

**SUMMARY OF THE FCC ORDER  
ADOPTING THE CALLS PROPOSAL  
CC Docket Numbers 96-262, 94-1, 99-249, 96-45  
OVERVIEW**

On May 31, 2000, the Commission adopted an integrated interstate access reform and universal service proposal for price cap local exchange carriers ("LECs") put forth by the members of the Coalition for Affordable Local and Long Distance Service (CALLS), that "will result in lower rates for both low-volume and high-volume long-distance consumers, more competition, fewer line items on consumers' phone bills, greater flexibility for price cap LECs to meet competition, and an explicit, portable interstate access universal support mechanism." The plan is effective with July 1, 2000 access tariff filings, and is an interim five-year plan. By simultaneously removing implicit subsidies from the interstate access charge system and replacing them with a new interstate access universal service support mechanism that supplies portable support to competitors, this Order states that both local and long-distance competition are allowed to develop while still keeping rates in higher cost areas affordable and reasonably comparable with those in lower cost areas.

The Order, explained in more detail below:

- Combines all residential and single-line business Presubscribed Interexchange Carrier Charges ("PICCs") and Subscriber Line Charges ("SLCs") into a single SLC, and establishes a schedule for initially lowering the primary residential and single-line business SLC to \$4.35, but gradually increasing it to \$6.50 on July 1, 2004;
- Adjusts the Lifeline Assistance mechanism to shield low-income customers from increases in the residential SLC;
- Reduces switched access and switched transport rate elements on average by one-half and sets target rates of 0.55 cents for those rate elements for the largest carriers;
- Creates a special access basket and sets a special X-factor to apply to that basket;
- Establishes a \$650 million universal service mechanism to replace implicit subsidies currently found in interstate access charges;
- Provides price cap LECs an option to choose whether to participate in certain rate-level, as opposed to rate structure, components of the CALLS proposal; and,
- Commits participating long distance carriers to eliminate monthly minimum charges in at least one plan and flow-through reductions in access rates to residential and business customers over the life of the plan.

**COMMON LINE CHARGES**

**Residential and Single Line Business SLCs and PICCs**

The Order:

- Combines the SLC and the PICC into a single end-user charge beginning July 1, 2000;
- Caps the SLC for primary residential and single-line business lines at \$4.35 upon implementation of the proposal beginning July 1, 2000, \$5.00 as of July 1, 2001, \$6.00 as of July 1, 2002, and \$6.50 as of July 1, 2003, with Commission review of any SLC increase above \$5.00;
- Caps the maximum SLC for non-primary residential lines at \$7.00 on July 1, 2000, with no increases thereafter;
- Permits price cap LECs to eliminate over time the distinction between primary and non-primary residential lines, with some exceptions; and,
- Eliminates the Marketing Basket because under the CALLS Proposal, these marketing expenses are included in the total revenue a price cap LEC is permitted to recover.

## **Multi Line Business SLC and PICC**

Consistent with the CALLS proposal, the Order caps the multi-line business PICC at \$4.31 and reduces it over time until it is eliminated. It would be reduced as the residential SLCs increase takes effect, until it is phased out for most carriers. While the multi-line business PICC will not be consolidated with the multi-line business SLC, the Commission will revisit this issue during the cost review proceeding scheduled to occur before the residential and single-line business SLC cap increases above \$5.00.

## **SLC Deaveraging**

The Commission concluded that capping SLCs at affordable levels and limiting SLC deaveraging to a maximum of four zones will satisfy the statutory principle that rates in rural, insular, and high cost areas remain "reasonably comparable" to those in urban areas. The Order allows price cap LECs to geographically deaverage their SLCs only after a state commission establishes deaveraged UNE rates by zone and the CCL charge and multi-line business PICCs are eliminated. Although prices will begin to reflect geographic variations in the forward-looking cost of providing service, newly explicit universal service support will protect rural subscribers against substantial rate increases.

## **LOCAL SWITCHING, TRUNKING, AND SPECIAL ACCESS BASKETS**

The CALLS proposal transforms the X-factor from a productivity factor into a transitional mechanism that operates to reduce rates at a certain pace. It is not linked to a specific measure of productivity. The CALLS proposal includes two X-factors: one for switched access services, and a separate X-factor for special access services. The Order will:

- Require an up-front reduction totaling \$2.1 billion for all price cap LECs in switched access usage rates effective July 1, 2000;

- Target a 6.5 percent X-factor for traffic-sensitive switched access services:

  - first to the residual per-minute TIC until that rate is \$0.00; then to the information surcharge until that rate is \$0.00, and then

  - target the reductions to the local switching charge and switched transport charges until reaching a target rate of 0.55 cents for the BOCs and GTE, 0.65 cents for other price cap LECs, and 0.95 cents for entirely rural price cap LECs;

- Adjust the switched access X-factor to GDP-PI once a price cap LEC reaches the applicable target level;

- Adopt the creation of a special access basket with a separate X-factor (3% in 2000, and 6.5% over the next three years) which benefits dedicated or high-volume users through the reduction of special access rates, and precludes price cap LECs from funding reductions in special access charges by increasing the rates for switched transport services in other baskets once the target rates are reached; and,

- Adjust the special access X-factor to GDP-PI on July 1, 2004.

