Subjective, personal comments of Dave Burstein

Second of two submissions. Objective analysis sent separately. At least I hope that's objective.


I am not a lawyer, and my strength in technology, not D.C. disputations. I know this is not standard form, although I believe it is at least as clear. I apologize for not having the time to run down original sources, but any you doubt here can be easily researched by staff or email me for a pointer.
daveb@dslprime.com Apologies if I made any mistakes in my rush; I'm doing this without staff or pay and had to struggle for the deadline.

Dave Burstein

Folks

I'm writing because there are many good reasons to move rapidly to bill and keep, as Robert Pepper explained to many of us a while back and I didn't understand at the time. There however are some crucial flaws in the current proposals, which I'd like to address.

Most important, the best available analysis of the proposals is that between $1B and $2B per year will flow from consumers to the Bell profits. Their contention, that it would be made up by lowered LD prices, is totally unsupported and unlikely. In fact, basic LD prices have been going up the last several years, while costs of delivering LD continue to fall.

That provides strong evidence we have market power, confirmed by this analysis of the Bell claims.

The best way to judge the amount of competition is to look at the pricing in relation to cost. The following suggest Carpino et al's statement is false. First, a few datapoints for economists.

- For the last few years, costs of providing LD service have continued to decline by most measures, but AT&T has raised many of their LD charges. That would be unlikely behavior under “fierce competition.”
- On wireless, a long term decline in prices through 2005 made sense with declining costs. And did occur. Since about that time, wireless costs have continued to drop (see recent articles on cameraphones with advanced features dropping to $50.) On the other hand, wireless prices for the last two or three years have been flat to up, according to data from David Barden at the Bank of America. That would be unlikely behavior under “fierce competition.”
- AT&T and Verizon have reported large increases in wireless margin. ditto
- The end of the price drops roughly corresponds to the disappearance of MCI and the old AT&T, LD, as well as the takeover of AT&T Wireless by Cingular and Nextel by Sprint. That's provides a plausible mechanism.

A few datapoints for non-economists:

- The disappearance of LD advertising from AT&T, MCI, and Sprint, that used to be ubiquitous on the air.
- The near simultaneous raise of SMS prices to 20 cents by all the major carriers. SMS costs are well under a penny.
- The very high increase for those who use only a small number of minutes of LD. In my case, a 10 cent/minute plan I rarely used suddenly went up to several dollars minimum. Since I also had local service and was getting a bill, there was no need for that minimum.

Conclusion: There is some competition in the U.S., primarily between telcos and cablecos for the bundle. There is not sufficient competition to rely on that alone to align prices with costs.

“Under elementary principles of economics, companies offering those services will thus be forced to pass through much, if not all, of their intercarrier compensation savings to consumers, whether in the form of lower retail rates, accelerated
investment in improved service quality, and/or wider deployment of innovative technology used to provide, for example, next-generation broadband services.

Comment: Since there is both some competition and some market power, this doesn't apply. Even with “perfect competition”, elementary principles of economics would not come to that conclusion if there were significant costs of change and less than perfect information. Several Nobel prizes have been awarded for that work over the last few decades.

“As a result, Free Press’s proposal to bar an ILEC from raising its SLCs because of the passed-through “savings” of its affiliates would leave the ILEC and its affiliates much worse off in the aggregate than18 See, e.g., Richard N. Clarke & Thomas J. Makarewicz, Economic Benefits from Missoula Plan Reform of Inter carrier Compensation, at 18-19 (Feb. 1, 2007), attached as Exhibit 1 to AT&T Missoula Reply Comments (explaining why access charge reductions will be passed on to customers).

Comment: The Clarke paper makes the same incorrect assertions, so explains nothing of the sort.

“Years of deregulated pricing that has spawned record-low rates”

Comment: The best available data show that basic phone and LD rates have gone up for the last few years, so could not be “record-low.” The wireless data is less conclusive, but certainly has not been dropping the last few years. The market today has 4 instead of 6 main wireless companies, while the three biggest LD companies (AT&T, MCI, Sprint) are no longer advertising for LD customers. Most new phone service buyers get LD from their basic company. That's a significantly different market structure, so data from before those changes is not particularly relevant.

