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HOUSE BILL 161*
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Short Title: Local Telephone Competition.

(Public)

Sponsors:

Referred to:

February 9, 1995

1 A BILL TO BE ENTITLED
2 AN ACT TO PROVIDE THE PUBLIC WITH ACCESS TO LOW-COST
3 TELECOMMUNICATIONS SERVICE IN A CHANGING COMPETITIVE
4 ENVIRONMENT.

5 The General Assembly of North Carolina enacts:

6 Section 1. G.S. 62-2 reads as rewritten:

7 "**§ 62-2. Declaration of policy.**

8 Upon investigation, it has been determined that the rates, services and operations of
9 public utilities as defined herein, are affected with the public interest and that the
10 availability of an adequate and reliable supply of electric power and natural gas to the
11 people, economy and government of North Carolina is a matter of public policy. It is
12 hereby declared to be the policy of the State of North Carolina:

- 13 (1) To provide fair regulation of public utilities in the interest of the
14 public;
15 (2) To promote the inherent advantage of regulated public utilities;
16 (3) To promote adequate, reliable and economical utility service to all of
17 the citizens and residents of the State;

- 1 (3a) To assure that resources necessary to meet future growth through the
2 provision of adequate, reliable utility service include use of the
3 entire spectrum of demand-side options, including but not limited to
4 conservation, load management and efficiency programs, as
5 additional sources of energy supply and/or energy demand
6 reductions. To that end, to require energy planning and fixing of
7 rates in a manner to result in the least cost mix of generation and
8 demand-reduction measures which is achievable, including
9 consideration of appropriate rewards to utilities for efficiency and
10 conservation which decrease utility bills.
- 11 (4) To provide just and reasonable rates and charges for public utility
12 services without unjust discrimination, undue preferences or
13 advantages, or unfair or destructive competitive practices and
14 consistent with long-term management and conservation of energy
15 resources by avoiding wasteful, uneconomic and inefficient uses of
16 energy;
- 17 (4a) To assure that facilities necessary to meet future growth can be
18 financed by the utilities operating in this State on terms which are
19 reasonable and fair to both the customers and existing investors of
20 such utilities; and to that end to authorize fixing of rates in such a
21 manner as to result in lower costs of new facilities and lower rates
22 over the operating lives of such new facilities by making provisions
23 in the rate-making process for the investment of public utilities in
24 plant under construction;
- 25 (5) To encourage and promote harmony between public utilities, their
26 users and the environment;
- 27 (6) To foster the continued service of public utilities on a well-planned
28 and coordinated basis that is consistent with the level of energy
29 needed for the protection of public health and safety and for the
30 promotion of the general welfare as expressed in the State energy
31 policy;
- 32 (7) To seek to adjust the rate of growth of regulated energy supply
33 facilities serving the State to the policy requirements of statewide
34 development; and
- 35 (8) To cooperate with other states and with the federal government in
36 promoting and coordinating interstate and intrastate public utility
37 service and reliability of public utility energy supply.
- 38 (9) To facilitate the construction of facilities in and the extension of
39 natural gas service to unserved areas in order to promote the public
40 welfare throughout the State and to that end to authorize the creation
41 of an expansion fund for each natural gas local distribution company
42 to be administered under the supervision of the North Carolina
43 Utilities Commission.

1 To these ends, therefore, authority shall be vested in the North Carolina Utilities
2 Commission to regulate public utilities generally, their rates, services and operations, and
3 their expansion in relation to long-term energy conservation and management policies
4 and statewide development requirements, and in the manner and in accordance with the
5 policies set forth in this Chapter. Nothing in this Chapter shall be construed to imply any
6 extension of Utilities Commission regulatory jurisdiction over any industry or enterprise
7 that is not subject to the regulatory jurisdiction of said Commission.

8 Because of technological changes in the equipment and facilities now available and
9 needed to provide telephone and telecommunications services, changes in regulatory
10 policies by the federal government, and changes resulting from the court-ordered
11 divestiture of the American Telephone and Telegraph Company, competitive offerings of
12 certain types of telephone and telecommunications services may be in the public interest.
13 Consequently, authority shall be vested in the North Carolina Utilities Commission to
14 allow competitive offerings of local exchange, exchange access, and long distance
15 services by public utilities defined in G.S. 62-3(23)a.6. and certified in accordance with
16 the provisions of G.S. ~~62-110~~-62-110, and the Commission is further authorized after
17 notice to affected parties and hearing to deregulate or to exempt from regulation under
18 any or all provisions of this Chapter: (i) a service provided by any public utility as
19 defined in G.S. 62-3(23)a.6. upon a finding that such service is competitive and that such
20 deregulation or exemption from regulation is in the public interest; or (ii) a public utility
21 as defined in G.S. 62-3(23)a.6., or a portion of the business of such public utility, upon a
22 finding that the service or business of such public utility is competitive and that such
23 deregulation or exemption from regulation is in the public interest.

