RECOMMENDATIONS FOR 2000

STUDY OF TELECOMMUNICATIONS ISSUES

Report to the
Colorado General Assembly

Research Publication No. 462
November 1999

COLORADO GENERAL ASSEMBLY

LEGISLATIVE COUNCIL

ROOM 029 STATE CAPITOL
DENVER, COLORADO 80203-1784
E-mail: lcs.ga@state.co.us

303-866-3521 FAX: 303-866-3855 TDD: 303-866-3472

November 1999

To Members of the Sixty-second General Assembly:

Submitted herewith is the final report of the Study of Telecommunication Issues. The interim committee was created pursuant to Senate Joint Resolution 99-049.

At its meeting on November 15, 1999 the Legislative Council reviewed the report of this committee. A motion to forward this report and the bills therein for consideration in the 2000 session was approved.

Respectfully submitted,

/s/

Chairman
Legislative Council

CB/JG/pw

TABLE OF CONTENTS

www.state.co.us/gov_dir/lcsstaff/1999/99interim

RECOMMENDED BILLS AND FISCAL NOTES

STUDY OF TELECOMMUNICATIONS ISSUES

Members of the Committee

Senator Ken Chlouber
Chairman
Senator Marilyn Musgrave
Senator Terry Phillips

Representative Brad Young
Vice Chairman
Representative Fran Coleman
Representative Scott McKay

Legislative Council Staff

Will Meyer
Senior Fiscal Analyst

Julie George
Research Assistant

Office of Legislative Legal Services

Duane Gall
Senior Staff Attorney

EXECUTIVE SUMMARY

Committee Charge

Senate Joint Resolution 99-49 authorized the appointment of a six-member legislative committee to consider issues raised by the continuing evolution and deregulation of telecommunications services in Colorado. The resolution directed the committee to consider a number of issues and to consult with the Colorado Public Utilities Commission (PUC) and representatives of a number of specified stakeholders.

Committee Activities

The committee held six meetings during the 1999 interim and heard and received written testimony from a number of individuals and organizations:

- the director of the PUC, Associate Professor Phil Weiser of the University of Colorado, School of Law and Interdisciplinary Telecommunications Program, and interested citizens;
- telecommunication providers, including AirTouch Wireless, AT&T/TCI, CenturyTel, Citizens Communication, Colorado Independent Telephone Companies, Colorado Rural Electric Association, Level 3 Communications, MCI WORLDCOM, McLeodUSA, NextLink, Qwest, SkyBridge, Sprint, TESS Communications, and US WEST; and
- consumers, represented by the Director of the Office of Consumer Counsel.

At the committee's first and second meetings, an overview of the telecommunications industry and its transition from a regulated monopoly to a competitive market was provided by the director of the Public Utilities Commission. At subsequent meetings, representatives of the participating stakeholders discussed issues of effective competition, rural access, basic and advanced services, and deregulation, focusing on opportunities for improving telecommunications in Colorado.

Committee Recommendations

As a result of committee discussion and deliberation, the committee recommends six bills for consideration in the 2000 legislative session.

Bill A — Transition of Telecommunications Regulation from Traditional Utilities Regulation to a Competitive Market. Bill A, effective July 1, 2003, replaces the traditional utilities regulation of telecommunications providers with a competitive market by a date certain.

Bill B — Adoption of a Definition of "Rural Telecommunications Provider." Bill B defines a new term, "rural telecommunications provider," that conforms substantially with the definition of a "rural telephone company" in the federal Telecommunications Act of 1966 and PUC adopted rules, and applies the new definition to applicable existing sections of law.

Bill C — Deregulation of Retail Sales of Specified Telecommunication Services, and, Deregulation of Retail Directory Assistance and Private Line Services. Bill C exempts directory assistance and certain, defined, private line services from regulation by the PUC. The bill removes directory assistance from the regulatory definition of operator services and requires the PUC to adopt a single statewide benchmark rate applicable to nonoptional operator services. It removes the PUC's authority to regulate the terms and conditions under which certain private line services are offered and provided at retail.

