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# TELECOMMUNICATIONS GUIDE

## Universal Service is the Key to Affordable Rural Phone Service

"If state commissions continue to liberally grant ETC status, the parties who stand to lose are rural consumers, who will pay more in surcharges, and small rural telcos, who won't have adequate universal service fund support to supply quality service to high-cost-to-serve areas."

The clock is ticking on something many rural residents take for granted – affordable local phone service. The universal service fund (USF) – set up by the federal government in the 1930s to ensure that high-cost-to-serve rural residents have access to affordable basic phone service – "is now in serious trouble." And unless the system for collecting and distributing universal service fund money changes soon, some experts predict that the USF will collapse, perhaps as soon as three years from now.

The result for rural areas could be catastrophic. Current rates for basic single-line dial-tone service – around \$5 to \$15 per month – could rise to \$60-\$120 per month, possibly more in a few places. These higher rates would reflect what it actually costs to provide rural phone service. (Rural costs are higher because the much smaller revenues generated by fewer customers per square mile don't come close to covering the huge costs in infrastructure and equipment necessary to provide service in large, less populated areas.)

Higher rates would force many rural residents, including seniors on fixed incomes, to go without phones. The small companies that have provided reliable phone service in rural areas for decades would also suffer. Unable to increase rates too much because too many customers would then discontinue service, the companies would be forced to cut service levels and perhaps struggle to stay in business.

"The universal service fund is the lifeblood of rural phone companies," says Gene South, general manager of Lakedale Telephone, in Annandale. South is also president of the Minnesota Association for Rural Telecommunications and first vice president of the U.S. Telecom Association, a Washington, D.C.-based industry trade group. "Many small companies could not maintain and invest in the infrastructure or provide quality service if their revenues only came from their current customers," South said.

The universal service fund is endangered because demands on its resources are increasing at the same time that a key source of money for the fund – charges on interstate long-distance calls – continues to drop. That's happening because consumers in general are making fewer long-distance calls on wireline phones and paying less for those they make, and also because the "bundling" of services (local phone service, long distance, Internet, etc.) makes it harder to isolate the interstate revenues upon which companies who pay into the USF base their contributions.

The increased demand for universal service funds comes from wireline and wireless companies that compete against incumbent phone companies. These incumbents, with large infrastructure investments, think that their new competitors, especially wireless companies, should be reimbursed based on their actual costs, not at the same levels as incumbents, the current arrange-

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ment. Incumbent companies face a tough problem as their USF reimbursements fall because their infrastructure costs do not. Less USF money also means there's less to invest in new technologies that provide rural residents with access to the same high-tech services readily available in cities.

Competition, or rather the perception that competition always makes as much sense in rural areas as it does in urban settings, is a big part of the USF problem. The current Federal Communications Commission and many state regulators, despite the fact that the 1996 Telecommunications Act made universal service an equal goal with competition, seem to view the latter as the law's main intent. They encourage competition in high-cost-to-serve areas where more than one company makes no economic sense. (It's doubtful that some small rural telcos would even exist if large companies thought there was a sound business reason to serve rural areas.)

"The FCC's goal of promoting multiple technologies is laudable," says Shirley Bloomfield, vice president of government affairs and association services for the National Telecommunications Cooperative Association, a rural telco trade group. "However, the commission's rules have actually become the basis for unfair competition in high-cost rural service areas and the critical instrument used by competitors to gain universal service support dollars that have no relationship to their cost of providing service."

Despite the fact that USF money is limited, state regulators around the country are designating wireless companies as eligible telecommunications carriers (ETCs) able to receive universal service funds. In just four years, wireless companies' USF share has risen from \$500,000 to \$147 million. Sen. Conrad Burns (R-

Mont.) calls multiple ETCs in rural areas a "burden."

FCC Commissioner Jonathan Adelstein says that state regulators must make sure new ETCs meet all the requirements of the '96 Telecom Act. Regulators must "seriously consider whether a market can support more than one carrier with universal service," he says. "If not, then new designations shouldn't be given... just because it appears they [the companies] meet other qualifications."

Don Erickson, legislative director for the Organization for the Promotion and Advancement of Small Telecommunications Companies, puts it this way: "If state commissions continue to liberally grant ETC status, the parties who stand to lose are rural consumers, who will pay more in surcharges, and small rural telcos, who won't have adequate universal service fund support to supply quality service to high-cost-to-serve areas."

The FCC is looking at revamping the current USF funding plan. But a likely court challenge of any new plan could delay any real change until it's too late to save USF. South says the current "battle" over the fund – in addition to deciding what entities contribute, how much they contribute, what contributions are based on, and which companies receive funds (and how much) – also includes whether USF should be expanded to include deployment of broadband services to rural areas so residents aren't left behind in today's high-tech global economy. "Keep in mind," South said, "some small telcos are in the business just to provide universal service."

Seven national telecommunications associations believe the following principles should guide all decisions on universal service:

- Changes must be made in the universal service mechanism

to insure sustainability.

- The base of the payers must be broadened.
- Entry by CETCs (competitive carriers) must be subject to a stricter public interest test.
- The universal service mechanism is to insure reasonably comparable rates, not to promote competition.
- Rate of return carriers should be able to recover their investment in their entire network facility.
- The universal service mechanism must continue to be based upon cost recovery.
- Rural customers should have affordable telecommunications services, comparable in quality and service to urban areas.
- Carriers receiving support under the universal service mechanism should be subject to equal obligations.

"All regulators – federal and state – must act now because rural local phone companies have reached a crossroad regarding their future," South says. "Regulators must address certain critical issues so these telcos can survive and continue to give their customers the affordable quality service the universal service fund was set up to provide."

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Minnesota Telecom Alliance is a not-for-profit professional association representing more than 100 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](http://www.mnta.org).