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Before the
FEDERAL COMMUNICATIONS COMMISSION
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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

In the Matter of)
)
Federal-State Joint Board on) CC Docket No. 96-45
Universal Service)

To: The Commission

COMMENTS OF PUERTO RICO TELEPHONE COMPANY

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Exhibit A - Map
Percentage Of Households With A Telephone By Exchange In
Puerto Rico (December 1994)

Exhibit B - Graph
Telephone Penetration 1984-1995, U.S. and Puerto Rico

SUMMARY

The universal service mandates of new Section 254 of the Communications Act require the Commission to, inter alia, determine the services to be included within the definition of universal service and ensure that such services are affordable. In these comments, the Puerto Rico Telephone Company encourages universal service support for the core services outlined in the Commission's Notice of Proposed Rule Making, and urges the Commission to consider subscriber income levels in determining service affordability and in distributing universal service assistance.

Whatever universal service choices the Commission ultimately makes in this proceeding, it should not reduce universal service assistance to LECs serving areas with low telephone service penetration.

I. INTRODUCTION

In these comments, PRTC:

- explains how universal service support has benefitted the residents of Puerto Rico;
- advocates inclusion of the core services enumerated by the Commission in the NPRM for universal service support; and
- urges the Commission to consider subscriber income levels when refining universal service support distribution mechanisms.

Irrespective of the universal service support distribution methodology adopted by the Commission, PRTC urges the Commission to ensure that LECs serving areas with unusually low telephone penetration levels continue to receive universal service assistance at least comparable to today's assistance until they achieve reasonable penetration levels. In Section V of these comments, PRTC proposes four principles for allocation of universal service assistance to LECs serving areas of low penetration.

II. UNIVERSAL SERVICE SUPPORT HAS SERVED THE CITIZENS OF PUERTO RICO WELL

PRTC provides local telephone service throughout Puerto Rico. The Commonwealth of Puerto Rico acquired PRTC in 1974 in order to improve the then-unacceptable level of telephone service development on the island.³ In 1974, telephone service

³ PRTC is wholly owned by the Puerto Rico Telephone Authority ("PRTA"), a governmental instrumentality of the Commonwealth of Puerto Rico. Law Number 25 of the Commonwealth of Puerto Rico, approved May 6, 1974, established PRTA, a government corporation, and provided for the purchase of PRTC by PRTA. 27 LPRA § 404.

penetration in Puerto Rico was barely 25%. Although great strides have been made and modern facilities are now widely available, telephone service penetration in Puerto Rico remains low by U.S. standards. U.S. telephone penetration is now 94% (July 1995),⁴ while overall penetration in Puerto Rico (December 1995) is 72% and remains below 50% in some areas. By contrast, U.S. telephone penetration was more than 71.5% 40 years ago in 1955.⁵ The map attached as Exhibit A shows the percentage of households in each of Puerto Rico's exchange areas having a telephone as of December 1994.⁶

⁴ Telephone Subscribership in the United States, FCC CCB Industry Analysis Division at 14 (Dec. 1995). Only 3 states have penetration rates below 90%: Mississippi, 88.6%; New Mexico, 88.3%; and South Carolina 89.4%. Monitoring Report, CC Docket No. 87-339 (May 1995) Table 1.2 at 27 ("1995 Monitoring Report").

⁵ Department of Commerce, Bureau of the Census, Historical Statistics for the United States from Colonial Times to 1970, Vol. 2 (1975) at 783.

⁶ PRTC has two study areas -- one with approximately 160,000 lines, the other with approximately 1,044,700 lines. (The smaller study area includes the municipalities of Aibonito, Aguas Buenas, Caguas, Cayey, Cidra, Culebra, Guaynabo, Gurabo, Juncos, Las Piedras, San Lorenzo, and Vieques. The larger study area includes all other municipalities in Puerto Rico.) In December 1995, penetration varied by exchange area from 57% to 90% in the smaller area and from 46% to 90% in the larger study area.

PRTC has two study areas due to the historical development of telephone service in Puerto Rico. In the 1920s, the Commonwealth of Puerto Rico formed a telephone company to provide telephone service to the interior of the island because the independent telephone company was not doing so. The Commonwealth did not acquire the independent telephone company which provided telephone service to the remainder of the island (now PRTC) until 1974.