Bill D — Continuing Jurisdiction of the Public Utilities Commission Over Telecommunications Services That Are Not Subject to Traditional Forms of Economic Regulation. Bill D authorizes the PUC to establish minimum quality standards governing the provision of wholesale, interconnection, and transport services. The bill provides for an expedited complaint procedure for the PUC to handle complaints and disputes between providers. The bill requires the PUC to adopt rules establishing minimum service quality standards. The bill also creates a new regulatory scheme in which specific retail services, except for switched access, found to be effectively competitive, would be subject only to general supervision by the PUC.

Bill E — Prohibition on Implicit Subsidies for Telecommunications Services; Requiring that Explicit Subsidies be Limited; and Requiring the PUC to Supervise a Reduction in Intrastate Switched Access Rates. Bill E requires the PUC to issue orders to require, by December 1, 2002, the removal of all implicit subsidies from wholesale provider-to-provider rates, including rates for switched access. These implicit subsidies would be made explicit and recovered through the universal service support mechanism *to the extent determined appropriate by PUC*. The PUC may grant small local exchange providers a waiver of the requirements for a time period not to exceed 24 months.

Bill F — Creation of the State Telecommunications and Technologies Council. Bill F creates a nine-member Telecommunications and Technologies Council. In consultation with public institutions, industry, and the affected public, the council would develop goals and plans for meeting the economic and developmental telecommunications needs of the state and its citizens. The council's duties are to: study the status of basic and advanced telecommunications services; identify the major types of telecommunications infrastructure in different geographic areas of the state; develop a plan to maximize federal funding, minimize state expenditures, and create development incentives.

Authority and Responsibilities

Senate Joint Resolution 99-49 authorized the appointment of a six-member legislative committee to consider issues raised by the continuing evolution and deregulation of telecommunications services in Colorado. The resolution directed the committee to consider a number of issues, including:

- the status of competition in Colorado telecommunications markets and the identification of any impediments to competition that may exist;
- the advanced telecommunications services that are generally available in urban and rural areas of the state;
- an identification of the costs associated with the provision of access to advanced telecommunications services that are generally available in urban areas to rural areas of the state;
- options that might be considered in establishing additional support mechanisms or other methods of shared payment for the costs of ensuring the availability of advanced telecommunications services throughout the state and avoiding the arbitrary division of communities into different local calling areas;
- an analysis of the level of competition existing for services such as InterLATA toll (long distance) or service between a carrier in one LATA (local access and transport area) and a carrier in another LATA); IntraLATA toll (connection between two local exchanges within one LATA); private line; and directory assistance to evaluate whether further deregulation of such services is warranted; and
- an analysis of privacy issues raised by the sharing of customer information and routing of calls by and among competing carriers, particularly in regard to the secure conduct of electronic commerce.

Committee Activities

Overview of the Telecommunications Industry and Its Transition From a Regulated Monopoly to a Competitive Market

The Public Utilities Commission (PUC) provided the committee with a brief history of the telecommunications industry. Since the late 1800s, the telecommunications industry has alternated between being a competitive industry and a regulated monopoly. Most commonly, these changes were a result of antitrust lawsuits. In Colorado, there have been several key pieces of telecommunications legislation that have shaped the industry in the state. In 1984, House Bill 84-1264 was adopted as Colorado's first statute to regulate intrastate telecommunications services. It recognized the designation of local access and transport areas, commonly known as LATAs. In 1987, House Bill 87-1336 was adopted, which initiated the three part telecommunication regulatory structure that is currently in use. In 1995, the General Assembly passed House Bill 95-1335, which opened the telecommunications industry to competition. Through competition, the law intends to increase consumer choice for basic and advanced telecommunication services, to lower prices and costs, and protect universal service. A result of the changes in regulation of local exchange service is the agreement the PUC staff and the Office of Consumer Council negotiated with US WEST (US WEST Pricing Regulation Plan) in 1999. The agreement is the first significant departure for US WEST from the traditional rate of return regulation used prior to the state's 1995 Telecommunications Act. The new policy gives US WEST pricing flexibility between ceiling and floor rates established by the PUC.

