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## Agenda

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- **Overarching Principles**
- **Principles**
- **Recommendations**
- **Summary & Conclusions**

David E. Sappington & Dennis L Weisman  
*Designing Incentive Regulation for the  
Telecommunications Industry, Chapter 8*

## Overarching Principles

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- **Incentive Regulation**
- **Encourage Competition**

## Principles

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- **Promotion of Competition**
- **Low-cost Providers Ensured**
- **Favor Dynamic Efficiency**
- **No Arbitrage of Rules**
- **Sunset Provision**

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## Principles

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- **Promotion of Competition**
  - ▶ **Not mandated**
  - ▶ **Not artificial**
    - Entry barriers removed
    - No long run artificial advantages
    - No long run handicaps
    - No long run asymmetrical regulation

## Principles

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- **Promotion of Competition**
- **Low Cost Providers Ensured**
  - ▶ **Non-distorting regulation**
  - ▶ **Competitively neutral rules**
    - Cross-subsidies
    - Rate averaging
    - Carrier-of-last resort

## Principles

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- Promotion of Competition
- Low Cost Providers Ensured
- Favor Dynamic Efficiency
  - ▶ Ensure static efficiency does not discourage dynamic efficiency
  - ▶ Network investment incentives
  - ▶ Long run cost minimization

## Principles

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- Promotion of Competition
- Low Cost Providers Ensured
- Favor Dynamic Efficiency
- No Arbitrage of Rules
  - ▶ No strategic manipulation
  - ▶ No market share handicapping

## Principles

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- Promotion of Competition
- Low Cost Providers Ensured
- Favor Dynamic Efficiency
- No Arbitrage of Rules
- Sunset Provision

## Agenda

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- Overarching Principles
- Principles
- Recommendations

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## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
- Regulator Court of Last Resort
- Free Competitive Services
- Timing of Regulatory Relief
- Efficient Interconnect Prices

## Recommendations

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- Incumbent Price Flexibility
  - ▶ Ensure least-cost provider
  - ▶ Safeguards against predation
  - ▶ Set floors/ceilings
  - ▶ Least-cost is least-price provider

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
  - ▶ Unbundled services
  - ▶ Open Network Architecture (ONA)
  - ▶ Open Network Provision (ONP)
    - Not too few or too many elements
    - Inhibiting competition with too few
    - Finance risk with too many

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
  - ▶ Unbundled services
  - ▶ Open Network Architecture (ONA)
  - ▶ Open Network Provision (ONP)
  - ▶ Ensure investment incentives
    - Network modernization
    - Network quality & reliability

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
  - ▶ Incumbent not bear all costs
  - ▶ Otherwise:
    - Disadvantaged *vis-a-vis* competitor
    - Danger of inefficient competitors

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
  - ▶ Not competitively disadvantaged
  - ▶ Not processed information

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
- Court of Last Resort

## Recommendations

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- ...
- Court of Last Resort
  - ▶ Limit appeals process
  - ▶ Losers bears the cost of action
  - ▶ Limit ability of players to deploy regulatory process strategically

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
- Court of Last Resort
- **Competitive Services Freed**

## Recommendations

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- ...
- **Competitive Services Freed**
  - ▶ If a service has full competition, remove it from regulatory control
  - ▶ For example, CPE

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
- Court of Last Resort
- Competitive Services Freed
- **Timing of Regulatory Relief**

## Recommendations

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- ...
- **Timing of Regulatory Relief**
  - ▶ Removal of asymmetrical regulations based on easing of entry barriers and access by incumbent, for example

## Recommendations

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- Incumbent Price Flexibility
- Unbundling Mandated
- Burdens Shared
- Equal Access to Information
- Court of Last Resort
- Competitive Services Freed
- Timing of Regulatory Relief
- **Efficient Interconnect Prices**

## Recommendations

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- ...
- **Efficient Interconnect Prices**
  - ▶ Efficient & equitable
  - ▶ Same terms & conditions to all
  - ▶ Maintenance & enhancement of network

(See separate lecture)

### **Summary & Conclusions**

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- **Foster Competition**
- **Not Manage Competition**
- **Only Intervene for Cause (Unfair practices)**

### **Summary & Conclusions**

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- **Equity Goals Unsustainable**
- **Constrain Market Power**
- **Regulatory & Competition**
- **No Asymmetrical Regulation**

### **Summary & Conclusions**

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- **Equity Goals Unsustainable**

### **Summary & Conclusions**

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- **Equity Goals Unsustainable**
- **Constrain Market Power**
  - ▶ **Not preclude low-cost provider**

### **Summary & Conclusions**

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- **Equity Goals Unsustainable**
- **Constrain Market Power**
- **Regulatory & Competition**
  - ▶ **Disciple the firm**
  - ▶ **Competitive policies neutral**

### **Summary & Conclusions**

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- **Equity Goals Unsustainable**
- **Constrain Market Power**
- **Regulatory & Competition**
- **No Asymmetrical Regulation**
  - ▶ **Inefficient Competition**
  - ▶ **No natural sunset**