

Pennsylvania's Rural Telephone Companies Critical of Streamlining Report

The recent release of "Streamlining State Government, Reforming the Regulatory Structure of Pennsylvania" by the Commonwealth Foundation has elicited a mixed response from the Pennsylvania Telephone Association (PTA), the trade-association representing Pennsylvania's 35 rural telephone companies, according to the group's President, Steve Samara.

"We have been working cooperatively with the Pennsylvania Public Utility Commission since the passage of Act 183 to implement the many deregulatory provisions of that Act. And the Commonwealth Foundation report appropriately highlights some of the areas where the PTA and the PUC have had continuous dialogue. The Commission recognizes that it needs to modernize the way it regulates Pennsylvania's public utilities and proof of that is its current initiative under Act 129 to restructure the entire agency," said Samara.

Where the PTA has concerns with the report is its quantum leap from issues such as Commission oversight of customer service, bill format, and tariff composition, to attempting to undo the important public policy tenet of affordable, universally-available telephone service for all Pennsylvanians and the data it relies upon to extend those recommendations as useful guidelines for Pennsylvania's public policy makers. The report includes recommendations to eliminate the Pennsylvania Universal Service Fund and to significantly reduce the rates rural companies charge for intrastate switched access services. The problem with these recommendations, according to Samara, is that the PA USF and the intrastate charges are two of the three critical revenue streams that rural telephone companies use to continue to not only provide service in rural areas of the Commonwealth, but to do so at a very affordable rate.

"The Pennsylvania USF and the revenues from access charges are absolutely critical for Pennsylvania's rural telephone companies to keep basic local telephone service affordable for residents who live in Pennsylvania's vast rural areas where it costs much more to provide service than the state cap of \$18 per month that companies are allowed to charge customers," stated Samara. "Without the revenues from the PA USF and intrastate access, companies would have to look to increasing customers' rates to make up the difference since the costs to comply with the regulatory obligations of universal service do not go away for my member companies."

Unfortunately, the Commonwealth Foundation report relies on a very limited sample size of states where the results support its thesis. In actuality, more than 21 states have addressed the universal service and access rate subjects and have concluded that a state fund is necessary to keep basic service rates affordable.

Furthermore, the Commonwealth Foundation used a flawed report, “The Universal Service Fund: What Do High-Cost Subsidies Subsidize?,” to draw its conclusion that the Pennsylvania Universal Service Fund does little to reduce local service rates. The report only focused on a portion of the Federal Universal Service Fund, not Pennsylvania’s, which operates very differently. Consequently, its utility as a guideline for our state’s policy makers is severely limited.

While the jurisdictional focus of the report is at issue, the very foundation of its findings is based on faulty assumptions that reflected a lack of understanding of the mechanics of the Universal Service Fund and thus led to illogical conclusions, according to John Rose, President of the Organization for the Promotion and Advancement of Small Telephone Companies.

“In a recent Notice of Proposed Rulemaking, the Federal Communications Commission observed that corporate expenses account for only 13% of high-cost loop support in the Federal USF program—not the 59% claimed in the paper. The paper further suffers from the fatal flaw of incorrectly assuming that all expenses incurred by USF recipients are actually supported by USF, when in fact USF recipients are required to run their businesses efficiently precisely because they do not receive full recovery of all expenses through the program. Therefore, the paper’s methodology leads to the illogical conclusion that each \$1 of USF support could somehow cover no less than \$2.81 of expenses. The math does not add up.”

PTA’s Samara added, “Ultimately, streamlining state government and efforts directed at deregulation merit continued discussion and I look forward to working with the PUC on these important matters. However, Pennsylvania’s legislators and regulators need to be extremely careful when addressing significant public policy matters regarding affordable basic telephone service for this state’s rural residents. I am hopeful that any decisions in these sensitive areas will rely on more comprehensive and balanced recommendations than those offered by the Commonwealth Foundation.”