

1 COMMISSIONER NESS: May I assume its anomaly?

2 MR. COOPER: I would not assume it's an anomaly.
3 The \$5.25, it was very easy for people to say let's take
4 that as a Lifeline program.

5 I assume that you folks have the ability to
6 monitor. Very few states have finished the Universal
7 Service, even the Lifeline part, because they have been
8 become tied up in the cost issues.

9 But there is a great deal of resistance to going
10 to a 10.50 discount, which is obviously a very substantial
11 discount.

12 COMMISSIONER NESS: Mr. Gregg, you look like you
13 wanted to comment.

14 MR. GREGG: I can speak for my state, and we were
15 very appreciative of the Commission's action. The most
16 beneficial thing you did was to require that eligibility be
17 based on income. Before a number of states had limited
18 assistance for telephone rates to handicapped and aged
19 individuals. By basing it on income, it you really opened
20 the door.

21 We have an overall state penetration rate in West
22 Virginia of 94 percent, exactly the national average.
23 However, we have 11 counties with very high unemployment
24 that have penetration levels of 85 percent or less, and this
25 is totally income-based basis for not being on the system.

1 There is no geographical limitation whatsoever.

2 The fact that you opened the door to eligibility
3 based on income has allowed us to expand that program, and,
4 in fact, we did expand it up to the maximum amount. The
5 final funding of that from the state level is still up in
6 the air, but we are fully committed to getting the maximum
7 benefit that you appropriated.

8 MR. GUMPER: May I just add something?

9 COMMISSIONER NESS: Yes.

10 MR. GUMPER: I believe that, and I will check into
11 it and try to get it to the members here the information. I
12 believe USAC, though, could provide you data as to what we
13 are providing as support on an average line per state. And
14 obviously if there is increased matching, you know, we can
15 see what the states are doing, but I will see what
16 information USAC could provide along those lines.

17 COMMISSIONER NESS: It's an extremely important
18 program, and I'm very anxious to ensure that that which we
19 do at the federal level works for the states, and works most
20 importantly for the consumers.

21 MR. COOPER: Let me recommend one specific policy
22 to you.

23 COMMISSIONER NESS: Yes.

24 MR. COOPER: As Billy mentioned, you changed the
25 criteria and many states did not have -- you know, had other

1 criteria. It's now time if a state doesn't change the
2 criteria, to take the money back, cause we wrote a series of
3 waivers to let the states avoid -- they said they needed
4 time, and in a specific state we worked, we passed
5 legislation to remove from the books the restrictive
6 criteria, and then the governor vetoed, and said, "Don't
7 worry, the FCC will keep giving us the money even though we
8 still have the restriction."

9 We're going into another state legislative cycle.
10 This Commission, if you want people to take up this
11 improvement in the program, you're going to have to make it
12 clear that this is what you meant, and if you don't change
13 your criteria, you're going to lose the federal support. As
14 I said, I wouldn't do it tomorrow, but let's make it clear
15 by, you know, three years after the original concept was
16 laid out there, if you don't really want let low income
17 people in without being also disabled or elderly, we're not
18 going to put the money up. You have to back up that policy.

19 COMMISSIONER NESS: Mr. Metts, you wanted to
20 comment also.

21 MR. METTS: Yes. New Mexico has had a low income
22 telephone assistance program for over 10 years. We
23 participate in that with our cooperative. We have 56
24 customers that avail themselves of that program alone with
25 the federal. That's less than two percent of your

1 customers, yet we know there are several more qualifying
2 people that could qualify on an income basis. They don't
3 take the service either because of pride or whatever. It's
4 advertised to them. We notify them every year.

5 So the fact of low income being at that big a
6 consideration and people not taking telephone service, our
7 statistics don't show that.

8 COMMISSIONER NESS: Okay, thank you. My time is
9 up.

10 CHAIRMAN KENNARD: Thank you.

11 Commissioner Schoenfelder.

12 COMMISSIONER SCHOENFELDER: Mr. Gregg, I would
13 like to have -- I think that you were answering Commissioner
14 Johnson's question about this and I'm going to try -- I took
15 notes, so I'm going to try to quote what you said. If I'm
16 wrong, will you correct me, and then expand on this a little
17 bit?

