

Remarks by Commissioner James H. Quello

Before the

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"The Challenge -- Deregulation in the Public Interest"

I'm delighted to be here at your convention. Of course, at my particular stage in life, I'm delighted to be anywhere. You see I'm now seven years past the normal life expectancy -- no doubt, a source of annoyance to many. And there is no relief in sight for regulatory malcontents. My term doesn't expire until June 30, 1996. Then I have ambitions to be reappointed in July 1996 as the first active wheelchair commissioner in history!

This new infusion of ambition was prompted by my actually witnessing wheelchair tennis. I have seen good tennis players in wheelchairs enjoying vigorous two-bounce tennis, thus maintaining a semi-fit mind in a fit body. This should be enough of a qualifier. As many of you know, I ran for my last reappointment on a platform of "delusions of adequacy and 70% of my marbles, not a bad norm in Washington."

A good friend recently advised "Slow down and enjoy life, no one has ever established immortality." I replied "I know, but someone has to set the precedent."

So, don't "Lame Duck" me too soon. I am energized by this period of revolutionary expansion, contentious proceedings and the mind-boggling possibilities for advanced technologies. There is an intriguing deregulatory and regulatory challenge in serving the public interest in this era of communications convergency, mergers and joint ventures.

I have a minor claim to clairvoyance in anticipating the problem of the advanced communications explosion. The first perceptive question I received from the distinguished Senator from Hawaii, Dan Inouye, at my last (1991), incidentally the fourth, confirmation hearing was "What should be the Commission's priorities for the next 5 years?" My reply is more applicable today than ever.

"I believe the Commission's highest priority in the next five years will be the orderly, compatible implementation of the advanced technological services of telecomputing, fiber optic, DBS, DAB, HDTV, cellular and personal phone service. Advanced technology often outstrips society's ability to integrate it into our already complex, sometimes expensive communications systems. The rate and extent of technological development will be impacted by consumer acceptance and affordability, commercial practicalities, legislative and regulatory actions and by the service's beneficial contribution to total public interest."

"I believe preservation and enhancement of the all-important free universal over-the-air broadcast service will continue to be the mainspring of American mass communications for at least the next five years. In their deliberations, commissioners should apply the simple principle of the best service to the most people at the most reasonable, practical cost."

The second question was "What Commission decisions over the past 5 years do you believe have the greatest impact, positive and negative on the communications industry?"

For our time limited purposes today, we will update the question and summarize a positive response.

Actions having the greatest impact on your industry during the past five years would be:

1. Implementations of PCS rules and spectrum auctions. This significant new, revenue producing personal communications service will affect how people will communicate with each other in America and eventually the world.

2. Adoption of rice cap regulation with increased phone efficiency and eliminating incentives to load the rate base.

3. Implementation and enforcement of the 1992 Cable Act, the most resource-intensive and consumer oriented issue in my 20 years at the FCC. This legislation, and our implementation of it, reflects Congressional concern that cable prices be constrained to competitive levels pending the introduction of effective multichannel competition to entrenched cable operations.

4. Adoption of the Video Dialtone Report and Order. The video dialtone will provide multichannel competition to cable. It will also be the first tangible evidence of the potential benefits of the much heralded new information superhighway.

There are other significant initiatives affecting telephone service worth mentioning. Just to mention a few -- I think you will agree that the FCC initiatives in depreciation represcription was significant. In a less positive vein from your viewpoint was the expanded interconnection initiative.

Also our implementation of spectrum auctions and our spectrum reallocation efforts are invaluable complements to other major policy decisions, present and future. I believe the initiatives I have named speak most strongly to the issues of technological development, innovation and greater customer choice at reasonable prices that our federal regulatory policies seek to achieve.

Overall, the current proliferation of program channels and the oncoming multi-channel, multi-faceted communications superhighway create a dynamic new environment that necessitates a comprehensive review of communications regulation by Congress and the FCC. A new regulatory approach must be explored in the current climate of mega-mergers, joint ventures and converging technologies. I also believe there must be a realization by government officials that big is not necessarily bad as long as there is competition. There is an economy of scale and increased efficiency in being big and competitive that can be translated into more services at more reasonable prices for consumers.

Ideally, the eventual cure for regulation will be a fully competitive marketplace with no monopolies. Competition in all services be it the local loop or cable or competitive fiber optics superhighways should reduce or eliminate the need for many government regulations and controls. With effective competition there should be little need for government regulation except for traffic highway patrols to monitor the communications superhighway. However, this will be an evolutionary process.

Rather than spend too much time contemplating deregulatory generalities, let me give you some personal opinions on current issues affecting your industries.

