

July 13, 1977

CONCURRING STATEMENT OF COMMISSIONER ABBOTT WASHBURN
RE: MEMORANDUM OPINION AND ORDER CLARIFYING ACTIVATION
OF CIRCUITS IN HAWAII-3/TRANSPAC-2 CABLE SYSTEM
IN WHICH COMMISSIONER QUELLO JOINS

A year and a half ago I voiced my concern^{1/} about the procedures for planning facilities in the Pacific Basin. Nothing has changed since then. The Pacific satellite is still less than half filled. In today's action the carriers' traffic estimates have again been revised downward. The hearing looking toward a rate reduction to the public is not yet completed. The Pacific Telecommunications Conference which seemed so promising 18 months ago has not come to pass; indeed those plans now appear to have been abandoned. Rather than improving our procedures for facilities planning we seem to be regressing.

In hindsight, the Commission made a mistake in 1973 when it authorized construction of the TransPacific Cable #2. If the Commission had known then what it knows now, it would not have given the go-ahead. The carriers' estimates of traffic were grossly overstated. They foresaw a requirement of 1018 circuits beyond Hawaii by the end of the first quarter of 1977. Actual circuits in use on March 31, 1977, were 475 -- more than 50% below the estimate. They estimated the cost of the cable at close to \$180 million. Actual costs incurred came to about \$220 million -- a \$40 million discrepancy.

In 1973 the carriers promised rate-reductions to customers of over 20%. No reductions have been made, and indeed the carriers are now resisting any rate reductions.

Thus the major decisional underpinnings of the Commission's 1973 grant have proven faulty.

There is a lesson for us here, as we look ahead to our decision, before November, on the North Atlantic facilities through 1985. (TransAtlantic Cable #6, we note, has also had a cost overrun of some \$40 million.)

It is no secret that the applying carriers have a rate-base/profit incentive to overstate demand and understate costs, in order to put in place more facilities sooner than would otherwise be the case.

The Commission's role, as surrogate for the using public, is to provide counter incentives or to properly remove bias in the carrier estimates of traffic and costs. We failed to do that in 1973. We cannot now correct the error merely by changing our circuit-activation policies and by allowing further downward reductions in the traffic estimates. These are just palliatives.

^{1/} Separate Statement of Commissioner Abbott Washburn RE:
Hawaii-3/TRANSPAC-2 Cable System, January 28, 1976.

It is at the precise point-in-time when the Commission authorizes a cable that the Commission commits the public to pay the revenue requirements caused by the inclusion of that facility in the respective carriers' rate bases. Therefore, it is essential for that critical decision to be based on factual data and reliable estimates. Such was not the case with the TransPacific cable approval in 1973. This experience can be instructive for us as we face the decisions in the next few months.