



TELECOMMUNICATIONS MODERNIZATION

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Telecommunications regulation has been an active issue in the Colorado state legislature for several years. In 2014, five bills passed that changed telecommunications regulation, subsidies, and infrastructure in Colorado. These bills deregulate a number of telecommunications products, specify the manner in which basic telephone service will be deregulated subject to limited regulatory oversight, and provide a framework for the expansion of broadband service in the state. This *issue brief* provides a background on telecommunications issues and an overview of the recent legislation.

Deregulation

Public Utilities Commission. The Colorado Public Utilities Commission (PUC) regulates telecommunication services in the state. The competitive environment for a specific telecommunications service determines which of three types of regulation applies. These regulation types are known as "Part 2," "Part 3," and "Part 4." Part 2 regulation broadly covers the operations of a telecommunications provider, including the regulation of rates and service standards. Part 3 regulation applies to emerging competitive telecommunication services and authorizes price ceilings and other limited PUC oversight. Part 4 is a deregulated status, though Part 4 telecommunications services are subject to certain fees and surcharges. The PUC periodically reclassifies telecommunications providers.

2014 changes. To codify deregulation, House Bill 14-1329 identifies certain

telecommunications services as exempt from regulation, like Voice-over-Internet Protocol (VoIP). The PUC retains certain regulatory authority over the wholesale market and basic emergency service (known as 9-1-1). House Bill 14-1330 modernizes telecommunications definitions in statute. House Bill 14-1331 modifies the statutory framework for the remaining limited regulation of basic service (local landlines), and allows the PUC to reregulate basic service again under certain circumstances.

Phone Subsidies and Surcharges

Universal access and high cost support. Certain telecommunication providers are supported through subsidies for service to low-income customers and surcharges that help defray the high costs of providing service in rural areas. Universal access is a federal and state system intended to make high-quality telephone service available to all customers regardless of their income or geographic location. Federal agencies currently support low-income telephone access, while Colorado discontinued its program in 2013 as the number of eligible landline customers was in decline.

The Colorado High Cost Support Mechanism (HCSM) supports certain telecommunications providers with significant infrastructure costs. Funds collected by the HCSM are distributed to eligible providers in both rural and nonrural areas. The PUC sets a surcharge to fund the HCSM based on providers' reported retail revenues.

2014 changes. A portion of HCSM funds are redirected to broadband development grants under House Bill 14-1328. The PUC will annually determine the amount of current HCSM surcharges that are no longer necessary to support basic service and allocate these funds to a newly-created Broadband Fund. A 16-member Broadband Deployment Board is created in the Department of Regulatory Agencies to administer the fund and award grants for broadband development in unserved areas of the state. Telecommunications providers and local governments may develop proposals, which the board will review in accordance to criteria such as having multiple funding sources, providing "last-mile" broadband service, and achieving minimum broadband network speeds.

Infrastructure

Telecommunications platforms. Consumers access telecommunications services through a variety of platforms, including landline telephone, wireless, cable, and Internet telecommunications networks. While landlines accounted for 100 percent of the consumer telecommunications market in 1987, wireless service has grown to be the largest share of the market, surpassing landlines in 2006. Broadband Internet is currently the fastest growing segment of the telecommunications market. According to statistics compiled for the National Broadband Map, at least 98.9 percent of Colorado's population resides in areas served by broadband Internet. All unserved areas of the state are in rural areas.

Federal broadband support and the EAGLE-Net Alliance. In 2009, the American Recovery and Reinvestment Act provided \$7.2 billion to expand access to broadband services in the United States. The largest federal grant to Colorado, \$100.6 million, was awarded to the EAGLE-Net (Educational Access Gateway Learning Environment Network) Alliance, an intergovernmental entity formed in 2010 with the mission to build "middle mile" facilities that would connect schools, libraries, and other local institutions in remote areas where broadband infrastructure had proven cost-prohibitive. The project fell short of its goals in 2012, but has \$15.0 million to renew its broadband service

investments in rural school districts, mountain communities, and core network development before 2018.

State-owned telecommunications assets. State and local government functions, including the state emergency communications network, are supported by state funding. The Governor's Office of Information Technology administers the state-owned communications infrastructure. Funding and oversight of upgrades to this statewide network have been the subject of recent legislation (House Bill 12-1224 and House Bill 14-1203).

2014 changes. To facilitate the deployment of telecommunications infrastructure in Colorado, House Bill 14-1327 establishes a sales and use tax rebate on the purchase of broadband equipment by telecommunications providers that deploy this equipment in "target areas" of the state. Target areas are defined as any area of Colorado outside of municipalities with a population of at least 30,000 residents. This bill also facilitates joint trenching opportunities for the deployment of fiber optic cable or conduit and other broadband equipment. It requires local governments to expedite the permitting of broadband and small wireless network facilities. Finally, it clarifies that broadband providers have the same status as other telecommunications providers to use public rights-of-way.