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Converging Industries Research Foundation

Practical Solutions for Communications Policy

Universal Service Tool Kit, Part 1: Getting From Here to There: Transitions for Restructuring Subsidies

Executive Summary

July 18, 1994; Revised October 10, 1994
Presentation at the July 1994 NARUC Meeting, San Diego, CA

www.ConvergingIndustries.org

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Background on the Telecommunications Industries Analysis Project

Informed Policy Debates
The goal of the Telecommunications Industries Analysis Project is to provide information to support the development of alternative communications policies to meet the needs of stakeholders in an environment that includes competitive and non-competitive markets, federal and state regulatory jurisdictions, and a proliferation of new services made possible by technological advances. The purpose of the project is to produce research and analysis which will assist policy makers in making informed decisions.

Broad Representation on Project
The project is a neutral forum of communications industry stakeholders exploring multiple viewpoints of selected issues. The current forum includes local exchange carriers, interexchange carriers, materials and equipment manufacturers, and regulators. The project actively seeks expansion of this forum to include other communications industry representatives such as competitive access providers, cable television companies, computer companies, electric power utilities, and publishers.

Development of Alternative Policies
The project members have developed a database and computer software models to analyze issues. The existence of a database and computer software models may not resolve differences of opinion concerning what the data or the results of the modeling process mean. It does, however, allow one to concentrate on underlying issues rather than on data sources by providing a common language. All data, analysis methods, and results are public.

**Universal Service Tool Kit, Part 1:
Getting from Here to There:
Transitions for Restructuring Subsidies**

Executive Summary

New Communications Policies for Subsidies
New communications policies are needed for subsidies. A changing environment caused by the introduction of competition into a monopoly structure and the rapid pace of technological change means that the old subsidy policies won't work. While it is necessary to look at long-term revisions to the current subsidy structure, part of this process is to have short-term transitions to get us from here to there.

Uncoupling Old Mechanisms
Before the introduction of competition and the break-up of AT&T, the traditional telephone industry had subsidies inextricably intertwined with one another and with a cost accounting system used to regulate the entire industry. Pressures from outside this system have lead to the current uncoupling of some support mechanisms. Deaveraging of prices, examination of subsidy mechanisms, and debates over the amount of access charges are all indications of the dismantling of the old structure.

Reasons Why Transitions are Needed
In order to better fit the changing economic environment, it is necessary to identify what a subsidy is meant to accomplish, what needs to be changed, and then what is the best way to get there. Short-term solutions are needed because:

- ***It is politically unacceptable to have major shocks to companies and customers.*** On the first day of the transition to a new structure (phase in), the world should look exactly the same as the last day of the old structure (phase out).

- ***It is hard to make a major change when you don't know what the outcome is.*** Often people will choose not to act if the result is uncertain, especially if they believe they may be adversely affected.

