



Washington State Review of
Universal Service Policies

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Universal Service and Switched Access Reform

Issue:

- Washington's intrastate switched access rates which are paid on intrastate minutes of use (MOUs) for long distance calls contain subsidies from long distance providers to subsidize local rates (keeping them artificially low).
- This current system is harming consumers in the state of Washington.

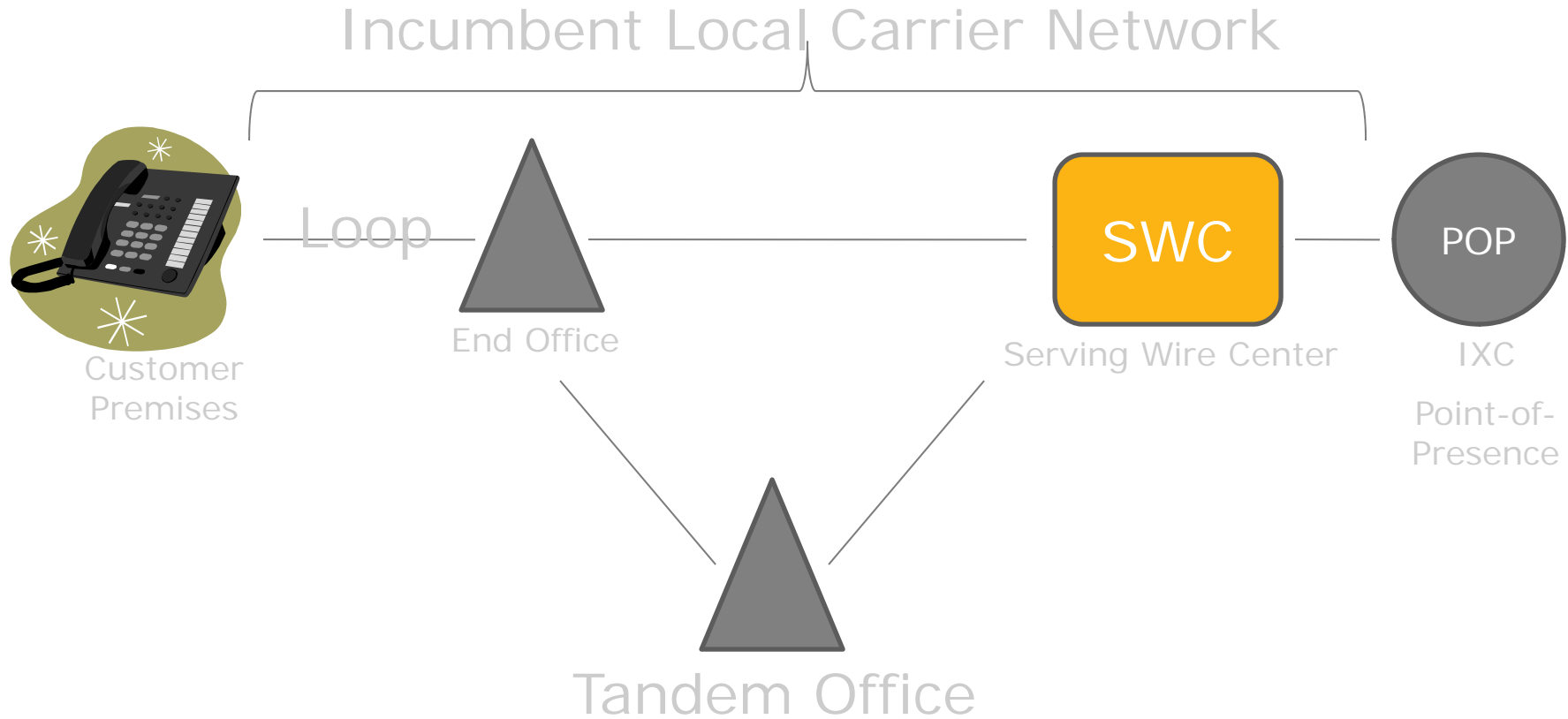
Universal Broadband Availability and Switched Access Reform

