

services are offset by higher levels of mark-up on others. In essence, local exchange companies are already recovering their costs for high cost service and do not need to recover costs again from a universal service fund.

68. In sum, two principles should guide calculation of the subsidy:

First, the Commission should consider all revenues generated by the local exchange company that cover joint and common costs within the exchange.

Second, if the company is earning adequate revenues in the aggregate, then to the extent that basic and enhanced service revenues from outside the high cost areas contribute to the general cost recovery of the firm, any revenue burdens shifted to the universal service fund must be offset by reductions in the local exchange company's other revenue streams.

69. If all sources of revenue are not taken into consideration, the local exchange company will be earning excess profits. In order to ensure that rates for consumers are just, reasonable, and affordable, all revenue streams must be considered before local exchange companies are allowed to draw from the universal service fund.

VII. IMPLEMENTING AFFORDABLE SERVICE FOR LOW INCOME SUBSCRIBERS

A. WHO SHOULD BE ELIGIBLE FOR THE PROGRAM?

The Discussion in the Notice

70. The Notice identifies and seeks comment on the key issue of how to determine low-income eligibility for targeted subsidies as follows:

As a threshold matter, we seek comment and a Joint Board recommendation on how to define eligible low income customers. (para 59, p. 26)

Commentors' Position: Households Receiving Public Assistance or With Income Below 125 Percent of Poverty Should be Allowed to Self-Certify with Verification

71. Keeping in mind that the goal of the program is to maximize the size of the network and to relieve the burden that having telecommunications places on household budgets, AARP, CFA, AND CU recommend that the program be targeted not just to households who are currently enrolled in or eligible for any of the four major public assistance programs -- Aid to Families with Dependent Children, Supplemental Social Insurance, Medicaid and Food Stamps -- but also to households with incomes below 125 percent of poverty.

Because so many low-income people are not enrolled in any public assistance programs, the Commission will fall far short of its goal of promoting universal service at just, reasonable and affordable rates for these populations if it relies only on enrollment in specific programs to establish eligibility for universal service support. Therefore, it should also establish a self-certified income limit of 125 percent of poverty as an enrollment criterion.¹⁶

72. Setting the cut-off at 125 percent of poverty accomplishes a number of purposes. Households eligible for these programs are obviously low-income households. The empirical evidence indicates that low-income households are the households most likely to drop off the network as a result of rising prices.

73. Self-certification of eligibility, with periodic auditing of recipients, is cost-effective for administering the program. Self-certification coupled with partial auditing would be the most cost-effective mechanism. Administrative costs associated with excessive verification unnecessarily incurred are a waste of resources that detract from the program. The stigma associated with onerous reporting or verification requirements may prevent eligible households from seeking to enter the program, thereby reducing the significant social and economic benefits of universal service. The benefits are small and they are not in the form of cash. Consequently, the incentives to cheat are also consequently small.

¹⁶Direct Testimony of Dr. Mark Cooper on Behalf of AARP. (1992, Before the Florida Public Service Commission, Docket No. 900960-TL.)

74. For purposes of auditing, the Commission can require the companies which are seeking reimbursement for discounts to low income consumers to periodically compare the names of those enrolled in the lifeline program to the public assistance rolls. The costs of such a comparison are extremely small -- typically a few cents per enrollee. In addition, a small sample of those claiming low-income, but not enrolled in any of the criteria programs, can also be audited for eligibility.

75. Given the fact that participation in assistance programs by eligible households is far from universal, it is necessary to conduct outreach efforts. The Commission should require and monitor outreach efforts.

B. WHAT SERVICES SHOULD BE SUPPORTED?

The Discussion in the Notice

76. The Commission seeks comment on what services should be supported for low-income households.

Commentors' Position: Additional Services are Necessary to Assist Low Income Households to Obtain and Keep Service

77. In order to promote universal service among low-income households, the following services should be included in universal service and supported by federal programs:

The basic service package as identified in Section III.A.

Long distance blocking

No charge for calls to the telephone company

Reduced installation charges (the Link Up Program)

Waive deposit

78. The Commission should also require policies that do not impose additional barriers for low income households to obtain telephone service.

Therefore, the discount should be available on the primary line into the home. Recipients should be allowed to buy optional services at regular rates.

79. Finally, the Commission should not allow service to be disconnected for non-payment of long distance bills.

CONCLUSION

AARP, CFA, and CU believe that the Telecommunications Act of 1996 can only succeed if average Americans pay less for their telecommunications service, do not lose access to crucial services currently provided as part of basic service, and receive access to new functionalities as they become available.

Wherefore, Commentors urge the Commission and Federal-State Joint Board to adopt the universal service proposals contained herein.

Respectfully submitted,



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**ATTACHMENT I:
DESCRIPTION OF COMMENTORS**

The American Association of Retired Persons is a not-for-profit membership corporation of more than thirty-three million persons aged 50 or older. In representing the interests of its members, AARP seeks to: (a) enhance the quality of life for older persons; (b) promote independence, dignity and purpose for older persons; (c) advance the role and place of older persons in society; (d) sponsor research on physical , psychological, social, economic and other aspects of aging; and (e) represent the views of older persons on issues of importance to them.

Consumer Federation of America is the nation's largest consumer advocacy organization, composed of over 250 state and local groups with some 50 million members. Founded in 1968, CFA's mission is to represent consumer interests before the Congress, in the Courts and at Federal agencies.

CFA has been extremely active on telecommunications matters, having participated in virtually every federal regulatory and legislative proceeding dealing with regulatory structures since divestiture. It has provided support to its member local groups in states as diverse as Arkansas, California, Colorado, Maryland, Missouri, New York, Oklahoma, Vermont, and Texas, and has prepared extensive empirical analysis of the current status of the telecommunications network and industry.

Consumers Union of the United States, Inc. is a non-profit, educational, membership organization chartered in 1936 to provide information, education, and counsel about consumer goods and services and management of the family income. Consumer Union's income is derived solely from the sale of Consumer Reports magazine, its other publication and media products, and non-commercial grants.