24 The policy and authority stated in this section shall be applicable to common carriers
25 of passengers by motor vehicle and their regulation by the North Carolina Utilities
26 Commission only to the extent that they are consistent with the provisions of the Bus
27 Regulatory Reform Act of 1985.

28 The North Carolina Utilities Commission may develop regulatory policies to govern
29 the provision of telecommunications services to the public which promote efficiency,
30 technological innovation, economic growth, and permit telecommunications utilities a
31 reasonable opportunity to compete in an emerging competitive environment, giving due
32 regard to consumers, stockholders, and maintenance of reasonably affordable local
33 exchange service and long distance service."

34 Sec. 2. G.S. 62-3 is amended by adding a new subdivision to read:

35 "(7a) 'Competing local provider' means any person applying for a
36 certificate to provide local exchange or exchange access services in
37 competition with a local exchange company."

38 Sec. 3. G.S. 62-3 is amended by adding a new subdivision to read:

39 "(16a) 'Local exchange company' means a person holding, on January 1,
40 1995, a certificate to provide local exchange services or exchange
41 access services."

42 Sec. 4. G.S. 62-110 is amended by adding three new subsections to read:

1 "(f1) Except as provided in subsection (f2) of this section, the Commission is
2 authorized, following notice and an opportunity for interested parties to be heard, to issue
3 a certificate to any person applying to provide local exchange or exchange access
4 services as a public utility as defined in G.S. 62-3(23)a.6., without regard to whether
5 local telephone service is already being provided in the territory for which the certificate
6 is sought, provided that the person seeking to provide the service makes a satisfactory
7 showing to the Commission that (i) the person is fit, capable, and financially able to
8 render such service; (ii) the service to be provided will reasonably meet the service
9 standards that the Commission may adopt; (iii) the provision of the service will not
10 adversely impact the availability of reasonably affordable local exchange service; (iv) the
11 person, to the extent it may be required to do so by the Commission, will participate in
12 the support of universally available telephone service at affordable rates; and (v) the
13 provision of the service does not otherwise adversely impact the public interest. In its
14 application for certification, the person seeking to provide the service shall set forth with
15 particularity the proposed geographic territory to be served and the types of local
16 exchange and exchange access services to be provided. Except as provided in G.S. 62-
17 133.5(e), any person receiving a certificate under this section shall, until otherwise
18 determined by the Commission, file and maintain with the Commission a complete list of
19 the local exchange and exchange access services to be provided and the prices charged
20 for those services, and shall be subject to such reporting requirements as the Commission
21 may require.

22 Any certificate issued by the Commission pursuant to this subsection shall not permit
23 the provision of local exchange or exchange access service until July 1, 1996.

24 The Commission is authorized to adopt rules it finds necessary (i) to provide for
25 the reasonable interconnection of facilities between all providers of telecommunications
26 services; (ii) to determine when necessary the rates for such interconnection; (iii) to
27 provide for the reasonable unbundling of essential facilities where technically and
28 economically feasible; (iv) to provide for the transfer of telephone numbers between
29 providers in a manner that is technically and economically reasonable; (v) to provide for
30 the continued development and encouragement of universally available telephone service
31 at reasonably affordable rates; and (vi) to carry out the provisions of this subsection in a
32 manner consistent with the public interest.

33 Local exchange companies and competing local providers shall negotiate the rates for
34 local interconnection. In the event that the parties are unable to agree within 90 days of a
35 bona fide request for interconnection on appropriate rates for interconnection, either party
36 may petition the Commission for determination of the appropriate rates for
37 interconnection.

38 Each local exchange company shall be the universal service provider in the area in
39 which it is certificated to operate on July 1, 1995, until otherwise determined by the
40 Commission. In continuing this State's commitment to universal service, the
41 Commission shall, by December 31, 1996, adopt interim rules that designate the person
42 that should be the universal service provider and to determine whether universal service
43 should be funded through interconnection rates or through some other funding

1 mechanism. By July 1, 1998, the Commission shall complete an investigation and adopt
2 final rules concerning the provision of universal services, the person that should be the
3 universal service provider, and whether universal service should be funded through
4 interconnection rates or through some other funding mechanism.

