



CIRF

Converging Industries Research Foundation

Practical Solutions for Communications Policy

What is the Price of Universal Service? Impact of Deaveraging Nationwide Urban/Rural Rates

Executive Summary

July 26, 1993

*Presentation at the July 1993 NARUC Meeting,
San Francisco, CA*

www.ConvergingIndustries.org

What is the Price of Universal Service? Impact of Deaveraging Nationwide Urban/Rural Rates

Executive Summary

Presentation at the July 26, 1993

NARUC Meeting

San Francisco, CA

Telecommunications Industries Analysis Project

Carol Weinhaus

Telecommunications Industries
Analysis Project

Sandra Makeeff

Iowa Utilities Board

Peter Copeland

U S West

Gordon Calaway

NECA

Mark Jamison

Sprint

Fred Hedemark

AT&T
Government Affairs

Dan Harris

Bell Atlantic
Separations & Capital Recovery

Terry Monroe

New York Public Service Commission

Teresa Ralston

Washington Utilities and
Transportation Commission

Don Bond

OPASTCO

Steve Inman

Bellcore

Harry Albright & Linda Garbanati

Ameritech

Glen Sims & Suzanne Adams

Southwestern Bell
Revenues and Public Affairs

John Monfils

Anchorage Telephone Utility

Larry Little

GTE

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 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 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.

What is the Price of Universal Service? Impact of Deaveraging Nationwide Urban/Rural Rates

Executive Summary

Pressures to Deaverage:

The current telecommunications industry pricing structure includes rate and cost averaging as a method to achieve reasonable rates for broad geographic areas regardless of high cost communities within the area. One aspect of rate and cost averaging is that within a group of customers, some pay rates that exceed their cost of service, while others pay rates that are below their cost of service. While there are economic and political reasons why a company may average prices, there are also pressures to deaverage prices:

- Competition
- Technology
- Different costs in different areas
- Customer sensitivity to prices

Potential Impact of Urban/Rural Deaveraging:

What is the cost to a rural customer if the customer has to pay the full cost of providing service? On a nationwide average customer basis, **Figure 1** shows the potential impact of deaveraging urban and rural 1991 annual customer payments per line. Urban customer bills on a nationwide basis would decrease annually by \$77 per line. In contrast, rural customer bills on a nationwide basis would increase annually by \$316 per line. For the REA rural customers, bills would increase annually \$300 per line.¹

Figure 1 includes all local and long distance services. It provides an outer bound by assuming that all support mechanisms and rate averaging disappear for these services. In reality, deaveraging will fall somewhere between the current situation and this extreme. Individual companies will fall above and below the average.

Potential Impact on Residential Customer Budgets:

Figure 2 shows another viewpoint: the impact of urban/rural deaveraging in terms of 1991 residential customer budgets for all expenditures. This figure indicates that telephone service as percentage of total expenditures is relatively small before and after deaveraging. Customer expenditures for urban residential telephone services decrease approximately 0.2% and those for rural residential telephone services increase approximately 1.3%.

¹ The difference between the nationwide increase of \$316 for rural bills and the REA increase of \$300 is not significant given the broad nature of the analysis.

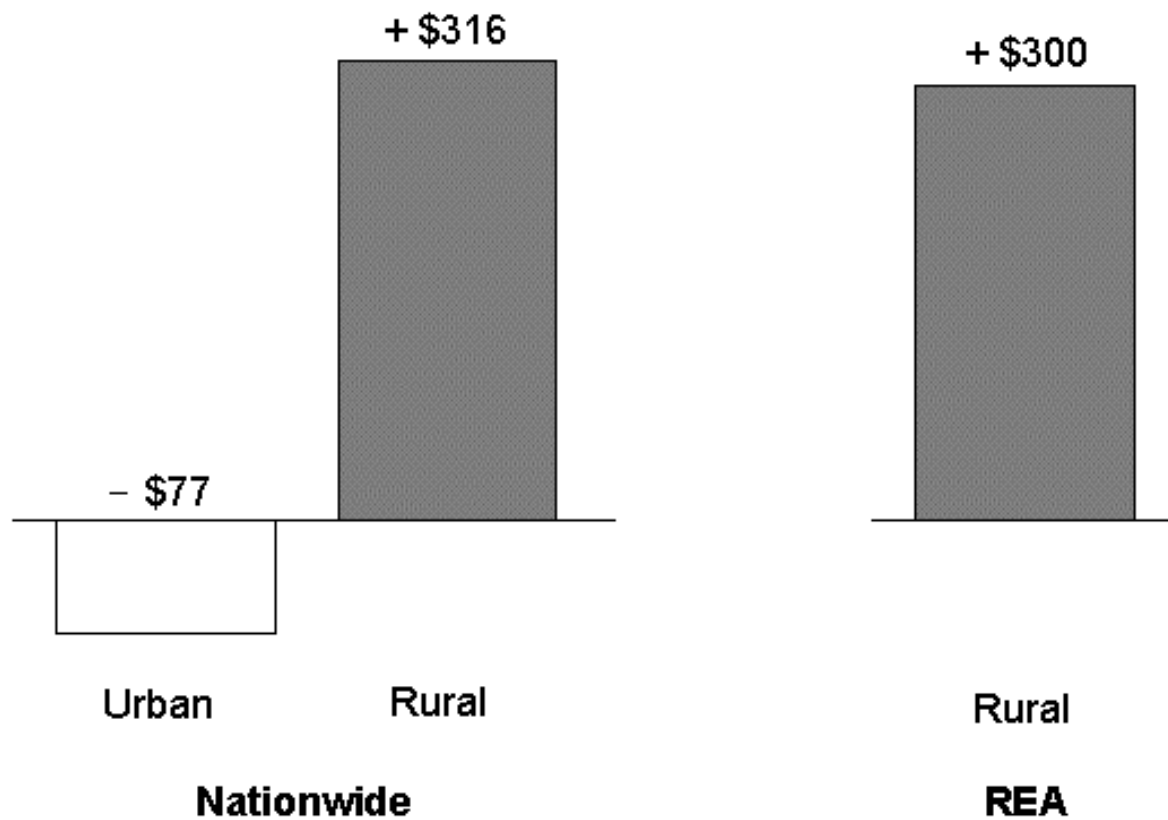
What is the Price of Universal Service? Impact of Deaveraging Nationwide Urban/Rural Rates

