this "will foster universal service and prepare Connecticut's citizens for full participation in the information superhighway of the twenty-first century." (Id.) AT&T cautions that the Department must avoid "at all cost" "modifications to the definitions of basic and local service that strengthen the incumbent LEC's monopoly position." (Id.) "Otherwise, Connecticut consumers will not experience the benefits that arise when effective competition occurs and the state of Connecticut will not be in a position to attract the new businesses and jobs that come with being a leader in telecommunications services." (Id., pp. 6-7)

5. MCI Telecommunications Corporation (MCI)

MCI states that "it is critical to develop a standard definition of basic exchange service." (MCI Position Paper, p. 2) According to MCI, "[e]xplicitly defining basic (universal) service is one of the key components of implementing a pro-competitive universal service policy." (Id.) "By defining basic local service, then the cost of that service can be measured and any appropriate universal service subsidy determined and funded." (Id.)

In MCI's view, the term "basic service" is not clearly defined in Connecticut at present. It thus recommends that basic service be defined as follows: "The provision of single-line, single party residential access to the first point of switching in a local exchange network, unlimited usage within an exchange area, and access to 911, operator services, directory assistance, and telecommunications relay service, at a rate no higher than the current nationwide average for basic local residential service (about $18)." (Id., p. 4) MCI cautions, however, that the Department should not define basic service "for the purpose of requiring all carriers to offer a prescribed basic service offering." (Id., p. 6) It offers its definition, therefore, "only in the context of achieving a competitively neutral universal service policy, and not as a minimum service requirement to which service providers should be held." (Id.) According to MCI, "[i]t is clearly appropriate to require SNET (and only SNET) to continue providing basic service using the existing local calling areas." (MCI Reply Brief, p. 7)[10] MCI clarifies in its Reply Comments, however, that it does agree that all local service providers should be required to provide its customers access to all services which the Department determines are necessary to protect the public safety. (MCI Reply Comments, p. 1)

MCI states that at present "local service" is defined by the tariffs of the telephone companies currently providing local exchange services in Connecticut. (MCI Position Paper, pp. 4-5) "MCI submits that the definition of local service contained in the tariffs of the local telephone companies should not be used to impose parallel service requirements on new entrants." (Id., p. 5) "Permitting would-be competitors to tariff whatever local exchange services they feel is appropriate in order to respond to what they perceive as market demand would serve the public interest by offering consumers a wide array of calling plans and technical innovations to meet their particular needs." (Id.) MCI strongly disagrees with other participants in this

[10] The Department assumes MCI intends that basic service should also be provided by the state's two other telephone companies, New York Telephone and Woodbury Telephone.

proceeding who advocate the adoption of minimum calling areas for new entrants. (MCI Reply Comments, p. 4) In MCI's view, there are "no technical or public interest reasons to impose minimum local service area requirements on new entrants, and in fact, such requirements would hamper the development of competition." (Id., p. 1)

6. Sprint Communications Company L.P. (Sprint)

According to Sprint, "basic service" historically has been loosely defined in Connecticut as "Plain Old Telephone service or 'POTS' service, consisting primarily of a voice grade access line providing basic access to the public switched network." (Sprint Position Paper, p. 4) Sprint states that "Universal Service" is the "widespread availability of telephone service [POTS] at a reasonable rate." (Id.) Sprint argues that in Connecticut, Universal Service has been accomplished, and the Department should "turn its attention to maintaining Universal Service in a competitive environment." (Id., p. 5)

Sprint recommends that the following components be included in basic service: provision of a voice grade access line; touchtone calling; access to a chosen local and long distance carrier; access to emergency service (e.g. 911/E911); access to assistance services (e.g. operator, directory assistance); access to Statewide Relay Service (TRS); white pages directory listing; and privacy protection. (Id., pp. 7-8) Sprint argues that its concept of basic service "lends itself easily to all providers of local service, including incumbents as well as new entrants."[11] (Id., p. 8)

Sprint contends that because the telephone companies have ubiquitous coverage, even with competitors entering the market, regulators will continue to look to the telephone companies to provide local service to all. (Id., p. 6) According to Sprint, the obligation to provide service to all should diminish as the transition to full competition results in ubiquitous alternatives. (Id.) Therefore, in Sprint's view, effective competition for every customer may nullify the concept of the provider of last resort. (Id.)

Sprint cautions, however, that "the Department must recognize that before local service competition can be truly effective, the incumbents' prices for basic service must be cost-based." (Id.) Therefore, according to Sprint, "existing subsidies which are provided by non-basic local services must be removed, and prices for the LECs' basic services, residential services in particular, must move toward cost-based levels." (Id.) Sprint recognizes that this may mean increases to residential customers during the transition to effective competition, but states that "[i]f basic service rates are not going to be increased to cost-based levels, then the embedded subsidies flowing to basic

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[11] Sprint suggests that the bundle of services included in a Universal Service definition of basic services should be nationally defined and periodically adjusted to accommodate changes in technology and market demand. (Sprint Position Paper, p. 6) OCC disagrees with Sprint's suggestion, stating that the definition of basic service can differ from state to state. (OCC Comments, p. 6) According to OCC, "Connecticut's high per capita income level, coupled with its geographically small size and high population density and high telephone penetration level, suggest strongly that Connecticut's definition of basic service can be more inclusive than a nationwide standard." (Id.)

service will need to be carved out of existing rates and placed into a Universal Service fund." (Id.) Sprint continues by contending that "[i]deally, basic service rates will be allowed to obtain cost-based levels, and only certain eligible low income subscribers with demonstrated financial need will receive a Lifeline subsidy from the Universal Service fund." (Id., p. 9)

In Sprint's view, the public "will benefit from the introduction of customer choice and competition in the provision of basic local services which should bring about innovative services and lower, cost-based, pricing for all telecommunications services." (Id.) "This will stimulate usage of the network, creating economic efficiency which will ripple throughout the Connecticut economy." (Id.)