Since the advent of universal service assistance, overall telephone service penetration in Puerto Rico has increased 52.9% (from 47.1% in 1984 to 72% in 1995), while penetration in the United States has increased 2.6% (from 91.6% in 1984 to 94% in 1995). The graph attached as Exhibit B depicts the dramatic increase in penetration in Puerto Rico since 1984; this increase has been effected without an increase in local rates.⁷ Without universal service assistance, the cost of this expansion would have forced residential service rates up, which surely would have slowed the growth in telephone subscribership and likely driven some less affluent subscribers off the network. Thus, universal service assistance has provided essential support for the expansion of telephone service in Puerto Rico. Yet much remains to be done before Puerto Rico achieves penetration levels comparable to the U.S. mainland.

III. BASIC TELEPHONE SERVICES SHOULD BE SUPPORTED BY UNIVERSAL SERVICE SUPPORT MECHANISMS

In 1974, the Commonwealth of Puerto Rico acquired PRTC in order "to provide telephone service to every qualified applicant"⁸ in Puerto Rico. PRTC believes that this universal service mandate can best be achieved by providing subscribers access to affordable basic telephone service.

⁷ Not only are rates stable but PRTC absorbs 60¢ of the monthly subscriber line charge for each customer.

⁸ 27 LPRA § 403(a).

PRTC agrees with the Commission that the following services should be the "core group" of services to receive universal service support: (1) voice grade access to the public switched telephone network capable of originating and terminating any type of call, (2) touch-tone service, (3) single-party service, (4) access to emergency services, and (5) access to operator services and operator information services. NPRM ¶¶ 16-22. Each service satisfies the Section 254(c)(1) universal service criteria: each is essential to public safety (254(c)(1)(A)), subscribed to broadly (254(c)(1)(B)), widely deployed (254(c)(1)(C)), and consistent with the public interest (254(c)(1)(D)).

PRTC believes that two additional services meet all four Section 254(c)(1) universal service criteria. First, all residential subscribers should be able to contact their local exchange carrier free of charge. Second, all residential subscribers should have the choice of having their name, address and telephone number listed in the white pages free of charge. Since "[u]niversal service is an evolving level of telecommunications services that the Commission shall establish periodically," 254(c)(1), the Commission may revisit whether other services should be included in the core group of services.

IV. THE COMMISSION MUST CONSIDER SUBSCRIBER INCOME LEVELS IN DEVELOPING UNIVERSAL SERVICE SUPPORT MECHANISMS

A. Affordable Rates Are The Sine Qua Non Of Universal Service

Congress's foremost universal service principle is that "[q]uality services should be available at just, reasonable, and affordable rates." 254(c)(b)(1) (emphasis added). The 1996 Act directs the Commission to "ensure that universal service is available at rates that are just, reasonable, and affordable." 254(i). The Commission notes, however, that it has "not generally grappled with the notion of 'affordable' in the context of universal service," NPRM ¶ 4, and thus asks how it "should determine rate levels that would be 'affordable' and 'reasonably comparable' for services identified as requiring universal service support." NPRM ¶ 25.

PRTC submits that in determining affordability in the context of universal service the cost of service is only one factor; the Commission also must consider the level of subscribers' disposable income and telephone service penetration levels. See NPRM n.13 (noting that subscribership levels could be a measure of service affordability). Where incomes and subscribership levels are low (as well as where costs are high), the need for universal service support is greatest.

Affordable rates are the ultimate determinant of whether universal service will be achieved. Even if telephone service is technically available to every potential subscriber, it is not

practically available if the rate charged for the service is beyond the means of subscribers to be served.

B. The Significance Of Subscriber Income Levels

When the 1996 Act Conference Committee was considering the universal service mandates of Section 254, it exhibited a special concern for less affluent consumers by specifically adding:

"low-income consumers" to the list of consumers to whom access to telecommunications and information services should be provided.

H.R. Rep. No. 458, 104th Cong., 2d Sess. at 131 (1996)

(Conference Committee emphasis). PRTC thus fully supports the Commission's goal "to ensure that consumers 'in all regions of the nation' and at all income levels, including low-income consumers, enjoy affordable access to the range of services available to urban consumers generally." NPRM ¶ 6.

It has long been known that there is a "strong relationship between income and [telephone service] penetration."⁹ In the NPRM, the Commission confirms that "subscriberhip levels for low-income individuals fall substantially below the national average." NPRM ¶ 50. U.S. penetration rates range from 76.6% for households with annual income below \$5,000 to 99% for households with incomes exceeding \$50,000.¹⁰ A review of 1994 telephone penetration rates demonstrates that in the continental

⁹ 1995 Monitoring Report at 14.

¹⁰ Telephone Subscriberhip in the United States, FCC CCB Industry Analysis Division at 24 (Dec. 1995).