5 The Commission shall make the determination required pursuant to this subsection in
6 a manner that furthers this State's policy favoring universally available telephone service
7 at reasonable rates.

8 (f2) The provisions of subsection (f1) of this section shall not be applicable to
9 franchised areas within the State that are being served by local exchange companies with
10 200,000 access lines or less located within the State, and it is further provided that such
11 local exchange company providing service to 200,000 access lines or less shall not be
12 subject to the regulatory reform procedures outlined under the terms of G.S. 62-133.5(a)
13 or permitted to compete in territory outside of its franchised area for local exchange and
14 exchange access services until such time as the franchised area is opened to competing
15 local providers as provided for in this subsection. Upon the filing of an application by a
16 local exchange company with 200,000 access lines or less for regulation under the
17 provisions of G.S. 62-133.5(a), the Commission shall apply the provisions of that section
18 to such local exchange company, but only upon the condition that the provisions of
19 subsection (f1) of this section are to be applicable to the franchised area and local
20 exchange and exchange access services offered by such a local exchange company.

21 (f3) The provisions of subsection (f1) of this section shall not be applicable to areas
22 served by telephone membership corporations formed and existing under Article 4 of
23 Chapter 117 of the General Statutes and exempt from regulation as public utilities,
24 pursuant to G.S. 62-3(23)d. and G.S. 117-35."

25 Sec. 5. G.S. 62-133.3 is repealed.

26 Sec. 6. Article 7 of Chapter 62 is amended by adding a new section to read:

27 "**§ 62-133.5. Alternative regulation, tariffing, and deregulation of**
28 **telecommunications utilities.**

29 (a) Any local exchange company, subject to the provisions of G.S. 62-110(f1), that
30 is subject to rate of return regulation pursuant to G.S. 62-133 or a form of alternative
31 regulation authorized by subsection (b) of this section may elect to have the rates, terms,
32 and conditions of its services determined pursuant to a form of price regulation, rather
33 than rate of return or other form of earnings regulation. Under this form of price
34 regulation, the Commission shall, among other things, permit the local exchange
35 company to determine and set its own depreciation rates, to rebalance its rates, and to
36 adjust its prices in the aggregate, or to adjust its prices for various aggregated categories
37 of services, based upon changes in generally accepted indices of prices. Upon
38 application, the Commission shall approve such price regulation, which may differ
39 between local exchange companies, upon finding that the plan as proposed (i) protects the
40 affordability of basic local exchange service, as such service is defined by the
41 Commission; (ii) reasonably assures the continuation of basic local exchange service that
42 meets reasonable service standards that the Commission may adopt; (iii) will not
43 unreasonably prejudice any class of telephone customers, including telecommunications

1 companies; and (iv) is otherwise consistent with the public interest. Upon approval, and
2 except as provided in subsection (c) of this section, price regulation shall thereafter be the
3 sole form of regulation imposed upon the electing local exchange company, and the
4 Commission shall thenceforth regulate the electing local exchange company's prices,
5 rather than its earnings. The Commission shall issue an order denying or approving the
6 proposed plan for price regulation, with or without modification, not more than 90 days
7 from the filing of the application. However, the Commission may extend the time period
8 for an additional 60 days at the discretion of the Commission. If the Commission
9 approves the application with modifications, the local exchange company subject to such
10 approval may accept the modifications and implement the proposed plans as modified, or
11 may, at its option, (i) withdraw its application and continue to be regulated under the
12 form of regulation that existed immediately prior to the filing of the application; (ii) file
13 another proposed plan for price regulation; or (iii) file an application for a form of
14 alternative regulation under subsection (b) of this section.

