COMMUNICATIONS
FORUM

THE IMPACT OF THE DIVESTITURE

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Public Utilities
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The Impact of the Divestiture

Paul Levy - Massachusetts Department of Public Utilities

Levy began by stating that with competition being allowed between telephone companies operating in Massachusetts, we were going to eventually see a phenomenon similar to what occured in the airline industry following its deregulation. He predicted the emergence of perhaps four, or more likely three long distance carriers. He said that the Department of Public Utilities (DPU) had recognized the potential dangers of competition if there was inadequate protection for consumers. As an example, he said NET (New England Telephone Company) would be in a position to raise basic exchange rates to compensate for lowering its rates in the more competitive parts of the market. The DPU recognized that such actions would conflict with its goal of maintaining universal service in the state, and has therefore instituted a new accounting framework to protect rate payers from this possibility.

Levy said the DPU found that for the foreseable future, the two companies NET and AT&T communications will have substantial market power in Massachusetts. It had therefore ruled that these two companies will be subject to traditional regulation during the initial period, which included a full review of all proposed services and rates. Since it is expected that other companies will not have substantial market power in the future, the DPU found that these companies could be subject to less stringent regulation. Therefore, for example, unlike NET and AT&T the other carriers will be permitted to make changes in their rates on short notice and without extended hearings.

Lisa Rosenblum _ New York Public Service Commission, Consumer Division

Rosenblum in her remarks focussed on the views of consumers in New York toward changes in the industry, and outlined the policies of the New York Commission (NYC) as well as the responsibilities of the industry during this transition from regulated to a deregulated communications environment.

Rosenblum stated that in their attempt to identify consumer concerns the NYC had conducted over a 100 workshops around the State, the response to which has been substantial. In addition last year they had received about 10,000 calls and letters about the telephone service. She said that this feedback suggests that many people are skeptical about the benefits of deregulation and fear that it is jeopardizing the high quality and generally affordable telephone service to which they had become accustomed. Another common complaint related to the reduced quality of service was the more restrictive and costly company repair policies with a lack of co-ordination between vendors and the telephone company. Statistics reflect a 25% increase in complaints. A further area of concern she said was the reluctance of consumers to take advantage of service options, particularly in the long distance market. Many consumers seek the assistance of the PSC to know which specific carrier they recommend and not how best to examine the different services, suggesting that they are unwilling to perform the analysis necessary to make an informed decision. This attitude is seen even with respect to local services.

Commenting on the Commission's function Rosenblum said that the NYC's primary task was the fostering of network access and monitoring the quality of service. Since deregulation however, the Commission had in addition fostered an environment where the marketplace, not the regulators, would establish price and quality. With respect to safeguarding access to the network, she said the Commission phased in the required expensing of connection charges but required companies to offer a 12 month installment payment plan. In response to the imposition of Federal CALC charge, it required local companies to institute a 50% reduction in the access charge to public assistance recipients and retain a low cost, basic budget option for all customers.

Regarding improved service quality, Rosenblum said that the NYC adopted in 1984 new comprehensive customer service protections for residential customers. The rules set forth clear guidelines for applications and terminations of service, eliminated deposit requirements for new customers, required companies to offer specified deferred payment plans to customers in arrears and provided special protection against termination to senior citizens and those facing medical hardship. Emerging competition however, resulted in limitations on the rules' applicability.

She said that with respect to handling individual complaints the Commission strengthened its complaint investigation program at the same time that it relinquished jurisdiction over certain types of consumer complaints. Rosenblum stated that the Commission acts only as a referral service with respect to complaints involving equipment and has diminished regulatory authority over complaints involving long distance services.

Deregulation she said had caused the PSC to assume greater responsibilities in the area of consumer education. The topics of education ranged from the purchase of equipment to the choosing of long distant services. For the most part the Commission's new role as an information provider was more analogous to that of traditional consumer protection agencies which provide consumers with the knowledge necessary to protect themselves in a competitive environment.

She noted that the emerging reduction in regulatory supervision placed greater responsibility on the industry to address the fundamental concerns of consumers, and ease the transition from regulation to deregulation. Rosenblum emphasized that given the virtually essential nature of telephone services, telephone companies should give proper attention to the needs of small business and residential customers. She said that they should pay greater attention to consumer needs as well as complaints and ensure that information is provided in a clear manner without confusion.

In closing she stated that the public will continue to be concerned about affordability and service quality in the telephone industry, and the regulatory community will seek to guard these fundamental consumer interests given the importance of this service to the general public health and welfare. She further added that the industry, working closely with the consumer community, has the ultimate power to address customer concerns, foster meaningful choice, and ease the transition from a regulated to a deregulated industry.