The National Broadband Plan

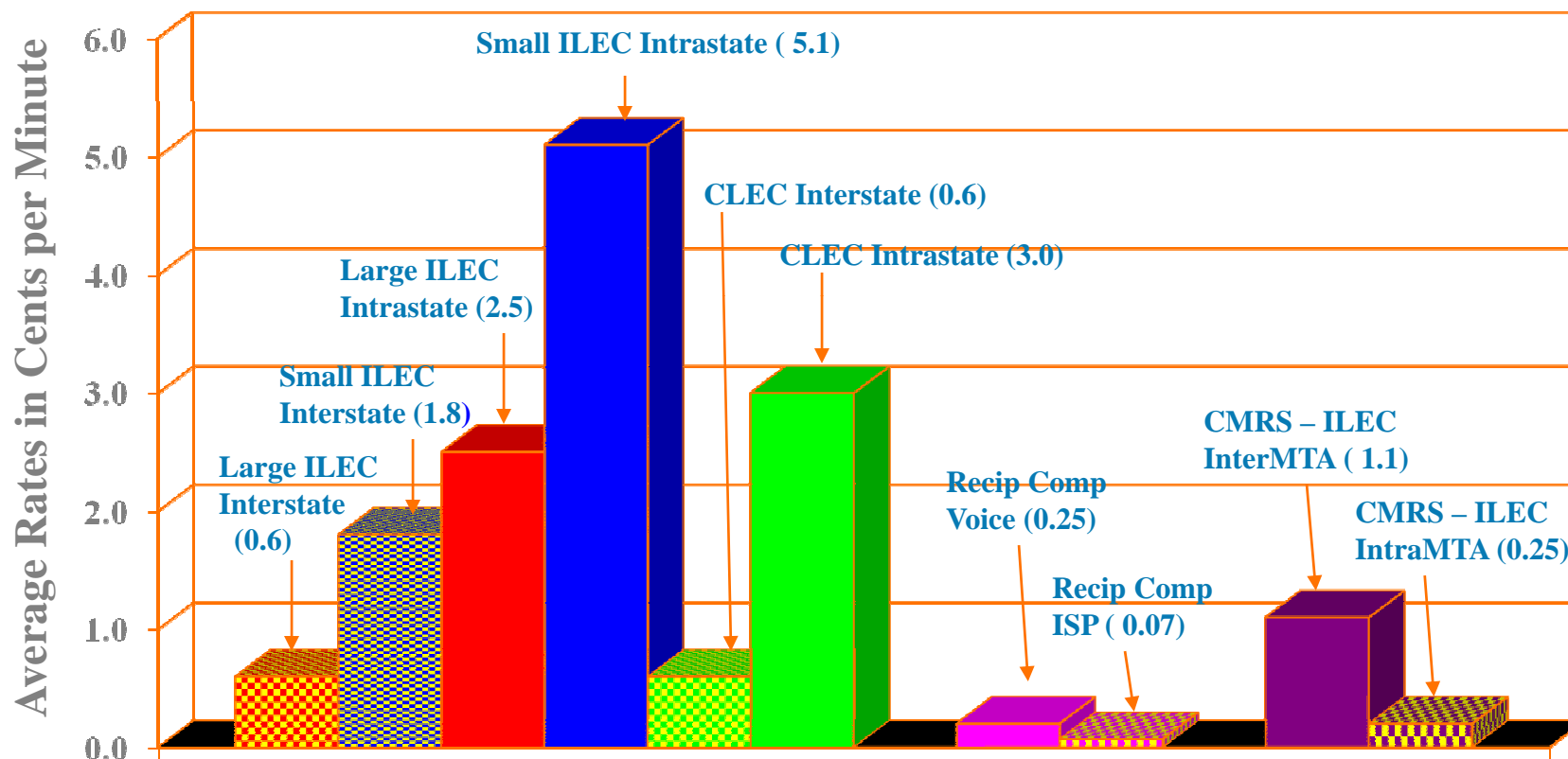
- Comprehensive reform of universal service and ICC needed to close the broadband availability gap
- “A comprehensive reform program is required to shift from primarily supporting voice communications to supporting a broadband platform that enables many applications, including voice”
- “The continued decline in ICC revenuesat unpredictable levels could hamper carriers’ ability to implement network upgrade investments or other capital improvements”

Network Access Diagram

(Same infrastructure functionality is used for intrastate access, interstate access, reciprocal compensation and intraMTA calling)