Mix and Match Ideas
The paper presents ideas for transitioning from the present subsidy mechanisms to new mechanisms that better fit the changing environment. These ideas present short-term solutions, which, when linked with one another, may help lead to major revisions of the current system. Not everyone will agree with every idea. The intent of the paper is to get new ideas out for discussion, not to choose a specific proposal. This paper sets up a framework for exploring numerous viewpoints and allows additions as new ideas arise. Although other concepts of universal service apply to television and radio, this paper focuses on the telecommunications industry.
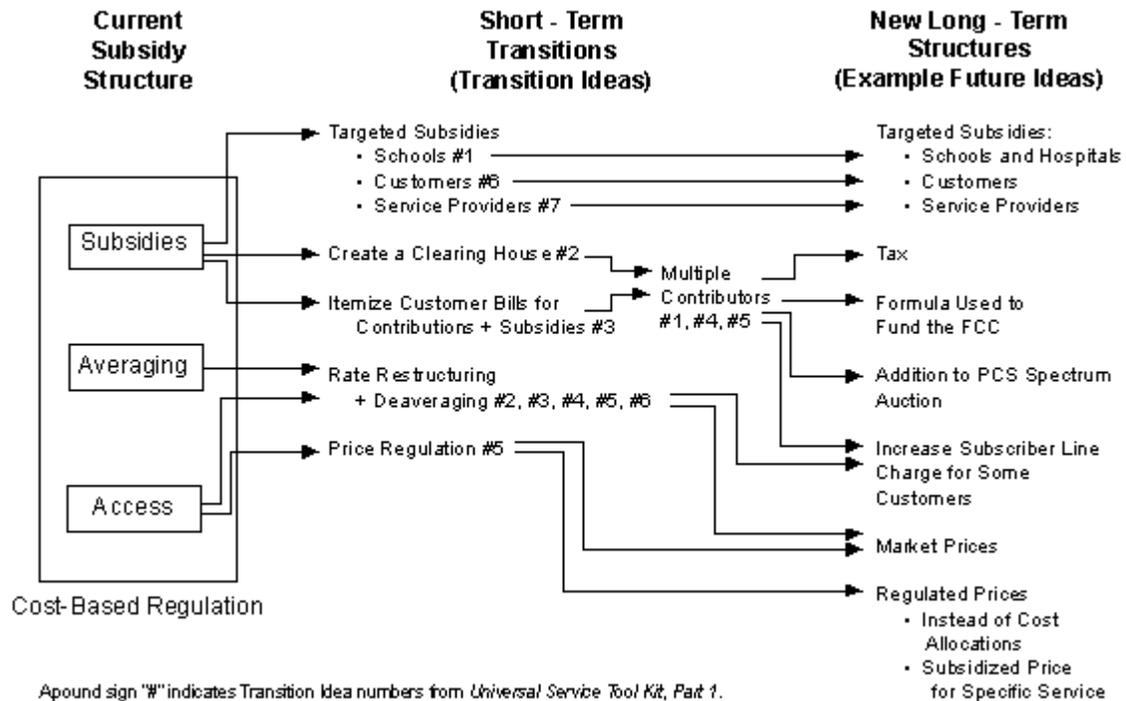
New Ideas for Funding Subsidies
Transition Idea #1, Subsidies: Alternative Funding Sources, for example, presents four new methods of funding subsidies. A revised system might employ several of these methods, using different sources to fund specific objectives. One idea funds broadband deployment for public schools. This would be a short-term objective to jump-start new technologies in schools. Another idea would be to utilize subsidies from multiple contributors to fund basic service for some targeted group, such as low-income households, or customers in areas where it is costly to provide service.

Steps for Getting from Here to There
Figure 1 indicates potential steps from the current system (which bundles everything together) to short-term transitions that lead to long-term structures. The intent is to examine structures that better fit an environment that includes some areas with competition and other areas without competition. The arrows indicate the flow from one transition to the next.

Current Subsidy Structure

Short - Term Transitions (Transition Ideas)

New Long - Term Structures (Example Future Ideas)

Targeted Subsidies
· Schools #1
· Customers #6
· Service Providers #7

Subsidies

Create a Clearing House #2

Itemize Customer Bills for Contributions + Subsidies #3

Averaging

Rate Restructuring
+ Deaveraging #2, #3, #4, #5, #6

Price Regulation #5

Access

Cost-Based Regulation

Multiple Contributors #1, #4, #5

Targeted Subsidies:
· Schools and Hospitals
· Customers
· Service Providers

Tax

Formula Used to Fund the FCC

Addition to PCS Spectrum Auction

Increase Subscriber Line Charge for Some Customers

Market Prices

Regulated Prices
· Instead of Cost Allocations
· Subsidized Price for Specific Service

A pound sign "#" indicates Transition Idea numbers from *Universal Service Tool Kit, Part 1*.

Figure 1:
Flow from Current Subsidy Structure with
Transitions Leading to New Long-Term Structures