



CIRF

Converging Industries Research Foundation

Practical Solutions for Communications Policy

Who Pays Whom? Cash Flow for Some Support Mechanisms and Potential Modeling of Alternative Telecommunications Policies

Executive Summary

November 15, 1992

Presentation at the November 1992

NARUC Meeting,

Los Angeles, California

***Who Pays Whom?
Cash Flow for Some Support
Mechanisms and Potential
Modeling of Alternative
Telecommunications Policies***

Executive Summary

Alternative Costing Methods Project

Carol Weinhaus

Program on Information
Resources Policy
Harvard University

**Sandra Makeeff and
Mark Jamison**

Iowa Utilities Board

**Harry Albright and
Linda Garbanati**

Ameritech

Gordon Calaway

National Exchange Carrier
Association

**Dan Harris and
Mike O'Brien**

Bell Atlantic

Jim Sichter

Sprint United Local
Telecom Division

Steve Inman

Bellcore

Ben Harrell

Northern Telecom

Rainer Thönes

Philips Kommunikationen

Kevin Connors

NYNEX

Background on the Alternative Costing Methods Project

Informed Policy Debates:

The goal of the Alternative Costing Methods Project is to provide information to support the development of alternative telecommunications 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 (LECs), interexchange carriers (IXCs), equipment manufacturers, and federal and state regulators. In the next phase, this forum would be expanded to include other communications industry representatives, such as competitive access providers, cable television companies, computer companies, or publishers.

Development of Alternative Policies:

The forum has developed a database and computer software models to analyze issues. The existence of a database and computer software models may not resolve differences of on 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.

Who Pays Whom? Cash Flow for Some Support Mechanisms and Potential Modeling of Alternative Telecommunications Policies

Executive Summary

Competitive Environment:

The introduction of competition and the rapid pace of technological change are creating pressures to change or eliminate existing regulatory structures. Figure 1 illustrates the traditional telecommunications industry networks (local exchange carrier connected to an interexchange carrier point of presence) along with current and some potential competitors.

Public Policy Goals and Support Mechanisms:

Public policies such as keeping basic local service or other state rates low are woven into the traditional networks in **Figure 1**, but not into the new networks. **Figure 2** shows cash flow from customers to local exchange carriers and to interexchange carriers. This figure indicates two sets of current policies:

- Access charges: Subscriber line charges (SLCs) and interstate carrier common line charge (IS CCLC).
- Some support mechanisms: Universal Service Fund, Lifeline and Link-up, weighted dial equipment minutes, and long term support.

Change is Inevitable:

All the stakeholders – customers, companies, regulators, and legislators – need to determine whether their objectives are best served by letting current events run their course or by altering the system.

Alternatives to Current Regulatory Policies:

In general, potential alternatives to the traditional telecommunications industry structures fall under four headings:

- Support mechanisms: potential revisions and alternative recovery methods.
- Competition in the regulated environment.
- New technology and its effect on cost.
- Balancing short and long term regulatory approaches.

In the next phase, the project will provide policy makers with information on the effects of potential alternatives to the traditional structure.

