



TELECOMMUNICATIONS GUIDE

Access Reform – a Complex Federal and State Issue

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CEO Michael Brunner

Access reform – reducing payments that wireline long distance companies make to local phone companies for use of their networks – is an important federal and state issue with huge implications for consumers and the companies involved. One implication is the possible return of an issue often discussed in the ‘90s but little heard today – the “digital divide” between urban and rural residents.

The Federal Communications Commission, the Minnesota Public Utilities Commission and the state legislature are all dealing with access reform and the related issues of universal service and maintaining comparable urban/rural telecommunications services and rates. Here is a look at where things stand.

Federal Situation

Access charges, which long distance companies pay local phone companies and then build into long distance rates, exist to offset the costs of maintaining and upgrading the equipment and technology in the public switched telephone network. The charges help rural customers receive the same affordable telephone rates their urban counterparts take for granted. The access revenues received by incumbent local phone companies help underwrite the high cost of serving sparsely populated areas and allow the companies to make the investments necessary to provide customers with the advanced telecommunications services they need in today’s high-tech global economy.

In 2000, the FCC reduced access charges for interstate calls paid by inter-exchange carriers (IXCs), the long distance companies whose “wireline” calls use the public switched network. (The commission has ruled that wireless and voice-over-Internet protocol (VOIP) technologies are exempt from state regulation and any state access charges.)

To offset the revenue local phone companies lost, the FCC increased the subscriber line charge paid by consumers, with some of that money put into the federal universal service funds used to promote affordable rates everywhere. Though these funds have now grown, they also face huge pressure in the near future because the share that wireless companies receive continues to grow. (Wireless providers now receive amounts equal to those received by incumbent local phone companies even when wireless infrastructure costs are lower, which they usually are).

The FCC is currently considering additional modifications to the access charge system, including Central Office Bill and Keep (COBAK) proposals that would eliminate the flow of access charges between carriers. A recent survey of its members by the National Telecommunications Cooperative Association (NTCA) shows that COBAK would have a huge negative effect on small, rural telcos. Minus access revenues, NTCA’s members would need an average of \$22 per line from other sources to maintain the current basic rates charged to customers. This number is over \$30 per line for companies with 2,500 or fewer lines and more than \$50 per

line for the smallest companies (500 lines or less).

Cannon Valley Telecom Inc. provides a Minnesota example. With 2,200 customers – less than 10 per square mile – it's estimated that the company would have to at least double its basic service rate of about \$16 (includes taxes, fees) to replace lost access income.

Without access revenues, small rural telcos have two sources to make up the difference – consumers and universal service funds. If rates for consumers rise too much, however, people drop their service or switch to wireless carriers (or use wireless phones more). One thing people definitely don't do is add additional lines. On the subject of increased support from universal service, the Cannon Valley Telecom President Scott Johnson says: "How comfortable can a company be if a significant amount of its revenues come from a support fund? Rural companies will be reluctant to make new investments if they're not sure they'll be reimbursed and customers will suffer because no one else will compete for their business."

The NTCA's position is that any future FCC decision to reduce access charges must maintain urban/rural service and rate comparability, make sure IXCs pass savings on to customers and live up to universal service responsibilities, and ensure that the entire industry shares responsibility for the public switched network.

"A one-size-fits-all approach to intercarrier compensation issues will not work for rural carriers," says NTCA CEO Michael Brunner. "Unless steps are taken to resolve these issues now, the future for rural telecommunications carriers will be bleak. Whatever proposal the FCC adopts needs to consider rural telcos' unique circumstances and provide them the opportunity to recover their legitimate costs and compete effectively."

The Minnesota Situation

Three access charges apply to in-state toll calls made over wired phones. Large customers (corporate headquarters, university campuses, etc.) whose calls are not routed through phone company switches incur *non-switched* or *special access charges*. *Switched access charges* cover the calls using those switches. The *carrier common line charge* (CCLC) pays for the use of the "loop" that connects customers to their local phone networks.

The PUC, which opened a docket on access reform in 1998, is currently dealing with an April, 2003 request by AT&T and MCI to reduce the CCLC for in-state calls to zero or, if that proves legally untenable, to a minimal amount. The Commission decided last December to address CCLC reform separately from any action on the other two access charges. It is considering referring its investigation of the appropriate level for the CCLC to the Office of Administrative Hearings (OAH) for a contested case proceeding, with affected parties also ordered to negotiate. The PUC has ongoing proceedings on the reform of the other access charges and on a state universal service fund. The Commission is scheduled to decide what matters go to the OAH in April.

Johnson says that, despite the PUC's decision to handle the CCLC separately, he would like to see changes to all three access charges "tackled together instead of handled in a piecemeal approach." He's worried that growing technologies like VOIP that do not use any form of minutes of use, which is the way some access charges are measured, may soon make any changes obsolete, perhaps in as little as three to five years.

