI-COMPETITIVE. THE SENATE STAFF HAS RECOMMENDED THAT COMPETITIVE SAFEGUARDS SUCH AS UNBUNDLING AND COST ALLOCATION NEEDS TO BE ADOPTED TO PREVENT ANTICOMPETITIVE BEHAVIOR. ANOTHER CRITICISM WAS THAT THE PRODUCTIVITY FACTOR WAS TOO LOW, PARTICULARLY GIVEN THE RELATIVELY HIGH THRESHOLD FOR PROFIT SHARING.

THE SENATE RESEARCH STAFF RECOMMENDED THAT THE LEGISLATURE REQUIRE THE PUC TO ADOPT COMPREHENSIVE EX PARTE RULES, STREAMLINE THE COMPLAINT-PROCEDURE, DEFINE "COMPETITION" AND CONSIDER ESTABLISHING INDEPENDENT HEARING EXAMINERS AND AN INDEPENDENT DIVISION OF RATEPAYER ADVOCATES.

#### LEGISLATION

PROBABLY THE MOST NOTORIOUS DEREGULATORY EVENT OCCURRED BY WAY OF LEGISLATION IN NEBRASKA. AS MANY OF YOU MAY KNOW, NEBRASKA, IN 1986, DEREGULATED LOCAL TELEPHONE RATES AND ALL ATTEMPTS TO

OVERTURN THE LEGISLATION HAVE BEEN UNSUCCESSFUL. HOWEVER, TO DATE, THERE SEEMS TO HAVE BEEN LITTLE IMPACT ON EITHER RATES OR SERVICE QUALITY. MY COLLEAGUES IN NEBRASKA HAVE INFORMED ME THAT US WEST HAS NOT INCREASED ITS TELEPHONE RATES WHILE THE INDEPENDENTS HAVE INCREASED RATES AN AVERAGE OF 8% SINCE THE LEGISLATION TOOK EFFECT. ALSO, THERE HAS BEEN NO DISCERNABLE INCREASE IN CUSTOMER COMPLAINTS CONCERNING RATES OR SERVICE QUALITY.

HOWEVER, ONE COMPANY, THE EASTERN NEBRASKA TELEPHONE COMPANY, DID PROPOSE TO INCREASE BASIC LOCAL RATES 200%, FROM APPROXIMATELY \$4.00 PER MONTH TO APPROXIMATELY \$12.00 PER MONTH. SINCE THE COMMISSION IS AUTHORIZED TO REVIEW INCREASES OF MORE THAN 10%, THE PROPOSAL WAS REVIEWED AND AN INCREASE OF APPROXIMATELY 100% WAS ALLOWED.

UNDER THE LEGISLATION, HOWEVER, INCREASES OF 10% OR LESS MAY ONLY BE REVIEWED BY THE UTILITY COMMISSION IF A CERTAIN PERCENTAGE OF TELEPHONE CUSTOMERS FILE A WRITTEN PROTEST. THE PERCENTAGE REQUIRED VARIES FROM COMPANY TO COMPANY SINCE IT IS BASED ON THE NUMBER OF CUSTOMERS SERVED. HOWEVER, THE RANGE IS 2% FOR A LARGE COMPANY SUCH AS US WEST AND 5% FOR COMPANIES WITH LESS THAN 50,000 CUSTOMERS. WHILE THESE PERCENTAGES MAY SEEM SMALL, THEY ACTUALLY REQUIRE THOUSANDS OF CUSTOMERS TO FILE A PETITION CHALLENGING THE PROPOSED INCREASE. THUS, WHEN GTE, LINCOLN TELEPHONE & TELEGRAPH AND UNITED TELEPHONE COMPANY FILED FOR INCREASES OF LESS THAN 10%, NOT ENOUGH PETITIONS WERE FILED AND THE INCREASES WERE IMPLEMENTED. AS A MATTER OF FACT, TO DATE, RATEPAYERS IN NEBRASKA HAVE BEEN UNSUCCESSFUL, THOUGH THEY HAVE TRIED, IN UNITING IN SUFFICIENT

NUMBERS TO FILE AN ACTIONABLE PETITION.

