

#### IV. General Characteristics of Active Supervision

At its core, the active supervision requirement serves to identify those responsible for public policy decisions. The clear articulation requirement ensures that, if a State is to displace national competition norms, it must replace them with specific state regulatory standards; a State may not simply authorize private parties to disregard federal laws,<sup>11</sup> but must genuinely substitute an alternative state policy. The active supervision requirement, in turn, ensures that responsibility for the ultimate conduct can properly be laid on the State itself, and not merely on the private actors. As the Court explained in *Ticor*:

States must accept political responsibility for actions they intend to undertake. \* \* \* Federalism serves to assign political responsibility, not to obscure it. \* \* \* For states which do choose to displace the free market with regulation, our insistence on real compliance with both parts of the Midcal test will serve to make clear that the State is responsible for the price fixing it has sanctioned and undertaken to control.<sup>12</sup>

Through the active supervision requirement, the Court is furthering the fundamental principle of “accountability” that underlies federalism, by ensuring that, if allowing anticompetitive conduct proves to be unpopular with a State’s citizens, the state legislators will not be “insulated from the electoral ramifications of their decisions.”<sup>13</sup>

In short, clear articulation requires that a State enunciate an affirmative intent to displace competition and to replace it with a stated criterion. Active supervision requires the State to examine individual private conduct, pursuant to that regulatory regime, to ensure that it comports with that stated criterion. Only then can the underlying conduct accurately be deemed that of the State itself, and political responsibility for the conduct fairly be placed with the State.

Accordingly, under the Supreme Court’s precedents, to provide meaningful active supervision, a State must (1) Obtain sufficient information to determine the actual character of the private conduct at issue, (2) measure that conduct against the legislature’s stated policy criteria, and (3) come to a clear decision that the private conduct satisfies those criteria, so as to make the final decision that of the State itself.

#### V. Standard for Active Supervision

There is no single procedural or substantive standard that the Supreme Court has held a State must adopt in order to meet the active supervision standard. Satisfying the Supreme Court’s general standard for active supervision, described above, is and will remain the ultimate test for that element of state action immunity.

Nevertheless, in light of the foregoing principles, the Commission in this Analysis identifies the specific elements of an active supervision regime that it will consider in determining whether the active supervision prong of state action is met in future cases (as well as in any future action brought by Respondent to modify the terms of this proposed Order). They are three: (1) The development of an adequate factual record, including notice and opportunity to be heard; (2) a written decision on the merits; and (3) a specific assessment—both qualitative and quantitative—of how the private action comports with the substantive standards established by the state legislature. All three elements further the central purpose of the active supervision prong by ensuring that responsibility for the private conduct is fairly attributed to the State. Each will be discussed below.

##### A. Development of an Adequate Factual Record, Including Notice and Opportunity To Be Heard

To meet the test for active state supervision, in this case Respondent would need to show that the State had in place an administrative body charged with the necessary review of filed tariffs and capable of developing an adequate factual record to do so.<sup>14</sup> In *Ticor*, the Court quoted language from earlier lower court cases setting out a list of organizational and procedural characteristics relevant as the “beginning point” of an effective state program:

[T]he state’s program is in place, is staffed and funded, grants to the state officials ample power and the duty to regulate pursuant to declared standards of state policy, is enforceable in the state’s courts, and demonstrates some basic level of activity directed towards seeing that the private

actors carry out the state’s policy and not simply their own policy \* \* \*.<sup>15</sup>

Moreover, that body would need to be capable of compiling, and actually compile, an adequate factual record to assess the nature of and impact of the private conduct in question. The precise factual record that would be required would depend on the substantive norm that the State has provided; the critical question is whether the record has sufficient facts for the reviewing body sensibly to determine that the State’s substantive regulatory requirements have been achieved. In the typical case in which the State has articulated a criterion of consumer impact, obtaining reliable, timely, and complete economic data would be central to the board’s ability to determine if the State’s chosen criterion has been satisfied.<sup>16</sup> Timeliness in particular is an ongoing concern; if the private conduct is to remain in place for an extended period of time, then periodic state reviews of that private conduct using current economic data are important to ensure that the restraint remains that of the State, and not of the private actors.

Additionally, in assembling an adequate factual record, the procedural value of notice and opportunity to comment is well established. These procedural elements, which have evolved in various contexts through common law, through state and federal constitutional law, and through Administrative Procedure Act rulemakings,<sup>17</sup> are powerful engines for ensuring that relevant facts—especially those facts that might tend to contradict the proponent’s contentions—are brought to the state decision-maker’s attention.

##### B. A Written Decision

A second important element the Commission will look to in determining whether there has been active supervision is whether the state board renders its decision in writing. Though not essential, the existence of a written decision is normally the clearest indication that the board (1) genuinely has assessed whether the private

<sup>15</sup> *Ticor*, 504 U.S. at 637 (citations omitted).

<sup>16</sup> As the *Ticor* Court held, “state officials [must] have undertaken the necessary steps to determine the specifics of the price-fixing or ratesetting scheme.” *Id.* at 638.

<sup>17</sup> The Administrative Procedure Act defines a rule, in part, as “the whole or a part of an agency statement of general or particular applicability and future effect designed to implement, interpret, or prescribe law or policy.” 5 U.S.C. 551(4). Actions “concerned with the approval of ‘tariffs’ or rate schedules filed by public utilities and common carriers” are typical examples of rulemaking proceedings. E. Gellhorn & R. Levin, *Administrative Law & Process* 300 (1997).

<sup>11</sup> *Parker*, 317 U.S. at 351.

<sup>12</sup> 504 U.S. at 636.

<sup>13</sup> See *New York v. United States*, 505 U.S. 144, 168–69 (1992).

<sup>14</sup> At the time of any request for a modification, Respondent will be required to produce evidence of what the state reviewing agency is likely to do in response to collective rate-making. We recognize that this involves some prediction and uncertainty, particularly when the Respondent requests an order modification on the basis of a state review program that might be authorized but not yet operating, as the Respondent will still be under order. In such cases it may be appropriate for the Respondent to show what the state program is designed, directed, or organized to do. If a particular state agency is already conducting reviews in some related area, evidence of its approach to these tasks will be particularly relevant.