

D. Costing and Pricing

In order to maximize the likelihood that local competition will be truly effective, and to prevent incumbents from leveraging their monopoly power in one sphere to enhance their competitive position in another sphere, the Commission should mandate reasonable wholesale rates for unbundled basic service functions.

The level and structure of the incumbents' wholesale rates will play a key role in either promoting or discouraging effective competition, particularly where incumbents retain a de facto monopoly on the provision of needed facilities (e.g., fiber optic cable). Of course, the incumbents must impute their basic service functions to their own retail service, unbundle network functions, and price each function to recover their own costs as well as a reasonable share of relevant joint and common costs.

As a general matter, all tariffs should be available to similarly situated competing interconnectors. Of course, each such tariff must be carefully designed and worded, to ensure that it is properly applied. For instance, a carrier should not be allowed to purchase service under a retail residential exchange tariff, then resell this service to a business customer with calling volumes far higher than those of a typical residential customer. If appropriate unbundled wholesale tariffs are developed, most carriers will not want to shop in the retail tariffs, in any event, since they will be able to find the features and functions they need more attractively priced in the wholesale tariff. By purchasing wholesale, they can avoid having to pay for the higher level of customer service, marketing, billing and other costs associated with retail service. Thus "tariff shopping" between retail and wholesale services should be a relatively minor issue, once unbundling and wholesale tariffs have been adequately implemented. If wholesale rates are higher than the analogous retail rates, the Commission may need to revisit the wholesale tariff to determine if it has been appropriately designed.