The Principles of Competitive Telecommunications

1. **Competition, not regulation, should shape the telecommunications industry. Regulation should serve as a substitute for competition only in those limited instances where competition cannot provide results which serve consumers' best interests.**

The state public service/utility commissions will continue to play a significant role in ensuring quality of service standards and providing an avenue for resolution of consumer complaints. Regulation should not be focused on the provider, rather, it should be directed towards what will best serve consumers. As such, the emphasis should be whether the service being provided warrants regulation.

2. **Where regulation is necessary, it should be competitively neutral and equally applies to all providers.**

No provider should be burdened with more regulation than any other provider. For example, rate of return regulation is inappropriate in a competitive environment because it would be inappropriate for the government to determine the amount of profit a new provider could earn. Therefore, rate of return or earnings regulation should not be applied to the incumbent local telephone company any longer as well. In fact, rate of return regulation is counter productive even where only one provider operates because of the way it distorts market results.

3. **Universal service should be preserved, but ultimately only through explicit subsidies.**

Universal service ensures that affordable phone service is available to all residential customers – both rural and urban. Currently, universal service is provided by the local telephone companies through a combination of implicit and explicit subsidies established by regulators in regulated rates. Implicit subsidies are generated from a number of sources. Long distance rates are priced based on statewide averages. This results in residents in high cost, rural areas paying the same for long distance calls as customers in low cost, urban areas. Consequently, a subsidy flows from urban customers to rural customers. Another implicit subsidy is the practice of pricing business services above cost and residence exchange service below cost, creating a subsidy which flows from business customers to residence customers. With increasing competition, implicit subsidies built into regulated rates are not sustainable. This erosion of subsidies jeopardizes universal service at affordable rates.

Explicit subsidies include various mechanisms which provide assistance to certain local telephone customers or to certain companies. For example, the Universal Service Fund is a national program, with state administration, which is funded via access charges and subscriber line charges and is distributed to local telephone carriers that are the carrier of last resort in high cost areas. "Lifeline" and "Link-UpAmerica" are also funded via access charges but are targeted to provide service at a reduced cost for low-income customers.

New local exchange service providers don't have to provide universal service, yet they benefit from the network built by the incumbent local telephone company in fulfillment of universal service obligations. Therefore, it is imperative that all providers be required to contribute to preserving universal service in a competitively neutral manner.

4. **All providers should be permitted to compete in all markets at the same time.**

Regulations which prohibit providers from competing in a market should be abolished. Consumers derive the greatest benefit from competition, and the number of providers in a market should not be artificially constrained by government. Consumers want competition and expect it will result in lower prices and better service. According to a recently released public opinion poll conducted by the Mellman Group, and Public Opinion Strategies for the Alliance for Competitive Communications (April 1995), 75 percent of Americans polled believe open competition should be introduced in all markets. Over 75 percent of Americans want Congress to allow local and long distance companies to enter each other's markets at the same time and believe it will result in lower rates. Nearly 80 percent of Americans say they should be able to choose the communications company they do business with. Clearly consumers want competition.

By adhering to these four principles when setting public policy, legislators can be assured they will be transitioning the telecommunications industry according to the Jeffersonian principles of free markets and open competition, as well as setting the stage for consumers to fully benefit from and be prepared to participate in the Third Wave.

However, it is important to keep in mind when setting telecommunications public policy the interdependent and the synergistic relationship the current telecommunications public policy has. This policy was developed over a period of 100 years in a regulated monopoly environment where decisions were not based solely on social goals. Any change to one portion of what has become a complex regulatory framework will undoubtedly affect other portions, with potentially unfavorable consequences to the consumer. Therefore, it is critical for legislators to consider the effects of their decisions on the "whole" policy, and not attempt to do "piecemeal" policy making.

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