

**PENNSYLVANIA PUBLIC UTILITY COMMISSION  
HARRISBURG, PENNSYLVANIA 17120**

**Investigation Regarding Intrastate  
Access Charges and IntraLATA  
Toll Rates of Rural Carriers and  
The Pennsylvania Universal Service  
Fund**

**Public Meeting June 30, 2011  
1189996-OSA  
Docket No. I-00040105,**

**AT &T Communications of  
Pennsylvania, *et al.***

**C-2009-2098380, *et al.***

v.

**Armstrong Telephone Company-  
Pennsylvania, *et al.***

**STATEMENT OF  
CHAIRMAN ROBERT F. POWELSON**

Today the Commission is undertaking a major action to rebalance the intrastate carrier access charges of Pennsylvania's rural local exchange telephone companies ("RLECs") that will forever change the telecommunications landscape in the Commonwealth. The road to today's action has been long and challenging and is littered with the scraps of numerous passed-over access charge reform proposals.

By way of background and explanation for those not versed in the peculiar dialect of the telecommunications industry, "intercarrier compensation" is a term of art that refers to the payments one carrier makes to another carrier to originate, transport or terminate telephone calls or other communications traffic. "Access charges" are a particular subset of intercarrier compensation, and refer to payments one carrier makes to another when a customer makes a toll call, whether inter- or intrastate. This Commission sets intrastate access charges while the Federal Communications Commission ("FCC") sets the interstate charges.

The term "access" was first coined in 1984, the year that Judge Green issued a federal court ruling that broke up the "Ma Bell" (AT&T) monopoly. Judge Green created a long-distance company, called AT&T, and local companies called Regional Bell Operating Companies ("RBOCs").<sup>1</sup> Since then, there has been one piece of sweeping federal legislation, the Telecommunications Act of 1996, and two major FCC decisions on access charges.

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<sup>1</sup> Verizon PA, formerly known as Bell Atlantic PA, is one such RBOC.

One of the more recent and major federal access charge reforms was in 2000. At that time, the FCC adopted a proposal of the Coalition for Affordable Local and Long Distance Service (“CALLS”), an alliance of large local and long-distance carriers. This action required interstate access rate reductions and a federal Subscriber Line Charge (“SLC”), the surcharge that consumers pay to access the long distance network.

The second reform occurred in 2001 when the FCC adopted a plan similar to the CALLS Order for rural carriers in the Multi-Association Group (“MAG”) Plan. The MAG Plan contained an SLC-like surcharge as well as an Interstate Common Line Support (“ICLS”) element, and called for rate reductions and federal universal service fund (“USF”) support for higher-cost rural carriers.

In the time since 2001, the FCC has introduced a number of interstate intercarrier compensation and federal USF proceedings and proposals without arriving at a permanent conclusion. Most recently, under the auspices of its National Broadband Plan, the FCC put forward one more comprehensive proposal encompassing reforms for the interstate intercarrier compensation mechanisms and the federal USF at WC Docket No. 10-90 *et al.*, which is still pending.

In Pennsylvania, the Commission first undertook access charge reform in 1999 at Docket Nos. P-00991648 and P-00991649 (commonly referred to as the “Global Order”). After three appeals, including an appeal under “King’s Bench” that was denied by our Supreme Court, the Commission’s Global Order reducing rates was upheld. That reform reduced in-state access rates and, for rural carriers, provided support for access charge reforms through the Pennsylvania universal service fund (“PaUSF”).

Since the Global Orders, there have been many calls for further major reform of intrastate carrier access charge rates in Pennsylvania. The Commission, however, has chosen not to act until this point due to possible federal action. The Commission has historically been hesitant to act before the FCC because of the potential to harm Pennsylvania consumers, service providers, and our markets. Further, any intrastate access rate reform action could eventually need to be coordinated with corresponding actions of the FCC.

We have arrived at the point, however, where we cannot forestall action any longer. While there are certainly parties that would like Pennsylvania to continue with its historical “wait and see” approach on a federal decision,<sup>2</sup> I do not believe this is a prudent option. Regardless of their position on waiting for FCC action, most parties recognize that intrastate access charges, which are a real cost to carriers in the market, must be addressed. The difficulty, of course, is addressing access charge issues in a way that protects both the availability and affordability of local telephone service.

