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# New Social Compact in an IP World

Preconference Seminar on the IP World

NATOA Annual Conference

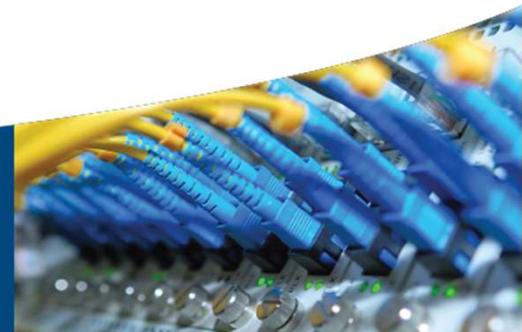
Orlando FL

September 16, 2013

PRESENTED BY

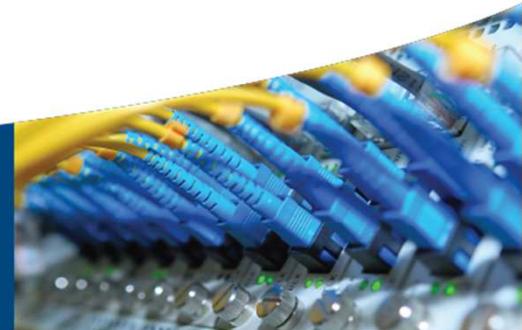
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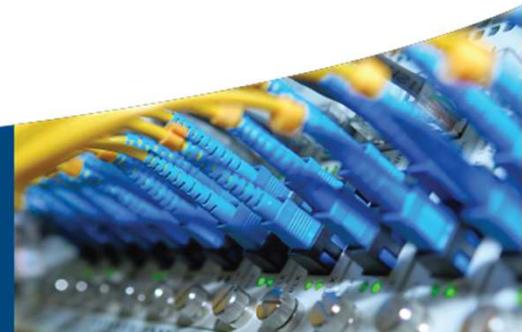
# Outline

- What Principles Apply?
- Some Basic Economics
- The Traditional “Social Compact” in Telecommunications
- Does IP Technology Change the Analysis?
- The Duty for All of Us



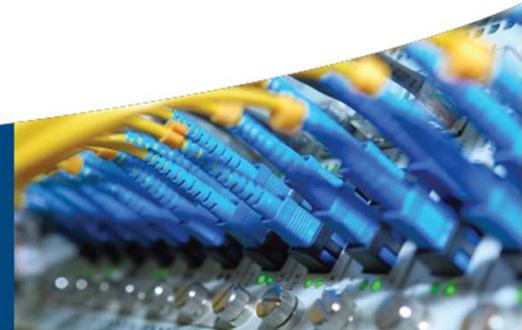
# Principles for Local Governments in Electronic Communications

- Consumer protection
- Economic Development
- Local Government as landlord/trustee
- Local Government as user



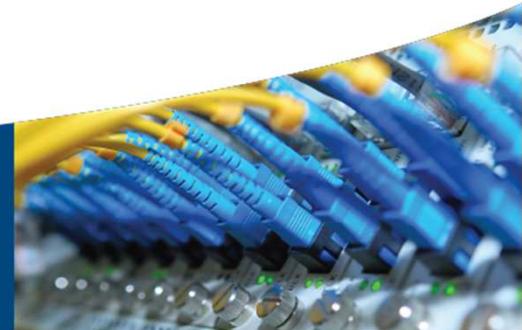
# Consumer protection

- Protection Against Market Failures
  - monopoly power—unfair prices; unfair availability of services
- Quality of Life of Community
  - First Amendment infringements
  - privacy abuses



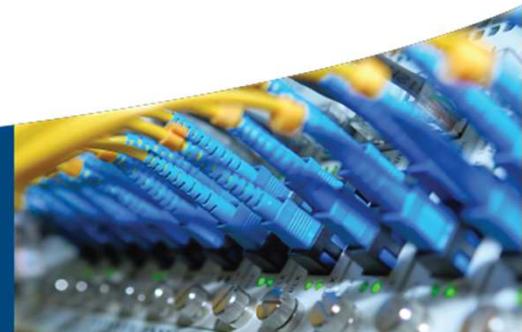
# Economic Development

- Fair opportunity to participate
- Efficient use of community resources
- Externalities injuring third parties
- Retarding innovation