7. Teleport Communications Group Inc. (TCG)

TCG states that "[s]ince the passage of the Communications Act of 1934, universal service has come to mean a policy commitment to assure affordable, basic telephone service to every citizen." (TCG Position Paper, p. 1) According to TCG, the definition of what constitutes basic service "is critical to the future of universal service." (Id., pp. 1-2)

TCG states that basic service "represents the minimum level of service to which all consumers should have access." (Id., p. 4) TCG believes that basic service should be defined according to three general criteria: "consumer demand for services, concern for public health and safety, and the societal cost of providing the service." (Id., p. 5) In TCG's view, "[t]he key attributes of basic service are access and connectivity," and should be limited today to the following services: single line dial tone, touch tone, calling within a local area, access to long distance service, and access to emergency services. (Id., pp. 5-6) In the future, contends TCG, "the Department should modify the definition of basic service only after thorough investigation of the types of services chosen by consumers." (Id., p. 6)

It is TCG's view that basic service "should be the responsibility of each carrier providing service to residential customers." (Id.) However, "[t]o assure that at least one carrier serves every exchange area, the carrier-of-last-resort obligation . . . should be retained even in a competitive environment." (Id., p. 8) TCG argues that "[b]ecause the incumbent carrier sets the initial subsidy, it should retain carrier-of-last-resort obligation until competition and a complementary universal service program are firmly in place." (Id., pp. 8-9) "At such time, however, the incumbent may opt not to serve a particular area." (Id., p. 9)

> If other carriers (using any technology) are willing to provide service to the area at the existing rate and subsidy level, intervention is unnecessary. If no carrier is willing to serve, the Department (or the administrator of the subsidy fund) must hold an auction of the service area. Under such circumstances, the right to provide service to the customers in the area will be offered to the carrier willing to provide service at the lowest price to the end user and at the lowest subsidy.

(Id.)

8. The New England Cable Television Association, Inc. (NECTA)

NECTA bases its comments on the assumption that the Department's purpose in defining basic and local service "is directed to determining what level of service should be provided as 'universal service' to all Connecticut residents and businesses." (NECTA Position Paper, p. 2) According to NECTA, the "traditional concept of basic 'universal service' has been defined very narrowly, and has been largely limited to access to the public network." (Id., pp. 3-4) NECTA continues by stating that universal service, "as that term is understood today, tends to mean basic analog voice grade 'dial tone line' (capable of being furnished via twisted copper pairs) that supports voice and low speed data communication and provides access to all subscribers (local and toll)." (Id., pp. 4-5) According to NECTA the following should be considered part of basic service: voice grade access line, tone dialing, access to local and toll calling, access to emergency service (911/E911), access to assistance services (operator, directory assistance), statewide relay services, directory listing, and privacy protections. (Id., p. 5) In addition, NECTA states that it may be appropriate "to include some local usage as part of basic service, as the utility of access goes beyond the ability to receive incoming calls." (Id.)

NECTA contends that the concept of universal service will evolve over time. (Id., p. 7) NECTA states that the following criteria are relevant in assessing the services and capabilities that should be included within universal service: customer need/demand for the service or capability, public benefit associated with the service/capability, whether the service/function provides an underlying capability necessary to access other basic services, the level of subscription to the service/capability, the cost to include the service/capability within basic service, and whether the service/capability would be generally available and affordable without government action.[12] (Id.)

NECTA makes it clear in its Comments that "as long as [the incumbent telephone company] remains the dominant provider of local exchange services, the availability of service from the [telephone company] that meets the basic service level obviates the need for competing local exchange carriers . . . to be compelled to furnish an equivalent basic service offering." (NECTA Comments, p. 3) It is NECTA's view, therefore, that the basic service definition it has suggested should be made available by the telephone companies to all customers who desire that level of service and the Department should make no such minimum service requirements on new entrants. (Id., p. 8) According to NECTA, its members should be **required** to provide only E911 access and handicap access in its local service offerings. (Testimony of Helen Golding, January 25, 1995, p. 79) "NECTA members want to provide that which their customers

[12] AT&T expresses strong support for use of these criteria in determining what should be included in basic service. (AT&T Comments, p. 3)

want them to provide and which is efficient for them as a business decision to provide." (Id., p. 78)

NECTA "is not entirely clear on what the Department intends by reviewing 'basic' and 'local' service as two distinct concepts within the context of this proceeding." (NECTA Position Paper, p. 8) NECTA states, however, that "there are clearly a range of existing local service options that go beyond what should be included in universal service." (Id.) At present, those are available through tariffs of the telephone companies. (Id.) NECTA contends that "[w]ith the entry of new providers authorized by the Department, the variety, rate structure, and other aspects of local services will expand and change, as new providers structure their offerings to meet their perceptions of customer demand." (Id., p. 9) In NECTA's view, "[w]hile it is appropriate for the Department to determine what level of service should be provided as basic universal service, it is not in the public interest for the Department to 'lock in' a standard definition of local exchange service." (Id.)

9. Cablevision Lightpath, Inc. (Lightpath)

Lightpath assumes that the purpose of determining the definition of basic service and identifying local service offerings in this proceeding "is to assist the Department in identifying universal services issues that may arise from the introduction of competition for local exchange services in Connecticut." (Lightpath Comments, p. 2) According to Lightpath, basic service "refers to those services that should be universally available to all Connecticut consumers, regardless of whether local exchange services are provided by a single monopoly carrier or in a competitive environment by multiple competing local exchange carriers." (Id., p. 3) In Lightpath's view, the following general principles should govern the Department's consideration of basic/universal service: "the list of basic service[s] should be evaluated and revised to meet evolving needs"; "basic services should be available to all who wish to use them"; "basic services should be reasonably priced"; "basic services should be accessible"; and "funding mechanisms to achieve universal service should be fair and equitable." (Id.)

Lightpath thus recommends that the Department include the following in its definition of basic service: voice grade access lines (including touchtone); dial tone; access to local and toll calling; access to emergency and assistance services; statewide relay services for the hearing impaired; directory listings; and privacy protections. (Id., p. 4) The definition of basic service, however, according to Lightpath should be an evolving one. (Id.)

Lightpath does not advocate that the Department establish a definition for local service and thus cautions that the Department should not attempt to impose set criteria on how new entrants structure their local service offerings. (Id., pp. 7-8)

B. POINTS OF AGREEMENT AND CONTENTION

The above discussion sets forth the general positions of the participants submitted in this proceeding. An analysis of the details of those positions reveals a significant consensus of opinion among this docket's participants. Specifically, the participants generally agree that: 1) the Department has a statutory responsibility to conduct this proceeding; 2) basic service and local service are distinctly different terms; 3) basic service is defined in terms of functionality, although the participants do not agree on all the functionalities to be included in the definition; 4) the definition of basic service will change over time as technology and market demand develops; 5) local service is a rate plan; and 6) new providers of local service should have maximum latitude in creating local service offerings that meet the needs of their customers.