NORTH DAKOTA HAS LEGISLATION WHICH CLASSIFIES TELCO SERVICES INTO "ESSENTIAL" AND "NON-ESSENTIAL". BASIC EXCHANGE, ACCESS, TOUCH-TONE AND 911 ARE CLASSIFIED AS ESSENTIAL. CENTREX, CUSTOM CALLING, AND LONG DISTANCE ARE IN THE NON-ESSENTIAL CATEGORY. NON-ESSENTIAL SERVICES ARE DEREGULATED. ESSENTIAL SERVICES ARE PRICE CAPPED BASED ON A PRODUCTIVITY AND COST INDEX DETERMINED BY THE PUBLIC SERVICE COMMISSION. THE LEGISLATION ALLOWS THE UTILITY COMMISSION TO REQUIRE SEPARATE ACCOUNTING FOR REGULATED AND NON-REGULATED SERVICES AND REQUIRES THE SUBMISSION OF REPORTS FROM A REGULATORY REVIEW COMMITTEE WHICH CONSISTS OF THE STATE REGULATORS AND THE STATE LEGISLATORS. THE REPORTS ARE DUE IN 1990, 1992 AND 1994 AND ARE REQUIRED TO DISCUSS THE IMPACT OF THE LEGISLATION ON TELEPHONE RATES, SERVICE QUALITY, CONSUMER COMPLAINTS AND ANY OTHER RELEVANT ISSUE. SINCE THE LEGISLATION IS LESS THAN SIX MONTHS OLD (PASSED IN JULY OF 1989), THE PUBLIC SERVICE COMMISSION IS STILL IN THE PROCESS OF REGULATORY IMPLEMENTATION AND CONSEQUENTLY, NO DATA ON CUSTOMER IMPACT AT THIS TIME HAS BEEN COMPILED.

#### INCENTIVE REGULATION

IN EARLY 1987, THE NEW YORK PUBLIC SERVICE COMMISSION ADOPTED WHAT IT DESCRIBE AS "INCENTIVE" REGULATION WHEREBY THE COMMISSION FROZE BASIC RATES FOR NEW YORK TELEPHONE (NYT) FOR A PERIOD OF FOUR YEARS AND AUTHORIZED A RATE OF RETURN RANGING FROM 12%-14%. NYT WAS TO RETAIN THE EARNINGS WITHIN THE AUTHORIZED RANGE AND EARNINGS OVER 14% WERE TO BE SHARED WITH RATEPAYERS ON A 50%-50% BASIS.

IN JULY OF THIS YEAR, NYT NOTED A DETERIORATION OF ITS

INTRASTATE EARNINGS UNDER THE NEWLY IMPOSED INCENTIVE REGULATION AND ASKED THE NEW YORK COMMISSION TO CONSIDER RATE ADJUSTMENTS IN 1990 TO AVOID A MASSIVE \$900,000,000 RATE INCREASE WHEN THE MORATORIUM EMPIRES IN 1991. ITS PROJECTED RATE OF RETURN FOR 1989 WAS 10.77% ACCORDING TO NYT, THE FLAW IN THE MORATORIUM, THE TELEPHONE COMPANY HAS CLAIMED WAS THAT IT FAILED TO CORRECT THE FUNDAMENTAL PROBLEMS IN THE RATE STRUCTURE INITIALLY AND LEFT IN PLACE A REGULATORY SYSTEM WHICH WAS ILL-SUITED TO THE CURRENT ENVIRONMENT OF RAPID TECHNOLOGICAL CHANGES AND INCREASING COMPETITION. I FIND IT INTERESTING THAT THIS CRITICISM OF THE NEWLY ADOPTED INCENTIVE METHODOLOGY IS THE SAME CRITICISM GIVEN FOR WHY WE SHOULD ABANDON TRADITIONAL RATE OF RETURN REGULATION.

I PERSONALLY, HAVE CONCERNS WITH SEVERAL OF THESE RATE OF RETURN ALTERNATIVES AND I WOULD LIKE TO TAKE A MOMENT TO BRIEFLY SHARE SOME OF THOSE CONCERNS WITH YOU.

