Access and Universal Service

Background: Pricing and Access Reform

Cross-subsidization

- FCC, PUC, and court interpretation of the CC rules contributed to:
  - Prices that were averaged across service territories (e.g., Michigan Bell, GTE North).
  - Several streams of contributions ("cross subsidies") between services:
    - Long distance service → local service.
    - Urban areas → rural areas.
    - Business customers → residential customers.
- Created gap between prices & costs.

Traditional approach

- Complex system of settlements, e.g. in National Exchange Carrier Association (NECA) Pool.
- Total contributions unknown but high, some estimate >$22 billion.

Rate rebalancing

- Telecom Act requires that rates in urban and rural areas remain “comparable.”
- Nevertheless, it facilitates some rate rebalancing to eliminate past forms of cross-subsidization and to support competition.
- Hidden rebalancing occurs through discounts built into carrier offers.

Access reform

- Access charges used to allow full cost recovery to LECs. Reforms:
  - phase out per minute Carrier Common Line (CCL) Charge paid by IXCs to LECs;
  - keep flat Subscriber Line Charge (SLC).
- New subscriber line charge (SLC):
  - $3.50 for first line; $5.00 or actual interstate cost for non-primary residential lines.
  - $9.00 for multi-line businesses.
Access reform ...

- Presubscribed Interexchange Carrier Charge (PICC).
  - $0.53 for primary lines per month.
  - $1.50 for non-primary lines in 1998 (future ceiling $2.75).
- Per minute access charges.
  - ILEC originating access from $0.028/minute to $0.025/minute.
  - ILEC terminating access from $0.028/minute to $0.012/minute.

Pre-1996 approach

- Subsidies and cross-subsidization
  - Limited explicit subsidies
    - High cost fund ($800 million per year)
    - Life-line, link-up ($180 million per year)
  - High implicit contribution through rate averaging and cross subsidies
    - Access charges ---> local service; business ---> residential service; urban ---> rural customers
  - Total volume estimated to $13-22 billion per year
- Conflict with goal of competition

Principles (Sec. 254(b))

- Quality and rates
  - Quality service available at just, reasonable, and affordable rates
- Access to advanced services
  - Independent of location, access to services "reasonably comparable" to services provided in urban areas
  - Independent of location, access at rates "reasonably comparable" to those charged in urban areas

Principles ... (Sec. 254(b))

- Equitable and non-discriminatory contribution by all TC carriers
- Specific, predictable and sufficient support mechanisms
- Access to advanced telecom services by schools, health care, & libraries
- Competitive neutrality
  - Proposed by Joint Board & FCC
  - Funding independent of carrier/technology

Process (Sec. 254(a) and (c))

- Federal-State Joint Board and FCC required to develop definition and timetable
- Guidelines for Joint Board/FCC
  - Essentiality of service to education, public health, or public safety
  - Subscription by majority of residential users
  - Deployment in public telecom networks
  - In public interest, convenience, & necessity
Services to support

- “Core services” eligible for federal funding:
  - Single party service
  - Some component of usage
  - Voice grade access
  - DTMF signaling (touchtone)
  - Access to emergency services
    - ANI (Automatic Number Identification) and ALI (Automatic Location Identification)
    - Wireless must meet ALI by 10/1/01.

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Services to support ...

- Access to operator services
- Access to interexchange service
- Access to directory assistance
- Toll limitation services for qualifying low income consumers
- Joint Board will review scope of funded services in 2001
- States must fund services outside of the core if desired

Program administration

- Universal Service Fund (USF) administered by Universal Service Administrative Company (USAC):
  - High cost funding
  - Low income programs
  - Schools and libraries
  - Rural health care providers
- Old support system continued until new funding phased-in

High cost funding

- Supports carriers in high cost areas
  - High Cost Local (HCL) loop support if costs >115% of national average cost per line
  - Local Switching Support for companies with fewer than 50,000 access lines
  - Long term support for ROR carriers
  - Interstate access support for PC carriers
  - Forward looking support if state costs >135% of national average (AL, ME, MS, MO, WV, VT, WY)

Low income consumers

- Lifeline support to every state
  - Free toll limitation
  - No deposit for customers with toll limitation
  - Prohibition of disconnection of local service
  - Basic federal support $5.25/month
  - Additional 50% matching funds for state programs up to $7.00 from federal USF.
- Support available to all Eligible Telecommunications Carriers (ETCs)

Schools and libraries (E-Rate)

- For K-12, not-for-profit, schools with endowment <$50 million, & libraries
  - Receive discounts of 20-90% from price determined through competitive bidding
  - Level of discount dependent on percentage of students eligible for national school lunch program (e.g., 1-19% -> 40% urban, 50% rural discount; 35-49% -> 60% urban, 70% rural discount)
- $2.25 billion per year, on first-come-first-served basis.
Rural health care providers

- **Comparable access requirement:**
  - Section 254 TC Act requires that rural health care providers have access to services comparable to urban providers.

- **Level of support:**
  - Difference between "rural" price and "urban" price for eligible services, e.g., T1 data line.
  - $400 million annual cap, disbursed on first come, first served basis.

USF obligations

- **Contributions to USF on basis of end-user revenues of prior year:**
  - Contributions to high cost and low income funds based on interstate revenues.
  - Contributions to schools, libraries, and health care providers based on intrastate and interstate revenues.

- **De minimus exemption of carriers with <$100 annual USF contribution**

USF obligations ...

- **Entities required to contribute**
  - IXCs, LECs, CMRS, payphone.
  - Paging, satellite services.


- **Information service providers are not required to contribute; shrinking base has resulted in increased factor**

Eligibility for funding

- **Only “Eligible Telecommunications Carriers” (ETCs) can receive support**

- **ETCs need to provide all core services** (limited exceptions for single party service, E911, and toll limitation possible in certain areas).

- **To get federal USF support an ETC:**
  - Must be designated by state PUC (214(e)(2) TC Act).
  - Must use own facilities (resellers not eligible).

Further readings

**Printed Resources**

**Internet Resources**
- FCC, Wireline Competition Bureau <http://www.fcc.gov/wcb/universal_service/>
- Universal Service Administrative Company <http://www.universalservice.org/>