STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION On its Own Motion	:	
Investigation concerning the appropriate methodology for the calculation of intrastate access charges for all Illinois telephone utilities.	:	83-0142

TWENTY-SEVENTH INTERIM ORDER

High Cost Fund

By the Commission:

To implement divestiture, the Federal Communications Commission ("FCC") and the Illinois Commerce Commission ("Commission") adopted access charge plans to replace the predivestiture separations and settlements process with a system of tariffed access charges. While recognizing that the costs of the non-traffic sensitive ("NTS") plant connecting subscribers to the network should ultimately be collected from end users through flat-rated subscriber line charges (also referred to as customer access line charges), usage sensitive carrier common line charges were designed to recover NTS costs on a transitional basis in order to mitigate the impact on end users. The Illinois access charge plan (the "Alternate Plan") was adopted in the Fourth Interim Order entered in this docket and provides for the shift of intrastate NTS costs from carrier common line charges to subscriber line charges over a five year period. To further minimize the impact of the shift to subscriber line charges for customers served by local exchange companies ("LECs") with high cost characteristics, the Alternate Plan provided for the future implementation of a high cost fund, termed an Illinois Universal Service Fund ("IUSF"). The need to investigate a high cost fund to mitigate the end user rates of certain LECs was also recognized by the Illinois Legislature in Section 13-301(d) of the new Public Utilities Act. The FCC has provided for high cost assistance in conjunction with its recovery of interstate NTS costs. In the Matter of MTS and WATS Market Structure, CC Docket Number 78-72 and Number 80-286, released November 23, 1984. With the introduction of the Staff plan for an experimental tariff, which is the subject of a separate interim order in this docket, the time to implement a high cost fund was propitious.

Upon notice to all of the parties, and after numerous workshops and discussion among the interested parties at which several issues were the subject of mutually significant compromise and negotiation, Mr. J. Cale Case, Director of the Commission's Policy Analysis and Research Division and the Illinois Independent Telephone Association ("IITA") presented testimony in July 1986, supporting a proposed Stipulation to implement a high cost fund. The Stipulation not only recommends the framework of an IUSF to aid high cost LECs, but it also addresses the total transfer of current intrastate NTS costs, including NTS central office equipment ("COE") costs, to the end user or cost causer, as contemplated in the Alternate Plan. The Stipulation was supported on the record by the IITA, Illinois Consolidated Telephone Company ("ICTC"), Central Telephone Company of Illinois ("Centel"), AT&T Communications of Illinois, Inc. ("ATTCI"), General Telephone Company of Illinois ("General"), and Illinois Bell Telephone Company ("IBT"). Continental Telephone Company ("Continental") did not support the Stipulation on the basis that the eligibility requirements were discriminatory. Final comments were due August 22, 1986. No party filed comments opposing the creation of an IUSF, but MCI Telecommunications Corporation ("MCI") questioned the means of funding and administrating the IUSF. The Hearing Examiner's Proposed Order was served on all parties and briefs and exceptions, as filed, were considered herein.

The purpose of the IUSF is to mitigate the impact the complete phase out of intrastate NTS costs from interexchange carrier common line charges has on LECs which, because of their cost characteristics and size, have few short term alternatives to generate revenues sufficient to recover all such transferred NTS costs other than through significant end user increases. Thus, funding from the IUSF would be limited to LECs serving less than 15,000 subscriber lines and having intrastate NTS costs per line in excess of 120 percent of the statewide average. Staff testified that this highly targetted classification reflects the fact that these LECs do not generally have the resources or internal price flexibility, particularly over the short run, to mitigate NTS cost transfers. Also, the size limit is recommended, in part, because the potential funding requirements would be large enough to create price distortions if significantly larger LECs were eligible. The 15,000 access line limit parallels the Legislature's decision to reduce regulating expense and price oversight for such LECs.

These small LECs will receive funding from the IUSF up to 75 percent of their qualifying intrastate NTS costs in excess of 120 percent of the statewide average. The qualifying LECs' intrastate NTS costs are separated and exclusive of inside wire and customer premise equipment ("CPE"), but do include certain costs associated with intrastate category 6 NTS/COE. Only residence and single line business access lines will be funded. Based on the testimony of Mr. Case and the IITA, the total qualifying costs from these LECs should be approximately $2.8 million upon full IUSF implementation in 1989. The

Stipulation requires that total funding be capped at $3 million in 1989 and subsequent years, exclusive of the administration costs of the Illinois Exchange Carriers Association ("IECA") or its successor. Individual LECs will be funded in proportion to their qualifying NTS costs.