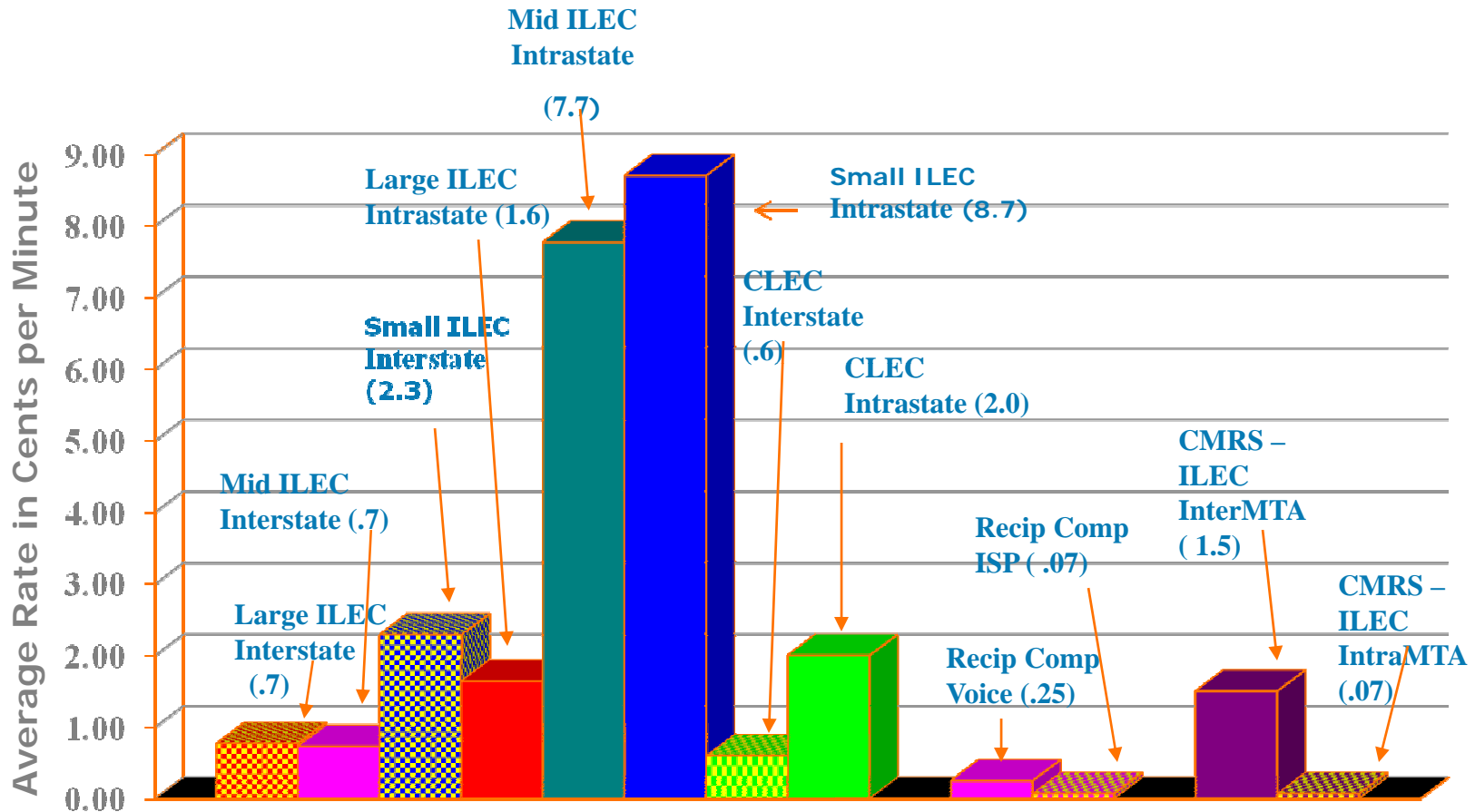


National --The Current System is Broken

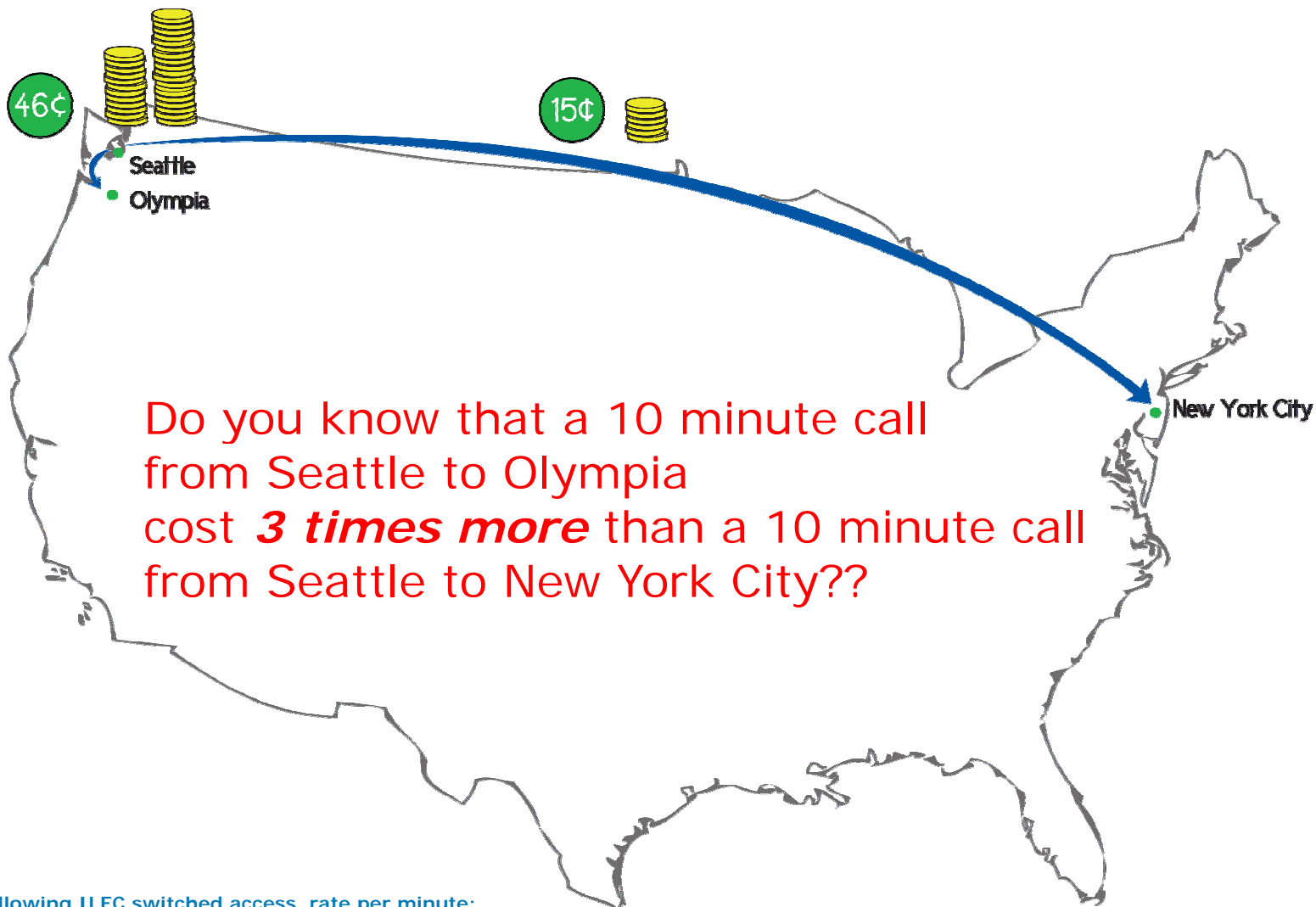


	Long Distance Calls (Access)						Local Calls		Wireless Calls	
High (¢/min):	1.5	8.9	9.9	34.9	6.8	35.9	4.1	0.07	34.9	4.1
Low (¢/min):	0.5	0.3	0.4	0.7	0.2	0.4	0.0	0.0	0.2	0.0

