

Issue 7. Reseller v. Co-Carrier Status

Q. Is it important for the Commission to encourage the entry of competitive resellers of the incumbent carriers' local services as well as co-carriers?

A. Yes. Not all geographical areas and not all classes of customers can be economically served by multiple networks. Therefore, it is important to relax or remove existing restrictions on the incumbent's tariffs, and to introduce new tariffs specifically designed for resale purposes. These are crucially important steps towards effective competition.

Some areas will be slow to attract facilities based competition, and thus resale of the existing network (or portions thereof) may initially be the only form of competition in some parts of the state. When pure retailers (resellers) are given the opportunity to compete effectively, their presence in the market can greatly enhance the public interest. Furthermore, firms that initially enter the market as resellers may gradually install facilities, as they gain market share and gain confidence in their ability to survive and prosper. Thus, a policy of encouraging effective resale competition can be an effective tool to encourage a transition towards effective facilities-based competition, as well. It should be remembered that some of the largest facilities-based interexchange competitors, like MCI and Sprint, have relied quite heavily on the resale of AT&T and Bell interexchange transmission facilities. As they have expanded their networks, their reliance on resold facilities has diminished in importance, but even today they use the Bell Operating companies' facilities and services (e.g., intraLATA transport) to complete many calls. Without appropriately designed and priced wholesale services which can be combined with their own facilities, competition in the long distance market would be far less effective than it is today.

Most regulatory policy objectives are designed to mimic the results in competitive markets - expanding consumer choices, encourage technological improvements, and lowering costs. The development of effective competition in the retail segment of the local exchange market (involving the switching, marketing, customer service, billing and collection and other functions typically performed by resellers) will produce these benefits, even if none of the entrants install their own local loop facilities.

In toll markets the competition provided by both resellers has expanded the choices available to consumers in terms of both the number of service providers and the kinds of services available. Consumer choice is an important element of competitive markets. From a customer's perspective, the availability of choices within the retail portion of the market is far more important than the availability of multiple providers of the facilities that carry traffic. Even when there is only one of the latter, (e.g., Bell), consumers benefit from firms that compete by reselling its services.

Furthermore, the competition created by resellers in the long-distance market has proven to be quite significant in promoting innovation in both services and technologies, as resellers have attempted to gain retail market share. Many of the innovations offered by the larger long-distance carriers originated with smaller resellers. These firms try to compete not only on the basis of price but also by their innovative offerings. Some of these new reseller services--such as account codes developed by the customer that list on the bill calls falling within various predetermined categories--have helped businesses cut costs and increase efficiency, to the benefit of their customers. Thus, the benefits of retail competition not only inure to the users of the competitive services but spread out to other consumers as well, increasing the overall public welfare.

Retail competition tends to result in more efficient use of the underlying facilities, even when these facilities belong to only one monopoly carrier. A large portion of the cost is fixed or sunk once the facilities are installed. Consequently, system costs exhibit sharply declining average costs as the volume of traffic carried on them increases. In most toll markets, retail competition has helped stimulate the overall volume of toll traffic, thereby improving the cost structure of the industry. Similar benefits can be envisioned in the local markets, where resale competition may promote increased volumes of FAX traffic and computer traffic (including higher bandwidth services such as ISDN) as well as ordinary voice traffic. With appropriate unbundling and resale rules, retail competition could promote increased use of the existing facilities, due to the new entrants' promotional efforts, price cutting, and innovations.

A diverse and thriving resale industry is particularly critical if the Commission wants to avoid a pattern of ineffective competition and duopoly. Furthermore, if the Commission wants to spread competitive benefits into rural areas, the most viable opportunity will be to encourage resale

competition.

Compared with facilities based operations, entry into the retail end of the telecommunications market is relatively easy, enabling resellers to operate on a very small scale in towns and neighborhoods with densities and volumes too low to support the efficient operation of more than one or two facilities-based carriers. If underlying facilities are available at a reasonable price, potential resellers could bring competitive benefits even to these small markets; if not, customers in these areas will not enjoy the freedom of choice and other benefits wrought by effective competition.

Even in the higher density, urban markets, an aggressive regulatory policy requiring resale and unbundling of the incumbents' networks will have a significant favorable impact on the pattern of competition which emerges, and the speed with which the market evolves toward effective competition. If the incumbent carrier is required to provide unbundled local loops and other network components at reasonable wholesale rates, barriers to entry will be reduced, smaller carriers will be attracted into the market, competition will spread more widely, and the benefits of effective competition will be achieved more quickly.

In sum, the encouragement of effective retail competition in the local exchange market can promote various policy goals that are natural outgrowths of a competitive market. Achieving the benefits of competition, however, depends heavily on the Commission's regulatory decisions. If competition and its attendant benefits are to survive and flourish, the Commission must pursue policies that allow resellers to operate efficiently in the local exchange market, and it must protect the fledgling competitors against price squeezing and other anticompetitive tactics by the dominant carrier.