15 (b) Any local exchange company that is subject to rate of return regulation
16 pursuant to G.S. 62-133 and which elects not to file for price regulation under the
17 provisions of subsection (a) above may file an application with the Commission for forms
18 of alternative regulation, which may differ between companies and may include, but are
19 not limited to, ranges of authorized returns, categories of services, and price indexing.
20 Upon application, the Commission shall approve such alternative regulatory plan upon
21 finding that the plan as proposed (i) protects the affordability of basic local exchange
22 service, as such service is defined by the Commission; (ii) reasonably assures the
23 continuation of basic local exchange service that meets reasonable service standards
24 established by the Commission; (iii) will not unreasonably prejudice any class of
25 telephone customers, including telecommunications companies; and (iv) is otherwise
26 consistent with the public interest. The Commission shall issue an order denying or
27 approving the proposed plan with or without modification, not more than 90 days from
28 the filing of the application. However, the Commission may extend the time period for
29 an additional 60 days at the discretion of the Commission. If the Commission approves
30 the application with modifications, the local exchange company subject to such approval
31 may, at its option, accept the modifications and implement the proposed plan as modified
32 or may, at its option, (i) withdraw its application and continue to be regulated under the
33 form of regulation that existed at the time of filing the application; or (ii) file an
34 application for another form of alternative regulation.

35 (c) Any local exchange company subject to price regulation under the provisions
36 of subsection (a) of this section may file an application with the Commission to modify
37 such form of price regulation or for other forms of regulation. Any local exchange
38 company subject to a form of alternative regulation under subsection (b) of this section
39 may file an application with the Commission to modify such form of alternative
40 regulation. Upon application, the Commission shall approve such other form of
41 regulation upon finding that the plan as proposed (i) protects the affordability of basic
42 local exchange service, as such service is defined by the Commission; (ii) reasonably
43 assures the continuation of basic local exchange service that meets reasonable service

1 standards established by the Commission; (iii) will not unreasonably prejudice any class
2 of telephone customers, including telecommunications companies; and (iv) is otherwise
3 consistent with the public interest.

4 (d) Any local exchange company subject to price regulation under the provisions
5 of subsection (a) of this section, or other alternative regulation under subsection (b) of
6 this section, or other form of regulation under subsection (c) of this section shall file
7 tariffs for basic local exchange service and toll switched access services stating the terms
8 and conditions of the services and the applicable rates. The filing of any tariff changing
9 the terms and conditions of such services or increasing the rates for such services shall be
10 presumed valid and shall become effective, unless otherwise suspended by the
11 Commission for a term not to exceed 45 days, 14 days after filing. Any tariff reducing
12 rates for basic local exchange service or toll switched access service shall be presumed
13 valid and shall become effective, unless otherwise suspended by the Commission for a
14 term not to exceed 45 days, seven days after filing. Any local exchange company subject
15 to price regulation under the provisions of subsection (a) of this section, or other
16 alternative regulation under subsection (b) of this section, or other form of regulation
17 under subsection (c) of this section may file tariffs for services other than basic local
18 exchange services and toll switched access services. Any tariff changing the terms and
19 conditions of such services or increasing the rates for an existing service or establishing
20 the terms, conditions, or rates for a new service shall be presumed valid and shall become
21 effective, unless otherwise suspended by the Commission for a term not to exceed 45
22 days, 14 days after filing. Any tariff reducing the rates for such services shall be
23 presumed valid and shall become effective, unless otherwise suspended by the
24 Commission for a term not to exceed 45 days, seven days after filing. In the event of a
25 complaint with regard to a tariff filing under this subsection, the Commission may take
26 such steps as it deems appropriate to assure that such tariff filing is consistent with the
27 plan previously adopted pursuant to subsection (a) of this section, subsection (b) of this
28 section, or subsection (c) of this section.

29 (e) Any allegation of anticompetitive activity by a competing local provider or a
30 local exchange company shall be raised in a complaint proceeding pursuant to G.S. 62-
31 73.

32 (f) Notwithstanding the provisions of G.S. 62-140, the Commission shall permit a
33 local exchange company or a competing local provider to offer competitive services with
34 flexible pricing arrangements to business customers pursuant to contract and shall permit
35 other flexible pricing options.

36 (g) The following sections of Chapter 62 of the General Statutes shall not apply to
37 local exchange companies subject to price regulation under the terms of subsection (a) of
38 this section: G.S. 62-35(c), 62-45, 62-51, 62-81, 62-111, 62-130, 62-131, 62-132, 62-
39 133, 62-134, 62-135, 62-136, 62-137, 62-139, 62-142, and 62-153."

40 Sec. 6.1. On October 1, 1997, and every two years thereafter, the Utilities
41 Commission and the Public Staff shall each provide a report to the Joint Legislative
42 Utility Review Committee summarizing the procedures conducted pursuant to the
43 provisions of this act during the preceding two years ending on July 1 immediately

- 1 preceding the report date. The reports shall recommend whether the provisions of this act
- 2 should be continued, repealed, or amended.
- 3 Sec. 7. This act becomes effective July 1, 1995.