



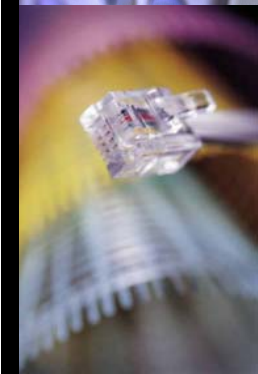
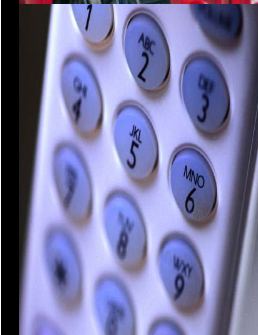
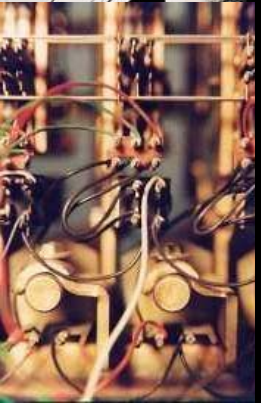
The History of Independent Telecommunications

Presented by:

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Timeline

- ➔ Introduction of Independent Telephony (1892)
- ➔ Interconnection (early 1900's)
- ➔ Smith vs. Illinois (1930)
- ➔ The Communications Act of 1934
- ➔ Settlement Negotiations (1935-1950)
- ➔ Rural Electrification Act (1949)
- ➔ Changes in Separations (1950-1971)
- ➔ AT&T Divestiture (1984)
- ➔ Modern Universal Service (1980's)
- ➔ Telecommunications Act of 1996
- ➔ Current Issues



Independent Telephony

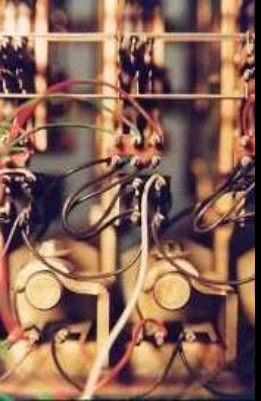
➤ Expiration of the Bell patents in 1892 allowed the introduction of independent telephone companies

- ☑ Individuals, communities and co-operatives provided telephone service in rural areas and small towns
- ☑ By 1900, Bell served 800k phones compared to 600k served by Independents
- ☑ Bell once again took the lead by completing the first coast-to-coast telephone line in 1915



Interconnection

- ➔ To stave off competition for Independents, AT&T would not let them interconnect
- ➔ Facing the threat of anti-trust actions, AT&T wrote a letter to the US Attorney General allowing independent telcos to connect to AT&T toll lines (“the Kingsbury Commitment”)
- ➔ Origin of settlements: board-to-board settlements
 - ☑ **Bell companies compensated independents for jointly handled business**
 - ☑ **Toll costs included only interexchange switching and facility; no local**



The Great Depression

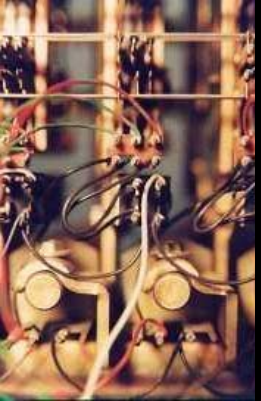
➡ The Great Depression had severe effects on the telephone industry

- ✓ Total telephones in service ↓ 10%
- ✓ Long distance calls ↓ 40%
- ✓ Many rural independent telco's went bankrupt
- ✓ AT&T became dominant force again with 15 million phones in service by 1940



Smith vs. Illinois (1930)

- Supreme Court decision established the concept of jurisdictional separations
- Jurisdictional separations is assigning or allocating telephone plant and expenses as state or interstate based on the usage of the associated plant
 - ☑ Origins of settlements paying a portion of local plant costs
 - ☑ Established the principle that local companies should receive compensation for originating and terminating long distance calls



Communications Act of 1934

- Established the goal of universal service as making available “rapid, efficient, nationwide and worldwide wire and radio communications services with adequate facilities at reasonable charges..” to all people of the United States
- Created the Federal Communications Commission to regulate interstate telephone and other communications services (radio, television, etc.)