Executive Summary

Two Potential Alternatives for Urban/Rural Averaging:

Out of many possible alternatives, two selected examples assume support for rural areas is needed. The first example addresses the question: who should receive the support? In this case, only those rural households that drop off from the current penetration level receive support. All other rural customers would pay their full costs. The second example addresses the question: who should provide the support? This alternative illustrates some potential effects of having several industries fund at current support amounts instead of just the traditional telephone industry. Both examples assume that the 1991 level of households with telephone service should be maintained if deaveraging occurs.

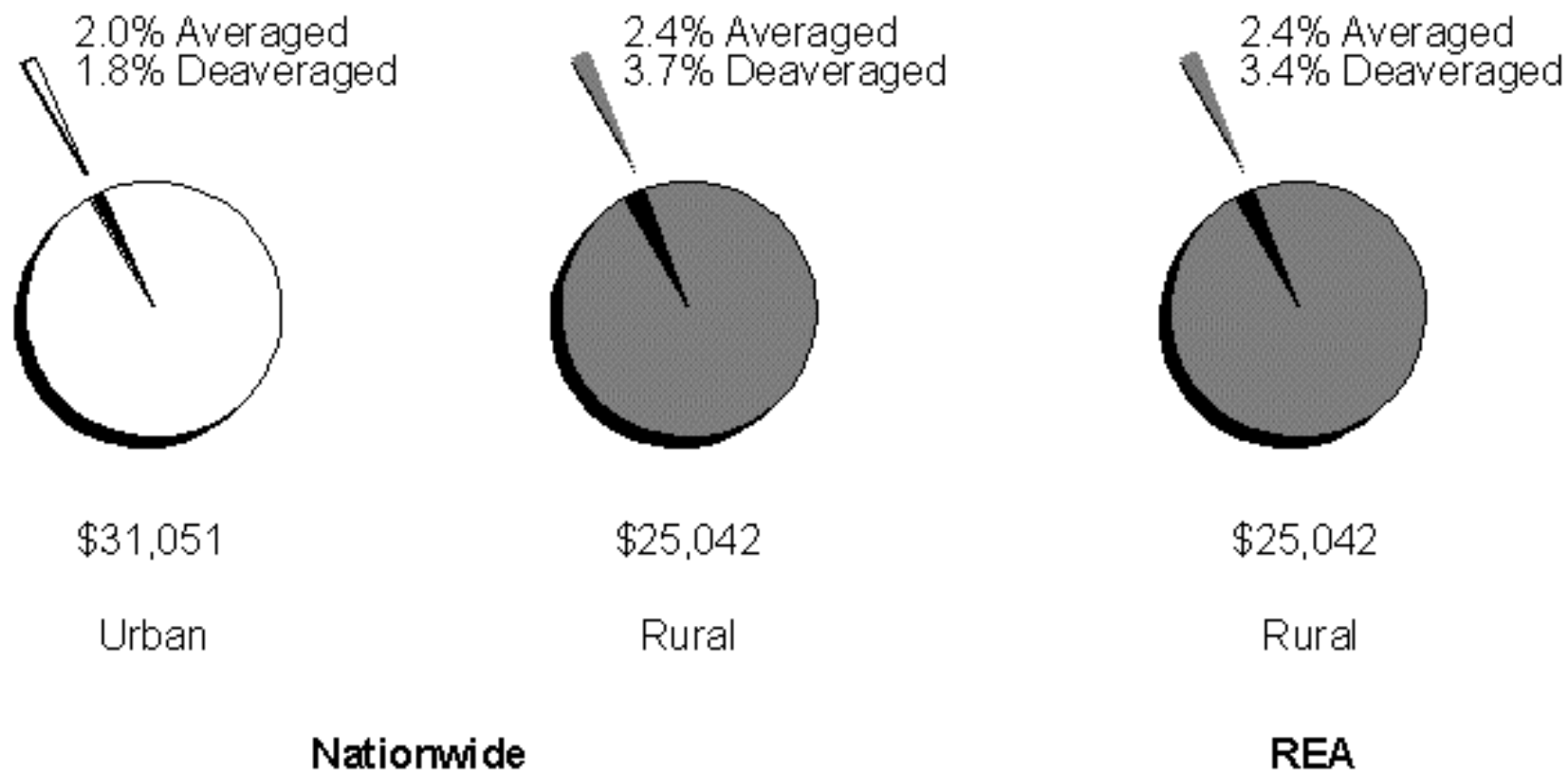
Figure 1
1991 Potential Impact of Deaveraging Urban and Rural Annual Customer Payments per Line



Source: Section VII, Appendix B

©1993 Carol Weinhaus and the Telecommunications Industries Analysis Project Work Group.

Figure 2
Impact of Urban/Rural Telephone Rate Deaveraging on 1991 Residential Customer Budgets



Source: Federal Communications Commission (FCC), Common Carrier Bureau, Reference Book: *Rates, Price Indices, and Household Expenditures for Telephone Service*, Washington, DC, May 1993, Table 7, page 34.

©1993 Carol Weinhaus and the Telecommunications Industries Analysis Project Work Group.