The participants express differing views, however, on two significant issues: 1) whether new providers of local service should be required to provide basic service, as defined by the Department; and 2) whether the Department should specify a minimum local calling area for all providers of local service.

IV. DISCUSSION

A. Introduction

Public Act 94-83 envisions a regulatory framework that will support the Department's pursuit of broader market participation, while affording the Department the means to ensure that the public interest is protected. Among the goals articulated in the Act are: "the universal availability and accessibility of high quality, affordable telecommunications services to all residents and businesses in the state" and "the development of effective competition as a means of providing customers with the widest possible choice of services." Conn. Gen. Stat. § 16-247a (a), as amended by Public Act 94-83. Moreover, the Department is directed to "regulate the provision of telecommunications services in the state in a manner designed to foster competition and protect the public interest." Conn. Gen. Stat. § 16-247f (a), as amended by Public Act 94-83. It is with the recognition of its responsibilities to both objectives, therefore, that the Department has conducted its investigation of local service options.

B. Statutory Framework

Section 5 of Public Act 94-83 provides:

> In order to ensure the universal availability of affordable, high quality telecommunications services to all residents and businesses throughout the state regardless of income, disability or location, the Department shall . . . periodically investigate and determine, after notice and hearing, local service options, including the definition and components of any basic telecommunications services, necessary to achieve universal service and meet customer needs . . . .

Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83. This statutory section served as the basis for the Department's initiation of the instant docket and serves as the framework for the discussion that follows.

The provisions of Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, use both the terms "local service" and "basic telecommunications services." The language of the statute, therefore, compels the conclusion that it was not the intent of the legislature that these terms be used interchangeably. Rather, basic telecommunications service is one aspect of local service. In this Decision (and as deemed applicable in future proceedings), therefore, the Department will consider the subjects of basic telecommunications services and local service as sufficiently independent of one another to warrant independent examination, with an appreciation for the association between the two.

C. The Definition And Components of Basic Telecommunications Services

As is evident from Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, the Department is required to determine the definition and functional components of basic telecommunications services. Such an explicit statement of that which comprises basic telecommunications services will be increasingly necessary in a multi-provider environment[13] and will be critical to the Department's deliberations in Docket No. 94-07-04, DPUC Investigation into the Competitive Provision of Local Exchange Service in Connecticut, Docket No. 94-07-08, DPUC Exploration of Universal Service Policy Issues, and Docket No. 94-07-09, DPUC Exploration of the Lifeline Program Policy Issues.

During the course of this proceeding, OCC has stated that "basic telecommunications services must be available at all times and allow the customer to complete calls to any other telephone in the local service area and to access toll services." (See OCC Position Paper, p. 3) The Department agrees with OCC and thus has determined that basic telecommunications services are "those services considered essential for minimally acceptable access to and use of the public switched telecommunications network."

It is the Department's opinion, therefore, that, at a minimum, basic telecommunications services must include the following capabilities and qualities:

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[13] At the outset, it should be clear that the Department is not determining in this Decision whether the competitive provision of Local Exchange Service should be authorized. In Docket No. 94-07-04, DPUC Investigation into the Competitive Provision of Local Exchange Service in Connecticut, the Department will determine if the competitive provision of Local Exchange Service would be consistent with the Public Act's goals and other provisions, and, if so, whether in light of the Act's goals and provision, any restrictions, such as specific terms and conditions, should be imposed on those seeking to provide Local Exchange Service.

- provision of a single party, voice grade access line with an associated 7-digit identification number;
- Touch-Tone® equivalent calling and Automatic Number Identification (ANI) capability;
- automatic access to the first switching point in the user's presubscribed carrier's system;
- the ability to receive without additional charge any call irrespective of the network on which the call originates;
- presubscribed access to a preferred intrastate long-distance carrier and a preferred interstate long-distance carrier;
- dial access to emergency services under generally accepted dialing protocols (e.g. 911 and 0);
- dial access to telecommunications assistance services (e.g. 411 and Operator);
- dial access to statewide telephone relay services;
- white pages (alpha) directory listing;
- privacy protections (e.g. *67 and Per-Line blocking);
- compliance with explicit and implicit service standards to be established in a future docket regarding service standards; and
- a usage element, either flat rate or measured, by the NXX prefix of the provider.

D. Duties, Obligations and Responsibilities of All Providers of Local Service

Public Act 94-83 prescribes broader market participation in the telecommunications markets of Connecticut. In so doing, the legislature sought to offer the general public greater choice of products, prices and providers, while still ensuring the universal availability and accessibility of high quality, affordable telecommunications services to all residents and businesses in the state. The legislature envisioned these two goals as coexistent, not as mutually exclusive. The Department, therefore, will not pursue strategies or policies which potentially sacrifice the hard-won benefits of the past (under a regulated monopoly) for the uncertain and unprotected promises of the future.

In a multi-provider environment, the prescribed duties, obligations and responsibilities that have heretofore been solely applied to the current telephone companies must and will be extended to all participants in the local service market. The legislature intended that the greater choice of products, prices and providers be available to all customers irrespective of geographic location, economic circumstance, or classification (i.e. business or residential). Therefore, to ensure that all residents benefit from competition in the telecommunications market, the Department shall require each provider of local service to provide basic telecommunications services (either employing its own network or as a resale offering) within the geographic area for which the local service provider is certified.

The Department recognizes that this requirement may only be fulfilled if the telephone companies offer the defined functions of basic service on a tariffed,

wholesale basis for resale. MCI recommends in its Written Exceptions that such resale product must, at a minimum, meet the following requirements: 1) any resale product offered by a telephone company to new entrants must be of the same caliber as that provided by the telephone company to its end users; 2) resellers must be provided with a block of numbers or an automated link to the numbering base; and 3) in order to prevent customer confusion, all calls from reseller customers to the local operator must be branded, allowing resellers to assure their customers that their chosen carrier is handling the call. The Department also recognizes the need for providing a suitable resale offering and will accordingly address this issue in Docket No. 94-07-04, DPUC Investigation into the Competitive Provision of Local Exchange Service in Connecticut, and Docket No. 94-10-02, DPUC Investigation into the Unbundling of The Southern New England Telephone Company's Local Telecommunications Network, and will consider the requirements recommended by MCI.