WASHINGTON- The Current System is Broken



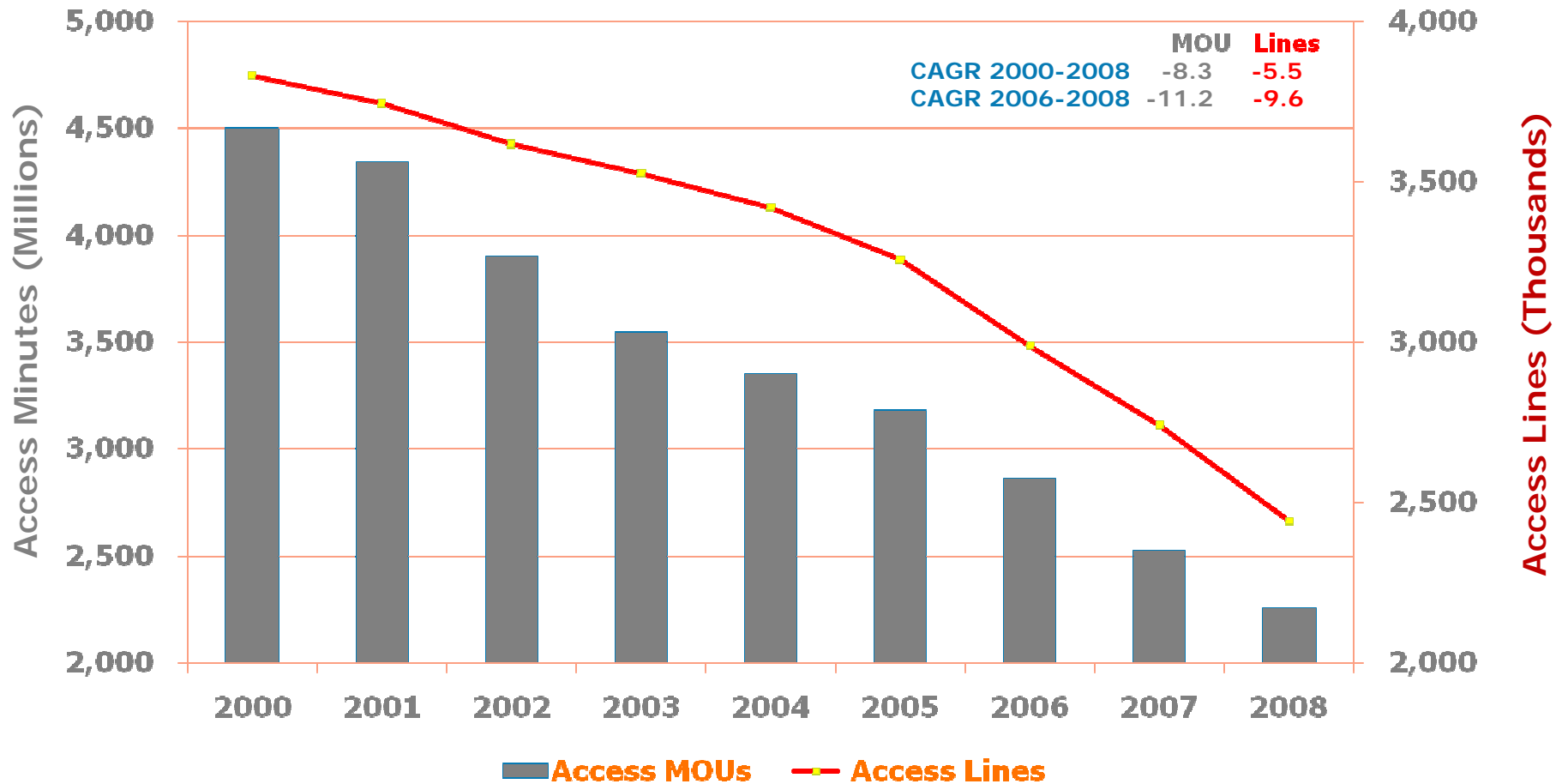
High (¢/min):	1.1	.9	3.5	1.9	12.8	8.7	3.5	4.7	2.1	0.7	12.8	2.0
Low (¢/min):	.7	.4	.4	1.1	4.8	8.7	.4	.1	0.0	0.0	0.1	0.0



Based on following ILEC switched access rate per minute:
Qwest - WA intrastate originating rate : \$0.1482
Qwest - WA intrastate terminating rate: \$0.30711
Qwest - WA interstate rate: \$0.072
Verizon - NY interstate rate: \$0.077

