Massachusetts Institute of Technology
Cambridge
Massachusetts
02139

Research
Program on
Communications
Policy

TELEPHONE ACCESS CHARGES

October 13, 1983

Albert Halprin, FCC
Paul Levy, Mass. Pub. Util. Comm.
Paul Malandrakis, AT&T

Center for Advanced Engineering Study
Room 9-228
MIT
617/253-7409

Center for International Studies
Room E53-401
MIT
617/253-3124

Center for Policy Alternatives
Room E40-202
MIT
617/253-1661

Laboratory for Computer Science
Room NE43-105
MIT
617/253-2145

Laboratory for Information and Decision Systems (LIDS)
Room 35-308
MIT
617/253-2141

MIT
RESEARCH PROGRAM ON
COMMUNICATIONS POLICY

TELEPHONE ACCESS CHARGES

October 13, 1983

Albert Halprin, FCC
Paul Levy, Mass. Pub. Util. Comm.
Paul Malandrakis, AT&T

Albert Halprin began his presentation with a brief history of competition in telecommunications. "Above 890" was the key decision, establishing the principle that private service networks could be constructed without showing that such service was unavailable from the existing carriers. The Specialized Common Carrier decision was also crucial from a historical perspective, as it authorized a new breed of carriers to provide service in competition with AT&T. As the price per unit of long distance service dropped and the price of local service rose, the response of the telephone companies and the regulators, in a monopoly environment, was to subsidise local service with long distance service. Once certain services were opened to competition, the reponse of AT&T was to establish bulk rates, through FX service, FTS and the like, for large users who didn't pay subsidies. These "regulatory bypass systems" necessary in a competitive environment. This system worked well for 10-15 years, but was knocked down by the courts, which ruled that subsidies were improper and authorized competition for small users as well as large users.

Once competition was proscribed for small as well as large users, the basic question became how much should the long distance carriers, in competition with AT&T, pay for use of the local exchange. AT&T argued that the MCI's of the world should be charged a full subsidy, just as all other small users were charged.MCI countered that they and other OCC's used local plants just like the federal government and other large users, and should therefore be exempt from subsidy payments. Under the "EMFHIA agreement, a partial subsidy was charged to MCI and other OCC's.

The FCC then opened the access charge proceeding in order to determine how access to the local exchange should be charged. Halprin noted two methods to eliminate subsidies from long distance to local service. The first was to turn to the states. However, the state regulators, despite a consensus in the FCC and Congress, would not accept responsibility for the costs of accessing the local exchanges. The second alternative was to recover the subsidy through a flat charge on each customer, which is of course the path the FCC has followed.

Halprin contended that the access charge proceeding allowed for the subsidies, which could not be supported in a competitive environment, to be removed from the costs of local service in a gradual manner. Several advantages to the gradual approach were listed: universal service is not threatened through a sudden and significant rise in rates for local phone service, telephone companies providing local service are kept viable, large users are kept on the network, and competition in the provision of long distance becomes possible.

The two areas of controversy in the access charge proceeding identified by Halprin are the two dollar charge, which he termed "political pimping," and the size of the difference between what AT&T and the OCC's pay for access to the local exchanges. It was his personal opinion that the first order established the correct ratio between AT&T and the OCC's, but that the second change was also satisfactory.

As for the future, Halprin predicted that Congress is not likely to act on the bills currently before the Legislature.

"You can't pass a bill to roll back competition," he said.

Paul Malandrakis, of AT&T Communications, which is the AT&T entity that will provide long distance in the post-decree environment, enumerated four goals of the access charge order: 1) Eliminate undue discrimination, 2) allow efficient use of the local network, 3) prevent economic bypass, and 4) preserve universal service. He noted that the subsidies of local service, which were designed to achieve social objectives, cannot survive in a competitive field.

The key policy change involved in the access charge proceeding, he noted, is the replacement of usage charges which are now traffic sensitive with flat charges. The cost of access is associated with the local loop, and should properly be charged at a flat rate. The change is a switch from a social policy to a market-driven policy.

The access charge does not threaten unversal service, in Malandrakis' view. The view that some households will be forced to abandon telephone service due to an increase in rates as a result of the access charge is unfounded. The universal service fund, lifeline service and measured rates will all operate to keep universal service intact.

AT&T does not believe that its users should have to pay a premium charge for access to the local exchanges.

Malandrakis suggested that AT&T believes that its customers pay 35-45 OCC's for access to the local exchanges under the current policy.

The third panelist was Paul Levy, a member of the

Massachusetts Public Utilities Commission. His biggest problem with the access charge decision was "the name," which he contended has led to misunderstanding of the purposes of the charge. Overall, Levy expressed support for the concept. The biggest area of contention with the decision is in the shift of revenues from local rate-payer supported exchanges to AT&T communications.

Levy contended that AT&T Communications will now pay $1.5 billion less for access to the local exchange. If the rationale of the access decision was revenue real location, Levy argued, then AT&T should lower long distance rates in the same proportion.