The Department has interpreted its responsibilities under the provisions of Conn. Gen. Stat. § 16-247e (a) regarding basic service as that of establishing a threshold basic service which will serve as the primary platform for development of any number of products and services in the future. The market demand for solely basic telecommunications services by an end-user will constitute a relatively small portion of any provider's service offerings, but will provide the essential technical foundation for almost every telecommunications service.

After careful consideration, the Department did not conclude it appropriate to incorporate as a component of basic telecommunications services such special interest provisions as specific physical impairment provisions (other than the statewide telephone relay service) or feature enrichments which warrant more opportunity to examine than can be afforded in this docket. While the inclusion of such provisions would be of significant benefit to some portion of the Connecticut user community, they are better addressed in the context of specific service offerings. This does not imply that this Department views these issues as insignificant or unworthy of consideration. Quite to the contrary, the Department strongly encourages the prospective providers to seriously consider the merits of the arguments presented in this proceeding regarding the telecommunications needs of the financially-, physically-, and geographically-disadvantaged and endeavor to address them in the context of any proposed set of product/service offerings.

The Department's efforts in this proceeding to narrowly define the components of basic telecommunications services will permit telecommunications providers free exercise of their managerial prerogatives without undue regulatory burdens. The Department encourages providers to aggressively pursue development of new products/services in accordance with the expressed demands of the varied segments of the Connecticut market. Participation is not without its obligations, however. The Department has set forth in this Decision the obligations and responsibilities of all local service providers in the context of basic telecommunications services. Should it become apparent that the expectations of the public in this regard are not being met, the Department, pursuant to Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, will reexamine the threshold for basic telecommunications services it has

established in this Decision. In any event, the Department will periodically investigate and determine the definition and components of any basic telecommunications services as required by the Public Act.

E. Local Service Offerings

Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, requires the Department's investigation of local service options, but does not prescribe any action by the Department to clarify the term "local service." Upon review of the Public Act as a whole and § 16-247e (a), as amended, in particular, the Department has determined that any effort to explicitly define "local service" is not necessary to foster competition or to protect the public interest. The term "local service" is a generic term used within the industry to describe a service available from a telecommunications service provider. To impose a common definition for local service on all prospective providers would effectively reduce the basis for product differentiation and eliminate an essential point of distinction between competitors in the minds of the market. Moreover, any effort to standardize "local service" would only serve to dictate specific network architectures which, as this Department stated in Docket No. 94-07-01, The Vision for Connecticut's Telecommunications Infrastructure, would constitute an unwarranted intrusion into the business of the telecommunications providers. Competition can best emerge when the opportunity to freely innovate in the definition and development of product/service offerings is uniformly guaranteed to all participants. Therefore, the Department will permit local service offerings to continue to be defined by the tariffs of the respective service providers. The Department, however, reserves the right afforded it by Public Act 94-83 to approve, deny, investigate, and/or suspend any offering as necessary. See Conn. Gen. Stat. § 16-247f, as amended by Public Act 94-83.

Notwithstanding the above discussion, however, the Department does feel it important for consumer protection purposes that it impose one requirement on providers regarding local service options. Establishing a competitive framework which confers upon the public the opportunity to choose among competing prices, providers and services is important, but if the implementation of Public Act 94-83 is truly to be successful, the ability to make informed decisions must be an aspect of the new power of choice. Therefore, the Department will require each provider of local telecommunications services to provide one local service offering (with its own network or through resale) that is equivalent in design and calling provisions to the basic, flat rate local calling package offered by the relevant telephone company (SNET USOC 1FR, NYTel Residence Flat Rate Service and Woodbury Residence Individual). By requiring each of the providers to make such an offering available, the public will have the necessary information to formulate an informed preference in the choice of a local service provider.[14] Beyond this, however, local service providers are encouraged to

[14] Indicative of the need for the Department to protect the public interest in this area is the callous attitude of NECTA when asked about the confusion that could result from multiple providers of local service. The NECTA witness replied: "I think that there will always be some customers who are confused about their service options, even with one carrier." (Testimony of Helen Golding, January 25, 1995, p. 70) The Department is not so willing to accept that confusion is a necessary component of a multi-provider environment, without taking efforts to alleviate that confusion.

pursue innovative product development and packaging strategies such that the goals of Public Act 94-83 may be realized.

V. CONCLUSION

The Department has investigated herein local service options, has set forth its requirements for basic telecommunications services, and has determined to whom the requirements apply. In the following section, the Department sets forth its findings and conclusions in this proceeding. Those, along with the body of this Decision, shall form the basis for rules and regulations governing basic service to be developed by the Department. Until such time that rules and regulations are promulgated, this Decision shall govern the provision of basic service in Connecticut.

VI. FINDINGS AND CONCLUSIONS

A. Findings

1. Public Act 94-83 requires that the Department regulate the provision of telecommunications services in the state in a manner designed to foster competition and protect the public interest.

2. The Department has a statutory responsibility, pursuant to Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, to periodically investigate and determine local service options, including the definition and components of any basic telecommunications services, necessary to achieve universal service and meet customer needs.

3. "Basic telecommunications services" and "local service" are not interchangeable terms.

4. Basic telecommunications service is one aspect of local service.

5. Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83, requires the Department to determine the definition and functional components of basic telecommunications services.

6. Basic telecommunications services must be available at all times and allow the customer to complete calls to any other telephone in the local service area and to access toll services.

7. A usage element, defined by a provider of local service, is a critical component of basic telecommunications service.

8. Public Act 94-83 seeks to offer the general public greater choice of products, prices and providers, while still ensuring the universal availability and

accessibility of high quality, affordable telecommunications services to all residents and businesses in the state.

9. In a multi-provider environment, the prescribed duties, obligations and responsibilities that have heretofore been solely applied to the current telephone companies must be extended to all participants in the local exchange service market.