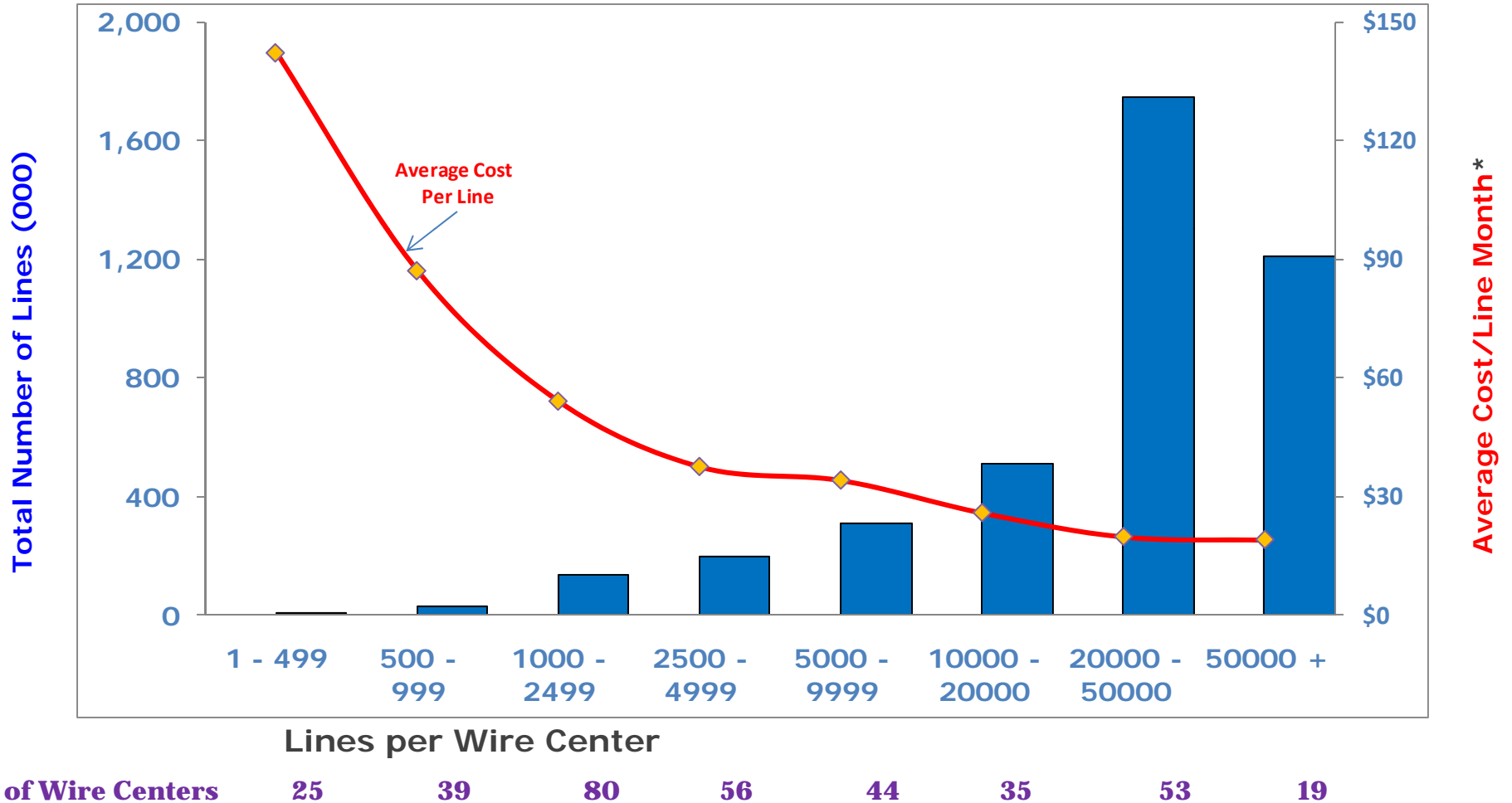
Intrastate Access MOUs and Access Lines Have Been Declining For All ILECs in Washington State -- Decline Has Accelerated In Recent Years

[From 2000 to 2008, Total Access Lines have decreased by 36% and Total Access MOU have decreased by 50%]