The Stipulation recognizes that a portion of the NTS costs associated with the IUSF are currently being funded by the intrastate carrier common line charge attributed to inter-market service area ("inter-MSA") switched access tariffs. The Stipulation proposes a mechanism through which the portion of the NTS costs currently recovered by the carrier common line charge would be removed from the funding requirement of the IECA NTS pool and the statewide carrier common line charge rate reduced accordingly to avoid double recovery of these costs. The Stipulation does not alter the Alternate Plan's phase out of the carrier common line charge on inter-MSA switched usage by January 1, 1989.

The Stipulation contemplates that the IUSF would commence, on a transitional basis, on January 1, 1987, and achieve full funding levels on January 1, 1989. Thus, this phase in of the IUSF is related to the Alternate Plan's reduction of IBT's funding obligation to the intrastate NTS Pool. In 1987, when IBT's funding will be reduced to 40 percent of its 1984 NTS funding level, the IUSF would collect and distribute $1.68 million, which is 60 percent of the 1989 full implementation projected NTS costs. In 1988, when IBT's funding under the Alternate Plan will be reduced to 20 percent of its 1984 funding level, the IUSF would collect and distribute $2.24 million, which is 80 percent of the 1989 full implementation projected costs. In 1989 and thereafter, 100 percent of the then-projected qualifying costs of the IUSF, up to the cap of $3 million (plus projected administrative costs of the IECA or its successor), would be collected and distributed.

The Stipulation provides that the IUSF will be funded by a separate per access minute charge applied on a uniform basis to all inter-MSA and intra-MSA switched interexchange toll minutes of use. The projections indicate that the per access minute of use charge would be less than 1/20 of a cent upon full implementation in 1989. Staff testified that this small charge will have an imperceptible effect on potential bypass and a very small effect on statewide customer subsidization. On the other hand, the cost reduction and potential end user inter-MSA toll rate reductions are significant.

The IECA would be designated the Fund Administrator and would receive and make disbursements from the IUSF. The administrative expenses related to the IUSF would be capped at $150,000 per year, which amount is independent of and in addition to the basic fund cap of $3 million. If administrative expenses are projected to be in excess of that amount, the Stipulation calls for the Commission to solicit proposals from other entities which would be willing to administer the IUSF for less than $150,000.

The adoption of the IUSF will allow the phase out of the intrastate NTS/COE, or line termination rate element, from inter-MSA switched access charges. Recognizing that the traffic sensitive collection of NTS related costs is inappropriate and promotes the incentives to uneconomically bypass the LECs' public switched network, the Alternate Plan contemplated the future transfer of these NTS costs to the cost causer to promote economic efficiency and consumer equity. The Stipulation recommends that the NTS/COE rate element applied to inter-MSA switched access by a LEC would be frozen for 1987 at its 1986 rate level. In 1988, the rate would be reduced by one-half of the difference between the frozen rate and the rate in effect at the end of 1984 for that LEC and, in 1989, the LECs' NTS/COE rate would be the rate in effect at the end of 1984. The only exception would be in the instance of LECs which have an intrastate NTS/COE rate element which is lower than the rate in effect at the end of 1984. For those companies, the frozen 1986 rate would be applied through 1989. In 1990, the rate element would cease to be applied by any LEC to inter-MSA traffic. These NTS/COE revenues would be replaced through supplemental end user charge increases. In no instance, however, would such 1988 and 1989 supplemental increases be permitted to exceed 85 cents per line per month in each calendar year without prior approval of the Commission. The Stipulation provides for a slightly different phase out schedule for LECs which have already left the intrastate NTS pool. These companies would be permitted to transition the full amount of the NTS/COE revenues they received in 1986 to end user charges beginning in 1987. However, the amount transitioned in any one year would be limited to the size of the end user increases implemented by LECs still participating in the IECA NTS pool. During the phase out, the LECs NTS/COE revenue decrease would be recovered from end users in additional end user increases as provided in the Stipulation. Consistent with the Fourth and Twenty-Fifth Interim Orders entered in this docket, NTS/COE would continue to be excluded from intra-MSA switched charges.

