

## G. Continued Regulatory Oversight

Market dominance and the ability to exercise market power-- not the mere presence of alternative suppliers--are the key issues in deciding whether or not effective competition has emerged. Unless and until the incumbents' market power is eroded, the only protection which exists from this power is the continued regulatory oversight provided by state commissions and the FCC.

OCC agrees with the official position statement adopted by the National Association of Regulatory Utility Commissioners (NARUC), as set forth below:

The framework for transitioning to industry-wide competition must be properly laid or we risk having unregulated monopolies, increasing telephone rates, decreasing subscription levels, diminishing quality of service, and infrastructure dis-investment for some areas. Because of the incentives and opportunities for dominant providers to frustrate competition, there must continue to be oversight of the transition... The development of competition is a time-intensive, pro-active effort. Removing statutory and legal barriers to entry is the first step. However, the subsequent steps which will actually allow competition to develop will be where the hard work lies.

[NARUC Bulletin No. 48, November 28, 1994, p. 5.]

Stringent regulatory oversight of the terms and conditions under which the various carriers interconnect with each other will be necessary to ensure that all carriers help maintain universal service. Financial assistance from all local exchange carriers may also be necessary, but this may not take the form of payments from one competitor to another. In any event, the extent of the problem, if any, and the resulting need for a specific mechanism or fund has not yet been established. In this proceeding, it will be sufficient for the Commission to consider the question further and determine what if any additional requirements need to be imposed in this or a later proceeding.

In order to minimize the amount of continued oversight required by the Commission, the rules must

target the specific areas of the industry where nascent competition is most vulnerable and anticompetitive practices most likely and/or harmful.

Although the regulatory framework itself should reduce the incentives and opportunities for anticompetitive behavior, especially in pricing, it will not eliminate them. As long as the large local exchange carriers remain vertically integrated and consist of a mix of competitive and monopoly operations, they will have incentives to engage in anticompetitive pricing and must be constrained by appropriate rules and continued regulatory oversight.