Sen. Steve Kelley, DFL-Hopkins, and Rep. Joe Hoppe, R-Chaska, are sponsoring legislation that would eliminate all state access charges in two years. Their bill would reduce the number of Minnesota local calling areas from the dozens today to five next year, then turn the entire state into one local calling area in 2006. Kelly argues that access income is already declining because more people make long distance calls on wireless and VOIP services that pay no state access fees. He also says that current fees cost state consumers \$10 million a year. His bill allows local phone companies to add an extra charge for customers making in-state long distance calls, though he calls that a "place-holder" that could be changed, perhaps for something like universal service fund fees.

If the bill became law and worked, consumers could save money and local phone companies could transit successfully into a new access-free era. If the bill is wrong, however, rural rates could rise precipitously and some rural companies, who receive half or more of their income from access fees, might not survive. The Minnesota Telecom Alliance, which strongly opposes the bill, calls it an attempt to circumvent the PUC.

The Arguments

AT&T and MCI want the CCLC abolished to encourage competition and "jumpstart" access reform. They call it a subsidy with costs that aren't based on any specific function. They argue that incumbent phone companies could recoup some revenue with a charge on all intrastate calls by their customers. The Department of Commerce supports dropping the CCLC, but also recommends that companies be able to petition the PUC if a revenue reduction jeopardizes affordable local rates.

Opponents of eliminating the CCLC are not against all access reform but think it must not be considered in isolation. Both the Legal Services

Advocacy Project, a statewide division of Mid-Minnesota Legal Assistance, and the Residential Utilities Division of the Office of the Attorney General, for example, think that access reform cannot happen without the implementation of a state universal service fund. Other opponents say access reform cannot be done without considering the effect on local rates.

The Minnesota Independent Coalition says CCLC reductions will increase pressures for local rate increases, and that customers facing higher rates will also see no benefit if IXCs do not pass along the access rate reductions they receive to their customers, something AT&T and MCI have not committed to do. MIC and the OAG-RUD both recommend that the PUC require a rate pass-through before allowing access reform. The companies argue that competition will lower long distance rates and PUC intervention is inappropriate.

The OAG-RUD argues that state law precludes reducing the CCLC to zero because Minn. Stat. § 237.12, Subd. 3 requires long distance providers to pay a "fair and reasonable portion" of the cost of the local loop. The Competitive Local Exchange Carrier Coalition points out that both the PUC and FCC have ruled that the cost of the local loop is a common cost to which long distance companies should contribute. MIC also argues that the need to consider non-economic factors (universal service, comparable rates, etc.) did not expire with passage of the federal Telecommunications Act of 1996.

Finally, the CLEC Coalition contends that reducing access charges will

harm CLECS and discourage competition because, like the incumbent companies they compete against to provide local service, their only income sources are their customers and access charges. CLECs, most of whom compete against Qwest, could not raise rates if Qwest didn't, and Qwest, which is also a long distance provider, has that additional source of income that CLECS don't.

The MTA's position is that some access reduction is probably appropriate, but not to the dramatic extent sought by AT&T and MCI. If access charges are reduced, some companies would see a significant impact, so MTA thinks a state universal service fund must be defined and ready to operate if that happens. "Access reform needs to be done," notes Johnson, "but done with a universal service fund so there's no rate shock for consumers and small rural telcos are not at a competitive disadvantage with wireless providers."

MTA Member Profile: Arrowhead Communications Corp.

A woman in Cotton who telecommutes to her job in Duluth was the first to sign up for Arrowhead Communications Corporation's new high-speed, always-on DSL Internet service. She not only enjoys fast downloads and file transfers, she won an award from her work for increased productivity.

It's no surprise that Arrowhead, a Hector Communications company, provides its customers with advanced telecommunications services, including Internet access and custom calling features (caller ID, etc.). Arrowhead has been doing that in Cotton and Bena and surrounding areas in northeastern Minnesota since 1975, serving 700-plus customers in two service areas that cover more than 275 square miles.

As Matt Sparks, Arrowhead's manager and an operations manager for Hector Communications, notes, "The fact that the Bena and Cotton exchanges are sparsely populated makes it even more vital that our customers have access to high-speed Internet and other advanced telecommunications services. The availability of DSL gives our customers the opportunity to telecommute to jobs in larger cities without losing the amenities of their local community."

For more information about Arrowhead Communications, go online at www.arrowheadcomm.net.

Minnesota Telecom Alliance is a not-for-profit professional association representing more than 94 small, medium and large telecommunication companies providing voice, data, wireless, and high-speed broadband services to Minnesota's metropolitan and rural communities. More information about MTA can be found on the Internet at www.mnta.org.