FIRST, RATEPAYERS UNDER THESE SCENARIOS, ALWAYS BEAR THE SOLE RISK OF REGULATORY REFORM BECAUSE THE RESPECTIVE TELEPHONE COMPANIES WHILE GAINING THE IMMEDIATE BENEFIT OF GREATER FREEDOM AND FLEXIBILITY ALSO HAVE THE RIGHT TO RETURN TO THE STATE COMMISSIONS FOR RELIEF IF THE NEW ALTERNATIVE FAILS TO MEET THE COMPANY'S FINANCIAL REQUIREMENTS AND EXPECTATIONS. MOREOVER, UNDER THESE NEW REGULATORY APPROACHES THE COMMISSIONS HAVE THE ADDED BURDEN OF DILIGENTLY MONITORING THE COMPANIES ACTIONS TO INSURE AGAINST ABUSIVE ANTI-COMPETITIVE CONDUCT AND THE DECLINE OF SERVICE QUALITY.

SECOND, THE COMPANY MAY BE TEMPTED TO USE THIS DEREGULATORY

WINDOWS TO MODERNIZE THE TELEPHONE NETWORK WITHOUT THE HINDERANCE OF REGULATORY OVERSIGHT THEREBY PASSING ALONG A DISPROPORTIONATE ALLOCATION OF THESE NEW COSTS TO RATEPAYERS WHO, IN MANY INSTANCES, WILL BENEFIT THE LEAST FROM THE MONOPOLY NETWORK UPGRADING.

THIRD, COMPANIES ARE INITIATING RATE FREEZES AT A TIME OF DECLINING COSTS IN THE TELEPHONE INDUSTRY SUCH THAT RATES ARE NO LONGER COST-BASED, AND THE COMPANIES MAY BE EXPERIENCING AN EARNINGS WINDFALL.

FOURTH, PRICE CAPS WITHOUT CONSTANT MONITORING COULD ALLOW FOR CROSS-SUBSIDY AS BETWEEN REGULATED AND NON-REGULATED SERVICES THUS ALLOWING THE TELEPHONE COMPANIES, AT THE COST OF RESIDENTIAL CUSTOMERS, TO COMPETE UNFAIRLY IN THE MARKETPLACE THROUGH STRATEGIC OR PREDATORY PRICING.

FIFTH, LOCAL TELEPHONE COMPANIES STILL RETAIN THEIR MONOPOLY POSITION OVER WHAT WE TERM THE LOCAL "BOTTLENECK" AND WITH IT, THE ABILITY TO USE THIS MARKET POWER TO ITS FULL ADVANTAGE. THE LIMITED DEGREE OF COMPETITION THAT IS PRESENTLY OCCURRING FOR MANY SERVICES SUGGESTS THAT NOTHING HAS CHANGED TO JUSTIFY, IN SOME INSTANCES, THE COMPLETE ABANDONMENT OF REGULATORY OVERSIGHT.

SIXTH, AS THE CONSUMER FEDERATION OF AMERICA HAS STATED, UNDER RATE OF RETURN REGULATION ALL EXCESS PROFITS WERE RETURNED TO THE RATEPAYER. UNDER REGULATORY REFORM, THE COMPANY GETS TO KEEP SOME PORTION; AND THOUGH IT IS ARGUED THAT DOING SO PROVIDES THE COMPANIES WITH THE APPROPRIATE INCENTIVE TO PROVIDE THE NEW TELECOMMUNICATIONS TECHNOLOGIES, I WOULD OBSERVE THAT THE PRIVILEGES AWARDED TO MONOPOLY COMPANIES SHOULD BE INCENTIVE

ENOUGH;

AND FINALLY, WHILE A PRICE FLOOR WILL PREVENT PREDATORY PRICING BY THE DOMINANT CARRIER A PRICE CEILING MAY BE SET SO HIGH THAT RATES EXCEED THE REASONABLE COSTS OF PROVIDING THE SERVICE.

IMPACT ON SERVICE QUALITY

I HAVE FOCUSED THUS FAR, ON THE RATE-MAKING ASPECTS OF THESE VARIOUS ALTERNATIVES, BUT WHAT IS EQUALLY IMPORTANT AND POSSIBLY MORE DIFFICULT TO DETECT IS POTENTIAL DEGRADATION OF THE QUALITY OF EXISTING TELEPHONE SERVICE.