Under the Stipulation, all NTS related charges are removed from intrastate carrier access charges by January 1, 1990, reducing estimated inter-MSA switched access costs per call by up to 6 cents per minute over 1986 levels. This will complete the Alternate Plan's goal of implementing economically rational access charges between LECs and interexchange carriers so that the toll rates customers pay, which are in part based on access charges assessed interexchange carriers, better reflect the cost of providing the usage sensitive service.

The Stipulation recognizes that implementation issues will arise. A Steering Committee, made up of representatives of Staff, IBT, the IITA, ATTCI, the IECA, the other common carriers, the large independent companies, and the reseller industry, will attempt to resolve implementation issues. Unresolved disputes, as well as the Staff's recommendations under paragraph five of the Stipulation, will be subject to the hearing process prior to Commission decision.

So that there is some continuity to the transition plan presented, the parties agreeing to the Stipulation have indicated that they will not petition the Commission for any modifications to be effective prior to 1990. The only exception would be if the interstate experimental NTS recovery plan was not approved by this Commission and implemented by the FCC on or before June 1, 1987. In that instance, the IUSF would be frozen at its 1987 funding level pending Commission review of 1988 and subsequent year funding levels, or until the experimental tariff was approved.

The Commission is of the opinion that the Stipulation provides for the implementation of a high cost fund in Illinois which advances the objectives of this Commission of ensuring that telephone service remains affordable in high cost areas while avoiding an excessive level of toll loading. The assistance provided is correctly based on costs, plus the recognition that small companies need more high cost assistance than larger companies because small companies have less flexibility than larger companies to recover above average costs without an adverse impact on residence and single line business subscribers. At the same time, it keeps the overall amount of high cost assistance at a manageable level. The IUSF should help ensure the continued viability of small telephone companies while being used exclusively to keep local telephone rates lower then they otherwise would be and thus flowing the assistance through to the customers.

The Commission recognizes that the Stipulation is the result of extensive negotiations and compromise on the part of both funding and funded entities. The parties presenting the Stipulation have fashioned a compromise which promotes the Commission's ultimate goals of cost based pricing. The transition period, which began in 1984 and with this proposal will end in 1990, is reasonable to mitigate the impact on end users bearing charges which reflect the costs they cause through connection to the network. Inter-MSA switched access toll rates should be lower as a result of this Order than if only the carrier common line charges element of NTS costs were phased out. It is appropriate to continue the Commission's current policy of not assigning NTS costs to intra-MSA switched access toll services because to do so would only temporarily put upward pressure on intra-MSA switched access toll rates, in a direction away from economic costs. While Continental's and MCI's concerns have been carefully considered, the Commission believes the Stipulation reflects an appropriate balancing of interests in economically rational end user and intrastate LEC access charges, while advancing the goal of the preservation of universal service embodied in the new Public Utilities Act.

Accordingly, the Commission approves the implementation of the IUSF and the inter-MSA NTS/COE phase out to end users, pursuant to the terms and conditions contained in the Stipulation, effective January 1, 1987. The Alternate Plan's carrier common line charge phase out should continue until its 1989 conclusion.

The Commission, having considered the entire record, and being fully advised in the premises, is of the opinion and finds that:

(1) Illinois telecommunications carriers engaged in the provision of telecommunications services to the general public within the State of Illinois are subject to the provision of the Public Utilities Act;

(2) the Commission has jurisdiction over the parties and subject matter herein;

(3) the recital of facts and conclusions reached in the prefatory portion of this Order are supported by evidence of record, and are hereby adopted as findings of fact for purposes of this Order;

(4) the Stipulation is reasonable and in the public interest, and should be approved;

(5) the IUSF and NTS/COE phase down should commence January 1, 1987, and in all other respects, the earlier Interim Orders of this Commission related to the carrier common line charge phase down should continue unaltered;

(6) the IECA is designed Fund Administrator;

(7) Staff should schedule workshops to ensure timely implementation of this Order and the matters addressed in the Stipulation;

(8) the Stipulation is the operative document to be observed in interpreting matters arising under this Order.

IT IS THEREFORE ORDERED that the Stipulation is approved and should be observed in implementing the IUSF and the NTS/COE phase down.

IT IS FURTHER ORDERED that the parties implement the Stipulation as provided in Findings (5), (6), (7), and (8).

By Order of the Commission this 16th day of October, 1986.

Mary L. Bushnell

Chairman

EXAMINER
SECTION CHIEF
Supervisor of Orders