



# Telecom Deregulation

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## THE ISSUE

For most of the last century, cheap and universally available local residential phone service was the primary telecommunications goal of American policymakers. The resulting regulatory regime kept competition at bay in order to maintain an elaborate web of subsidies that supported artificially low local service prices.

In the 1970s, when it became clear to everyone that consumers were demanding services that the regulated system couldn't deliver, the country began to move into the new era of telecommunications deregulation.

Texas has recently been one step ahead of the rest of the country, passing major telecom reform legislation in both 1995 and 2005. Thanks to the most recent legislation—SB 5—local telephone service for more than 15 million Texans was significantly deregulated as of January 1, 2006. This was a major step forward in reducing costs and bringing new technologies and services to millions of Texans.

But there is still room for improvement. Even though service for more than 15 million Texans has been significantly deregulated, some price controls remain in effect. For instance, companies must apply rates evenly across a deregulated market, consistent with pricing flexibility that was available on August 31, 2005. Companies are also subject to price floors for all services set at the service's long-run incremental cost. Finally, they are subject to applicable PUC rules relating to "discriminatory" and "predatory" pricing under Chapter 60 of the Public Utilities Code.

Additionally, the vast majority of Texas phone companies continue to operate in regulated markets serving over 7 million mostly rural Texans. In these areas, companies are subject to price caps, price floors, and/or tariffs.

## THE FACTS

- ★ When the telecommunications equipment market was deregulated in the 1970s, the prices for phone handsets, key telephones, and private branch exchanges declined at a real rate of between 6 and 7 percent per year between 1972 and 1987.
- ★ From 1984 to 1995, when there were just two cellular providers per market, inflation-adjusted rates fell by an average of only 3 to 4 percent annually. However, in 1993, the government allowed up to six competitors in each market, resulting in declines in wireless rates averaging 17 percent annually from 1995 to 1999. A cellular phone call that averaged 50 cents per minute in 1984 has declined to 8 cents per minute today.
- ★ Upon deregulation, interstate long distance rates fell 68 percent from 1984 to 2003, while intrastate rates fell 56 percent. The slower decline of intrastate rates is due largely to state regulators who have kept intrastate access charges artificially high in order to maintain subsidies of local phone rates.
- ★ The dual system in Texas of deregulated urban markets and regulated rural markets could create a "digital divide" between urban and rural customers.

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- ★ Indiana has gone far beyond Texas in deregulating its telecommunications market, eliminating all rate regulation and tariffs. This has resulted in tremendous growth in telecommunications investment and services.

## RECOMMENDATIONS

- ★ The relics of monopoly regulation—such as price caps and floors—should be removed from the current system. All rate regulations and tariffs should be eliminated.
- ★ Firm timelines should be set for deregulation. A phased-in approach to deregulation in mid- and small-sized markets would encourage competition by ensuring that market participants (current and potential) understand that competition is inevitable.
- ★ Pricing flexibility that comes with deregulation should be paired with the elimination of the Texas Universal Service Fund.

## RESOURCES

*Consumer Choice and Telecommunication Contracts* by Chris Robertson, Texas Public Policy Foundation (Apr. 2009) <http://www.texaspolicy.com/pdf/2009-04-PP14-billanalysis-cr.pdf>.

*Telecommunications Taxes in Texas* by Bill Peacock and Chris Robertson, Texas Public Policy Foundation (Apr. 2009) <http://www.texaspolicy.com/pdf/2009-04-PP11-telecommunications-bp.pdf>.

*Testimony Regarding the NFL Network Dispute* by Bill Peacock, Texas Public Policy Foundation (Dec. 2007) <http://www.texaspolicy.com/pdf/2007-12-10-NFL-testimony-bp.pdf>.

*Texas Telecom Deregulation* by Bill Peacock, Texas Public Policy Foundation (Apr. 2006) <http://www.texaspolicy.com/pdf/2006-04-27-testimony.pdf>.

*Texas Telecommunications: The Road Ahead* by Bill Peacock, Texas Public Policy Foundation (Oct. 2005) <http://www.texaspolicy.com/pdf/2005-11-telecom-pp.pdf>.

*A Telecommunications Policy Primer* by Dianne Katz, Texas Public Policy Foundation (Jan. 2005) <http://www.texaspolicy.com/pdf/2005-01-tele.pdf>.

*Texas Telecommunications: Everything Is Dynamic Except the Pricing* by Robert W. Crandall and Jerry Ellig, Texas Public Policy Foundation (Jan. 2005) <http://www.texaspolicy.com/pdf/2005-01-telecom.pdf>. ★

