

# The Changing Role of Public Utilities Commissions

*American Legislative Exchange  
Council Telecommunications and  
Information Technology Task Force*

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# Competition Policy Institute (CPI)

*A non-profit organization that advocates policies to bring competition to energy and telecommunications markets in ways that benefit consumers.*

- ? Advised by a committee of leading consumer advocates from across the country
- ? Funded by grants from a variety of energy and telecommunications companies and associations
- ? Complete information at <[www.cpi.org](http://www.cpi.org)>

# The bottom lines...

The role for state telecommunications regulation is diminishing and changing dramatically, but it has not yet gone away.

The correct level and type of regulation is needed to ensure that competition actually takes hold in all markets.

Local competition, especially for residential customers, is at a very early stage of development.

Legislatures should provide PUCs simultaneously with 1) new direction and 2) flexibility and authority to change regulation consistent with new requirements.

# Role of PUCs is changing...

- ? The need for traditional economic regulation is disappearing
- ? New roles are developing:
  - Umpire among competing players
  - Consumer education
  - Consumer protection
  - Antitrust examination

# Most important functions for PUCs in the next five years...

- ? Enforcing rules of engagement for competitors and carrier-to-carrier practices
- ? Regulating price of limited core services
- ? Overseeing Universal Service plans
- ? Protecting consumers from fraud and deceptive practices
- ? Bringing competition to bear on service quality issues

Local competition is growing,  
but has a long way to go...

? **Number of CLECs:** The FCC reports that there are now 158 CLECs holding telephone numbering codes, compared with 13 at the end of 1995.

# Status of local competition...

- ? **CLEC Access Lines:** Merrill Lynch estimates that the number of access lines served by CLECs grew from 1.9 million in January 1998 to 6.2 million in July 1999, for a market share of 3.4%.

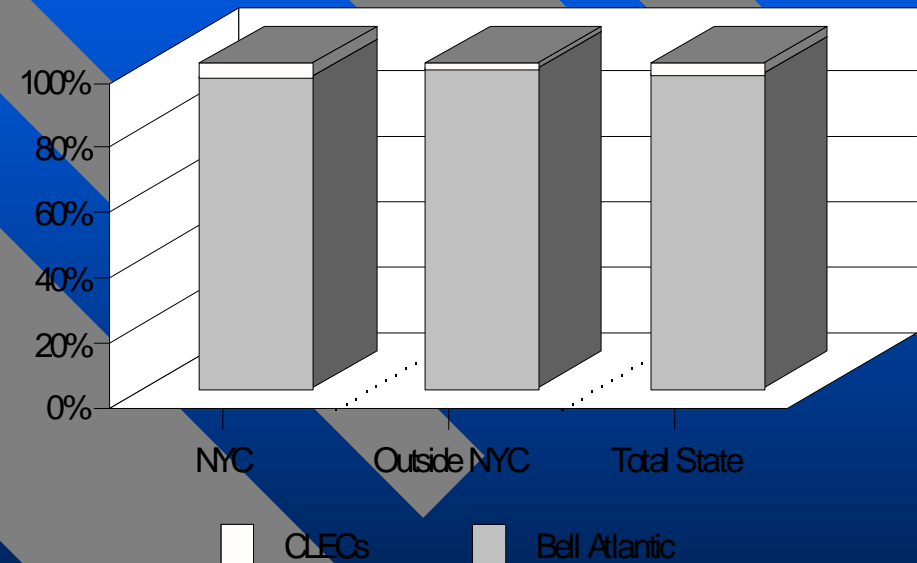
## Status of local competition...

- ? **CLEC Revenues:** At the end of 1998, the FCC estimates CLECs had revenues of \$3.6 billion, about 3.5% of the local market. On a different basis, Merrill Lynch estimates CLECs have won about \$3 billion of the \$109 billion local market, a 2.75% share.

# Local competition for residential customers is in its infancy...

- ? New York may be the most competitive state
- ? Only 3% of New York residences have switched
- ? Outside NYC Metro, only 1.5% have switched
- ? Two-thirds unaware of a competitor serving them
- ? Half of those with a choice could not name a competitor

Local Competition in New York  
Residential Market Share



# What PUCs need...

- ? Clear legislative direction to shift emphasis
- ? Explicit authority to sanction anti-competitive behavior
- ? Flexibility to retrain and redirect staff
- ? Legal authority to streamline processes

# What PUCs must do...

- ? Focus regulation to what matters
- ? Retool their staffs
- ? Sharply expedite their carrier-to-carrier complaint processes
  - Rocket dockets
  - Use mandatory mediation and voluntary arbitration

# What PUCs must do...

- ? Expedite consumer complaints
  - Establish “small claims” process for consumers
- ? Stop the gaming of the process
  - Award legal fees and costs
  - Sanction bad faith complaints and defenses

# What could go wrong...

- ? Policy makers may be take in by the allure of “regulatory parity”
- ? Regulation of new services and providers may retard entry and competition
- ? Price increases for core services
- ? Rural areas may be exposed to price and service disparities
- ? Service quality may suffer unacceptably before competition arrives.