OF PARAMOUNT CONCERN TO ME, IS THE QUESTION OF WHETHER THESE REGULATORY ALTERNATIVES WILL PRESERVE THE HIGH LEVEL OF SERVICE QUALITY THAT WE ENJOY TODAY FOR SMALLER CUSTOMER CLASS. SERVICE QUALITY IS NOT A FEDERAL OR STATE ISSUE BECAUSE THE QUALITY OF OUR TELEPHONE NETWORKS AFFECTS EVERY RATEPAYER. THEREFORE, PRIOR TO THE IMPLEMENTATION OF ANY RATE OF RETURN ALTERNATIVE, REGULATORS MUST WORK TOGETHER TO DEVELOP AND PUT IN PLACE A PROCESS FOR EFFECTIVELY ADDRESSING AND MONITORING SERVICE QUALITY STANDARDS.

BUT WHY, YOU MAY ASK, WOULD THESE PLANS UNDERMINE LEVELS OF SERVICE QUALITY? MY CONCERN IS SIMPLY THAT THESE PROPOSALS, IF IMPLEMENTED, MAY CREATE INCENTIVES ON THE PART OF THE TELEPHONE COMPANIES TO FORSAKE NETWORK INVESTMENT, AND THEREFORE QUALITY, IN ORDER TO INCREASE NET PROFITS. THE BELL SYSTEM SERVICE QUALITY CRISIS IN THE LATE 1960'S RESULTED FROM AT&T'S EFFORTS TO INCREASE NET EARNINGS. THE COMPANY REFUSED TO INCREASE CAPITAL OUTLAYS AT A TIME WHEN DEMAND GROWTH IN SEVERAL AREAS EXCEEDED SWITCHING

CAPACITY. THE RESULTING CAPACITY SHORTAGES CAUSED SERIOUS DECLINES IN SERVICE QUALITY, WITH SERVICE INTERRUPTIONS IN MAJOR EAST COAST CITIES DURING 1967-68. BY 1969, SERVICE THROUGHOUT THE URBAN REGIONS OF THE EASTERN PART OF THE COUNTRY WAS BESET BY DELAYS IN DIAL TONES, REPAIRS, AND INSTALLATION OF NEW EQUIPMENT, OR COULD RESULT IN THE DEPLOYMENT OF DIFFERENT LEVELS OF SERVICE QUALITY FOR DIFFERENT CLASSES OF CUSTOMERS, MINIMUM FOR RESIDENTIAL AND PREMIUM FOR LARGE COMMERCIAL OR BUSINESS CUSTOMERS.

#### CONCLUSION

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 AM COGNIZANT OF THE ECONOMIC AND TECHNOLOGICAL CHANGES OCCURRING IN THE INDUSTRY. I BELIEVE, HOWEVER, THAT CHANGE FOR CHANGE'S SAKE IS NOT PROGRESS: IT IS MERELY THE REPLACEMENT OF ONE FORM OF REGULATION FOR ANOTHER. BEFORE I WILL SUBSCRIBE TO A PARTICULAR ALTERNATIVE APPROACH, IT MUST BE PROVEN THAT THE CHOSEN METHOD OF RE-REGULATION WILL IMPROVE THE OVERALL STATE OF TELECOMMUNICATIONS, THAT IT WILL INCREASE EFFICIENCIES, YIELD TECHNOLOGICAL INNOVATIONS, CREATE, WHERE APPROPRIATE, SUSTAINED PRICE REDUCTIONS, AND THAT BENEFITS WILL APPRECIABLY EXCEED RISKS. LET US NOT PROCEED WILLY-NILLY INTO RADICAL REVISIONS TO LONG-STANDING REGULATORY METHODS, ABSENT ASSURANCES THAT THE DEVIL WE KNOW IS NOT BETTER THAN THE ONE WE DON'T. I BELIEVE THAT ANY CHANGE SHOULD PROCEED SLOWLY, CAUTIOUSLY, ON A SERVICE-BY-SERVICE BASIS, AND ONLY AFTER A CLEAR AND CONVINCING SHOWING THAT IT IS IN THE THE PUBLIC INTEREST TO ADOPT CHANGES, SAID A DIFFERENT WAY - THAT IT WILL BE

IN THE BEST INTEREST OF THE CONSUMER AND THE COMPANY ALIKE.

THANK YOU.