On the heels of House Bill 95-1335, the federal government passed the federal Telecommunications Act of 1996. The 1996 federal act was the first substantial change the federal government had made to telecommunications law since the enactment of the federal Telecommunications Act of 1934. Like the 1995 Colorado act, the federal act opens local exchange markets to competition. The federal law outlines the process by which incumbent local exchange carriers (LECs) must open their lines for interconnection with new local exchange providers. In return, once state and federal regulators have determined that the local exchange market is competitive and the providers comply with Section 271 of the Federal Telecommunication Act of 1996 checklist, the "Baby Bells" including US WEST, can then enter the long distance market. The law also removes barriers to mergers and acquisitions within the telecommunications industry. As a result, there have been many major mergers recently, including AT&T with TCI Cable and US WEST with Qwest Communications.

Effective Competition

One of the main charges of the committee was to examine telecommunications in Colorado to determine if there is effective competition. The committee heard testimony from providers, consumer advocates, the Public Utilities Commission (PUC), and interested persons. Although there is competition among service providers for urban business customers, most everyone agreed that urban residential and rural customers are largely without competitive, alternative providers. The committee was given many suggestions on what the General Assembly can do to promote competition in Colorado, as discussed below.

Incumbent provider. US WEST, Colorado's incumbent provider, believes the market needs to be further deregulated in order for there to be effective competition. In their opinion, competition will not be reached through regulation. Instead, the market needs to be deregulated in order to encourage competition. Also, US WEST believes they are more strictly regulated than are new entrants into the market. US WEST would like to see the role of the PUC become less regulatory. US WEST believes the only areas that should be regulated by the PUC are basic service, fraud, consumer protection, emergency services, and service quality.

New entrant providers. New entrants into the local telecommunications market, including AT&T, MCI WORLDCOM, McLeod USA, and NextLink, do not feel that total deregulation should occur. If the market is completely deregulated, they fear that US WEST, as the incumbent provider, will then be an unregulated monopoly. Many of the new providers believe the current telecommunications law does provide the guidelines needed for a successful transformation to a competitive market. The new entrants recommend that regulation by the PUC be continued in order to not only ensure that the consumer has certain protections, but also to ensure that providers are cooperating with one another when dealing with interconnection and co-location. In fact, many of the new providers believe the PUC needs to be given stronger enforcement powers in order for competition to become a reality in Colorado.

State regulators and overseers. Both the PUC and the Office of Consumer Council (OCC) also suggest that regulation of the local market needs to continue in order to reach effective competition. Regulation is needed to protect the consumer as well as to ensure that the incumbent provider is cooperating with new entrants through interconnection and co-location. The OCC believes that basic services need to be more highly regulated than advanced services and that regulation should continue even once the market is competitive. The PUC agrees with the need for regulation, however, they do acknowledge that US WEST is more strictly regulated than other providers. Consequently, the PUC is currently working with US WEST to ease some of these restrictions. For example, US WEST was recently removed from rate of return regulation and was granted pricing flexibility.

Recommendations. The committee concluded that effectively competitive services should be relieved of regulation and made subject to market forces. In response to testimony, the committee recommends Bill C deregulating retail directory assistance and private line services.

Rural Access

Access to telecommunication services in rural Colorado was discussed by the committee. Providing telecommunications services, especially advanced services, to rural Colorado is expensive and often difficult. As a result, many believe competition will not emerge in rural areas. The committee heard testimony from several groups with suggestions on how telecommunications in rural Colorado can be improved.

In rural areas, it is very expensive to provide the local loop that connects households and businesses to the switch in which calls are directed. Due to sparse populations and long distances between homes and businesses, it is expensive for providers to provide service to these individuals. As a result, the universal service support mechanism, commonly known as the high cost support mechanism, provides subsidies to providers in rural areas in order to keep rates for rural customers equal to those for urban customers. Although there are some small independent telecommunication companies which provide service to Colorado, some are experiencing problems with interconnecting and co-locating with US WEST. Also, there is a fear amongst small independent rural telecommunication companies that support from both the federal and state universal service support will diminish, making it impossible for providers in rural areas to keep rates low for their customers. The Colorado Telecommunications Association requested that the legislature adopt a common definition of rural telecommunications provider.