10. The expressed intent of Public Act 94-83 is that greater choice of products, prices and providers be available to all customers irrespective of geographic location, economic circumstance, or classification (i.e. business or residential) than was provided under prior statutory direction.

11. The Department's establishment of a threshold basic service, with narrowly prescribed components, will permit telecommunications providers free exercise of their managerial prerogatives without undue regulatory burdens.

12. Conn. Gen. Stat. § 16-247e (a) requires the Department to investigate local service options, but does not prescribe any action by the Department to clarify the term "local service."

13. An explicit definition of "local service" is not necessary to foster competition or to protect the public interest.

14. To impose a common definition for local service on all prospective local service providers would effectively reduce the basis for product differentiation and eliminate an essential point of distinction between competitors in the minds of the market and would serve to dictate specific network architectures which this Department has characterized as an unwarranted intrusion into the business of the telecommunications provider.

15. Competition can best emerge when the opportunity to freely innovate in the definition and development of product and service offerings is uniformly guaranteed to all participants.

16. The ability to make informed decisions about telecommunications prices, services and providers must be an aspect of the power of choice conferred by a competitive market.

17. The Department must take action, if reasonable, to alleviate customer confusion arising from a multi-provider environment.

18. Conn. Gen. Stat. § 16-247e (a) requires the Department to periodically conduct the investigation that was the subject of this proceeding.

B. Conclusions

1. At a minimum, basic telecommunications services must include the following capabilities and qualities:

- provision of a single party, voice grade access line with an associated 7-digit identification number;
- Touch-Tone® equivalent calling and Automatic Number Identification (ANI) capability;
- automatic access to the first switching point in the user's presubscribed carrier's system;
- the ability to receive without additional charge any call irrespective of the network on which the call originates;
- presubscribed access to a preferred intrastate long-distance carrier and a preferred interstate long-distance carrier;
- dial access to emergency services under generally accepted dialing protocols (e.g. 911 and 0);
- dial access to telecommunications assistance services (e.g. 411 and Operator);
- dial access to statewide telephone relay services;
- white pages (alpha) directory listing;
- privacy protections (e.g. *67 and Per-Line blocking);
- compliance with explicit and implicit service standards to be established in a future docket regarding service standards; and
- a usage element, either flat rate or measured, for the local exchange service by the NXX prefix of the provider.

2. Each provider of local service must provide basic telecommunications services (either employing its own network or as a resale offering) within the geographic area for which the local service provider is certified.

3. Any requirement that all providers of local service provide basic telecommunications services may only be fulfilled if the telephone companies offer the defined functions of basic service on a tariffed, wholesale basis for resale.

4. The Department will not explicitly define "local service," but will permit local service offerings to continue to be defined by the tariffs of the respective local service providers, reserving the right afforded it by Public Act 94-83 to approve, deny, investigate, and/or suspend any offering as necessary.

5. For customer protection purposes, each provider of local telecommunications services must provide one local service offering (with its own network or through resale) that is equivalent in design and calling provisions to the basic, flat rate local calling package offered by the relevant telephone company.

6. The Department will reexamine local service options and basic telecommunications issues as necessary.

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DOCKET NO. 94-07-07 DPUC INVESTIGATION OF LOCAL SERVICE OPTIONS, INCLUDING BASIC TELECOMMUNICATIONS SERVICE POLICY ISSUES AND THE DEFINITION AND COMPONENTS OF BASIC TELECOMMUNICATIONS SERVICE

This Decision is adopted by the following Commissioners:

Thomas M. Benedict

Reginald J. Smith

Michael J. Kenney

CERTIFICATE OF SERVICE

The foregoing is a true and correct copy of the Decision issued by the Department of Public Utility Control, State of Connecticut, and was forwarded by Certified Mail to all parties of record in this proceeding on the date indicated.

Robert J. Murphy FEB 2 8 1995

Robert J. Murphy
Executive Secretary
Department of Public Utility Control

Date

STATE OF CONNECTICUT

DEPARTMENT OF PUBLIC UTILITY CONTROL
ONE CENTRAL PARK PLAZA
NEW BRITAIN, CT 06051

DOCKET NO. 94-07-06 DPUC EXPLORATION OF UNIVERSAL SERVICE POLICY ISSUES

March 31, 1996

By the following Commissioners:

Reginald J. Smith
Evan W. Woollacott
Thomas M. Benedict

DECISION

DECISION

I. INTRODUCTION

On July 1, 1994, Public Act 94-83, "An Act Implementing The Recommendations Of The Telecommunications Task Force" (the Public Act or Act), became Connecticut law. The Act is a broad strategic response to the changes facing the telecommunications industry in Connecticut. The technological underpinnings, the framework for a more participative, and ultimately more competitive, telecommunications market, and the role of regulation envisioned by the legislature are essential to the future realization and public benefit of an "Information Superhighway" in Connecticut.

At the core of the Public Act are the principles and goals articulated therein. Section 2 (a) of the Act provides in pertinent part:

> Due to the following: affordable, high quality telecommunications services that meet the needs of individuals and businesses in the state are necessary and vital to the welfare and development of our society; the efficient provision of modern telecommunications services by multiple providers will promote economic development in the state; expanded employment opportunities for residents of the state in the provision of telecommunications services benefit the society and economy of the state; and advanced telecommunications services enhance the delivery of services by public and not-for-profit institutions, it is, therefore, the goal of the state to (1) ensure the universal availability and accessibility of high quality, affordable telecommunications services to all residents and businesses in the state, (2) promote the development of effective competition as a means of providing customers with the widest possible choice of services, (3) utilize forms of regulation commensurate with the level of competition in the relevant telecommunications service market, (4) facilitate the efficient development and deployment of an advanced telecommunications infrastructure, including open networks with maximum interoperability and interconnectivity, (5) encourage shared use of existing facilities and cooperative development of new facilities where legally possible, and technically and economically feasible, and (6) ensure that providers of telecommunications services in the state provide high quality customer service and high quality technical service.

Conn. Gen. Stat. § 16-247a (a), as amended by Public Act 94-83.

The central premise of the legislation is that broader participation in the Connecticut telecommunications market will be more beneficial to the public than will broader regulation. It is significant, however, that the Act does not chart a detailed plan for realization of its goals and compliance with its principles. Rather, the Act entrusts

the Department of Public Utility Control (Department) with the responsibility of implementing both the letter and spirit of its important provisions; the Act thus endows the Department with broad powers and procedural latitude as it seeks to achieve the legislative goals through the facilitation of the development of competition for all telecommunications services.

