|  | <!DOCTYPE html> |
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|  | <html> |
|  | <head> |
|  | <title>Surcharges 3.9.15</title> |
|  | <link rel="stylesheet" type="text/css" href="[CommentsStylesheet.css](http://k-band.us/CommentsStylesheet.css)"> |
|  | </head> |
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|  | <body> |
|  | <header></header> |
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|  | <main> |
|  | <article> |
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|  | <h3 id="title">Internet Surcharges and the IP-Transition</h3> |
|  | <p id="author">Lauren Saine, March 9, 2015</p> |
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|  | <p>The owners of the internet have fought to deregulate their networks while continuing to receive massive government subsidies. AT&T formally launched the strategy back in 2011 by <a href="<http://www.att.com/Common/about_us/files/pdf/fcc_filing.pdf>"> petitioning </a>the FCC to open a rulemaking proceeding on the TDM-to-IP Transition. And their strategy has partially succeeded. |
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|  | <p>The FCC's Open Internet Order reclassifies internet providers as Title II <a href="<https://www.law.cornell.edu/uscode/text/47/chapter-5>"> common carriers </a> and imposes new rules based on some Title II provisions. They include new nondiscrimination rules that require network owners to give internet end-users nondiscriminatory access to content and applications.</p> |
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|  | <p> However, the new rules do very little to get more users connected to the internet in the first place--at least not at this time. The Title II designation opens the door to regulation of the communications network as a public utility, but the new rules do not include interconnection and last-mile sharing requirements for competitive internet service providers wishing to use the communications grid. Such infrastructure sharing arrangements would allow and encourage competitors to enter the internet service marketplace, lowering prices and improving service for everyone.</p> |
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|  | <p>One of Title II's provisions, the section on universal service, requires common carriers to contribute a portion of their interstate end-user revenues to a universal service fund. Although the Order does not impose the universal service requirements on internet service providers at this time, it does make that a real threat. The providers might then impose surcharges on internet and data transport bills in order to pay their universal service obligations, just like telephone providers do today.</p> |
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|  | <p>As we transition from telephone service to all-IP communications, the universal service fund contribution base--telephone bills--is shrinking, while the demand for subsidies is growing. The "contribution factor" now stands at 16.8%, and when combined with <a href="<http://www.cpuc.ca.gov/puc/telco/consumer+information/surcharges.htm>">surcharges</a> for state universal service funds, the amount taken off the top can approach 12% of users' telephone bills (based on a 70/30 interstate/intrastate traffic split). </p> |
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|  | <p>Universal service subsidies are an important source of revenue for the big telephone and cable companies, and for smaller rural carriers. The fund now <a href=<http://usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-Interactive-Layout-2013.pdf>> supports broadband,</a> as well as telephone subsidies, and it expanded from $4 billion <a href="<https://apps.fcc.gov/edocs_public/attachmatch/DOC-330829A1.pdf>"> to more than $8 billion</a> from 2001 to 2013. Back in 2011, AT&T received <a href="<http://democrats.energycommerce.house.gov/sites/default/files/documents/FCC-Response-Request-5-USF-Data-2012-7-9.pdf>"> $418.9 million</a> in "high-cost" subsidies alone. The FCC's fund <a href="<http://transition.fcc.gov/Bureaus/Common_Carrier/Orders/1997/fcc97253.pdf>"> administrator, </a> the Universal Service Administrative Company is governed by a board including AT&T, tw telecom, CTIA The Wireless Association, and the AT&T front organization Connected Nation.</p> |
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|  | <p>While states do not have jurisdiction over internet service, the new federal rules could ease the way for states to impose a universal service fee or tax on internet providers, since state funds are suffering from the same pressures as the federal fund. Here in California, the state public utilities commission sends <a href="<http://www.ebudget.ca.gov/2014-15/pdf/GovernorsBudget/8000/8660.pdf>">half a billion dollars</a> a year in surcharge revenues to internet carriers to support telephone service and broadband projects, and the demand for these funds is increasing. (Total disbursements by carrier are not publicly available.)</p> |
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|  | <p>The cost-benefit calculus for the state universal service programs is questionable, supporting, for example a 50% service discount <a href="<http://www.cpuc.ca.gov/General.aspx?id=4095>"> for the Silicon Valley Leadership Group</a>--a sponsor of the <a href="<http://leginfo.legislature.ca.gov/faces/billNavClient.xhtml;jsessionid=54ad45d4f0bf3dd97156deddfdf8>">state law</a> prohibiting regulation of IP-enabled services--and an infrastructure upgrade <a href="<http://www.cpuc.ca.gov/casf/>"> for the wealthy community of Sea Ranch.</a> For subsidized rural carriers, state funds are a significant percentage of revenues. For 2010, their <a href="<http://www.cpuc.ca.gov/NR/rdonlyres/48FA1720-99CA-4124-A118-E8D5BA55D812/0/ComparativeAnalysisofSmallLECCHCFACarrierstoNonCHCFACarriers2011.pdf>"> revenues per line</a> were three times that of non-subsidized providers. (Revenue information since 2010 is not publicly available.) Their internet revenues are <a href="<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M143/K638/143638287.pdf>"> not counted </a> when calculating their subsidies, and the state commission has <a href="<http://docs.cpuc.ca.gov/PublishedDocs/Efile/G000/M068/K705/68705551.PDF>"> prohibited</a> competition in the subsidized providers' territories.</p> |
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|  | <p id="update">Updated March 12, 2015: The FCC released the <a href="<http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0312/FCC-15-24A1.pdf>">Open Internet Order</a> on March 12.</p> |
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