## **UNIVERSAL SERVICE**

This Order identifies a specific amount of access charges as implicit support for universal service, and establishes an explicit interstate access universal service support mechanism to replace such implicit support. Specifically, the interstate access universal service support mechanism has the following features:

- Support is fixed at an annual amount of \$650 million;

- Support is explicit, rather than implicit. In any geographically deaveraged UNE zone where the average common line revenue per line for that zone would exceed a

benchmark of \$7.00 per line for residential and single-line business lines and a benchmark of \$9.20 per line for multi-line business lines, the interstate access support mechanism would provide support for a portion of the difference between permitted common line revenue and the benchmarks;

Support is provided on a per-line basis, and is portable on a competitively neutral basis to any eligible telecommunications carrier serving a supported customer, regardless of the technology used by that carrier, based on a series of mathematical formulas that measure the difference between CMT revenue under price caps and benchmarks based on the new SLC caps;

Support under the Commission's universal service Lifeline Assistance program for low-income consumers is increased (initially estimated at \$60 million annually, gradually increasing to approximately \$125 million in the fifth year of the plan) to cover the increase in the residential SLC;

Administration of the interstate access universal service support mechanism will be by USAC and collected from all telecommunications carriers in the same manner as the Commission's other universal service support mechanisms; and

Recovery of LEC contributions to the universal service fund will be through a separate rate element (e.g., line item) as of July 1, 2000, and LECs may assess this rate element on a per-line basis or as a percentage of interstate end-user revenues, and, at the option of the carrier, it may be combined for billing purposes with other end-user rate elements.

## **PARTICIPATION**

Price cap LECs have an option to choose whether to participate in certain rate-level, as opposed to rate structure, components of the CALLS proposal. Specifically, price cap LECs may elect the CALLS proposal for the full five-year period, or may elect within 60 days from the release of the Order to submit a cost study based on forward-looking economic costs that will be the basis for reinitializing rates to that level. The election is irrevocable. If a cost-study choice is made, the Commission has mandated the CALLS rate-level components (the size of the up-front reduction; the size of the carrier's interstate access universal service support; the X-factor; and the switching target levels) on an interim basis, subject to true-up, in order to provide sufficient time to complete a cost study.

The Order states that while price cap LECs have a rate-level choice, the rate structure components of the CALLS proposal are mandatory for all price cap LECs, for a five-year period. The rate structure components are: (1) the new SLC caps, (2) elimination of the residential PICC, (3) the multi-line business PICC caps, (4) the creation of a separate basket for special access, (5) elimination of the marketing basket and the recovery of the revenues it recovered as part of CMT revenues, (6) recovery of universal service contributions directly from end users, (7) SLC deaveraging, (8) portability of the interstate access universal service mechanism, and (9) increased Lifeline support to cover the new SLC caps.

## **LOW-VOLUME LONG-DISTANCE PROCEEDING**

In its *Low-Volume Long-Distance Users Notice of Inquiry*, the Commission asked whether minimum usage fees and other flat charges imposed on consumers who make few long-distance calls were a reasonable result of competitive market dynamics and the removal of implicit subsidies, or whether they warranted regulatory intervention. The Order adopting the CALLS proposal addresses this issue. The CALLS proposal will, among other things, benefit low-volume long-distance callers by eliminating some of these flat fees, and making others avoidable, and may save customers who make no long-distance calls as much as \$4.00 to \$5.00 per month in flat fees. Consequently, the Commission concluded that the issues raised in the low-volume long-distance proceeding are resolved by this Order.

In fact, the decision to adopt the CALLS proposal, and to conclude the low-volume inquiry, is based in large part on the availability of interstate long-distance plans that meet the needs of low-volume users. Accordingly, the Commission ordered AT&T and Sprint to comply with the following commitments:

AT&T has pledged to offer for at least three years-and possibly as long as five-a basic residential plan that has no monthly recurring charge and no minimum usage requirement;

Sprint also has committed to offering at least one basic rate plan without a minimum usage fee for the duration of the CALLS plan; and,

AT&T and Sprint committed to flow-through access charge reductions to residential and business customers the life of the plan.

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If you have any questions, please feel free to call Jeff Linder at (202) 719-7384.