Figure 1
Current and Potential Telecommunications Networks

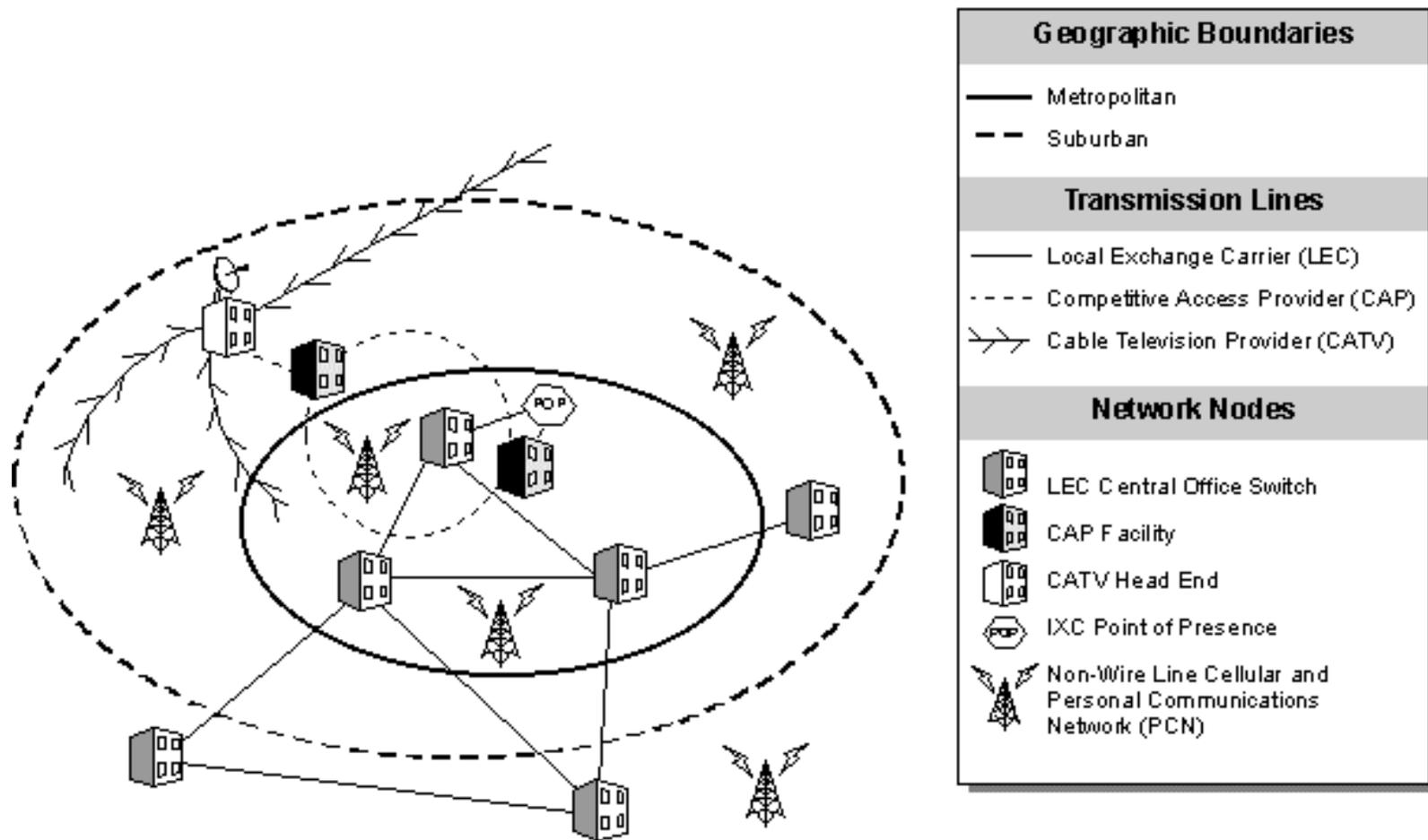
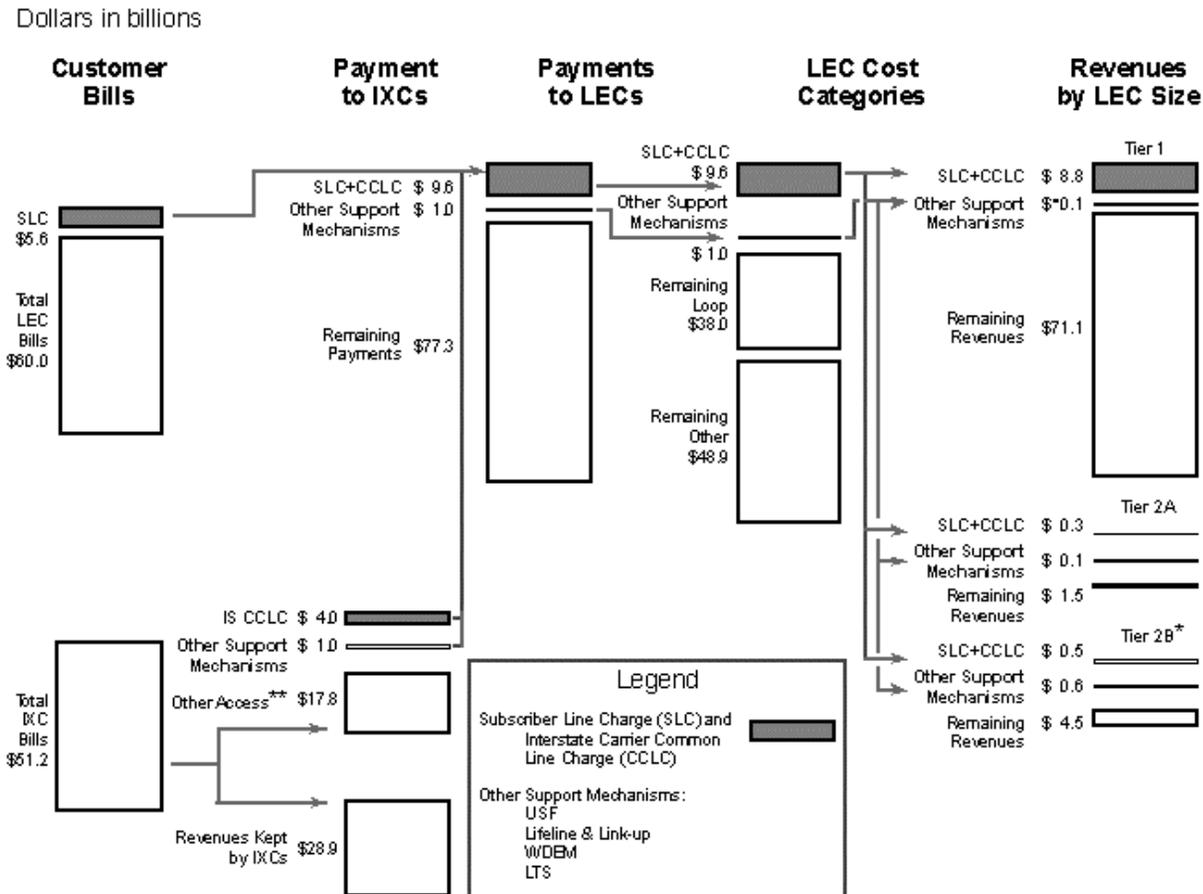


Figure 2
Cash Flow Summary: Some 1989 Support and Other Mechanism



*Primarily NECA pool companies
 **Includes special