

Keynote Address
by Scott J. Rubin
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Good afternoon! I want to thank Cindy and the folks at Dollar Energy for inviting me to be here today. My goal, in the next half hour or so, is to try to get you thinking about what deregulation and competition will mean to you and to the consumers that you're trying to help. It's important that we all try to understand what will happen to various groups of consumers as we make massive, unprecedented changes in the electric, natural gas, and telecommunications industries.

Massive change, and the consequences of change, will be our theme today. And that reminds me of a story.

A middle-aged woman has a heart attack and is taken to the hospital. While she's on the operating table, she has a near-death experience and sees God. She asks God, "Is this it?" God says, "No, you have another 30 or 40 years to live."

Well, the woman recovers and she decides that if she's going to be around for another 30 or 40 years, and since she's in the hospital for a while anyway, she might as well make a few changes. So she has a face lift, some liposuction, she has a few body parts enhanced and tucked and what not. She even has someone come in to change her hair color. She figures if she's got 30 or 40 years to go, she should make the best of it.

After a few weeks, she walks out of the hospital. On the way to her car, she passes the emergency room entrance. She doesn't watch where she's going and she's hit by an ambulance and killed.

Well, she gets to Heaven and she marches right up to God and says, "Hey, what gives? You said I had 30 to 40 years to live and, bang, just as I get out of the hospital I'm killed by an ambulance." And God says, "I'm sorry. I didn't recognize you."

In a nutshell, that's my message for today – change has consequences; the bigger the change, the bigger the consequences.

Now I could stand up here and drone on for the next 25 or 30 minutes, but you'd all get tired of that pretty quickly. So instead, we're going to play my version of "Who Wants to Be a Millionaire." Did you all watch that a few weeks ago? Well, my version is a little different. First, I'm not Regis – I'm much younger, better looking, and I hope much less annoying. I won't even ask you if something is your "final answer." And, second, I have no money and no sponsors, so you will win absolutely nothing. And, third, we're all going to play. That means I'm going to ask you to stand up, sit down, even move around a little sometimes. But we'll try to do it without too much chaos.

Our first test is to see what's happening out there with utility competition.

So, if you use someone other than AT&T for long distance telephone service, please stand up.

If you buy electricity supply from someone other than your local electric utility, please stand up.

If you use someone other than your local phone company for intraLATA toll calls, or what you might think of as local toll calls, please stand up.

If you buy natural gas from someone other than your local natural gas company, please stand up.

Okay. They tell us we have competition in all of these utility industries, but I only see a few people standing. That's our first lesson. Just because some economist or politician or utility executive says there's competition doesn't mean that consumers understand how to shop for these services. Don't feel bad – nationwide about 2/3 of residential consumers still use AT&T for long distance; many of them have never switched to anyone else and have never even checked prices.

Let's do another one. I'll ask everyone to stand up. Now, if you do not know how much you pay per minute for long distance telephone service, please sit down. And please be honest – there's nothing to be ashamed about, we can't all be brilliant consumers about everything we buy. If you pay 20 cents per minute or more, please sit down. 15 cents or more? 10 cents or more? How about 9 cents? 7 cents? 5 cents?

You're all buying the same stuff. You're all pretty much the same type of customer, yet some of you are paying 2, 3, or even 4 times as much as someone else in this room for exactly the same service. In the regulated utility industry, we used to call that price discrimination and it was (and is) flat out illegal. But in the competitive utility world, it's not only perfectly legal, it's a way of life.

Everyone sit down again. If you took a commercial airline flight to get here, please stand up again. You're getting your exercise aren't you! Now this is where the fun starts. I'd like each of you who is standing to come up toward the front. Did any of you fly for free – using frequent flyer miles or a coupon you got because you were bumped? [have them stand in separate groups; walk through different fares -- < \$200, < \$300, etc.; then have them sit down]

I'll give you two quick examples. Next month I have to go to Charleston, South Carolina for a few days. I live in a small town in Central Pennsylvania; the closest airport is in Williamsport – home of Little League Baseball and not much else. From Williamsport you can fly to Pittsburgh or Philadelphia on a commuter airline run by US Airways, period. A colleague of mine from Indianapolis is going to the same conference. We've arranged to both be on the same flight from Pittsburgh to Charleston. We both have a Saturday night stay. She lives in a big city served by lots of different airlines. She's paying \$200 for her ticket; I'm paying \$400 for mine.