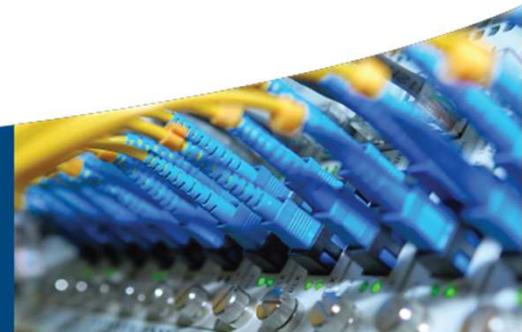
# Local Government as landlord/trustee

- Largest landlord to industry
- Most valuable resource held in public trust



# Local Government as user

- Fair prices and services to reduce taxpayer burden
- Provider of last resort



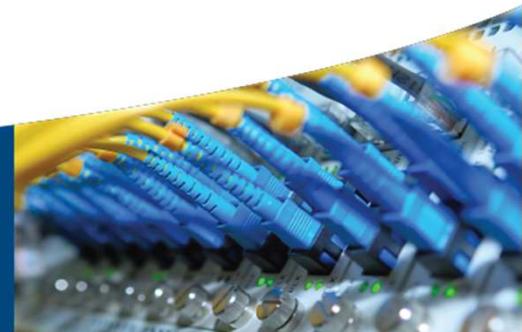
# Some Basic Economics

- Government should support “efficient markets” -- prices = costs + reasonable return
  - i.e. no provider can charge more without attracting competitive entry to undercut prices/market share
  - Test is ease of market entry
  - Best evidence is not market share but “value of service” pricing: vendor has power to segment market, charging discriminatory prices based on each consumer group’s value of service



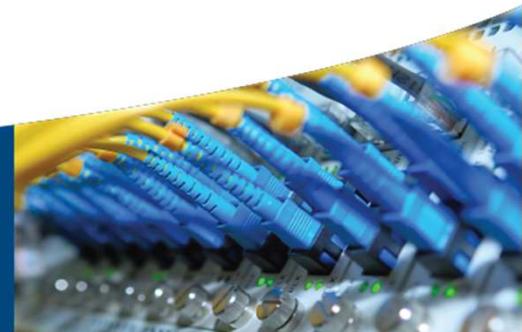
# Some Basic Economics

- Government should attack monopoly/oligopoly markets
  - When a market demonstrates substantial barriers to entry, very injurious results
    - Innovation suppressed—too expensive to play
    - Prices above costs slows economic development—money is diverted from other activities to overpay the monopolists.



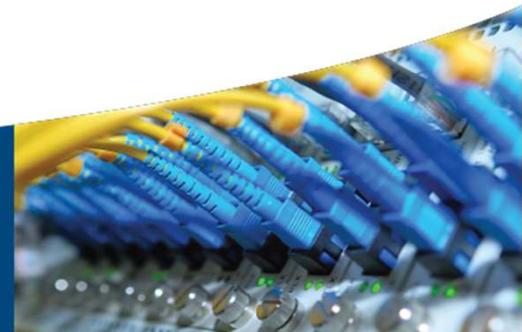
# The Traditional “Social Compact” in Telecommunications

- Essential services must be available to all at comparable prices related to costs
  - Voice telephone service subsidized where needed
    - Universal availability (REA loans, operating subsidies to rural providers, rate subsidies for low income households)
    - Universal affordability with no distance penalty
    - Long distance toll rate averaging within states and between states—Hawaii and Alaska



# The Traditional “Social Compact” in Telecommunications

- “Last Mile” local distribution networks are natural monopolies
  - Must regulate to require
    - Non-discrimination
    - Equal interconnection
    - No control over content
    - Limits on monopoly pricing