United States, the lowest penetration rates generally are in the less affluent states.¹¹

C. Subscriber Income And Telephone Service Penetration In Puerto Rico

Basic telephone service remains a luxury for many residents of Puerto Rico. According to the 1990 census, 10% of all U.S. families had incomes below the poverty line in 1989.¹² By contrast, 55.3% of families in Puerto Rico were living below the poverty line in 1989.¹³ U.S. telephone service penetration in 1989 was 93.1%; while penetration in Puerto Rico was 62.1%. However, because PRTC has made a concerted effort to increase subscribership for basic service, penetration is now 72%. Yet the cost of providing service in Puerto Rico is high¹⁴ and PRTC

¹¹ Id. at 8; see 1995 Monitoring Report at 20.

¹² 1990 Census of Population and Housing, Summary Social, Economic, and Housing Characteristics, UNITED STATES, 1990 CPH-5-1 (1992) at 228.

¹³ 1990 Census of Population and Housing, Summary Social, Economic, and Housing Characteristics, PUERTO RICO, 1990 CPH-5-53 (1993) at 191.

¹⁴ There are a number of reasons why loop cost is disproportionately high in Puerto Rico:

- (1) numerous households that do not take service are passed by PRTC facilities (penetration is below 50% in some exchange areas, see Exhibit A); thus, PRTC generally cannot take advantage of economies of scale associated with the higher penetration rates of similar size LECs;
 - (2) the topography of Puerto Rico is unusually rugged (a mountain chain runs nearly the entire length of the interior of the island, with peaks ranging from 1500 to greater than 3500 feet);
 - (3) the climate in Puerto Rico is especially wet and humid;
- (continued...)

is concerned that this progress could be halted if local rates rise.

PRTC's rates for basic, unlimited local residential service (exclusive of taxes and the charge for touch-tone service) vary with the number of subscribers within a local calling area. In an effort to increase telephone service penetration on the Island, PRTC has maintained these rates at the same level since 1982. For example, in areas where PRTC's subscribers have access to more than 40,000 other subscribers in their local calling area, the basic service rate for unlimited calling is \$18.80 compared with a U.S. average rate of \$13.24.¹⁵ Approximately one-third of PRTC's subscribers reside in the San Juan metropolitan calling area; these subscribers pay \$18.80 for unlimited basic residential service and are able to reach more than 340,000 other residential subscribers as well as thousands of businesses.

¹⁴(...continued)

- (4) the transportation cost for goods delivered to Puerto Rico generally is higher than for goods delivered to the U.S. mainland because (a) Puerto Rico is located in the Caribbean (1,000 air miles from Miami), and (b) U.S. law requires that goods shipped between the U.S. and Puerto Rico be carried only on U.S. flag ships which generally cost more than non-U.S. flag ships; and
- (5) certain goods imported to Puerto Rico, including most telephone equipment, are subject to a 6.6% excise tax placed on the importation of goods.

¹⁵ Statistics of Communications Common Carriers at 340, Table 8.4, Average Monthly Residential Rates 1994 (1994/1995 ed.).

The rate for basic unlimited local service for PRTC's subscribers with access to 10,000 - 40,000 other subscribers in their local calling area is \$15.10; with access to 5,001 - 10,000, the rate is \$14.00; with access to 1,001 - 5,000, the rate is \$8.45; with access to 201 - 1,000, the rate is \$7.60; and with access to less than 201 subscribers, the rate is \$6.45.

According to the 1990 census, U.S. per capita income (1989 dollars) is 3.45 times greater than in Puerto Rico (\$14,420 versus \$4,177). This 3.45 income differential illustrates two important points that the Commission must consider in determining whether rates are affordable:

- (1) per capita income has a definite and substantial relationship to the affordability of basic telephone service; and
- (2) any increase in local rates, resulting from reduced universal service assistance for example, in areas of low per capita income will have a far greater impact than in areas of moderate or high per capita income.

Affordability in the context of universal service must be considered in light of a comparison between LEC costs and the income of the residents of the telephone service area. PRTC believes that by targeting universal service support to LECs providing service in economically disadvantaged areas, the Commission will further the mandates of Section 254 and telephone service penetration should increase where gains in penetration are needed most.

**D. Universal Service Support Distribution Mechanisms
Should Account For Differences In Subscriber Income**

Under Section 254, the Commission must ensure that rates for local service are affordable and that all citizens are able to subscribe to basic telephone service. Thus, any allocation of universal service assistance should account for the differing affordability of service arising from subscriber income levels. PRTC believes that if the Commission does employ a proxy model to allocate universal service assistance, the model must address telephone service affordability through the use of per capita income differentials.