Residents and businesses in rural areas are largely without access to advanced telecommunication services (services above basic service), e.g., high speed Internet access service. Many rural residents believe this puts rural Colorado at a disadvantage for attracting businesses and industries. The problem is not that there is not the technology to provide advanced services to rural areas, but rather that it is extremely expensive. Most providers believe it is not profitable to provide advanced services to rural Colorado at this point in time. However, as technology changes, providing advanced services to rural areas becomes more of a reality. For example, some companies and individuals believe that the use of wireless, satellite, and cable technologies may result in improved, more cost effective telecommunication services to rural residents.

Suggestions were made on improving rural telecommunication services. One suggestion for improving rural access to telecommunication services is for the state to offer incentives for providers to do business in rural areas. Incentives identified could be in many forms, such as tax incentives, decreased regulation for rural providers, or subsidies for providing certain services. Another suggestion was to create a state high cost mechanism for advanced services. The mechanism would work in much the same way as the universal service support mechanism for basic services, but the money would be used to provide advanced services to rural and other high cost areas.

Recommendations. The committee recommends Bill B which defines a new term "rural telecommunications provider" as it is applied to the regulation of local exchange providers, and Bill F which creates a Telecommunications and Technologies Council directing it to establish goals and plans to meet the economic and developmental telecommunications needs of the state.

Basic and Advanced Services

Basic service. The committee heard testimony on how basic and advanced service could be improved in Colorado. Rural providers face problems and fear that state and federal universal service support will be scaled back, resulting in insufficient support for rural providers. Rural providers testified that if universal service support is limited to the primary line in a residence and the rate cap is not lifted from additional lines, rural providers could be forced out of business due to their inability to charge more for additional lines, while not receiving universal service support for these lines. More than 60 percent of rural telecommunication providers' revenues come from universal service support and access fees.

US WEST told the committee that consumers are commonly requesting high speed data services and believe it should be included in the definition of basic service. (The PUC recently recommended that the definition of basic service not be changed to include high speed data services.) The problem with including high speed data in basic service is that the current rate cap for basic service would not be sufficient to cover the increased costs of including high speed data service.

Advanced service. The discussion surrounding advanced services mainly focused on the difficulty of providing advanced services in rural areas and the cost to provide such services. In urban areas, advanced services are most commonly carried through copper or fiber optic cable lines. This is possible because the distances between providers' main switch stations and homes or businesses are not great. In rural areas, most consumers live distances that are too far from the main switch station for advanced services to be provided through copper or cable lines. As a result, wireless options, including satellite, appear to be the best way for rural users to receive advanced services. The problem, then, is not the ability to provide advanced services, but the costs associated in doing so. It was suggested by several providers that the legislature should look at providing partial tax credits or other incentives to make it possible and profitable for rural providers to increase access to advanced services for their customers.

Another problem expressed by MCI WORLDCOM in providing advanced services in rural areas is that upgraded interconnections do not exist. Until US WEST upgrades their rural connections, other providers are greatly limited in the services they can offer rural consumers. US WEST testified that it is expensive and time consuming to upgrade their system. US WEST also believes that the regulations on advanced services are still being established. Until it is clear how advanced services will be regulated, in particular with regard to the resale of such services, US WEST is hesitant to make substantial changes to their network that accommodate advanced services.

Recommendations. Bill D provides for continued regulation over services that are not subject to economic regulation and provides for an expedited process to enforce compliance in such matters. The bill requires the PUC to adopt rules establishing minimum service quality standards and creates a new regulatory scheme in which specific retail services found to be effectively competitive would be subject only to general supervision by the PUC.