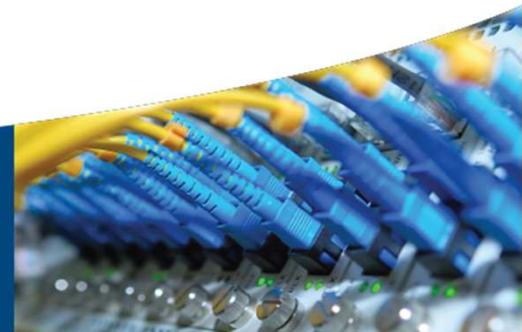


# The traditional “Social Compact” in Telecommunications

- Competition best serves consumer interests; regulation of local monopoly facilities essential to competition
  - Computer II: regulate transmission facilities (natural monopoly), not software and information services (competitive)
  - 1982 breakup of Bell System—ownership and control of local monopolies separated from competitive long distance and manufacturing businesses
  - 1996 Telecomm Act
    - As local facilities become competitive, forbear regulation; until then, competitive carriers must have access at regulated prices
    - “Information Services” (travelling over local facilities) are competitive

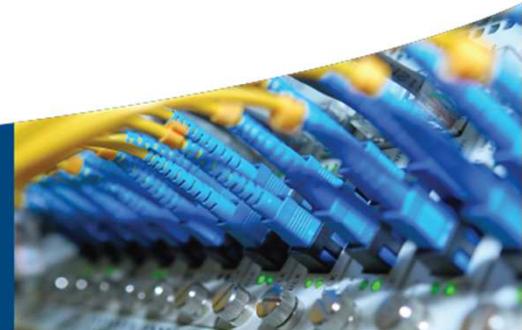


- Does IP Technology Change the Analysis?



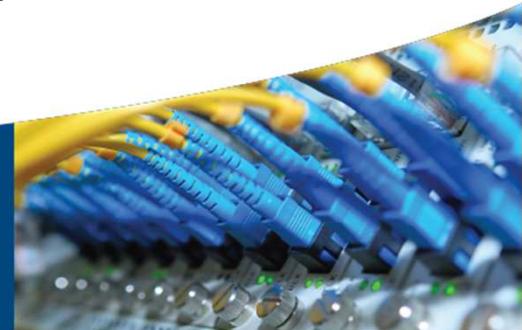
# Short Answer: Same Principles; Problems Still Tied to Points of Monopoly Control

- Social and Economic Principles Don't Change with a Change in Technology
- Technology will change “cost structures”—so monopoly power may be disrupted and relocated



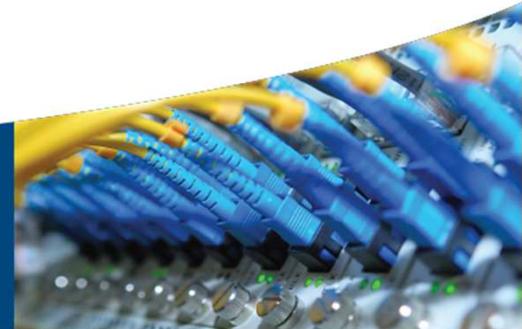
# Fiber and Digital Disrupts Networks

- Fiber reduces cost of construction—undercutting monopoly power
- Fiber costs decline with increased data volume—economy of scale enhancing monopoly power
- Digitalization reduces costs of switching and allows multiple routing within network—need for non-discrimination and interconnection
- Fiber trumps wireless for capacity/speed/lower investment over time



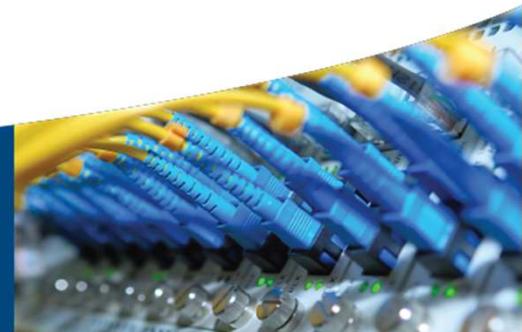
# The Social Compact: Your Homework

- Recognize the goals are the same—
  - Universal service
    - Availability
    - Affordability
  - Non-discrimination in service to subscribers and information vendors
  - Non-discrimination in interconnection among carriers
- Separate the propaganda from the facts—
  - IP technology does not eliminate monopoly power;
  - Treat monopoly facilities different than competitive services



# The Social Compact: Your Homework

- Providers using 2 step strategy:
  - Use fiber/coax capacity to prevent overbuilds
  - Create artificial scarcity limits to drive discriminatory prices: data caps; refusal to serve “uneconomic areas”
- Not an easy fight— State and Federal officials need strong political support



# Questions?

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