Today’s decision attempts to address those concerns. Given the federal state of affairs and our need to further reform an industry that has changed dramatically since 1984 (and continues to do so at an accelerated pace), Pennsylvania has decided to move forward with

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<sup>2</sup> Hypocritically, this includes parties that have criticized the Commission in the past for waiting for federal action instead of proactively addressing intrastate access charge reform.

access charge reform. While there are many intricacies to our decision, at its core it does the following:

- Requires RLECs to mirror interstate traffic sensitive access rates so as to provide uniformity for the Commonwealth's competitive telephone companies and prevent arbitrage;
- Recognizes that there are costs associated with having carrier of last resort obligations and allows RLECs to maintain a carrier charge ("CC") not to exceed \$2.50 in furtherance of that recognition. This Commission also has a long history of requiring competitive carriers that use local exchange company networks to contribute to the joint and common costs associated with maintaining those networks, which is reflected in allowing the \$2.50 CC.
- Removes the \$18 price cap on basic local exchange residential rates and utilizes a \$23 affordability benchmark rate in its place;
- Provides for assurances that the access charge rebalancing will be accomplished in a revenue-neutral manner, as is required by Chapter 30<sup>3</sup>;
- Provides for a reasonable schedule for the implementation of rate rebalancing; and
- Does not increase the size of the Pennsylvania Universal Service Fund while requiring that a Rulemaking be initiated to evaluate reforms to the Fund and its associated Regulations.

While not a perfect solution, our action today attempts to strike the appropriate balance between reforming access rates and protecting rural Pennsylvanians and the companies that have provided them with reliable and affordable telephone services for over 100 years.

While I have great respect for the RLECs and the services they provide, I am concerned that there has been a tendency on the part of some of these companies to use intercarrier compensation and universal service monies to keep local rates artificially low in order to shield themselves from competition. Rural Pennsylvanians have as much of a right to expect the innovative services that competition provides as my neighbors and I do in Southeastern Pennsylvania. These artificially low rates, which could act as a bar to the provision of those services by competitive carriers, could not be allowed to continue.

As a result, we are requiring the RLECs to rebalance their access and local rates and become even more efficient in providing service in what is an incredibly fast-changing marketplace. That is not to say, however, that the competitive carriers should be allowed to take what will be a windfall of tens of millions of dollars<sup>4</sup> and keep it as profit to the detriment of rural Pennsylvanians, who will likely face higher local rates from their incumbent providers.

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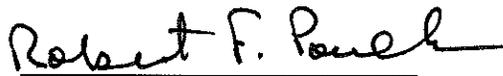
<sup>3</sup> 66 Pa. C.S. § 3017(a).

<sup>4</sup> We estimate the total impact to be approximately \$50 million.

I am well aware that the Commission's action today comes at a great cost to the RLECs' bottom lines and potentially, if competitive carriers do not "step up to the plate," to consumers in the rural territories. I am putting competitive carriers on notice that the status quo is not an option. These carriers have an obligation to reduce prices and offer new services in all areas of Pennsylvania, not just population centers. While this Commission does not regulate the long-distance rates of competitive carriers, I specifically note that AT&T has stated that it will pass RLEC access charge decreases on to its Pennsylvania consumers through reductions in its Instate Connection Fee and calling card fees.<sup>5</sup> I fully expect AT&T and the other carriers that will financially benefit from today's decision to pass a substantial portion of those benefits on to Pennsylvania consumers through reductions such as those proposed by AT&T, as well as other similar measures. I also expect to be kept apprised of all such measures taken by Pennsylvania's competitive telecommunications providers.

Lastly, I would be remiss if I did not take time to thank everyone involved for their efforts that went into the work product being approved today. This Order was the result of hundreds of hours of drafting, deliberations and revisions. The fact that it is being approved unanimously speaks to the dedication and collegiality that is the hallmark of this Commission.

**DATE: June 30, 2011**

  
**ROBERT F. POWELSON**  
**CHAIRMAN**

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<sup>5</sup> AT&T M.B. at 26.