If the Commission adopts one of the high-cost proxy models that it is evaluating (see NPRM ¶ 31), it should distribute universal service assistance based in part on subscriber income levels and take into consideration the unique circumstances of areas such as Puerto Rico and the U.S. Virgin Islands. See n.14, supra. Information concerning subscriber income levels is readily available from the U.S. Census Bureau and could be incorporated easily into the Benchmark Costing or other proxy model.

**V. THE COMMISSION MUST NOT REDUCE ASSISTANCE TO AREAS HAVING
LOW TELEPHONE SERVICE PENETRATION**

Puerto Rico has made great strides in increasing telephone penetration while keeping rates stable. See Exhibit B. Yet its 72% telephone penetration is 22 percentage points below the U.S.

average of 94%.¹⁶ Reduction or withdrawal of universal service support under these circumstances could reverse the gains in subscribership that have been made and would be inconsistent with Section 254 and the fundamental purpose of the Communications Act.¹⁷

In connection with any change in the current mechanism for distribution of universal service funding, PRTC urges the Commission to adopt a rule that assistance will not be reduced to LECs serving areas where telephone service penetration rates are unusually low. The Commission's authority for ensuring adequate universal service assistance to areas of low penetration is found in Section 254(b)(7), which directs the Commission to employ such principles as it "determine[s] are necessary and appropriate for the protection of the public interest, convenience, and necessity and [which] are consistent with" the 1996 Act. In the NPRM ¶ 8, the Commission asks whether concerns for low income subscribers should be addressed in its additional principles.

PRTC believes that Congressional concern for low income subscribers (who generally have low levels of telephone subscribership, see discussion supra at 7-10) can be advanced as follows. Irrespective of the distribution methodology ultimately

¹⁶ Figures are for 1995. Puerto Rico trails the United States 31% in relative terms.

¹⁷ See 47 U.S.C. § 151 (emphasis added) (the Commission should "make available, so far as possible, to all the people of the United States without discrimination on the basis of race, color, religion, national origin, or sex a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges").

adopted by the Commission, low penetration LECs should receive assistance in accordance with the following principles:

- **PRINCIPLE 1** -- LECs serving areas with a penetration rate below 85% should receive assistance comparable to that received under today's cost-based allocation scheme.
- **PRINCIPLE 2** -- If a low-penetration LEC receives less assistance under the new methodology adopted by the Commission, it should also receive a supplemental payment equal to the difference between the amount determined under the new methodology and the amount received in a specified base-year period (for example, 1996).
- **PRINCIPLE 3** -- Supplemental payments should be indexed so that a low-penetration LEC would receive the greater of:
 - (1) assistance calculated under the new allocation model; or
 - (2) the amount of assistance received by the LEC in the base-year period, with that amount increased annually by the percentage increase in the number of access lines in the study area in the prior year.
- **PRINCIPLE 4** -- As penetration passes 85%, assistance would be gradually phased down for low-penetration LECs to the level provided under the new allocation methodology.

Although support could increase under the indexing approach proposed in principle 3, it could only increase in direct proportion to line growth. This approach would create a cost reduction incentive by effectively treating the cost of each new line added as the average cost per line in the study area. Since lines added in unserved areas generally cost more than the average embedded line cost, this would create pressure for overall cost reduction while minimizing the penalty for adding

new lines which, under a capped system (with no index), could discourage adding new subscribers to the network.

By ensuring that LECs serving areas of low penetration receive assistance, the Commission would maximize the positive impact of assistance. Assuming similar local loop costs, the social benefit of each dollar of assistance to a LEC serving an area with a penetration rate of 60% for example, logically would be greater than that to a LEC serving an area of 90% penetration. The benefit of each universal service support dollar, moreover, would be even greater to customers of a LEC serving the area with a penetration rate of 60% if they were less affluent than those of the LEC serving an area with 90% penetration.

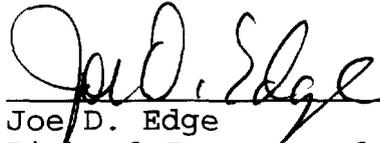
VI. CONCLUSION

If the Commission is to further the objectives of universal service in this proceeding, it must ensure that assistance is targeted to those LECs and subscribers most in need of such assistance. Need, however, cannot be determined accurately by rigid application of a proxy-factor methodology that fails to take into account subscriber income differentials. Irrespective of the distribution methodology ultimately adopted by the Commission, it should ensure that LECs serving areas with unusually low penetration continue to receive assistance

comparable to today's level of assistance (as explained, supra)
until they reach reasonable penetration levels.

