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FCC ADOPTS ORDER TO REFORM INTERSTATE ACCESS CHARGE SYSTEM FOR RURAL CARRIERS

Action Aims for More Efficient Competition and More Choice in Rural Areas

Washington, D.C. – Today, the Federal Communications Commission (FCC) modified its interstate access charge rules and universal service support system for rate-of-return incumbent local exchange carriers (LECs). Today's action, based upon pending Commission proposals and consideration of the Multi-Association Group (MAG) petition, is designed to bring all Americans, including those in rural and high-cost areas, the benefits of competition and choice. MAG is a coalition of associations representing rural carriers, including the National Rural Telecom Association (NRTA), the National Telephone Cooperative Association (NTCA), the Organization for the Promotion and Advancement of Small Telecommunications Companies (OPASTCO), and the United States Telecom Association (USTA).

Rate-of-return carriers, as opposed to price cap carriers, are typically small, rural telephone companies concentrated in one area, but they range in size from a few hundred lines to approximately one million. They generally have higher operating and equipment costs than price cap carriers due to lower subscriber density, smaller exchanges, and limited economies of scale. Rate-of-return carriers also rely more heavily on revenues from interstate access charges and universal service support. They number roughly 1,300 carriers and serve approximately eight percent of the nation's phone lines.

The Order adopted today is designed to carry out the universal service policies embodied in the Telecommunications Act of 1996, and seeks to accomplish the following three goals (specific measures adopted are attached):

1. Align the interstate access rate structure more closely with the manner in which costs are incurred by driving per-minute access charges towards lower, more cost-based levels.

2. Remove implicit support for universal service with explicit support that is portable to all eligible telecommunications carriers on a competitively neutral basis. This will provide a more equal footing for competitors in the local and long distance markets.

3. Provide certainty and stability for the small and mid-sized local telephone companies serving rural and high-cost areas by permitting these carriers to continue to set rates based on a rate-of-return of 11.25%, thereby encouraging investment in rural America.

The Commission also adopted a Further Notice of Proposed Rulemaking to seek additional common on the MAG incentive regulation plan and other means of providing opportunities for rate-of-return carriers to increase their efficiency and competitiveness.

Today's action largely completes the interstate access charge and universal service support reforms the FCC initiated following the passage of the Telecommunications Act. Specifically, the Commission has reformed 1) intrastate high-cost support for non-rural carriers in October 1999, 2) interstate access charge and universal service support system for price cap carriers in May 2000, and 3) intrastate high-cost support for rural carriers in May 2001.

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Docket Nos.: CC 00-256, 96-45, 98-77, 98-166

Action by the Commission October 11, 2001, by Second Report and Order and Further Notice of Proposed Rulemaking (FCC 01-304). Chairman Powell, and Commissioners Abernathy and Martin, with Commissioner Copps dissenting, and Powell, Copps and Martin issuing statements.

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October 11, 2001

SUMMARY OF MAG ITEM

Order

- The Order increases the caps on subscriber line charges (SLCs) to the levels paid by most subscribers nationwide. The residential and single-line business SLC cap will increase to $5.00 on January 1, 2002, and may increase up to $6.00 on July 1, 2002, and $6.50 on July 1, 2003, subject to a cost review study for the SLC caps of price cap carriers. The multi-line business SLC cap will increase to $9.20 on January 1, 2002. Lifeline support will be increased in an amount equal to any SLC rate increases for low-income subscribers.

- The Order allows limited SLC deaveraging, which will enhance the competitiveness of rate-of-return carriers by giving them important pricing flexibility. The SLC deaveraging method is consistent with the Rural Task Force universal service support disaggregation scheme.

- The Order reforms the local switching and transport rate structure. In particular, it shifts the non-traffic sensitive costs of local switch line ports to the common line category, and reallocates the remaining costs contained in the Transport Interconnection Charge to other access rate elements. These measures align the rate structure more closely with the manner in which costs are incurred and reduce per-minute switched access charges.

- The Order creates a new universal service support mechanism, Interstate Common Line Support, to convert implicit support in the rate structure to explicit support that is available to all eligible telecommunications carriers. Specifically, Interstate Common Line Support will replace the carrier common line (CCL), which will be phased out as of July 1, 2003, when SLC caps reach their maximum levels. The new support mechanism will ensure that changes in the rate structure do not affect the overall recovery of interstate access costs by rate-of-return carriers serving high-cost areas.

- The Order does not adopt proposals to prescribe a single, target rate for per-minute charges, either on an optional or a mandatory basis. The reforms adopted in the Order will reduce per-minute charges for all rate-of-return carriers, while giving them the flexibility to establish rates based on their own costs in the areas they serve.

- The Order streamlines the rules for introduction of new access services by rate-of-return carriers.

- The Order terminates the proceeding on the represcription of the authorized rate-of-return, which was set at 11.25 percent in 1990.

- The Order does not adopt MAG proposals to impose new requirements on interexchange carriers. The Order concludes that the proposed requirements are unnecessary, inconsistent with the Commission's deregulatory approach to the interexchange services market, and would entail undue administrative costs and burdens.

Further Notice of Proposed Rulemaking

- The Further Notice seeks additional comment on the MAG incentive plan and how it might be modified to provide incentives for cost efficiency gains that will benefit consumers through lower rates and improved services. The Further Notice also requests further comment on the MAG's proposed changes to the "all-or-nothing rule," on additional pricing flexibility measures, and on the continued need for the Long Term Support mechanism in light of the reforms adopted in the Order.