A second one. About a year ago, I had to be in Seattle for two days and I couldn't stay over a Saturday night. Expensive, right? If I flew out of Harrisburg and connected through Pittsburgh to Seattle, the flight on US Airways would cost me \$1500. Instead, I drove an extra 90 miles to Baltimore. Why? Because I got a flight with the same airline, connecting through Pittsburgh on exactly the same flight to Seattle. And it cost me less than \$300.

Why? Because Baltimore is served by Southwest Airlines and Harrisburg is not. Baltimore has a lot of competition and Harrisburg doesn't. Why? Because competition is about price discrimination – people paying vastly different prices for essentially the same service.

What happens with deregulation? Someone does better and someone else does worse. There are winners and losers. We've already seen that with price discrimination. Here's a toss up question ... I need a brave volunteer to answer this one. Who's the person you all want to embarrass the most?

Give us your best guess: Within 5 years after the deregulation of airlines, how many communities in the U.S. lost all of their commercial air service? [116]

The transition from regulation to competition creates winners and losers. I won't bore you with all the statistics. But study after study of previously regulated industries – airlines,

buses, trucking, banking, long distance telephone – show that residents of large communities in expanding areas – that is, desirable customers – are winners. With airlines, it means that their choices have increased and their fares have gone down. Residents of small communities in less desirable areas, particularly the Northeastern United States, have been losers. Their choices have gone down and their fares have stayed about the same. Assuming, that is, that they still have air service at all.

Competitive markets have winners and losers. Small depositors - those are people who don't make a lot of money - have been hurt by deregulation in the banking industry. They pay fees for checking accounts and earn almost no interest on their passbook savings accounts. In many communities, small depositors end up paying more in fees than they earn in interest. But big depositors are doing just fine. They get lots of benefits and can take advantage of money market accounts that earn a lot more interest than the typical passbook savings account. Their benefits far exceed any fees that they have to pay.

Here's another toss up question for everyone. Just shout out the answer if you think you know it: Who is the largest customer of Bell Atlantic? [AT&T]

Now this is the part I love. What has happened to the rates that AT&T has paid to Bell Atlantic and the other local phone companies since 1984 when the Bell system was broken apart? [declined about 80%]

And since 1984, what has happened to the rates that residential consumers pay for local phone service? [increased about 50%]
[graph]

Take a look at the effects of deregulation on airlines, trucking, banking, railroads, buses, and long distance telephone. You'll see the same patterns emerge over and over again. Economically desirable customers - usually big customers in growing communities - do great. Prices go down, service options increase, competitors fawn all over each other to get their business. Less desirable customers may stay about the same. And undesirable ones pick up the tab - they pay higher prices, have fewer - or even no - choices, and get lower quality of service.

Change is not always good.

What's a consumer to do? And, perhaps more to the point, what are you going to do to help consumers who are having trouble paying their bills? You folks are out there in the trenches helping people find a way to afford their utility service.

First, I suggest that you look beyond the particular bill you're trying to help someone with. Take a look at their bill for long distance phone service. No, you can't help them pay it, but you can sure help them save some money. It takes an informed, aggressive consumer to find the best deal and we know that most consumers are neither well informed nor particularly aggressive about many of their utility bills.

Let me give you another quick example. About a year ago, I was doing a lot of traveling back and forth to Harrisburg, which is about an hour drive for me on a very good day. So, I decided I should have a cell phone. I got a decent deal, a nice phone, a package of bonus minutes, so I signed a one-year contract for about \$25 per month. At the end of the year, the bonus minutes went away, but I owned the phone and could keep paying \$25 a month for basic service that included 60 minutes a month. Well, I was a little bored one day and I decided to call the cell phone company. I explained that my contract had recently expired and I was shopping around. Now mind you, this is the same company I'd been with for a year. I didn't even threaten to leave; I just asked what they had available. They said, oh, we're glad you called, we can offer

you a new package with 75 minutes a month for only \$20 a month. I try to remember his exact quote: “We like to reward our existing customers who call us. Now we don’t offer this to all of our customers, only those who call us.” What happened? I made a five-minute phone call, I got 25% more service and I cut 20% off my bill. I got lucky – if I’d been real busy that day, I wouldn’t have called; maybe wouldn’t have called for a couple of months.