Deregulation

The issue of deregulation was considered several times by the committee. Overall, new entrants into the local market fear that if the local telephone market is deregulated too quickly, US WEST will be able to price the new entrants out of the market and become an unregulated monopoly. US WEST suggested that the process of deregulation needs to be expedited. US WEST believes their competitors have an unfair advantage because the emerging providers are not as strictly regulated as US WEST. Also, the PUC, OCC, and many of the emerging providers expressed concern that deregulation be largely limited to price deregulation and that the PUC continue to regulate consumer complaints, service quality issues, and issues between providers. The OCC noted that it is important to ensure that service quality is maintained and that prices are not adversely affected when deregulating the market.

In testimony provided by AT&T, it was brought to the committee's attention that there are risks in deregulating the market. For example, if deregulation results in the absence of a means for consumers and competitors to be protected by a regulatory board, then the only means of recourse would be to file a lawsuit. AT&T does not believe this would be good for the industry. Also, if the market is deregulated before services are competitive, for example access charges, then the incumbent provider could price its competitors out of the market. In order to avoid these risks, AT&T made several suggestions to the committee. First, AT&T recommended that the legislature direct the PUC to establish a time line for moving access charges to cost. Second, the legislature should direct the PUC to evaluate the removal of all implicit subsidies. Third, the legislature should require the PUC to adopt an expedited complaint process for service quality issues as well as issues between providers. Fourth, the legislature should encourage the process of deregulation as it currently appears in statute. MCI WORLDCOM echoed these same concerns and suggested that a new category be established for telecommunication services that are newly emerging as competitive. This would be an interim step in the process rather than moving the services from Part 3 regulation directly to Part 4 deregulation as provided for in current statute.

US WEST stated that it is not opposed to maintaining regulation on service quality and provider issues. US WEST also agrees that an expedited process for dealing with complaints would be beneficial. However, they suggest that the PUC should not have the ability to levy fines directly. Instead, US WEST believes the customer who was wronged should get a service credit from the provider rather than the provider paying a fine to the state. Also, US WEST believes certain services are currently competitive and should be deregulated. These services are directory assistance, in-state long distance, and high end private line. US WEST agrees with MCI on placing a service such as high end private lines in a new category of deregulation, but that directory assistance should be moved directly to Part 4 deregulation.

Recommendations. Bill A replaces traditional utilities regulation of telecommunications providers with a competitive market by a date certain. Bill E prohibits implicit subsidies for telecommunication services and requires that explicit subsidies be limited.

SUMMARY OF RECOMMENDATIONS

As a result of the committee's activities, the following bills are recommended to the Colorado General Assembly.

Bill A — Transition of Telecommunications Regulation from Traditional Utilities Regulation to a Competitive Market.

Bill A, effective July 1, 2003, replaces the traditional utilities regulation of telecommunications providers with a competitive market. The PUC would retain jurisdiction: 1) over a newly defined basic local exchange service; 2) to designate one or more basic local exchange service providers until a to-be-determined date certain; 3) over optional, simplified regulation of rural exchanges; 4) over existing agreements or proceedings between or among the PUC and a provider or providers; 5) to investigate and enforce acts that may violate the "Colorado Consumer Protection Act" or the "Unfair Practices Act"; 6) to enforce laws against "slamming" and "cramming"; 7) to administer and regulate the high cost fund and 911 emergency services; and 8) to collect information demonstrating sufficient financial ability to provide telecommunication services for providers providing telecommunication services.

This bill is assessed as having no fiscal impact.

Bill B — Adoption of a Definition of "Rural Telecommunications Provider."

Bill B defines a new term, "rural telecommunications provider," that conforms substantially with the definition of a "rural telephone company" in the federal Telecommunications Act of 1966 and PUC adopted rules and applies the new definition to applicable existing sections of law.

This bill is assessed as having no fiscal impact.

Bill C — Deregulation of Retail Sales of Specified Telecommunication Services, and, Deregulation of Retail Directory Assistance and Private Line Services.