18 I think you said if the Commission ties access
19 reduction with Universal Service reform, then they should
20 reduce or eliminate the SLIC. And I think that's the same
21 thing Commissioner Johnson was talking about, and you didn't
22 get a chance to answer and I'd like to have you just expand
23 on that a little, please.

24 MR. GREGG: I took her question to be more
25 general, looking at the whole area of access charge

1 reductions, for example.

2 COMMISSIONER SCHOENFELDER: It could have been.

3 MR. GREGG: And whether IXCs have actually flowed
4 those through to end users. And I'll vary a little bit from
5 what Mr. Cooper said.

6 He said that we need competition in the local
7 loop. I think if you look at the toll area, which is what
8 we're concerned about, the access charge reductions went to
9 the IXCs which provide toll, which is competitive. And this
10 points out one of the failings of competitive market. While
11 it does much good, in a competitive market where you're
12 allowed to do the economically rational thing, you're going
13 to put the money where it does you as an economic unit the
14 most good.

15 You're going to do -- first, you're going to keep
16 it if you can. Secondly, you're going to pass it through to
17 competitive computers, customers who will shop around and go
18 elsewhere if you don't cut rates to them. And lastly,
19 you're going to soak customers who don't make a choice, who
20 are non-shopping customers, who are default customers.

21 In fact, in West Virginia, in any one month half
22 of the customers make no intra-LATA toll calls, and I'm sure
23 this goes on to the interstate arena as well. You have a
24 disparity. You have a number of customers -- a small number
25 of customers that make a whole lot. You have a very large

1 portion that make none or very little. They don't care,
2 they don't know, they don't shop. They are still paying the
3 same default rates they paid 10 years ago.

4 We just put out a survey last month. We do an
5 annual survey on long distance rates in West Virginia. In
6 the last 10 years average toll rates have fallen 44 percent,
7 and they've fallen 13 percent just in the last year after
8 the advent of One Plus competition. However, the default
9 rate that is charged to customers that do not choose has
10 varied virtually none in the past 10 years. It is still
11 exactly where it is, and you still have a large majority of
12 customers that are still paying that rate.

13 So if you want to pass through, you can't rely
14 upon the competitive market. They're going to do the
15 economically rational thing. I would cite to Commissioner
16 Baker's statement. When they passed the Telecommunications
17 Act of 1995, they mandated that certain companies reduce
18 their intrastate access down to interstate levels. They
19 also required that those access reductions be passed through
20 to all customers on a proportionate basis, and that has
21 happened. Access has gone down but customers have been
22 guaranteed and, in fact, have received those access charge
23 reductions on a proportionate basis, all customers.

24 COMMISSIONER SCHOENFELDER: I have one quick
25 question for Mr. Cooper, and it's a yes or no question.

1 Honest.

2 MR. COOPER: It's tough to get a yes or no from
3 me.

4 (Laughter.)

5 COMMISSIONER SCHOENFELDER: But I think you said
6 that the funds should be raised from providers, and not from
7 the end user is what I was taking it for you to mean.

8 Do you really believe that the provider will not
9 pass that cost on to the consumer?

10 MR. COOPER: Well, it gets --

11 COMMISSIONER SCHOENFELDER: Yes or no.

12 (Laughter.)

13 MR. COOPER: To the extent they think they can,
14 they will. And if there are market forces that prevent them
15 from doing so, they will not be able to, and that's a
16 marketplace question just like any other cost of doing
17 business.

18 COMMISSIONER SCHOENFELDER: That's pretty close to
19 a yes or no. Thank you.

20 CHAIRMAN KENNARD: Chairman Wood has just informed
21 us that the shuttle launch was successful today. We missed
22 it. Discovery 25. So we will have, at least as we speak,
23 we still have a full congressional delegation from the State
24 of Ohio.

25 Commissioner Furchgott-Roth.

1 COMMISSIONER FURCHGOTT-ROTH: Thank you, Mr.
2 Chairman.

3 Mr. Metts, I always like people who put the number
4 of children they have on their bio, and I'm very pleased to
5 see that you have five children.

6 (Laughter.)

