

Abstract

This article proposes a regulatory system of *non-uniform* and competitively neutral pricing of access to the services of a bottleneck facility such as the local loop owned by a local telephone company. To be deemed a bottleneck the facility must be owned as a monopoly, and its services must be indispensable inputs of the final products of competing suppliers. It is shown that the proposed pricing rule is *competitively neutral*, meaning that it does not favor incumbents in the final-product market over entrants or the reverse. Moreover, where there is price discrimination in final-product sales, as is typical of regulated firms, it is demonstrated that no other access pricing rule can achieve such neutrality. In addition, it is shown that everyone can gain from this arrangement, which can offer full access to all efficient suppliers in each and every pertinent market. Both incumbents and entrants will gain by not being excluded from any market. The public will gain because competition will be made possible throughout the industry. And regulators will gain because their apparently inconsistent goals will be reconciled -- pervasive competition will be able to coexist with the cross subsidies that are deemed to be in the social interest.

Classification Number: L51 - Economics of Regulation

Key Words: Access Pricing, Interconnection Pricing, Cross Subsidy, Price Discrimination, Facilitating Competition