

HOUSE BILL ANALYSIS

HB 2534

Title: An act relating to establishing a universal service program to be funded by explicit per line charges to provide intrastate universal service support for basic telecommunications services in rural and high-cost areas.

Brief Description: Establishing per line charges for universal telecommunications service.

Sponsors: Representatives Crouse and Poulsen.

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS AND ENERGY

Meeting Date: January 25, 2000.

Staff: Julia Harmatz (786-7135)

Background:

The goal of Universal Service is to provide affordable access to the telephone network. For reasons such as geography or population density, it may cost more to provide basic phone service for some customers than for others. Ensuring that everyone has affordable access to the telephone network, including customers located in high cost locations, has been a long-standing policy in Washington and the rest of the nation.

In Washington the estimated monthly cost to provide basic phone service varies by exchange from a low \$15.90 to a high of \$476.21. No one actually pays \$476.21 a month for basic phone service as universal service is used to keep basic phone rates affordable in high-cost exchanges.

Currently universal service is funded through a variety of federal and state mechanisms, and most of these mechanisms rely on implicit, rather than explicit, funding.

Sources of implicit funding include access charges, higher rates for business customers than for residential customers, and rate averaging. Access charges refer to fees that long distance carriers pay to connect to local telephone companies' networks. By charging above-cost access charges, local telephone companies have been able to

use access charge revenues to help subsidize basic phone rates for their customers. Rate averaging refers to the practice of allowing some telephone companies to charge all of their customers the same rates, even though some customers are located in high-cost locations and others in low-cost locations.

As a result of the federal Telecommunications Act of 1996, universal service programs are changing. As part of Congress's blueprint for moving towards a more competitive telecommunications market, the 1996 federal act says that federal support to preserve and advance universal service should be explicit and sufficient. The federal act also says that, Every telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State.–

The 1998 Legislature directed the Washington Utilities and Transportation Commission to plan and prepare to implement a new universal service program. The program is supposed to be competitively and technologically neutral, minimize implicit sources of support, maximize explicit sources of support, and benefit all telecommunications ratepayers. In December 1998, the commission delivered a report to the Legislature outlining plans for a new universal service program. The new program cannot be implemented without Legislative approval.

Summary of Bill:

This bill replaces existing implicit intrastate universal service support with explicit intrastate support to ensure the availability of affordable rates for basic telecommunications in rural and high cost locations of the state.

The Commission: The commission is authorized to implement a program for universal service consistent with the federal telecommunications act. The purposes of the program are to benefit all ratepayers, provide specific, sufficient, and competitively neutral support for all telecommunications lines used to provide basic telecom services for customers in high cost locations.

Beginning July 1, 2001 the commission shall require that the rural universal service fund be used to replace rural telecom's interim universal service rate element to the extent possible.

Federal Mechanism: The commission may replace the universal service mechanism for rural telephone companies with a universal service mechanism adopted by the federal telecommunications commission, or continue with the state mechanism.

Designation of Eligible Telecom Carriers: The commission shall establish the criteria for what constitutes an eligible carrier (based on ability to serve) to receive universal

service support for service provided in high cost locations. The support can be provided for either wireline or wireless but not both.

Benchmarks: The commission determines the benchmark to calculate the support provided. The commission may establish separate benchmarks each for residential wireline, business lines, and wireless. The commission can adjust the benchmarks if the funds are insufficient.

Penalties: The commission may impose penalties for delays in making contributions under the program. The penalties shall be calculated as a percentage of the required contribution for the previous calendar year, without exceeding the amount paid. All penalties are payable to the universal service fund. Failure to submit information may result in payments withheld.

Disputes: The commission may delegate to the secretary of the commission the authority to resolve disputes, approve expenses of the administrator, and administer the program.

Basic Telecom services: Universal service support is limited to basic telecommunications services. Basic telecommunications services are: single party service; voice grade access; support for local usage; touch tone; 911 services; operator services; interexchange services; directory assistance; and toll blocking services where available.

Two Funds: Rural and Non-rural: Receipts from contributions from carriers must be deposited into two funds: rural and non-rural. The funds are outside the state treasury, and an appropriation is not required for expenditures from the funds.

Flat Rate Amounts per Line: A flat rate per line for a switched access line will be not more than \$1.70 per residential and not more than \$3.40 per business line (or not more than twice the residential rate). Wireless lines will have the same rate as the business rate.

Fund cap: The fund shall not exceed \$57 million plus the cost of administration.

If Insufficient: If the fund is insufficient, the bill directs the commission to allow rural telephone companies to propose methods to recover the difference through access rates or other rates.

Contributors: Beginning July 1, 2001 each carrier, whether wireline or wireless shall contribute to the funds on an equitable and non-discriminatory basis.

Surcharge: Separate Line Item: The surcharge shall be shown as a separate line item identified as state universal charge—.

Order of Use for Funds: The bill creates an order of priority for using the universal contribution. Rural and nonrural companies shall: (1) provide a bill credit to offset the residential per line charge; (2) provide a bill credit to offset the business per line charge; (3) offset the cost of providing basic telecom services to areas that do not currently have telecom services; and (4) reduce intrastate access charge rate elements.

Fund Administrator: A fund administrator will be designated through a competitive bid process. The commission will establish and approve the budget for the administrator.

Information Required: Telecom carriers shall provide information to the administrator for the implementation of the program. This information is protected as commercial information by statute.

Expiration: Each section of the bill expires December 31, 2011.

I-695: This act shall be submitted to the people for its ratification, as per Initiative 695.

Appropriation: None.

Fiscal Note: Requested January 19, 2000.

Effective Date of Bill: January 1, 2001.