Directory assistance and certain, defined, private line services are exempted from regulation by the PUC pursuant to Bill C. The bill removes directory assistance from the regulatory definition of operator services and requires the PUC to adopt a single statewide benchmark rate applicable to nonoptional operator services. It removes the PUC's authority to regulate the terms and conditions under which certain private line services are offered and provided at retail.

This bill is assessed as having no fiscal impact.

Bill D — Continuing Jurisdiction of the Public Utilities Commission Over Telecommunications Services That Are Not Subject to Traditional Forms of Economic Regulation.

Section 1 of Bill D authorizes the PUC to establish minimum quality standards governing the provision of wholesale, interconnection, and transport services. The bill prohibits a telecommunications provider from discriminating against another provider. The PUC would be responsible for setting wholesale prices at or above cost for specific services and would set minimum retail prices at or above the wholesale prices. The bill also allows the PUC to geographically deaverage retail prices for telecommunications services once the prices for wholesale rates for unbundled network elements have been deaveraged as well. The bill provides for an expedited complaint procedure for the PUC to handle complaints and disputes between providers. If a provider is found to be in violation of a prohibited act, the PUC could fine the violator.

Section 2 requires the PUC to adopt, and periodically revise as necessary, rules establishing minimum service quality standards. At a minimum, the service quality standards should include: held orders; held orders of thirty days; trouble report rate; network blockage; trouble reports cleared; and repair center accessibility. If a provider is found to be in violation of the service quality standards, the PUC can require the provider to submit a plan for improving its performance to meet the standards. If the provider does not meet the goals of their plan within six months, the PUC may impose penalties against the provider. The penalty may be in the form of a cash payment, bill credits to the provider's customers, or targeted investments directed by the PUC to address specific issues of service quality.

Section 3 of the bill creates a new regulatory scheme in which specific retail services, except for switched access, found to be effectively competitive, would be subject only to general supervision by the PUC. The PUC would be precluded from regulating the retail pricing of these services, but would retain regulatory power over service quality, wholesale pricing, and antitrust-type issues.

This bill is assessed as having a fiscal impact to Fixed Utilities Cash Fund of $71,758 and 1.0 FTE in FY 2000-01.

Bill E — Prohibition on Implicit Subsidies for Telecommunications Services; Requiring that Explicit Subsidies be Limited; and Requiring the PUC to Supervise a Reduction in Intrastate Switched Access Rates.

Bill E requires the PUC to issue orders to require, by December 1, 2002, the removal of all implicit subsidies from wholesale provider-to-provider rates, including rates for switched access. These implicit subsidies would be made explicit and recovered through the universal service support mechanism *to the extent determined appropriate by the PUC*. The PUC may grant small local exchange providers a waiver of the requirements for a time period not to exceed 24 months.

This bill is assessed as having a conditional fiscal impact to all funds of up to $247,684 a year, with an impact of up to $144,482 beginning in FY 2002-03.

Bill F — Creation of the State Telecommunications and Technologies Council.

A nine-member Telecommunications and Technologies Council is created by Bill F. The members of the council would be appointed by the Governor and confirmed by the Senate. In consultation with public institutions, industry, and the affected public, the council would develop goals and plans for meeting the economic and developmental telecommunication needs of the state and its citizens. The council's duties are to: study the status of basic and advanced telecommunications services; identify the major types of telecommunications infrastructure in different geographic areas of the state; develop a plan to maximize federal funding, minimize state expenditures, and create development incentives; and report annually to the Governor and the General Assembly.

This bill is assessed as having a General Fund fiscal impact of $14,746 beginning in FY 2000-01.

GLOSSARY OF TELECOMMUNICATIONS TERMS

Advanced features - custom calling features such as speed dialing, 3-way calling, call forwarding, and call waiting. [C.R.S.§ 40-15-102]

Basic local exchange service or basic service - the telecommunications service which provides a local dial tone line and local usage necessary to place or receive a call within an exchange area and any other services or features that may be added by the commission under section 40-15-502 (2). [C.R.S. § 40-15-102] The Commission definition of basic service currently includes: single-party line; touch tone dialing; access to long distance, 9-1-1, operator services and directory assistance; white page listing; 2400 bits per second data transmission rate; and a local calling area that reflects a community of interest.

