

## Telecommunications Regulation in Minnesota

### *Regulatory framework*

Telecommunications services are divided between services that are subject to federal regulation and services that are subject to state regulation.

- The provision of **interstate** and **interLATA long-distance** service is overseen by the Federal Communications Commission (FCC).
- The provision of **local long distance** service and **local telephone** service are subject to the jurisdiction of the Minnesota Public Utilities Commission (PUC).

### **Long distance:**

- *Interstate long distance calls* are calls between states.
- *InterLATA calls* are calls between LATAs (LATAs are the areas within states the federal court established to promote competition for long distance services when it broke AT&T into Regional Bell Operating Companies—RBOCs)
- *Local long distance calls* are long distance calls within a LATA.

Federal court decisions and the FCC determine the ability of RBOCs to provide long-distance service:

- RBOCs (like Qwest) cannot provide *interstate long distance calls* or *interLATA calls*, unless the FCC determines that a RBOC has irreversibly opened its local telephone service markets to competition.
- RBOCs are allowed to provide *local long distance* calls

The rates for long distance service are largely deregulated, both at the state and federal level.

**Local:** The federal Telecommunications Act of 1996 required states to allow entities other than incumbent local telephone companies to compete to provide local telephone services to customers. Minnesota moved more quickly than the U.S. Congress, adopting a similar statute in the 1995 legislative session.

### *Types of providers*

Minnesota categorizes those telecommunications providers subject to state jurisdiction as either a “telecommunications carrier” or “telephone company.” Each type of provider is subject to vastly differing state regulation by the PUC.

### *Telephone companies*

A “telephone company” is a company that provided local telephone service as a monopoly provider prior to August 1, 1995 (the date that local service was opened to competition in Minnesota). Under federal law, telephone companies are referred to as “incumbent local exchange carriers” (ILECs). There are two categories of telephone companies under Minnesota law:

- Large telephone companies, which have 50,000 subscribers or more (there are four in the state—Qwest, Sprint, Frontier, and GTE).

- Small telephone companies, which have less than 50,000 subscribers (there are 94 small telephone companies in Minnesota).

The vast majority of small telephone companies fall into one of three sub-categories:

- ▶ Cooperative telephone associations (not-for-profit organizations)
- ▶ Municipal telephone associations (publicly owned and operated) and
- ▶ Independent telephone companies (small companies with less than 30,000 subscribers)

Large companies are subject to the most comprehensive oversight by the PUC, and have their rates established by the PUC. Small companies are treated somewhat differently under Minnesota law, and are generally not as comprehensively regulated due to their size. The three types of small companies listed above are exempt from having their rates established by the PUC, unless the PUC finds after an investigation that the rates the small company is charging are not “fair and reasonable.”

All telephone companies, large and small, may elect to be regulated under “alternative form of regulation” (AFOR) plans. These plans provide for minimum levels of consumer protection in exchange for allowing the telephone company more operating flexibility. Three large companies and 62 small companies operate under AFORs. The statute authorizing AFORs expires in 2006.

***Telecommunications carriers***

There are two categories of “telecommunications carriers.”

- Long distance providers who do not provide local service (there are approximately 550 companies authorized to provide long distance services in Minnesota); and
- Competitive local exchange carriers (CLECs) – providers of local telephone service that compete with incumbent telephone companies (there are 55 CLECs operating in the state).

Telecommunications carriers are not subject to rate-regulations or earnings investigations by the PUC, but are subject to other regulatory requirements.

***State telecommunications goals***

Minnesota law specifies certain goals for the PUC to promote in overseeing the telecommunications industry. These goals are:

- supporting universal service
- maintaining just and reasonable rates
- encouraging efficient deployment of infrastructure
- encouraging fair and reasonable competition
- maintaining or improving quality of service
- promoting customer choice
- maintaining consumer protections and
- encouraging voluntary resolution of issues between and among competing providers.

**For more information:** Contact legislative analyst Mike Bull at 651-296-8961.

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