

To the extent that they rely on market forces to pressure companies to pass through cost reductions, neutrality will be as imperfect as the competition in telecommunications markets. In the long distance market, competition is far from perfect and in the local market it is virtually non-existent. Cost reductions will be passed through as slowly as the lack of competition allows and will be targeted to the most competitive market segments -- certainly not the residential sector.

To the extent that revenue neutrality depends on regulation of prices, it must be recognized that pricing flexibility and deregulation in many states have limited the ability of commissions to ensure pass throughs.

Claims of revenue neutrality are suspect for other reasons. The proposals by SWB and GTE drive a wedge between the rate reduction for non-core services and the rate increase for core services by adding surcharges directly to customer's bills.⁶⁵ Claims that customers will see lower bills or be economically better off are doubtful in light of the surcharges,⁶⁶ which would add as much as \$5 per month to individual bills.⁶⁷

Even if rates for non-core services are lowered in an amount equal to the aggregate increase in core services, the distribution of the rate increases and decreases will be not be even. The explicit purpose of rate rebalancing is to shift costs away from intensive users of the network. It is not surprising to find that lower income groups will receive a disproportionately smaller share of the benefits and pay a disproportionately large share of the costs of rate

⁶⁵ SWB, p. 19, GTE, p. 17.

⁶⁶ SWB, pp. 5-6.

⁶⁷ SWB, Attachment 1 shows \$355 million per year of interstate subsidy and Attachment 6 shows \$510 million per year of depreciation reserves. These are for SWB entire operations (approximately 13.6 million lines). These are the sums that would be collected in the interstate and depreciation reserve surcharges.

rebalancing, since they are much less intensive users of the network. Similarly, large business users will receive more benefits than residential ratepayers.

Although data for consumption patterns is not available for Texas, Table 6 shows national

TABLE 6:
WEALTH TRANSFER FROM RATE REBALANCING

	NAT. AVG.	QUINTILES				
		Poorest	2nd	3RD	4TH	RICHEST
1993 BILLS						
TOTAL BILL	58.20	46.80	48.00	55.80	61.50	76.30
NON-CORE	39.40	28.00	29.20	37.00	42.70	57.50
CORE	18.80	18.80	18.80	18.80	18.80	18.80

SOURCE: McMaster, Susan E. and James Lande, Reference Book: Rates, Price Indexes, and Household Expenditures for Telephone Service (Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission, November 1995), Table 4.

data that demonstrate the point. On average, all income groups paid an average of approximately \$18.80 for telephone service in 1993 (the most recent year for which data is available). The national average expenditure for non-core services was \$39.40, but averages can be misleading.

The bottom fifth of the population spent \$28 for non-core services. The next poorest one-fifth spent about \$29.20 for non-core services. For the income groups above this level, the spending on non-core services increases rapidly. For those among the top one-fifth of households, over \$57 is spent on non-core services, twice as much as lower income households.

Assuming revenue neutral, across-the-board rebalancing results in net increases in bills for the poorest households and net decreases in bills for the richest. A \$1 increase in the basic service bill requires a 2.5 percent decrease in non-core revenues ($\$1/\$39.4 = .025$) in the

aggregate. A 2.5 percent reduction in costs for the bottom one-fifth of the income distribution is \$.71 ($.025 \times \28). Thus, the net effect is a \$.29 increase in their bill. For the next one-fifth, the reduction is \$.74 ($.025 \times \29.20). Thus the net increase in the bill is \$.25. For the highest income group, the reduction in non-core services would be \$1.46 ($.025 \times \57.50). Thus, the net effect on their bills is a reduction of \$.45. In sum, for every \$1 of increase in monthly rates for core services, the poorest 40 percent of the population suffers a \$.25 increase in its telecommunications bill; while the richest 20 percent enjoy a net decrease of \$.46.

The households that suffer the net increase in their bills are the most in need. National numbers indicate that they are likely to be households headed by persons under 25, persons over 65, and females.⁶⁸ As Table 7 shows, Texas households in these income categories are by far the most likely to not have telephone service. For example, households with incomes below \$20,000 per year represent about 36 percent of all households in the state. However, over 85 percent of all households without telephone service are found in this income category. Imposing rate increases on this group simply defies logic as a part of a universal service proceeding.

⁶⁸ U.S. Department of Commerce, Statistical Abstract of the United States, September, 1995, Table 728.

TABLE 7:
INCOME AND TELEPHONE SUBSCRIPTION

	% OF HH WITH A PHONE	% OF ALL HH W/O A PHONE	% OF ALL HH
LT 5000	67.28	26.90	5.65
5 TO 7499	74.66	18.78	5.65
7500 TO 9999	84.30	9.64	5.29
10000 TO 12499	87.05	9.14	6.28
12500 TO 14999	90.00	12.18	4.98
15000 TO 19999	95.53	9.14	7.99
20000 TO 24999	95.57	4.57	10.06
25000 TO 29999	97.50	2.54	10.11
30000 TO 34999	95.24	4.06	8.30
35000 TO 39999	97.44	1.52	5.91
40000 TO 49999	98.13	1.52	8.14
50000 TO 59999	100.00	.00	6.33
60000 TO 74999	100.00	.00	6.07
75000 OR MORE	100.00	.00	9.23
TOTAL	90.73	100.00	100.00

SOURCE: Bureau of the Census. Current Population Survey: November 1994. Washington, D.C., 1995

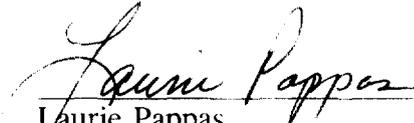
IV. CONCLUSION

Pursuant to the directives of the Act, the Joint Board should recommend and the FCC should adopt universal service rules and policies that ensure core services will be affordable for all consumers. Attempts by the industry to raise rates and shift cost responsibility to consumers should be rejected.

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Respectfully submitted.

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FCC Docket No. 96-45

I certify that today, May 7, 1996, I served a true copy of the *Texas Office of Public Utility Counsel's Reply Comments* on the following persons by U.S. Mail, first-class postage prepaid.

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A handwritten signature in cursive script, reading "Lauri Pappas", is written over a horizontal line. The signature is positioned in the lower right quadrant of the page.