Competitive Local Exchange Carrier (CLEC) - a Commission authorized telecommunications provider of basic local exchange service and such other services as identified in § 40-15-210 C.R.S. and who were granted a Certificate of Public Convenience and Necessity (CPCN) on or after February 8, 1996. (4 CCR 723-35)

Cramming - the addition of products and/or services to an end use customer's bill without the knowledge or appropriate consent of the customer.

Divestiture - on January 8, 1982 AT&T signed a Consent Decree with the U.S. Department of Justice. That settlement stipulated that on midnight December 31, 1983, AT&T would divest itself of its 22 telephone operating companies. According to the terms of the divestiture, those 22 operating Bell telephone companies would be formed into seven regional holding companies (called Regional Bell Operating Companies or RBOCs) of roughly equal size. Terms of the divestiture placed business restrictions on AT&T and RBOCs. The federal judge overseeing divestiture has slowly lifted many of the restrictions.

Held Service Order - an application by a customer for establishment of basic local exchange service in the service territory of the LEC and which the LEC is unable to fill by the customer’s requested service date. The application shall be notice to the LEC that the customer desires service. Oral or written requests shall be considered an application for this purpose. [4 CCR 723-2(2.23.1)]

Incumbent Local Exchange Carrier (ILEC) - a telecommunications carrier authorized to provide local exchange services which was in existence prior to the date of enactment of the Telecommunications Act of 1996.

Interconnection Agreement - the accord resulting from the process of providing a connecting link between competing telecommunications networks for the completion of local traffic that originates on the network of one telecommunications provider and terminates in the network of another telecommunications provider.

Interexchange provider - a firm that provides telecommunications services between exchange areas *i.e*. long-distance service.

IntraLATA - telecommunications service provided within one LATA [C.R.S. §40-15-102] Typically intraLATA means toll service, but can be other services.

InterLATA - telecommunications services between Local Access and Transport Areas (LATA). [C.R.S. §40-15-102] Typically interLATA refers to toll service, but can be other services.

Jamming - a practice of not allowing subscribers to switch service providers by imposing a freeze on their accounts.

Local Access and Transport Area (LATA) - created by Judge Greene at divestiture to divide the toll market between Bell Operating Companies and interexhange carriers. Switched calls with both endpoints within the LATA (intraLATA) are generally the sole responsibility of the local telephone company, while calls that cross the LATA boundaries (interLATA) are passed on to an interexchange long-distance carrier**.**

Local Exchange Company (LEC) - the local phone companies, which can be either a Bell Operating Company (BOC) or an independent (e.g. GTE) which provides local transmission services. Prior to divestiture, the LECs were called telephone companies or telcos. [Newton, *supra* at 311.]

Operator Services - services other than directory assistance provided either by live operators or by the use of recordings or computer-voice interaction to enable customers to receive individualized and select telephone call processing or specialized or alternative billing functions.

Parts 1, 2, 3, 4, and 5 - sections of Article 15, Title 40 C.R.S., that regulate intrastate telecommunications services, as follows: Part 1, "General Provisions"; Part 2, "Regulated Telecommunications Services"; Part 3, "Emerging Telecommunications Service"; Part 4, "Deregulation"; and Part 5, "Telecommunications Policy and Planning".

Rate Cap - statutory price of residential basic local exchange service including the zone charges in effect May 24, 1995. (Rate cap is $14.91 exclusive of zone charges.)

Rate Averaging - telephone companies' method for establishing uniform pricing by distance rather than on the relative cost (to them) of the particular route. The theory is that some routes are more heavily trafficked, have huge transmission equipment and achieve great economies of scale. Some routes, on the other hand, have little traffic, have small transmission equipment and achieve no economies of scale. Therefore, it costs more to provide calls on these less-trafficked routes. However, the phone industry doesn't charge more to call small towns than big cities to reflect these economies of scale. The phone industry simply charges by distance, averaging its costs by distance. This is called rate averaging. [Newton, *supra* at 460-61.]