Settlements

- ➔ Smith vs. Illinois established the concept of separations by function, but accomplishing it was another matter
- ➔ National Association of Regulatory Utility Commissioners (NARUC) becomes concerned that too much cost is shifted to state jurisdiction causing a disparity in state and interstate access rates
- ➔ NARUC and FCC negotiate the process of separations over time
- ➔ Settlements to independents were distributed by the Bell system



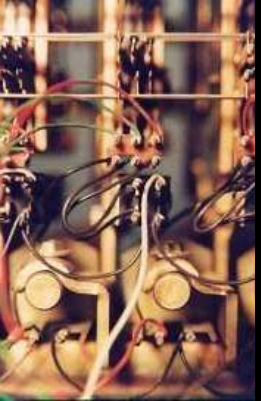
Rural Electrification Act

- In 1949, Congress amends REA's charter to provide loans to telephone companies
- In 1949, only 60% of rural homes and 30% of farms had telephone service; by 1985 telephone penetration had reached 94%
- Today, REA is known as the Rural Utility Service (RUS) which is an agency within the US Department of Agriculture



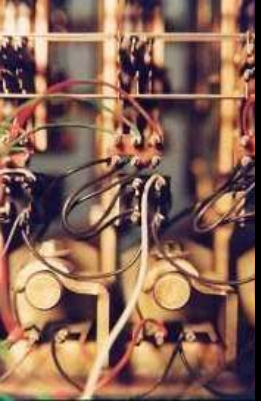
Changes in Separations

- ➔ NARUC held several conventions in the 1950's, 60's, and 70's that resulted in changes to the Separations Manual
- ➔ The various changes were named after the place where the convention took place
- ➔ The Charleston Plan in 1951, the Denver Plan in 1965, and the Ozark Plan in 1971 all made changes that shifted revenue requirement from the state to the interstate jurisdictions.
 - ☑ **Shifts from the state jurisdiction result in lower local telephone rates, and lower intrastate toll rates**
 - ☑ **Shifts to the interstate jurisdiction result in higher interstate toll rates**



AT&T Divestiture

- ➔ In 1984, the US District Court ordered the divestiture of the AT&T System separating its long distance business from its local operations (the Bell companies)
- ➔ Before 1984, AT&T was responsible for revenue distribution to the local Bell companies who then paid the independent companies
- ➔ Origination of access charges
- ➔ In 1983, the FCC created the National Exchange Carrier Association (NECA) to be the administrator of the division of revenue process
- ➔ NECA administers the distributions from the access pools



Universal Service Funds

➡ USF is a government subsidy where toll callers support high-cost telephone areas

- ☑ High Cost Loop
- ☑ Local Switching Support
- ☑ Lifeline
- ☑ Schools & Libraries

➡ Funded by a flat, monthly per-line fee



Telecom Act of 1996

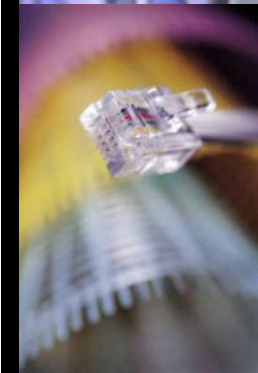
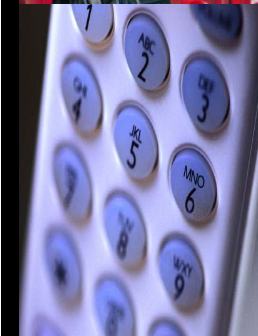
- ➔ Congress reformed telecom laws by opening local telephone service to competition
- ➔ Created an uneasy balance between the goals of implementing competition while maintaining universal service
 - ☑ **Explicit support structures required**
- ➔ Universal service funds became “portable”
 - ☑ **Places additional pressure on local rates**
- ➔ Also resulted in substantial decreases in access charges
 - ☑ **Places additional pressure on local rates**



Current Issues

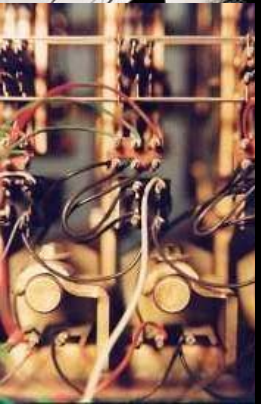
➡ Still three main issues:

- ☑ Access rates = intercarrier compensation
- ☑ Universal service
- ☑ Separations



Current Issues (cont'd)

- Challenge of modern day regulators is complicated by emerging technologies: wireless, Internet, video, voice-over-IP
 - ☑ Proper regulatory framework must create/maintain a level playing field for various competing industries (cable vs. DSL; wireless vs. wireline) without sacrificing universal service policy.
 - ☑ The benefits of competition must be balanced against the costs of universal service.
 - **Competition itself is not the goal**
 - **Policies that develop uneconomic incentives should be eliminated and/or avoided.**
 - ☑ An environment with some stability must be created to encourage the future deployments of advanced services.





Questions?

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