In light of the Public Act, the Department must redirect its future efforts to facilitate market conditions and create regulatory conditions that will maximize the benefits of future competition for the user public of Connecticut. As articulated by the Department's Chairman, Reginald J. Smith, during the June 23, 1994 technical meeting in Docket No. 94-05-26, General Implementation of Public Act 94-83, the passage of Public Act 94-83 places the Department and the telecommunications industry at an unprecedented point in Connecticut regulatory history with an opportunity to define a markedly different future for Connecticut telecommunications. That future is not predetermined by the legislation nor preempted by the wishes of a single party or group. Under the terms of Public Act 94-83, it remains the responsibility of this Department to identify and institute regulatory strategies that protect the interests of the public in any new telecommunications market.

The Department, therefore, has established a framework for the implementation of Public Act 94-83 that will allow it the opportunity to fully and publicly explore all the alternatives available to it under the terms and conditions of the legislation and establish therefrom appropriate regulatory mechanisms to reflect legislative intent. Through such a complete exploration, the concerns and proposals of the industry and other interested parties will be fully examined; likewise the Department will ensure that the interests of the public are satisfied before reconstituting any part of the telecommunications delivery system available to the residents of Connecticut.

The implementation framework involves four phases: the initial conceptual infrastructure phase (which was completed with the issuance of the decision on November 1, 1994, in Docket No. 94-07-01, The Vision For Connecticut's Telecommunications Infrastructure), the competition phase (which includes this docket), the alternative regulation phase and the holding company affiliate phase. Pursuant to that framework, on July 13, 1994, the Department noticed the initiation of the present docket, DPUC Exploration of Universal Service Policy Issues.

II. DOCKET SCOPE AND PROCEDURE

As contemplated by the established implementation framework, the Competition Phase involves a number of highly focused, limited discovery dockets in which the Department is addressing the issues raised by the legislature's commitment to broader market participation in Connecticut. In addition to the present proceeding, these dockets include: Docket No. 94-07-02, Development of the Assumptions, Tests, Analysis, and Review to Govern Telecommunications Service Reclassifications in Light of the 8 Criteria Set Forth in Section 6 of Public Act 94-83; Docket No. 94-07-03, DPUC Review of Procedures Regarding the Certification of Telecommunications Companies

and of Procedures Regarding Requests by Certified Telecommunications Companies to Expand Authority Granted in Certificates of Public Convenience and Necessity; Docket No. 94-07-04, DPUC Investigation into the Competitive Provision of Local Exchange Service in Connecticut; Docket No. 94-07-05, DPUC Investigation into the Competitive Provision of Customer Owned Coin Operated Telephone Service in Connecticut; Docket No. 94-07-06, DPUC Investigation into the Competitive Provision of Alternative Operator Service in Connecticut; Docket No. 94-07-07, DPUC Investigation of Local Service Options, Including Basic Telecommunications Service Policy Issues and the Definition and Components of Basic Telecommunications Service; and Docket No. 94-07-09, DPUC Exploration of the Lifeline Program Policy Issues.[1]

This docket was established specifically to focus on the concept of Universal Service as that term is used in Public Act 94-83. The Act makes recurring reference to Universal Service as an unquestioned public policy commitment that must transcend any other effort to broaden participation in the Connecticut telecommunications market. Section 2 of the Act clearly expresses the unqualified resolve of the legislature to "ensure the universal availability and accessibility of high quality, affordable telecommunications services to all residents and businesses in the state." Conn. Gen. Stat. § 16-247a (a), as amended by Public Act 94-83. In furtherance of this goal, Section 5 directs the Department to "(1) periodically investigate and determine, after notice and hearing, local service options, including the definition and components of any basic telecommunications services, necessary to achieve universal service and meet customer needs and . . . (2) establish a lifeline program funded by all telecommunications companies on an equitable basis, as determined by the Department, sufficient to provide low income households or individuals with a level of telecommunications service or package of telecommunications services that supports participation in the economy and society of the state." Conn. Gen. Stat. § 16-247e (a), as amended by Public Act 94-83. Section 5 of the Act further provides that "[t]he Department may, if necessary, establish a universal service program, funded by all telecommunications companies or users in the state on an equitable basis, as determined by the Department, to ensure the universal availability of affordable, high quality basic telecommunications services to all residents and businesses throughout the state regardless of location." Conn. Gen. Stat. § 16-247e (b), as amended by Public Act 94-83. In a Statement of Scope of the Proceeding and Procedural Order issued in this docket on October 19, 1994, therefore, the Department stated its intent to more fully explore Universal Service policy issues, including the potential impact that greater competition may have upon the goal of Universal Service and the circumstances under which the Department should establish a Universal Service Program.

In order to most expeditiously achieve the objectives envisioned by the Department in this docket, the Department established a scope of directed inquiry involving a three-step process (position paper, comments and reply comments) to allow

[1] The Competition Phase will also include dockets involving competitive service regulation, service standards, cost of service, unbundling, depreciation, revenue requirements, universal service funding, lifeline service funding, and participative architecture issues.

all who wished to participate the opportunity to express their views on Universal Service issues.[2]

The Department directed participants specifically to address in their initial Position Paper the following areas of inquiry:

- Provide a current definition of and purpose for Universal Service.
- Provide a definition of and purpose for Universal Service under the provisions of Public Act 94-83.
- What impact will any broader base of competitive participation have upon the availability, accessibility, and affordability of telecommunications services to the public of Connecticut?
- What additional rules and regulations will be required to ensure future availability, accessibility and affordability of telecommunications services with any broader competitive scenario?
- What "requirements to serve" will be necessary to ensure that Universal Service is preserved in the future?
- Under what conditions should the Department establish a Universal Service program?
- What should be the components of any Universal Service Program that is established?
- Who should manage a Universal Service Fund?

Statement of Scope of the Proceeding and Procedural Order, Docket No. 94-07-08, p. 3, October 19, 1994.