Rate-of-Return Regulation: Rate Base - a regulated telephone company's plant and equipment which forms the dollar base upon which a specified rate of return can be earned. The total invested capital on which a regulated company is entitled to earn a reasonable rate of return. [*Id* at 461.]

Section 271 Filing - a filing required of RBOCs under the Federal Telecommunications Act of 1996. Approval under this section of the Act involves satisfying a 14-point checklist in order to provide in-region interLATA long distance as well as the manufacturing of telecommunications equipment. The purpose of the filing is to assure that there is sufficient local exchange competition or the conditions are adequate to allow local exchange competition in a state prior to the RBOC entering the long distance or manufacturing markets within its region.

Slamming - any change in an end-use customer's pre-subscription to a telecommunications service provider subject to the jurisdiction of the Commission, which is made without appropriate consent of the customer.

Switched Access - the services or facilities furnished by a local exchange company or carrier, to interexchange providers or carriers, which allows them to use the basic local exchange network or the public switched network for origination or termination of interexchange telecommunications services. [4 CCR 723-2(2.40)]

Unbundled Network Element (UNE) - service and equipment such as local loops, local switches, and advanced features. In a competitive market CLECs purchase UNEs from an ILEC for subsequent resale to the CLEC's customers. They are often packaged in a variety of ways to meet the customer's needs.

Universal Service - originally conceived by the first chairman of the Bell System, Theodore Vail, refers to a situation where everyone who wants phone service has service, and is pursued on a policy and practical level by pricing basic service sufficiently low so anyone in the United States can afford it. Keeping residential service low has been one reason why local business service is usually priced much higher though the two services are usually identical: This is called an implicit subsidy. Other implicit subsidies (such as rate averaging, residual pricing, and access charges paid by interexchange carriers) were historically used by regulators to keep the price of residential service low. With the advent of competition, implicit subsidies are being removed and made explicit, such as the Colorado Universal Service Charge to support high cost areas. [Newton, *supra* at 596.]

State Universal Service Fund/High Cost Fund - funded by a surcharge and is used to provide financial assistance to local exchange providers to help make basic local exchange service affordable. (Currently a surcharge of 3.1% is applied to all telephone charges to fund the fund.)

Federal Universal Service Fund - funded by a surcharge on interstate revenues and is used to subsidize lifeline (low income), e-rate (libraries, health care, schools), and rural telecommunication providers. [47 USC 254]

RESOURCE MATERIALS

The resource materials listed below were provided to the committee or developed by Legislative Council Staff during the course of the hearings. The summaries of meetings and attachments are available at the Division of Archives, 1313 Sherman Street, Denver. For a limited period of time, the meeting summaries and materials developed by Legislative Council Staff are available on our web site at:

www.state.co.us/gov_dir/leg_dir/lcsstaff/1999/99interim.

Meeting Summaries	Topics Discussed
July 29, 1999	Overview of the current system of providing telecommunications services, how we got there, and where we are going. Briefing by regulators, providers, and consumers on opportunities to improve telecommunication services in Colorado.
August 31, 1999	Detailed explanation of how the telecommunications system works; briefing on the status of competition in the industry and how to promote competition in Colorado.
September 22, 1999	Briefing on the Colorado Institute of Technology; concluding comments on the status of competition in the industry and how to promote competition in Colorado; role of regulation in an effectively competitive market.
September 23, 1999	Basic and advanced service, competition, and deregulation issues, concerns, and problems; how the legislature can fix the problems and improve telecommunication services in Colorado.
October 27, 1999	Final committee action on draft legislation and the selection of bill sponsors.

Memoranda and Reports

Reports provided to the committee:

Glossary of Frequently Used Terms, Colorado Public Utilities Commission staff, July 1999

Reach Out, But Not Too Far - Telecommunications Regulation, National Council of State Legislatures, May 1998

Taming A Giant Takes Time, CQ Outlook, May 1999

Promoting Competition In Local Telecommunications, Colorado Public Utilities Commission staff, December 1997