

HOUSE BILL ANALYSIS

ESB 5811

Title: An act relating to the implementation of the federal telecommunications act of 1996.

Brief Description: Creating a program to advance universal telecommunications service.

Sponsors: Senate Committee on Energy, Technology & Telecommunications (originally sponsored by Senators Brown, Prentice and Kohl-Welles)

HOUSE COMMITTEE ON TECHNOLOGY, TELECOMMUNICATIONS & ENERGY

Meeting Date: March 30, 1999.

Bill Analysis Prepared by: Linda Brooks, (786-7153)

Background: Universal service serves to provide all citizens with 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. Nobody pays \$476.21 a month for basic phone service, however, 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 (WUTC) to plan and prepare to implement a new universal service program. The new program is to be competitively and technologically neutral, minimize implicit sources of support, maximize explicit sources of support, and benefit all telecommunications ratepayers. In December the WUTC delivered to the Legislature a report on plans for a new universal service program, but the new program cannot be implemented until the Legislature has approved it.

Summary:

Legislative Findings

The Legislature finds that the state must modify its universal service program to meet the twin goals under the federal Telecommunications Act of 1996 of competition and reasonable rates for basic phone services. The existing universal service program that relies on implicit subsidies is to be replaced by a new program that relies upon explicit contributions to a new universal service fund. Moneys from the fund are to be distributed so that basic phone rates and services remain reasonably comparable between high-cost and low-cost locations. In moving towards a more competitive telecommunications market, the Legislature also intends to minimize cost shifting so that no one class of customers is disproportionately impacted as explicit funding for universal service replaces implicit funding.

Universal Service Fund

A universal service fund is created outside the state treasury and is not subject to appropriation. All telecommunications carriers must contribute to the fund on an equitable and nondiscriminatory basis. Annually the WUTC sets by order each telecommunications carrier's contribution amount. An individual carrier's contribution is based on the carrier's proportionate share of total end-user telecommunications revenues earned in this state. No carrier's contribution to the universal service fund, however, is to exceed three percent of its total end-user revenues.

Carriers' contributions to the universal service fund are to begin on or after July 1, 2000. A carrier that discloses its universal service contributions on customers' bills must also disclose the effect offsetting rate reductions, if the carrier not only pays into the fund but also receives support from the fund.

A universal service fund administrator is to be selected through a competitive bid process. Moneys in the fund are to be used only to provide universal service support in high-cost locations and to pay the universal service program's administrative expenses.

Universal Service Support for High-Cost Locations

The new universal service program is to begin on or after July 1, 2000. Specific, sufficient, competitively and technologically neutral support is to be provided for all telecommunications lines located in high-cost locations. A high-cost location is a place where the cost of providing telecommunications services is greater than a benchmark amount established by the WUTC.

Specifically, moneys distributed from the new universal service fund are to support the following basic telecommunications services for each line located in a high-cost location:

- Single-party service;
- Voice grade access;
- Support for local usage;
- Touch-tone signaling;
- Access to E911 emergency services;
- Access to operator services;
- Access to interexchange services;
- Access to directory assistance; and
- Toll blocking and toll limitation services.

Distributing Universal Service Support to Eligible Telecommunications Carriers

A carrier providing telecommunications services in high-cost locations must be designated by the WUTC as an eligible telecommunications carrier before that carrier may receive support from the universal service fund. As part of the designation process, the WUTC may require that a carrier serve all persons in a high-cost geographical area for which designation is made.

The WUTC must coordinate the state universal service program with any federal program. Federal universal service support received by a carrier is to be considered in determining the amount of state universal service support to be provided. If permitted by federal law, the state universal service fund administrator may jointly administer both state and federal universal service moneys.

Eligible telecommunications carriers are subject to audit to ensure that any support received is used only for the purpose of providing universal services.

Other Administrative Provisions for the Universal Service Program

The WUTC may adopt rules that include providing for operation of the universal service fund, setting criteria for selecting an independent third party fund administrator, and establishing reporting requirements for telecommunications carriers. The WUTC may impose penalties for delays in making required reports or contributions or withhold support payments to eligible carriers that fail to submit required information. The WUTC must also evaluate the universal service program to assess comparability of rates, development of competition, affordability, and the appropriateness of the fund size and report its findings annually to the Legislature.

Appropriation: None.

Fiscal Note: Requested on engrossed bill on March 22, 1999.

Effective Date of Bill: Ninety days after adjournment of session in which bill is passed.