

LAC

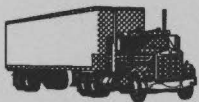
June 1994

A Sunset Review of the South Carolina Public Service Commission

In accordance with state law, we reviewed the Public Service Commission's (PSC) statutes, regulations and policies and concluded that the agency fulfills a public need through the regulation of utilities. However, market forces in the future may lessen the need for regulation of phone service and the electric industry. In addition, we found no need for the PSC to regulate competitive businesses, such as trucking and radio common carriers (mobile phone and pager services).

The PSC's management has taken steps to implement recommendations from our 1988 audit. Major improvements include establishing a centralized complaint investigations department and relaxing regulation of in-state long distance telephone service. In addition, management has taken steps to help ensure that qualified employees are hired, and has promulgated regulations defining standards for entry into the motor carrier industry. The PSC has improved enforcement of statutes requiring truckers to maintain liability insurance, and promulgated regulations to increase minimum insurance coverage.

In other areas, improvements could be made. The following summarizes our review of the Public Service Commission.



Economic Regulation of Motor Carriers

In 1982, 1988, and now again in 1994, our analysis has shown that trucking is a competitive industry that does not warrant state government economic regulation. A staff report of the Federal Trade Commission also reaches this conclusion. Eight states and the federal government do not conduct economic regulation of trucking and have experienced lower prices and improved service, including service to rural areas.

The PSC regulates trucking in the following manner.

The PSC decides who can enter the trucking industry, where they can operate, what size trucks they can operate and how much they can charge their customers. As a result, the PSC prohibits companies with safe driving records and sufficient equipment from conducting business in South Carolina in order to protect the economic interests of existing companies.

In addition, existing businesses are sometimes prohibited from serving areas they drive through and are sometimes prohibited from delivering freight on their return trips. This type of state regulation does not promote adequate competition and should be discontinued.

- The PSC has placed detailed restrictions on trucking routes and the types of cargo trucks are permitted to carry. These restrictions increase motor carrier costs. A 1990 U.S. Department of Transportation study estimated the impact of state economic trucking regulation, in the form of higher trucking rates, at \$2.8 billion per year, nationwide.
- The PSC allows motor carriers to establish trucking rates collectively. This type of price-fixing is illegal in most businesses.
- The PSC does not consistently review carriers' financial information to determine if they need rate increases.
- The PSC has allowed illegal trucking businesses to operate. In March 1993, the agency identified 479 carriers which were advertising their services without PSC approval to conduct business. The PSC has not required these businesses either to cease operations or obtain approval to operate.

Proponents of continued trucking regulation have stated that regulation ensures service to rural areas, truck safety and stable prices. However, studies of states that have deregulated trucking, and studies of interstate trucking economic deregulation indicate that these assertions are not accurate.

Relaxing South Carolina economic trucking regulations would lead to a more competitive industry, benefitting South Carolina industry and consumers.



Regulation of Utilities

Changes in federal laws have led to more competition in the electric, telecommunications, and gas industries. Our review of regulation of utilities found the following:

- The PSC should more clearly address alternative wholesale suppliers of electricity for utilities in its long range planning policy. In certain instances, an electric utility may be able to purchase electricity from another company more cheaply than building a new generating plant.
- South Carolina's climate for recruiting industry could improve if state law were amended to allow industry to purchase electricity competitively. This amendment would require electric utilities to lease their power lines to industries when the lines are needed to transmit lower-priced electricity purchased from a third party.
- The PSC has not required electric utilities to promptly adjust rates to account for changes in fuel costs. One utility's account had an average over-recovery balance of \$2.1 million from July 1979 through April 1993.
- Mobile phone service, paging service and other forms of wireless telecommunications are becoming highly competitive. For example, of the 18 paging companies in Columbia, only one is regulated by the PSC. Continued PSC regulation of these services is not needed.
- In 1993, the PSC opened up short-range, long distance phone service to increased competition. Customers can now choose from a number of companies to provide this service. Unequal dialing requirements, however, may still limit the degree of competition in this market.
- The PSC could do more to substantiate the financial data submitted by utilities to establish rates. Without adequate substantiation, there is less assurance that the rates charged by utilities are "just and reasonable."

The South Carolina Public Service Commission's response to our audit begins on page 45.

Copies of all LAC audits are available to the public at no charge. If you have additional questions, please contact George L. Schroeder, Director.