Following submission of Position Papers, participants were given an opportunity to submit Comments, addressing the Position Papers of others. Thereafter participants were invited to submit Reply Comments to respond to the Comments. Id., pp. 3-4. The Department received eight Position Papers, eight Comments, and five Reply Comments.[3] Witnesses for all participants adopted the written submissions of their sponsor organizations as their sworn, direct testimony, and all participants waived their individual right to cross-examine the witnesses offered by other participants. Public hearings were noticed and thereafter conducted on February 7, 1995.

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[2] The Department has used or is currently using this process in Docket Nos. 94-07-01 through 94-07-09 and has found it to be both efficient and effective as the Department formulates its opinions in each of the proceedings.

[3] The Department received Position Papers from the following: Office of Consumer Counsel (OCC); Office of the Attorney General (AG); The Southern New England Telephone Company (SNET); AT&T Communications of New England, Inc. (AT&T); MCI Telecommunications Corporation (MCI); Sprint Communications Company L.P. (Sprint); New England Cable Television Association, Inc. (NECTA); and Metro Mobile CTS of Fairfield County, Inc., Metro Mobile CTS of Hartford, Inc., Metro Mobile CTS of New Haven, Inc., Metro Mobile CTS of New London, Inc., and Metro Mobile CTS of Windham, Inc., (collectively Metro Mobile). The following submitted Comments: OCC; AG; SNET; MCI; Sprint; Metro Mobile; and Cablevision Lightpath, Inc. (Lightpath). OCC, AG, SNET, MCI, and Sprint also submitted Reply Comments.

The Department issued a Draft Decision in this docket on March 20, 1995. All participants had the opportunity to file written comments and to present oral argument on the Draft Decision.

III. PARTICIPANTS' POSITIONS

To put the views of the participants in the proper context and to establish a foundation for the Department's discussion in this Decision, the following sections summarize each participant's submissions and identify the principal points of agreement and contention among the participants that are pertinent to the scope of this proceeding.

A. SUMMARY OF INDIVIDUAL SUBMISSIONS

1. Office of Consumer Counsel (OCC)

OCC states that "[u]nder the Act, the goal of universal service is to assure that all citizens, regardless of income, disability or location, have access to the high quality telecommunications services, at a price that they can afford, necessary to assure meaningful participation in the economic, social, and political life of the state." (OCC Position Paper, p. 4) In OCC's view, "[u]niversal service is recognized as a public good not only because it enables all citizens who so desire to obtain service that might otherwise be unavailable to them, but also because it facilitates the ubiquitous availability of telephone service which benefits society as a whole." (Id.)

According to OCC, "Connecticut enjoys one of the highest penetrations of telephone, cable, cellular, and other mobile telecommunications services in the United States." (Id., p. 1) "As Connecticut moves to a more competitive, more dynamic and more service-rich telecommunications environment, the Department remains charged under the Act with the responsibility to ensure the universal availability and accessibility of high quality, affordable telecommunications services to all residents and businesses in the state, regardless of income, disability or location." (Id.)

In this regard, OCC points out that "[n]otwithstanding Connecticut's high statewide penetration rates, there remain pockets, primarily in low income areas in some Connecticut cities and towns where significant percentages of households do not have telephone service." (Id., p. 2) OCC, therefore, "strongly recommends that the effectiveness of the current Lifeline programs in Connecticut continue to be monitored to ensure that the poor can afford telephone service and outreach programs must be developed to inform the needy of the availability [of] Lifeline telephone service." (Id.)

In its submission, OCC further contends that "Public Act 94-83 contemplates the universal availability of high quality and affordable telecommunications services not only for low income households but also for the physically disabled." (Id., p. 3) According to OCC, "[t]he Americans With Disabilities Act and Connecticut's historical commitment to provide the technical capability

necessary for the State's hearing and speech-impaired citizens to utilize the public switched telecommunications network are reflected in prior Department decisions [that] ensure the availability of Telecommunications Relay Service (TRS) to meet universal service objectives." (Id.) In OCC's view, the Department should expand the Lifeline Program to provide support for voice dialing for the sight-impaired and special directory assistance for the elderly and sight-impaired. (Id.)

OCC states that "competition should promote universal service objectives." (Id.)

> . . . the development of effective competition in telecommunications markets, including local exchange services, will promote the greater availability, accessibility and affordability of telecommunications service. Effective competition will ultimately expand universal service by encouraging lower prices, technological development and the introduction of advanced services.

(Id.)

According to OCC, it "is premature for the Department to establish a broad-based universal service program or fund at this time." (Id.) OCC argues that "[u]ntil and unless there is an actual and demonstrated threat to the universal affordability and ubiquitous accessibility of high quality telecommunications services in the state, the Department should not adopt a new program to address universal service concerns." (Id.) It is the OCC's view that "[w]ith a current 96.5% penetration rate for telephone service in the state, the Department's existing universal service policies and Lifeline programs (with some modest expansions to meet the needs of the physically disabled) is expected to satisfy current universal service needs." (Id., p. 4)

OCC cautions that "[a]ny universal service program adopted by the Department, either now or in the future, must be carefully crafted to ensure both competitive neutrality and a minimum of regulatory intervention in the marketplace." (Id.) To the extent that subsidies may be necessary to accomplish universal service objectives in a competitive environment, OCC suggests that programs and funding mechanisms should adhere to the following principles:

> (i) all subsidies should be explicit, well-defined, and carefully targeted; (ii) funding mechanisms should be structured in a neutral manner, so as not to favor, either directly or indirectly, any particular provider or any technology; (iii) funding should be easily administered with as little added bureaucracy and cost as possible; and (iv) any program should be administered by an independent third party, not a telecommunications services provider.

(Id.)

With respect to the funding of universal service, OCC recommends that funding "be provided by all telecommunications companies in relation to their market presence, that is, in proportion to their percentage market shares, or their percentage of total intrastate telecommunications revenues."[4] (OCC Comments, p. 6) OCC emphasizes that "the existence and nature of any universal service subsidies can only be ascertained through a rigorous and detailed analysis of telephone company cost of service studies, including cost allocations." (Id., p. 7) According to OCC, "[o]nly after all subsidies (if any) have been identified and calculated will the Department be in a position to craft a funding mechanism that is fair to all." (Id.)