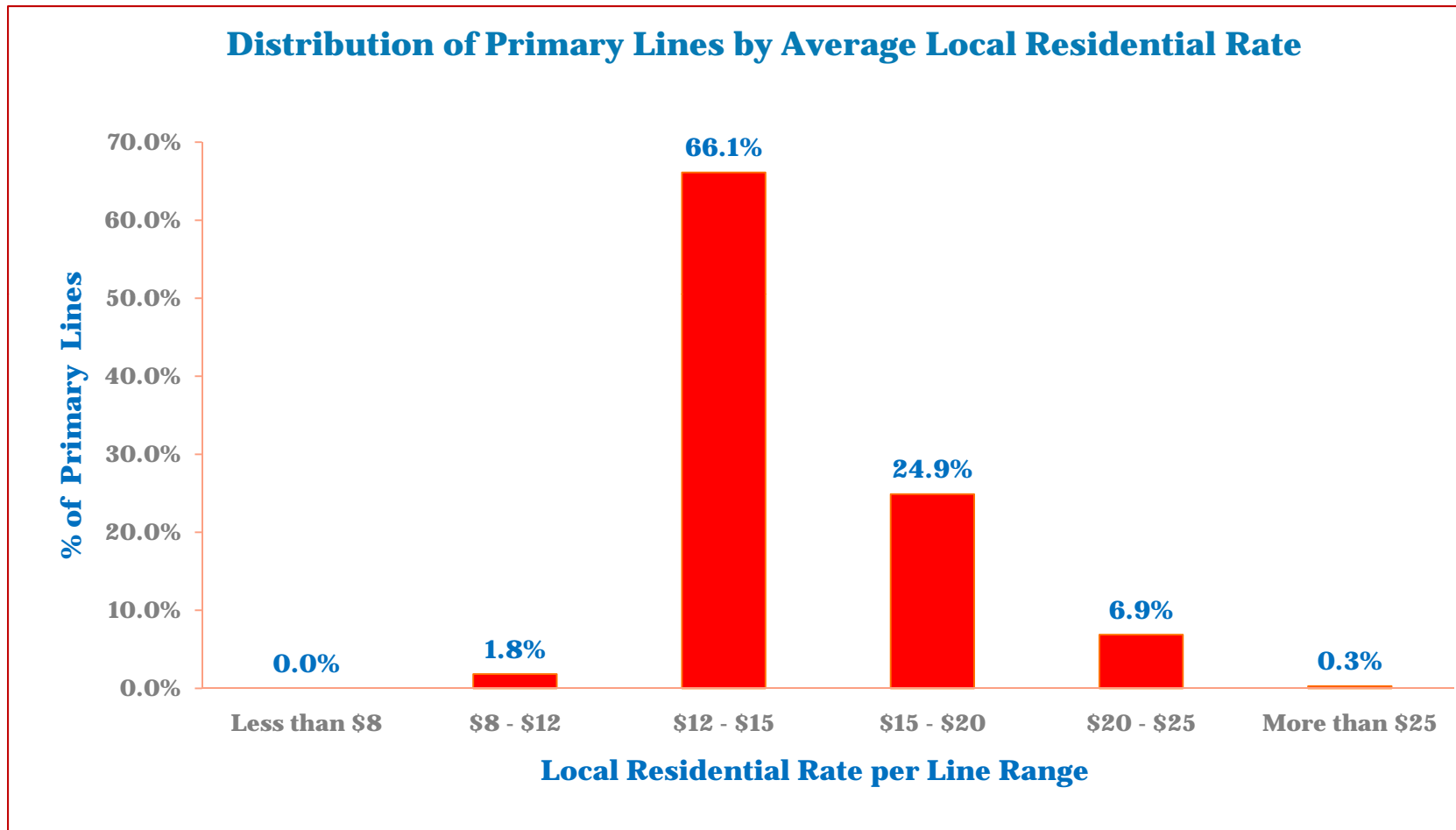
Wire Centers with Fewer Lines Tend To Have Higher Average Cost per Line* -- Washington State Data.

Even wire centers with many lines can contain extremely high-cost, low-density areas. So long as ILECs have provider of last resort obligations, they will likely need additional revenues post access reform and local rate rebalancing to maintain the network facilities needed to satisfy their COLR service obligations in high cost areas.



* "FCC's Hybrid Cost Proxy Model (HCPM)"

Washington Local Retail Residential Rates Are Not “Reasonably Comparable” Under § 254 of the Federal Communications Act



Current Access System Not Sustainable in Broadband World

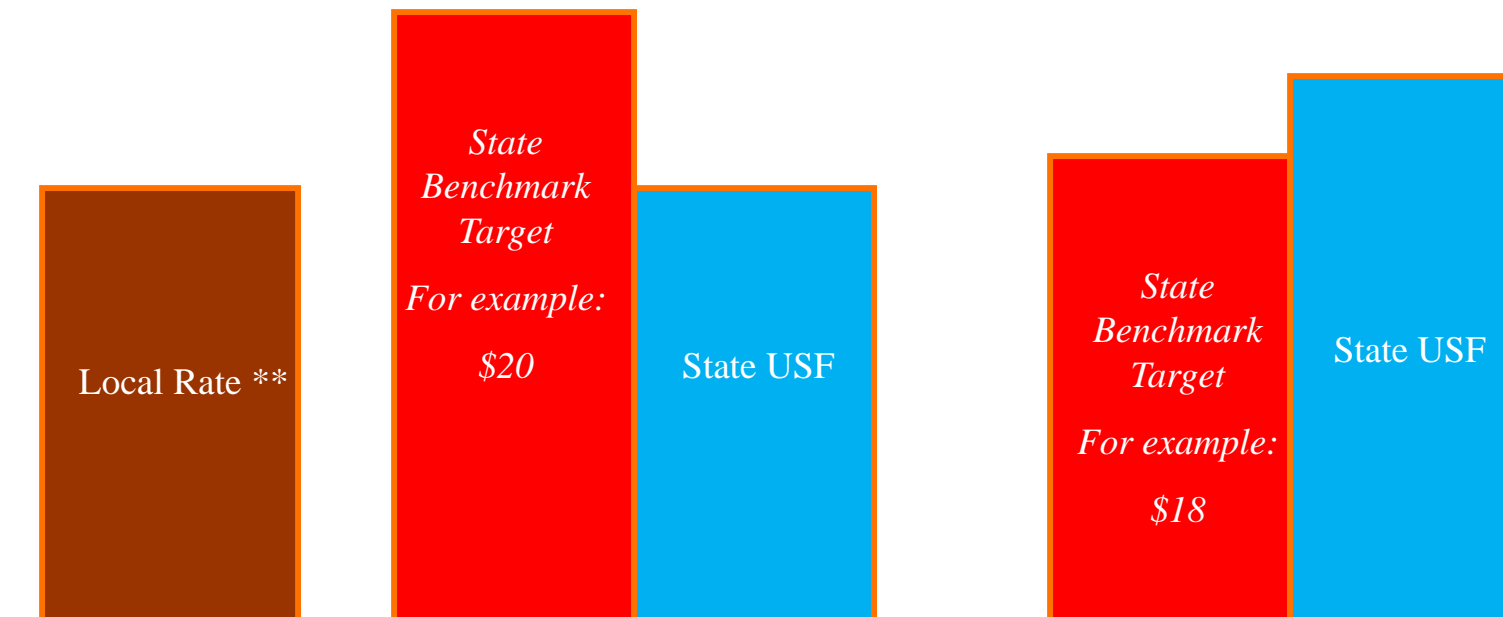
- Broadband retail, broadband access, wireless voice/data, and cable voice/data rates do not rely on any switched access subsidies; wireline consumer local retail rates in Washington currently do rely on switched access subsidies.
- In the National Broadband Plan, the FCC noted that the current per minute access system was never designed to promote deployment of broadband networks.
- The new Internet Protocol (IP) world is not based on per minutes of use but on the amount of bandwidth consumed a month.