Gayle Ruedi - AT&T Customer Services/MIT

Ruedi began by affirming that AT&T still considers service to be critically important. She went on to review a few common misconceptions about the 'new AT&T'. Firstly that it is still perceived as the biggest corporation. However it is now 1/4 of the size compared to the pre-divestiture period. Secondly, that it still has a monopoly market share and market power, both of which aren't true. She said that the company's revenue/expense base was vulnerable to the slightest "blip" in either.

She stated that though the public by and large equated divestiture with deregulation this was not true. AT&T she claimed was still regulated at both Federal and State levels. It is the only long distance company that is regulated. It was required to file tariffs for every new or changed service with extensive cost support data. It was required to divulge proprietory marketing information and sometimes wait out lengthy regulatory delays which resulted in the delay of high tech benefits and innovation to consumers. In comparison AT&T's competitors (300 in all) faced a completely different situation. They were all unregulated, able to quickly and easily change prices to meet the market, not required to file tariffs and able to keep marketing plans secret from competitors. This she said gave them an unfair competitive edge enabling them to quickly and effectively introduce new services. To support her claim, she quoted examples of regulatory delays such as the mobile phone delay, 'pro America' delay, etc.

Ruedi asserted that regulatory systems that delay new technology and price cuts cannot be in the interests of the consumer. She said that competing companies such as RCA, ITT, GTE Sprint, MCI or its new partner IBM, were all free to introduce new services, and price according to market demand or just below AT&T, which was quite discriminatory as far as AT&T was concerned. She further claimed that AT&T's prices were driven up by government mandated access charges.

She then went on to describe the size, and ability of AT&T's competitors, particularly emphasizing their ability to compete on an equal footing. However she said these competing companies don't see, or from self interest won't admit the existence of intense competition. The competitors claim that if AT&T is less regulated it will raise its prices. However AT&T's plans are just the opposite. Infact recent trends show reduced prices, and supply/demand factors will continue to keep it down. Ruedi commented that though AT&T's competitors say that they still need discounts and still need regulatory restraints on AT&T to compete effectively, she cannot understand their demands since many of them are large, well managed Fortune 500 companies with aggressive marketing policies.

From the consumer's point of view Ruedi said that they will continue to be "short changed" in the absence of full and fair competition in the long distance marketplace. They will not only lose out on lower prices but also face delays in new technology. Infact all the legal procedures were becoming expensive for AT&T, the government, and the competitors. These costs would eventually have to be paid by the consumer! On the bright side, she mentioned Virginia as the first State to let the market, and not regulation, set prices. At the Federal level FCC was also beginning to remove obstacles. However she said overall, changes have been slow in coming, particularly in view of the highly competitive market.

Speakers' Comments & Responses to Questions

In response to a question about the significance of Bell Operating Companies (BOC) in this industry, Ruedi stated that AT&T very definitely considers them to be significant competitors on a number of fronts. Most notably in the equipment marketplace. She said, the freedom they had been looking for in the last few days centers around the dial tone connection. The fundamental issue was the advantage of having the dial tone responsibility which in fact is a monopoly. AT&T she said, doesn't have the dial tone advantage any more and they feel they ought to be allowed to compete fully and with less regulation than at present. On this equal basis they would be quite willing to compete with the regional BOC's. Levy commenting on this issue stated that they had recommended to Judge Greene that the BOC's should be permitted to engage in inter-LATA service. What they failed to recommend, however, was that in this situation the local operating company should lose its 1+ dialing monopoly.

A question was asked about the plight of local carriers who are restricted from entering the long distance market. It was claimed that the PUCs were holding the line on rates, which couldn't go on forever. Levy agreed with the comment and said that the PUCs recognized that we are in a transitional period, essentially moving from a total monopoly through a partial monopoly or dominant carrier stage. He claimed that other companies pricing just below AT&T is an indication of AT&T's market power and not an indication of competition. The common carrier's cost being lower was related to the fact that the quality of access is lower. That is why the FCC made a distinction, that as their access quality equals AT&T they will have to pay the same. Levy pointed out that the issue was not who the competitors were, but rather the capital requirement of the telecommunications market. He asserted that you cannot build a worldwide telecommunications market in two years and compete with AT&T.

On the question of why New York Telephone is more expensive than New England Telephone, Levy claimed that it had something to do with the type of regulation in the two States. The cost, he said, of providing services in New York is much higher than in New England. The investment New York Telephone has made per new customer is much higher than any other BOC. He was of the opinion that there was some degree of unnecessary over-investment in this situation. Rosenblum commenting on this question said that it was difficult to compare New York State to any other State and that it depends on the facts and economics of this specific situation.

With reference to the question of filing of tariffs by non-dominant carriers and the issue of 'bypass' and monopoly of dial tone evidenced by the connection between AT&T Communications and Merril Lynch in downtown New York, Ruedi stated that it is not AT&T's desire as a company to set a policy of 'bypass'. However, if this service was demanded by a customer they were willing to provide it. In this context Rosenblum quoted an example where the PSC ordered the institution of an advanced data service by the local telephone company to avoid bypass.