You have to be informed and aggressive in order to take advantage of competition. If the people you’re trying to help aren’t well informed, they’re paying too much for too little. That’s not a guess on my part; that’s a fact.

So, your job is to help educate them and make them aggressive enough to find the best deal for them. Maybe you need to take them shopping; make the phone calls for them; talk to suppliers – of gas, electricity, and toll calling service (both local toll calls and long distance calls).

People have been able to choose their long distance telephone company for almost 15 years. Yet about two-thirds of residential customers still use AT&T, often at rates that are at least twice as high as another rate that’s available. Let’s say you make just 6 calls a month and each call lasts only 10 minutes. If you pay 25 cents a minute, you’re paying \$15 per month for long distance. If you switch long distance companies, you can get a rate of 9 cents a minute or even better. At 9 cents a minute, those same calls would cost you \$5.40 per month. That’s a savings of almost \$10 per month, if you make only 6 calls. You know as well as I do that there are a lot of people out there for whom \$10 a month can mean the difference between eating decent dinners for a week or not, or making a payment on their electric bill or not. There’s a lot of money to be saved, but consumers have to know what to do, what questions to ask, and where to turn for help.

Are those numbers unrealistic? No, in fact they understate the savings that are achievable. The Federal Communications Commission publishes a lot of research into when and how people use their telephone. You can bet that the long distance phone companies know these studies inside and out because their business depends on it.

Here’s another one of my toss up questions. How many minutes per month does the average residential customer spend making toll calls? That is, how many minutes per month is the average customer paying for on his or her toll bill? [150]

About how many toll calls does the average residential customer make each month? [16]

How many of those calls last less than 1 minutes? [33%]

How many last between 1 and 3 minutes? [17%]

Of the 150 minutes, how many are made during on-peak periods, roughly 7am to 7pm, Monday – Friday? [about 50]

The industry makes its money by knowing the averages. You get the best deal by knowing how you use the service, checking around, and doing the math.

I’ve put 5 long distance rate plans up on the screen. Which one is the best deal? The answer is, it depends. It depends on when and how you use the phone. If you’re exactly an average customer, the cheapest of these plans is the 9 cents a minute rate with no monthly fee. By the way, how do you get that rate? Qwest doesn’t advertise it; they advertise 9 cents a minute with a \$4.95 per month fee. But if you ask, they’ll tell you that they can charge your monthly bill directly to your credit card and save you the \$4.95 fee. Not a bad deal, if you have a credit card. Saving that \$4.95 fee turns this from being the second worst plan up here to the best.

But if you use the phone a lot more than average, one of these other plans might be best for you. If you make all of your calls at night or on the week-ends, a different plan would be better.

And notice I didn't put up here the basic 20-25 cents per minute rate from AT&T that many people are still paying. That's not a good deal for anyone, except AT&T. But there are millions of people still paying rates that are at least twice as high as the rates shown here.

There is some serious money to be saved here. The same is true with electricity and gas, at least for some types of customers in some parts of Pennsylvania. And over the next few years, we'll see the same thing in local phone service and, maybe eventually, for cable tv service.

But it's going to take informed, aggressive consumers to get some of those deals. And to get even better deals, it's going to take groups of consumers getting together – it's called aggregation – to form what amounts to a large buying group. Several local governments are doing it right now with electricity and they're saving people some serious money – 5 percent or more off their electric bill. My prediction: Over the next few years, you'll see large employers, trade associations, membership groups like AARP and labor unions, maybe even Sam's club, and more local governments forming large buying groups to negotiate discounts for electricity, natural gas, local phone service, long distance phone service, maybe even cable tv and Internet access service.

The big utility service companies are looking to get as big as they can, as fast as they can. They spend a fortune in advertising to build their market share. They're going to realize that they can get more customers for less money by giving discounts to big groups.

Okay, enough already. Every speaker wants to leave the audience with two or three key points to take home with them. Here are mine:

1. Look beyond regulated utility bills when you're trying to help people pay afford those bills. There's a lot of money to be saved on phone bills and, in some places, energy supply bills, too.
2. Find ways to turn your clients into educated, aggressive consumers.
3. Leverage your size and knowledge to fight for better deals for your clients.

You've all been excellent sports. Thank you for playing along and for having me here today.