Our Practice

NERA’s communications experts have an almost unrivaled knowledge of the economics of communications markets and of the methods of regulation used by governments. This knowledge is based on significant, real-world experience with the communications industry and regulatory agencies. We work closely with industry experts, and draw additional support from colleagues in other parts of the firm and from leading academic institutions. Clients confronting regulatory issues, contract disputes, or antitrust matters turn to NERA. We have earned an outstanding reputation for compelling quantitative analysis, persuasive testimony, and skill under cross-examination.

Our Focus

As new technologies and competitive market structures transform their industry around the world, communications firms face expanding challenges and opportunities. NERA is a key participant in the important regulatory, legislative, and competitive issues inherent in today’s communication industry sectors. NERA advises companies on regulatory and competitive strategy, helps to negotiate interconnection and access charges, and presents testimony and affidavits to regulatory agencies around the world. We advise governments worldwide on privatization and help them design regulatory regimes. We also advise companies on the competitive impact of mergers.

The Challenges of Deregulation

The Telecommunications Act of 1996 in the United States and similar initiatives in other countries have opened many telecommunications markets to competition. NERA’s economists often serve as experts to explain how any remaining regulation can be used to induce competitive market outcomes based on our understanding of alternative market structures, sunk costs, economies of scale and scope, and natural monopoly in telecommunications networks. NERA’s economists frequently clarify when regulation can improve the economic welfare of consumers and competitors, and when regulatory forbearance is the better option.

Entry into Regulated Markets

NERA advises on alternative modes of entry into telecommunications markets, namely resale of incumbents’ services, unbundled access to incumbents’ networks, and deployment of own facilities. We believe that the ultimate goal in opening regulated markets should be to usher in true facilities-based competition, without creating unintended opportunities for regulatory arbitrage.

Universal Service and Access Reform

Under competition, telecommunications policy worldwide is evolving toward explicit and competitively neutral subsidies for universal service programs. NERA provides general economic principles for fair, reasonable, and efficient prices for basic telephone service that promote universal service, while minimizing funding requirements and rebalancing other service prices.

Antitrust, Trade Regulation, and Mergers

NERA has supplied economic advice and expert testimony on several major telecommunications mergers. NERA’s experts testify on interconnection, provisioning, resale, tariff disputes, and other issues that arise in the competitive telecommunications environment. NERA also advises on the design and use of safeguards against anticompetitive pricing, e.g., predatory pricing, cross-subsidy, and price squeeze.

Performance and Service Quality

For competition to thrive, the network services that new entrants acquire from incumbents must be of at least equal quality to...
those that incumbents use themselves. Employing statistical and economic analysis, NERA presents expert testimony on service quality measurement, use of performance benchmarks, and financial incentives to ensure compliance with those benchmarks without the need for regulatory intervention.

**Thriving in a Regulated Environment**

Despite growing competition, most of the world’s telecommunications markets remain regulated. To devise appropriate strategies for operators in those markets, NERA’s experts call upon their extensive experience with regulators worldwide, and offer practical advice on immediate pricing issues. We also help our clients better understand the microeconomic principles governing these issues.

**Incentive Regulation**

To avoid the incentive distortions associated with traditional cost-based (rate-of-return) regulation of incumbent telecommunications companies, incentive-based regulation (including price caps) is being increasingly used. NERA leads in the design and evaluation of incentive regulation plans, and helps to obtain regulatory approval for them. We also offer guidance on when to reclassify telephone services as competitive and deserving of relief from regulation of any kind.

**Cost Models**

NERA has considerable experience with engineering and economic models for estimating incremental costs. Our telecommunications experts understand complex public switched networks and how costs arise within them. Recognizing that major and risky investments in plant with long economic lives require careful treatment, our advice reflects the trade-off between continuing with valuable existing physical plant and equipment and opting for new or replacement technology.

**Rate Rebalancing**

NERA often assists companies with rate rebalancing (i.e., making telephone rates conform to costs). This encourages competitive entry by efficient firms and maximizes overall economic welfare.

**Cost Recovery and Compensation Strategies**

Interconnection among networks raises several thorny issues about cost recovery, particularly when networks differ in various ways. NERA has developed several rules for determining efficient customer-to-carrier and carrier-to-carrier compensation strategies, including the use of second-best strategies (such as bill and keep) when market/regulatory distortions appear or regulatory arbitrage is attempted.

**Our Latest Thinking**

- “Fixed-Mobile Convergence, Economic Motivations and Market Implications”
- “Principles and Practice of Price Cap Regulation: An Application to the Peruvian Context”

**Client Experience**

**Australia:** Constructed a total service long run incremental cost model for Telstra’s originating and terminating interconnection services.

**Canada:** Assisted TELUS Comm to implement imputation formula for essential facilities in local competition.

**Malaysia:** Provided advice on the provision of universal service, measured relevant costs, and identified alternative funding sources.

**Mexico:** Arbitrated a tariff dispute between COFETEL (regulator) and Telmex using a NERA-developed tariff model and determined appropriate productivity factor for price cap regulation.

**Singapore:** Helped IDA establish efficient and cost-based tariffs for SingTel’s basic local exchange service.

**US:** Quantified consumer and producer welfare benefits of telecommunications deregulation and long-distance competition including RBOCs.

**US:** Petitioned the FCC regarding relief from mandatory unbundled access to incumbent networks.

**About NERA**

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA’s economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world’s leading law firms and corporations. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

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