POLICY TO IMPROVE THE PROVISION OF LOCAL EXCHANGE CARRIER SERVICE

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WHEREAS, local exchange service is fundamental to the goal of providing universal access to basic and other telecommunications services;

WHEREAS, during the development phase, cost-based pricing of services such as national and international long distance and other telecommunication services may be employed to generate funds which may then be used to subsidize the local exchange service;

WHEREAS, while the telecommunications sector as a whole is profitable, the profits mainly come from the toll services particularly from the international long distance service; and

WHEREAS, there is a need to promulgate new policy directives to meet the targets of Government thru the National Telecommunications Development Plan (NTDP) of the Department of Transportation and Communications (DOTC), specifically: (1) to ensure the orderly development of the telecommunications sector through the provision of service to all areas of the country; (2) to satisfy the unserviced demand for telephones; and (3) to provide healthy competition among authorized service providers.

NOW, THEREFORE, I, FIDEL V. RAMOS, President of the Republic of the Philippines, by virtue of the powers vested in me by law, do hereby order:

SECTION 1. Definition of Terms - The following definitions shall apply within the context of this policy:

a. Basic Telecommunications Service - refers to local exchange residence and business telephone service and telegraph service without additional features;

b. Cost-based pricing - refers to a system of pricing in which the actual cost of providing service establishes the basic charge to which a fixed mark-up is added to collect a standard charge to all users without discrimination;

c. Local Exchange Carrier Service - refers to a telecommunications service, primarily but not limited to voice-to-voice service, within a contiguous geographic area furnished to individual subscribers under a common local exchange rate schedule;

d. Value-based pricing - also known as value of service pricing refers to a system of pricing where cost of service establishes the minimum charge and a variable mark-up is added to collect revenue from those who value the service more highly; and

e. Universal Access - refers to the availability of reliable and affordable telecommunications service in both urban and rural areas of the country.

SECTION 2. Objective - The objective of this policy is to improve the provision of local exchange service in unserved and underserved areas as defined by the National Telecommunications Commission (NTC), thus promoting universal access to basic telecommunications service.

SECTION 3. General Policy - The Government shall pursue the policy of democratization in the ownership and

operation of telecommunication facilities and services.

SECTION 4. Cross-Subsidy - Until universal access to basic telecommunications service is achieved, and such service is priced to reflect actual costs, local exchange service shall continue to be cross-subsidized by other telecommunications services within the same company.

SECTION 5. Service Packaging - Authorized international gateway operators shall be required to provide local exchange service in unserved and underserved areas, including Metro Manila, within three (3) years from the grant of an authority from the NTC, under the following guidelines:

a. Authorized gateway operators shall provide a minimum of three hundred (300) local exchange lines per international switch termination;

b. At least one (1) rural exchange line shall be provided for every ten (10) urban local exchange lines installed;

c. The establishment of public Calling Offices at the rural barangay level shall be given an appropriate credit by the NTC towards the obligation to provide local exchange service.

The above figures are derived from the following factors: number of exchange lines, number of international switch terminations, traffic, grade of service and demand;

d. No permit for an international gateway facility shall be granted an applicant unless there is a clear showing that it can establish the necessary foreign correspondenceships; and

e. Carriers already providing local exchange service in accordance with Section 5(a), (b) and (c) shall be authorized to operate an international gateway subject to applicable laws.

SECTION 6. Subsidiary - The subsidiaries of a public telecommunications carrier operating an authorized international gateway shall not be allowed to operate another gateway in accordance with Executive Order No. 59 (1993).

For this purpose, a telecommunications company shall be considered as a subsidiary if any or all of the following conditions exists:

a. The two companies share the services of key operating and management personnel;

b. The shareholdings of one company, together with the shareholdings of its stockholders, in the other company aggregate more than fifty percent (50%) of the outstanding capital stock of the latter company; or

c. One company and its stockholders have a combined exposure in the other company in the form of loans, advances, or asset-lease equivalent to more than fifty percent (50%) of the capital accounts of the other company.

SECTION 7. Cellular Mobile Telephone System - Authorized international gateway operators may also be authorized to provide Cellular Mobile Telephone System (CMTS) service and other non-basic telecommunications services which are possible sources of subsidy for local exchange carrier service.

SECTION 8. Non-Basic Services - Authorized providers of other non-basic telecommunications services which are possible sources of subsidy shall be required to provide local exchange carrier service in accordance with guidelines, rules and regulations prescribed by the NTC.

SECTION 9. Duration of Services - The obligation to provide local exchange carrier service remain in force for as long as the service providers described in Section 5, 7 and 8 hold their authorizations to provide their respective non-basic services.

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SECTION 10. Other Requirements - The foregoing provisions shall be without prejudice to the other requirements for the grant of franchises and Certificates of Public Convenience and Necessity.

SECTION 11. Interconnection Requirement - All telecommunications service networks shall be interconnected in a non-discriminatory manner in accordance with Executive Order No. 59 (1993) and its implementing guidelines.

SECTION 12. Financial Reporting Requirements - The internal subsidy flows shall be made explicit in the financial reporting system of the telecommunications service providers.

SECTION 13. Policy Implementation - The NTC is hereby directed to promulgate the guidelines, rules and regulations to implement this Executive Order within thirty (30) days from the effective date of this Executive Order.

SECTION 14. Violations - Any violation of this Executive Order shall be subject to the same penalties provided for in Section 13 of Executive Order No. 59 (1993).

SECTION 15. Transitory Provisions - Existing telecommunications service providers described in Section 5, 7 and 8 shall have a period of five (5) years to comply with the above requirements to provide local exchange service.

SECTION 16. Pending Applications - Telecommunications service providers with existing and pending applications for International Gateway Facility, Cellular Mobile Telephone System (CMTS) and other Value Added Services (VAS) providers need not revise their applications with the NTC. However, upon issuance of the Provisional Authority or CPCN, as the case may be, they shall be given a period of three (3) months within which to submit and file the necessary applications for local exchange service in accordance with provisions hereof.

SECTION 17. Repealing Clause - All executive orders, administrative orders and other executive issuances inconsistent herewith are hereby repealed, modified or amended accordingly.

SECTION 18. Effectivity - This Executive Order shall take effect immediately.

Adopted: 12 July 1993

(Sgd.) FIDEL V. RAMOS
President
By the President:

(Sgd.) TEOFISTO T. GUINGONA, JR.
Executive Secretary

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