2. The Office of the Attorney General (AG)

The AG expresses the opinion that universal telephone service is "the underpinning of an information economy and not an issue to be tampered with lightly." (AG Position Paper, p. 1) According to the AG, universal service is defined as "affordable basic service, available to all residents and businesses in Connecticut, regardless of income, disability or location." (Id.) The AG, in turn, defines basic service "as those components of the service that the residential consumer deems essential and expects will be a part of his basic service, at a price that reflects cost." (Id.)

It is the AG's firm opinion that Connecticut has not reached universal telecommunications service. (Id., p. 2) According to the AG, "[a]lthough Connecticut's average residential telephone penetration is high, there are many cities in Connecticut where only 85.5% of the homes have telephone service." (Id.) The AG points out that "[a]s of September 22, 1993, Connecticut had dropped from first to sixth place nationally in terms of household telephone penetration." (Id., pp. 3-4)

The AG attached as part of its submission, *The National Information Infrastructure: Agenda for Action*, which sets forth the Clinton Administration's National Information Infrastructure initiative. That initiative provides, in part:

> The United States has long been dedicated to 'universal service'--widespread availability of basic telephone service at affordable rates. . . . [T]he full potential of the [National Information Infrastructure] will not be realized unless all Americans who desire it have easy, affordable access to advanced communications and information services, regardless of income, disability, or location.
>
> It is the goal of this Administration that by the year 2000, all of the classrooms, libraries, hospitals, and clinics in the United States will be connected to the [National Information Infrastructure].

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[4] OCC disagrees with MCI and Sprint who "add a qualifier that contributions should be net of payment made to 'other carriers' (MCI) or 'intermediaries' (Sprint), supposedly to avoid double counting." (Id.) OCC states that payments made to carriers or intermediaries, "like all carrier costs, are passed through to and paid by end users, not carriers." (OCC Comments, p. 6) According to OCC, therefore, "while end users may end up supporting universal service through various charges, as they do (allegedly) today, there is no double counting against carriers to be avoided." (Id., pp. 6-7)

(AG Position Paper, p. 5, quoting *America Online, Background on the Administration's Telecommunications Policy Reform Initiative*, at 6 (1/12/94)) The AG suggests that "[t]o the extent possible, Connecticut's definition and purpose [for universal service] should dovetail with the national initiative." (AG Position Paper, p. 5)

The AG asserts that "affordability" is the key to universal service and argues that "[a]ffordable pricing must be based on just and reasonable rates, which should yield fair profits for providers while ensuring that ratepayers receive the benefits of technological progress." (Id., p. 6)

According to the AG, "competition should affect the components of basic service and reduce the cost of basic service." (Id., p. 7) "The natural consequences of that should be increased market penetration and reduced strain for this necessity on the household budget (or, for those that can use the price decrease in other ways, the purchase of optional advanced telecommunications services, thereby likely increasing competition in those areas)." (Id., pp. 7-8) The AG argues, however, that market forces associated with competition may not prove sufficient to achieve an acceptable level of basic service access and affordability for all citizens. (Id., p. 8) The AG thus reaffirms its support for Lifeline as "one way of ensuring basic service to those members of our population who cannot afford a phone." (Id.) "The components of Lifeline, however, must be the same as basic service, only with a funding mechanism." (Id.)

The AG argues that "[i]t is presently unclear to what extent funding of basic service is necessary to achieve universal service." (Id.) "Nor is it clear to what extent funding will be necessary upon full competition." (Id.) The AG thus recommends that a study be initiated to determine the actual costs of basic service, with a focus on costs by region and city. In the AG's opinion, such information is necessary prior to addressing the criteria for participation and funding. (Id.) "The Department cannot know how much basic service should be subsidized in the future, if at all, until the Department concludes that basic service is currently being subsidized in the first place." (AG Comments, p. 4) In the event, however, that the Department concludes in this docket that a funding program is necessary, the AG recommends adopting "competitively neutral, independently administered universal service funding (collection, distribution, and provider of last resort obligations)." (AG Position Paper, pp. 8-9) The AG also believes that consumers should "benefit from the subsidy, if any, by using the subsidy as a credit on their bill with the local carrier of their choice." (AG Comments, p. 5)

The AG emphasizes that the important point is "to ensure that universal service not only survives but improves by opening Connecticut's doors to intrastate competition." (AG Position Paper, p. 9)

> The [Department] should balance the need for new entrants to enter the market, while ensuring that existing providers do not solely bear the expense of universal service and the requirements to serve. Similarly, the [Department] should also prevent a shifting of the cost of universal service and service requirements to consumers.

(Id.)

3. The Southern New England Telephone Company (SNET)

SNET states that "[s]ince before the turn of the twentieth century Connecticut has supported the universal availability of telephone service at affordable prices." (SNET Position Paper, p. 1) As a result, according to SNET, Connecticut has one of the highest penetration rates in the country. (Id.) "As we move toward the end of this century and into the next, SNET believes universal service can, and should, be sustained as an objective." (Id.)

SNET defines universal service as "ubiquitous availability of basic service at prices that are determined as a matter of public policy to be affordable." (Id., p. 4) "The purpose is to ensure that all persons have access to the public switched network." (Id.) In SNET's view, the definition and purpose of universal service do not change under Public Act 94-83. (Id.) "They do, however, take on new meaning in that the transition to a competitive environment requires that we address the traditional price structure for telecommunications services - a price structure developed in a monopoly environment." (Id.) According to SNET, "[a] universal service fund is a mechanism that will move the industry through the transition from a monopoly to a competitive environment without customer disruption and with as little market disruption as possible." (Id.)

SNET does not expect competition to affect adversely the availability, accessibility and affordability of telecommunications services in Connecticut. (Id.) To the contrary, SNET states:

> Competition drives prices to competitive levels, and drives out subsidies. It also improves service, accelerates development of new products and services, and tends to drive costs down. Ultimately, customers will be better off than today, and most may be expected to pay less in total, or less in proportion to what they receive. This will not be the outcome for everyone, however, although real price increases for individual customers should be minimal. With a universal service fund and lifeline program to help in the transition, such increases should not be at all disruptive.

(Id., pp. 4-5)

On the issue of "requirements to serve," SNET supports a requirement "that carriers holding themselves out to serve a particular geographic market or market segment (such as business or residential customers) should have applicable common