April 12, 1996

Respectfully submitted,



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CC Docket No. 96-45

Comments of Puerto Rico
Telephone Company
(April 12, 1996)

EXHIBIT A

Map: Percentage Of Households With A Telephone By Exchange
In Puerto Rico (December 1994)

CC Docket No. 96-45

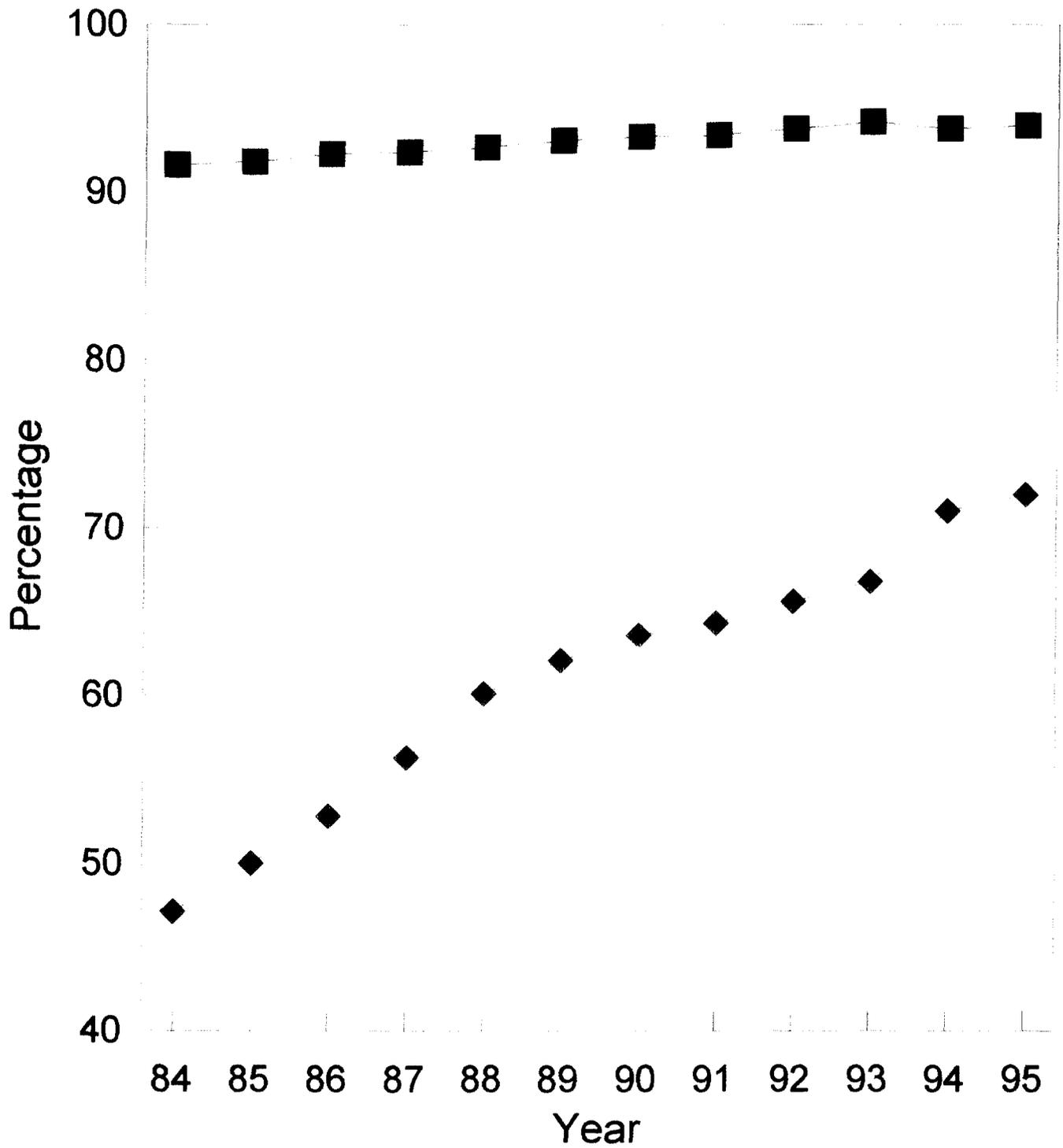
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EXHIBIT B

Graph: Telephone Penetration 1984-1995, U.S. and Puerto Rico

Source: Federal-State Joint Board Staff, Monitoring Report, CC Docket No. 87-339, May 1995, Table 1.2. Telephone Subscribership in the United States, FCC CCB Industry Analysis Division at 14 (Dec. 1995)

Telephone Service Penetration



■ U.S.

◆ Puerto Rico

CERTIFICATE OF SERVICE

I, Lisa A. Dean, do hereby certify that on this 12th day of April 1996, a copy of the foregoing was sent by first class U.S. mail, postage prepaid, to the parties listed below:

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