I also note that some of the proposals pay USF to the smaller rurals for lines they are no longer serving. I don't think this is a good use of government money.

I believe bill and keep – the essence of this – is long overdue. I would support it if the terms were re-arranged that consumers were made whole. I note that both the California PUC and Free Press agree with my conclusion that a bell windfall is included, as do many on Wall Street.

I believe both liberals and conservatives can agree with these comments by the President-elect, Obama has been strong about cutting waste from the budget. From the NY Times

“Just because a program, a special interest tax break or corporate subsidy is hidden in this year’s budget does not mean that it will survive the next,” he said. “The old ways of Washington simply can’t meet the challenges of today and tomorrow.”

“We can’t sustain a system that bleeds billions of taxpayer dollars on programs that have outlived their usefulness or exist solely because of the power of politicians, lobbyists or interest groups,” Mr. Obama said. “We simply can’t afford it.”

"We are going to go through our federal budget, as I promised during the campaign, page by page, line by line, eliminating those programs we don't need and insisting that those that we do need operate in a sensible, cost-effective way," Obama said. NY Times

I also call attention to these filings by others I believe raise important points.

California PUC

California does not support a permanent across-the-board cap on federal high-cost support because such a step would not appropriately target the subsidies to the actual high-cost areas. The first step to be taken in correcting the federal high-cost support program is to determine with more granularity the actual high-cost areas existing today, and to target more narrowly support only to those areas. Capping all five legacy high-cost support mechanisms across the board at current levels would be an arbitrary cap. A more effective long-term solution would be to reform the program to deliver high-cost support to truly high cost areas. In particular, the current methodologies for High Cost Loop, Local Switching, and Interstate Common Line
Support are not well targeted, and provide support to companies whose costs are simply above average, but not truly high.

Comment
On target and important. The purpose of USF is not to subsidize companies but rather to provide service. There is no reason to provide subsidies except when the cost is truly excessive.

"However, as proposed in Appendix A, the plan favors the large carriers, yet could have substantial negative financial consequences for small rural carriers and their subscribers, as well as for some mid-size companies.

Comment:
Appropriate and important. Before the last vote, Martin and OPASTCO revised the terms to make them more than fair to small rural carriers. However, the best available estimates are that consumers would pay between $1B and $2B more, not good public policy.

NECA
In order to accomplish universal availability of broadband Internet access service, it may also be necessary to consider mechanisms to help recover the high costs of obtaining transport to the Internet backbone from rural areas. As the Joint Board previously recognized, current support mechanisms do not cover these costs, which often make it impossible for rural providers to offer economically-priced high-speed access.

Comment: A strong and important point. It may well be necessary to impose price restraints on the major backhaul and backbone carriers, such as AT&T and Qwest. Otherwise, where they have market power they can raise their rates and capture much of the money intended for broadband. See http://www.fastnetnews.com/dslprimelist/112-dsl-misc/518-backhaul-cost-clobbering-rural-and-small-carriers- for some relevant data.

NTCA
Middle mile transport and the Internet backbone itself are significant cost factors on providing rural broadband service and must be addressed in any comprehensive reform. To achieve and maintain the goal of universal affordable broadband service for all Americans, the Commission should regulate the terms, conditions and pricing of Internet backbone services, including special access transport needed to reach the Internet. … that large, vertically-integrated Internet backbone providers do not abuse their market power by imposing unfair and discriminatory pricing on small, rural communications carriers providing retail high-speed Internet access service in rural, insular and high-cost areas of the United States. The Commission has already adopted some of these conditions as part of the Commission’s approval of the AT&T/BellSouth merger.

NTCA urges the Commission to broaden these conditions in the future.

Comment: Like NECA, a strong and important point. It may well be necessary to impose price restraints on the major backhaul and backbone carriers, such as AT&T and Qwest. Otherwise, where they have market power they can raise their rates and capture much of the money intended for broadband. See http://www.fastnetnews.com/dslprimelist/112-dsl-misc/518-backhaul-cost-clobbering-rural-and-small-carriers- for some relevant data.