The telecommunications industry is at a crossroads. The technology that drives your industry is advancing more rapidly than ever before. The rules for governing it are being written and rewritten in Washington and in state capitols to encourage more competition, less regulation, and greater customer choice. The recent demise of telecommunications legislation in this Congress is, I am sure, only a pause before these issues are again joined next year. The very shape of your industry is changing through mergers, alliances, and the coming together of formerly separate industries like computing and entertainment.

The role of the regulator must change. It is not enough to recognize that your industry is being transformed; we must act aggressively to bring our rules into conformance with the new realities. Digital fiber optic transmission systems, large network databases and high-speed signaling, voice recognition and video compression, cellular and PCS, and multimedia applications - a tremendous customer demand for these services will develop, and so will competition to provide these customers with what they want. As things stand today, most of you do not face an overwhelming amount of competition. But that day is coming, and it may be coming sooner than some of you may think, or, quite frankly, want.

Our challenge as a Commission is not only to make sure this emerging competition can find its place in the national communications infrastructure; it is also to make sure that the way we regulate the industries that currently make up that infrastructure are rational and sensible in this emerging new telecommunications environment. Let me present just a few proposals to make common carrier regulation common sense regulation.

Proposal Number One: Fix the access charge system. The day is fast approaching when every rate in the industry will be under competitive pressure to reflect the cost of service. The first thing to usually crack under that pressure is, not surprisingly, the access charge system. As alternative technologies become more commercially attractive, the current access charge system will grow ever more harmful to telephone companies. We cannot hold basic economic reality at bay forever. When costs that are not traffic sensitive -- such as local loop plant -- are recovered through usage-based rates, the high usage, high margin customers are ripe for cream-skimming. So the Commission needs to get on with the business of removing some subsidies, and reforming and reducing access prices by assigning and recovering costs more appropriately. In the meantime, the Commission should encourage the development of innovative alternative structures such as those propounded by Rochester Telephone and Ameritech.

Proposal Number Two: Fix the Universal Service Fund. Universal service has been, and continues to be, one of the cornerstones of telecommunications policy. But today's mechanisms for supporting universal service may not be compatible with competition in the local exchange. The current system may create disincentives for efficiency, and by not requiring contributions from competing access providers USF subsidies are not being paid in a competitively neutral way. To preserve universal service, the FCC needs to explore the creation of a totally new USF.

Proposal Number Three: Authorize video dialtone systems - NOW! Video dialtone systems will be the first tangible evidence for many Americans that the information superhighway is more than just talk. They will bring the benefits of voice,

video and data to customers who desire new services and competitive choices between providers of existing services. The Commission needs to promptly resolve allocation costs (cut the Gordian reconsideration proceeding knot) and proceed with the task of allowing you to roll out these systems to better serve your customers and provide needed competition over the coming decades.

In this regard, I must applaud the statesmanlike, politically astute, approach of Bell Atlantic in guaranteeing broadcasters "will carry" to assume continuance of universal free TV service to the public. The availability of universal free broadcasting, the most influential and essential information media to all the public must be a prime consideration. TV and radio broadcasting is the most valuable asset for a democracy that relies on an informed electorate to effectively maintain its form of government.

Visionary communications executives are beginning to realize that with convergence of phone, TV, computers, interactive, data processing, etc. in a competitive marketplace that TV-cable programming will be a major factor in the public's selection of one multi-media phone channel over another. Remember, people are attracted to programs not transmission facilities. Consumers don't buy technology, they buy program services. This may explain the recent phone company fascination with program producers and with cable operators.

Finally, I must say something about the much heralded electronic superhighway. I congratulate the administration and Congress for their interest in telecommunications issues and their recognition of the role converging telecommunications of voice, data and video will, and I might add does, play in all aspects of American life, from schools to hospitals to industry and to homes. The FCC, working with Congress, will continue to play an instrumental role, along with all industries, in formulating the telecommunication infrastructure essential to developing the superhighway. This will necessitate reviewing existing barriers, creating regulatory incentives, implementing legislation and proposing rules that assure all telecommunications providers, including broadcasters, cable and phone, have a role in the evolutionary development of the superhighway.

In closing, I would simply say that the important, complex common carrier field has been one of constant change -- technological and regulatory -- since the days of Messrs. Watson and Bell. Your industry and the Commission have worked to adjust to technological innovations in the past and we will continue to do so. In the course of this process, I know that USTA and its members will remain in the forefront of what I hope will be a transition to a new, more common-sense approach to common carrier regulation with the elimination of unproductive paperwork and a final result of more and better services at reasonable prices to the consumer.

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