Components for Reform in Washington – AT&T Proposal

- Switched Access Rate Reductions:
 - All incumbent LECs (ILECs) should be required to immediately reduce intrastate switched access rates to interstate levels.
 - CLECs required to immediately mirror intrastate access rates of ILECs with which CLECs compete.
- Recovery of Lost Access Revenues:
 - Establish a statewide benchmark to which ILECs can increase local rates.
 - Amounts needed in excess of benchmark should be recovered through a state universal service fund.
 - A transition period for local rates to increase to the benchmark may be appropriate.

State Benchmark Mechanism

Size of state universal service fund will vary with the state benchmark. Benchmark goes up, fund goes down
Benchmark goes down, fund goes up



Residential Revenues per Line

** Includes Mandatory EAS

Washington Commission As the Policy Leader Should Direct Reform

- WA should take a leadership role and take the opportunity to ACT NOW to ensure the viability of the telephone companies in the state.
- WA rebalancing of local rates would be in line with the National Broadband Plan which encourages states to complete rebalancing of local rates to offset the impact of lost access revenues, and move from rates set at levels that reflect old implicit subsidies to levels that are more consistent with cost.
- Reform will prepare customers for the broadband world.
- The FCC's plan is to issue an access reform NPRM in 4th quarter 2010, and no date for an order.
- A number of other states have already acted on access reform.
 - Kansas, Maine, Massachusetts, Michigan, New Mexico, New Jersey

Consumers Have a Direct Benefit From Access Reductions

- Excessive intrastate switched access rates harm consumers, competition and distorts investment
- National Broadband Plan – “The continued decline in revenues and free cash flows at unpredictable levels could hamper carriers’ ability to implement network upgrade investment or other capital improvements”
- Dr. Debra Aron has conducted a study for AT&T and found that the downward trend in access charges has been accompanied by a comparable trend in long distance prices. Long distance prices have fallen as access rates have fallen.



APPENDIX

Background

- Switched Access Charges: paid by long distance providers to local exchange carriers (LECs) for the origination and termination of long distance calls.
 - Long distance providers must use LEC facilities when a LEC residential customer makes or receives long distance calls.
 - Long distance providers pay switched access charges for this use of the LEC's facilities; cannot avoid paying these charges when a LEC's residential customers make toll calls
- Established by FCC at divestiture as a mechanism to maintain division of revenues system principles in the newly opened long distance market.
 - Local rates were set artificially low and subsidized by high long distance rate revenues.

Switched Access

- Interstate switched access charges:
 - Applies to interstate calls
 - FCC has already reduced subsidies
- Intrastate switched access charges:
 - Applies to intrastate calls
 - In Washington there is substantial disparity between the rates and elements for intrastate access charges versus interstate access charges
- In-state toll calls use the same LEC facilities that are used for interstate toll calls and local calls.

Why Address Intrastate Switched Access?

