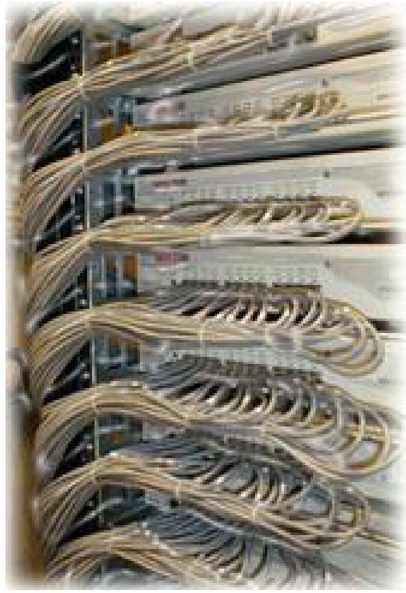
Access Charges



Contents

Introduction

- Access is a general term for the way that customers (end users or subscribers) or competing providers gain access to networks
- Historically, access charge is paid by long distance carriers (IXC) to local exchange carriers (LEC) for the service of originating and terminating long distance calls
- The most critical policy issue during the divestiture (MFJ of 1982) implementation period
- FCC, State regulators, Congressional leaders, local companies (RBOCs), and long distance companies

The First Plan: Pre-Divestiture Agreement

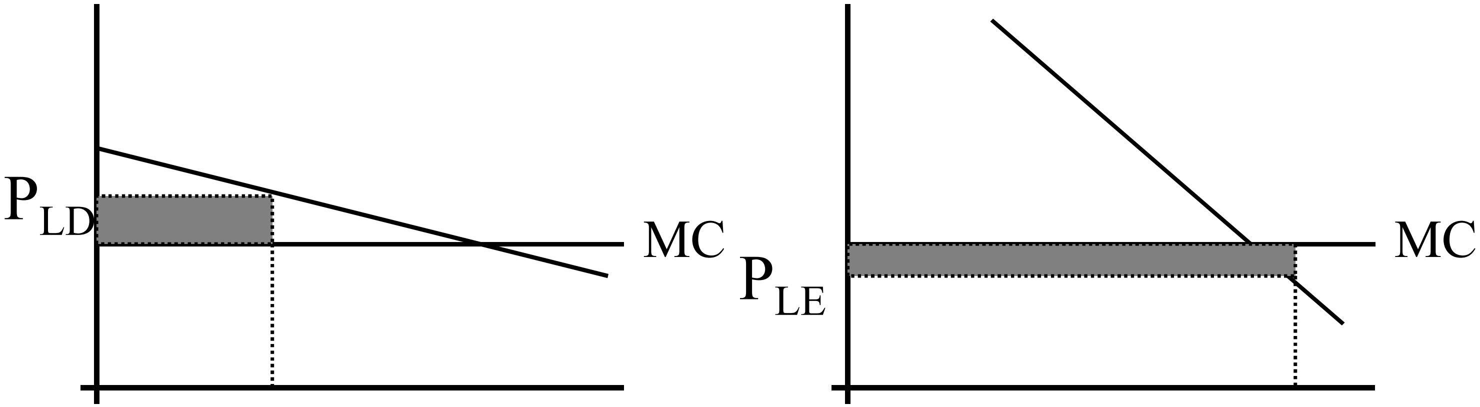
A tentative Access Charge Plan of 1980 by FCC:

Maintain then-existing revenue flows from long distance service to local exchange companies

Adapt the monopoly long line service system to competition with minimal changes

The way prices are charged

Long Dist   Local Exchange



over-priced
price above MC

under-priced
price below MC

Exactly opposite to the Ramsey pricing!
Universal Service: bring more people in the network

The First Plan: Pre-Divestiture Agreement

Goal of the plan of 1980:

To **eliminate discrimination** among the four different rates while interfering with the existing division of revenue as little as possible

Not to eliminate the inefficiency that came from pricing long distance services far above their MC

The First Plan: Pre-Divestiture Agreement

The 1980 plan was designed:

to allow long distance competition in an industry dominated by the integrated AT&T

to fit the new entrants into a structure created for a monopoly

to raise the rates for the largest users with extensive private line networks

to reduce the rates for smaller long distance users whose subsidy burden would be spread out over a large base

to leave local rates unaffected

The First Plan: Pre-Divestiture Agreement

The most critical change from the status quo:

- ✓ To distribute Non-traffic-sensitive (NTS) costs (**subscriber lines**, inside wiring, parts of CO equipment) across all access categories on the basis of minutes of use; **usage based pricing**, increase in private line rates
- ✓ To eliminate the price discrimination between rates for private line (recover cost through a charge per line) and switched service (recover cost through a charge per minute)
- ✓ It maintained **price discrimination** between interstate access service and physically identical local service defined as intrastate service to maintain the then-existing revenue flows

The First Plan: Pre-Divestiture Agreement

Different issues prevented quick adoption of the 1980 proposal:

1. Extensive opposition to the proposal to assign costs to private lines in proportion to total usage
2. The 1980 election
3. The announcement of MFJ of 1982

The 1982 Access Plan

After the divestiture date (Jan. 1, 1984), compensation of local companies from long distance could only come from access charges

The 1982 Access Plan

- Economist’s two fundamental objections to the 1980 plan: **Loss of economic efficiency**
  - Inefficient practice of recovering the NTS costs through traffic-sensitive costs; No **cost based pricing**
  - The monopoly power of the local exchange companies was not absolute; Bypass (FX, ENFIA) by the largest customers to avoid the access charges, Burden on smaller users

The 1982 Access Plan

- In May 1982, the FCC adopted an NPRM on the access charge plan
  - Emphasis on the **economic efficiency** and the **sustainability** of the access plan
  - The discrimination problem between private line and switched interstate access services (MTS: ordinary long line service) could be solved by treating all local access lines as private lines, i.e., **fixed access charge per month for each subscriber line** (to recover non-traffic-sensitive cost)