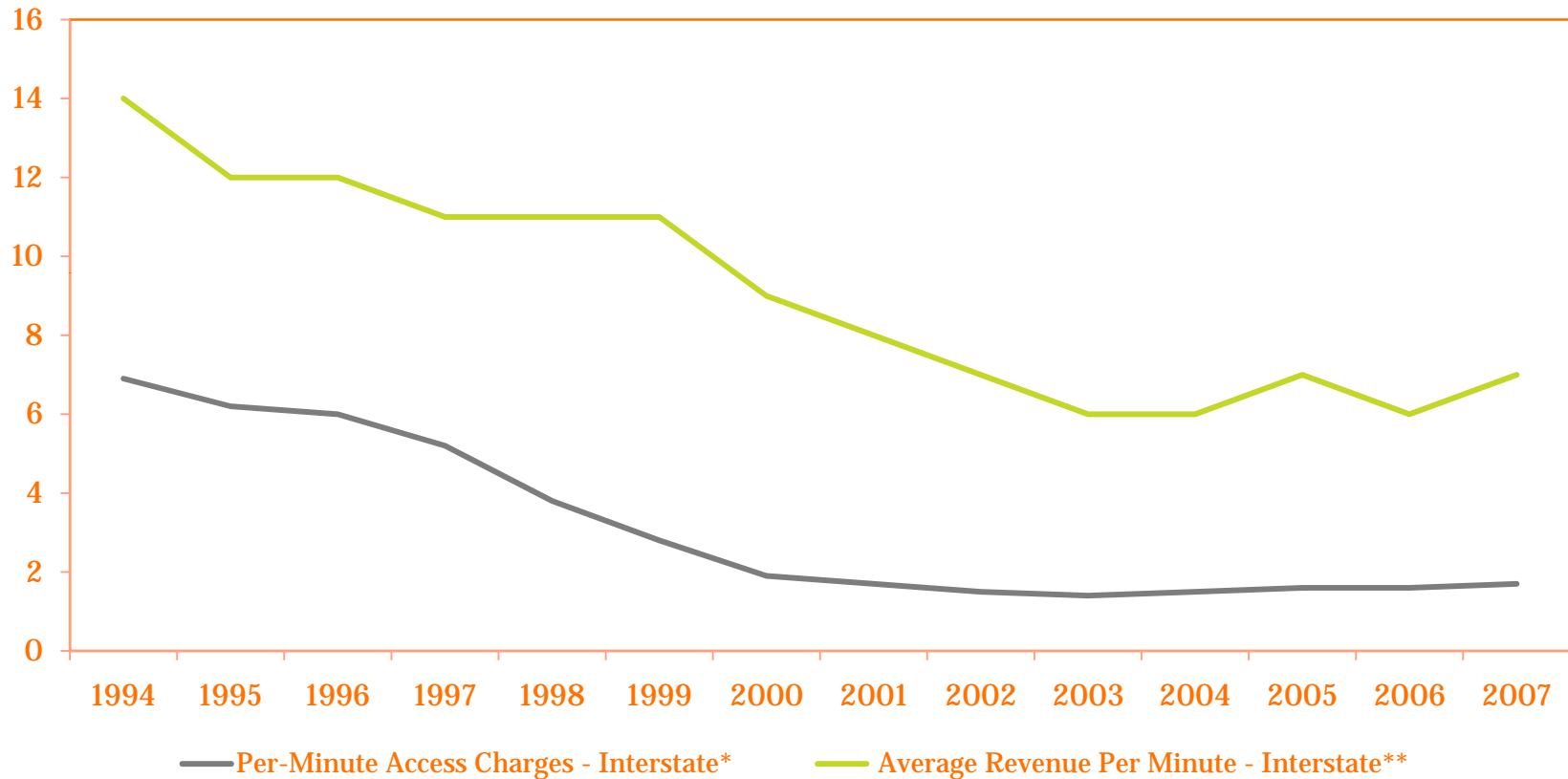
Current system is broken.

- Single industry segment, intrastate long distance providers, almost exclusively funding this subsidy, disadvantaging consumers, creating market distortions, and arbitrage.
- Due to loss of LEC lines and declining long distance minutes of use (MOUs), access revenues are in decline and cannot be sustained. Created prior to the advent of the Internet, e-mail, text messaging, wireless and VoIP, all of which customers use instead of long distance voice.
- In-state toll calls are typically more expensive for residential customers – even though local calls and toll calls use the same LEC facilities – because in-state access charges are priced significantly over cost to subsidize local telephone service.
- Customers pay less for interstate toll calls because the FCC reduced implicit subsidies in interstate access charges. Subsidies were made explicit.
- So long as ILECs have provider of last resort obligations, they will likely need additional revenues post access reform and local rate rebalancing to maintain the network facilities needed to satisfy their COLR service obligations in high cost areas.

Other States Have Recognized Need for Change, Finding Consumers Benefit

- **NJ Order** – “...the Board HEREBY FINDS that a reduction of Intrastate Access Rates will benefit customers because there is a relationship between reduced access charges and toll reductions” and “... market discipline (will) drive IXC rates lower...”
- **WV Order – 1)** “The public interest would be best-served by capping CLEC intrastate access rates at competing ILEC levels, as has been required by the FCC and numerous other states.” **2)** “Maintaining the existing disparity between CLEC and ILEC intrastate access rates is not beneficial for consumers in West Virginia. A reduction in switched access rates will promote competition, more closely align a carrier's prices and costs and remedy existing rate disparities.”
- **MA Order** - “The Department finds that by capping these inter-carrier rates, a market distortion will be removed, thus furthering competition within the telecommunications industry. The Department also finds that this increased competition will result in lower long distance rates for consumers in the Commonwealth.

Industry Interstate Data Clearly Indicates That Long-Distance Prices Closely Followed Access Charges



* Interstate Per-Minute Access Charges (National Average in Cents per Minute) from Table 7.8 of the Universal Service Monitoring Report , 2009

** Average Revenue per Minute (All Carriers All Interstate Switched Services) from Table 7.6 of the Universal Service Monitoring Report, 2009