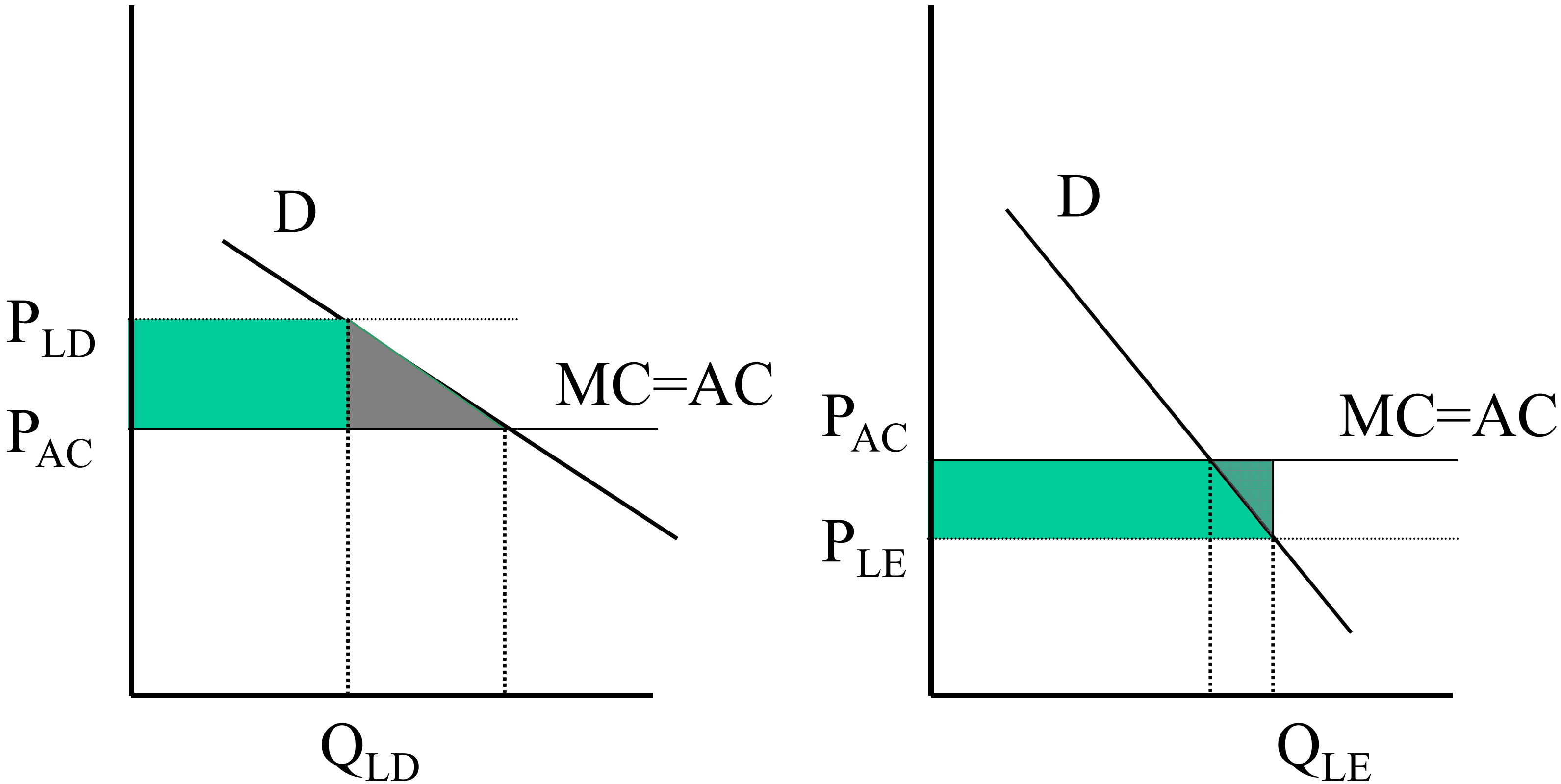
The 1982 Access Plan

- The NTS costs could be recovered in a non-traffic-sensitive manner by imposing a **fixed charge per month for each subscriber line**: increase cost of light users
- Every customer pays fixed access charge + usage based interstate charge

The 1982 Access Plan

- Economists supported a fixed subscriber line charge to bring prices close to actual costs
- Consumer groups generally opposed the proposal to move prices toward costs because of their concern about rising local rates;
  - **Cost based pricing**
    - could create hardship for many users
    - drive marginal users off the network
    - reducing the value of the network (network externality) for those who remained

Change in CS and PS when P = MC



The 1982 Access Plan

In December 1982, the FCC adopted a complex access charge plan that essentially accepted the economic reasoning of the pure **fixed subscriber line charge** as a long-run goal but adopted a long transition period and many special provisions

Two conceptions of Access

- A service provided by a local exchange carrier (LEC) to an interexchange carrier (IXC): Compensation for the service as a payment from the IXC to the LEC; **carrier's carrier access charge (per minute usage based charge)**
- A service provided to the customer in order to allow the customer to reach the IXC: a charge for access to the customer; **end user access charge, subscriber line charge (flat rate per line)**
- The 1982 access plan adopted a combination of the two conceptions
- Carrier's carrier charge is switched to **subscriber line charge** over a 5-year period to correct the above marginal cost pricing

Separations reform and high-cost subsidy

Flat rate recovery of NTS costs has the problem of unequal costs around the country

The line costs of local loops vary widely and are inversely correlated with the density of subscribers

Separations reform and high-cost subsidy

Two different averaging arrangements that contributed to low local rates in high-cost areas:

1. Geographically averaged long distance rates and same access charge to any long distance call regardless of the location
2. Sparsely populated areas have a higher proportion of long distance calls than the dense areas; A higher percentage of their costs was assigned to the interstate jurisdiction: **higher subscriber line charge**

Separations reform and high-cost subsidy

Initial separation rules for allocating investment and expense to the long distance and local calls:

1. 25% of the NTS costs to long distance calls if costs were less than 115% of the national average
2. 75% of costs between 115 and 160% of national average
3. 85% of costs between 160 and 200% of national average
4. 95% of costs between 200 and 250% of national average
5. 100% of costs over 250% of national average

Separations reform and high-cost subsidy

Correction of high-cost subsidy

- If the high NTS cost is recovered through fixed charges per line (subscriber line charges)
  - Local subscribers pay less in local line charges and more in subscriber line charges
- If the high NTS cost is recovered through usage-based carrier's carrier access charges
  - The rates per minute for high cost LEC would be very high
  - Bypass by IXC expected
  - IXC may refuse service to the high cost areas

Summary

- Pre-Devestiture Access Plan
  - Revenue flows from long distance service to local exchange companies
- Two conceptions of access
  - Access by the IXC
  - Access by the customer
- The 1982 Access Plan:
  - **fixed subscriber line charge** to cover NTS cost
  - \+ **per minute usage based charge** to cover TS cost (switched to **subscriber line charge** over a 5-year period)
- Unequal NTS costs: higher subscriber line charge in high cost rural area