7 COMMISSIONER NESS: Something magical about that
8 number.

9 MR. METTS: We have close to the same.

10 COMMISSIONER FURCHGOTT-ROTH: Yes. Mr. Metts, we
11 on the Joint Board have before us some items that have been
12 referred to us on high cost recovery for large telephone
13 companies, and I know that you represent a small rural
14 telephone company and I see some other folks from small
15 rural community in the audience today.

16 One possible solution would be to raise the size
17 of the Universal Service Fund for large companies, and I
18 just want to get your reaction.

19 Do you think that's something that should be done
20 before we look at small company issues or should be done in
21 isolation from looking at the size of support for small
22 companies?

23 MR. METTS: Well, I don't know that I understand
24 exactly where you're coming from.

25 COMMISSIONER FURCHGOTT-ROTH: Well, let me try to

1 rephrase it.

2 MR. METTS: Okay.

3 COMMISSIONER FURCHGOTT-ROTH: Could you explain,
4 and I know cooperatives are sort of member-owned, could you
5 explain to the members of your cooperative if you're told,
6 well, this is the support we get from the federal government
7 through Universal Service support, and it's going to stay
8 that way for a little while. There's another telephone
9 company somewhere else in the country, it's a very big
10 company, and they just got so many millions of dollars more,
11 but don't worry, our turn is coming a few years down the
12 road.

13 How would the members of your cooperative feel
14 about that?

15 MR. METTS: That would be extremely difficult.
16 Every year at our annual meeting we explain the fact of what
17 it costs us to provide service, and we also explain what
18 kind of support we're getting from Universal Service Funds,
19 high cost funds.

20 Our local service revenue requirement is \$66.00 a
21 month. Now, disregarding what I've heard about cost of
22 service going down and getting cheaper, that is not the case
23 in rural America. It costs us \$50,000 to put in a mile of
24 fiber. Our average net depreciated investment per look is
25 \$7400. So we -- we have to have Universal Service Funds.

1 Our local service rates would go from \$14.00 to \$70.00
2 without USF. So it's extremely important to us.

3 And even though we continue to tell our members
4 that some day this may change, and you will have to realize
5 we provide you all these advance services, that you cannot
6 continue with that rate. It's hard enough for them to
7 understand why it would go away. It would be extremely hard
8 to explain it went away to a bigger company.

9 COMMISSIONER FURCHGOTT-ROTH: Thank you, Mr.
10 Metts.

11 Mr. Cooper, I appreciate your comments about why
12 prices should in some sense reflect costs, and I appreciate
13 your comments about if you reduce usage sensitive rates,
14 that much of the benefit would go to consumers that use
15 telephone services a lot, which may, in fact, be a lot of
16 business customers.

17 Is it not possible that one could get the benefits
18 of reducing usage sensitive rates, which, of course, just
19 penalize customers who want to use the phone and discourages
20 them because they're having to pay something that's well
21 above cost, is it possible to come up with a system of flat
22 charges which, of course, can be paid both by long distance
23 local companies in such a way that flat charges are higher
24 for business customers and lower for residential customers?

25 MR. COOPER: That sounds like the system we have

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1 today. The question of whether charges should be flat or
2 fixed is a separate question from whether or not costs are
3 above or below or they are subsidies.

4 We supported the concept of a PICC in the sense
5 that it made sense to recover a fixed cost for a facility
6 that's being used by the long distance provider in a fixed
7 fashion, and we did support it. It's become a bone of
8 contention, but it makes economic sense to have those fixed
9 charges to cover fixed costs. And if you did cost cause of
10 analysis, you might well find that there -- as I said, when
11 we first supported that, sometimes costs are not so fixed;
12 that is, people decide how many fibers to put in there, how
13 much to light, and it starts to look variable as the revenue
14 opportunity is a variable revenue opportunity.

15 But clearly, we supported the concept of
16 recovering those fixed cost with fixed charges, and
17 distinguishing between high and low volume users.

18 COMMISSIONER FURCHGOTT-ROTH: Thank you, Mr.
19 Chairman.

20 CHAIRMAN KENNARD: Thank you.

21 Chairman Wood?

22 CHAIRMAN WOOD: Mr. Gregg, in your testimony you
23 mentioned, actually in your written testimony, you mentioned
24 about the totality of the bill shouldn't go up.

25 in this age of, I think, migration back toward the

1 one bill option, although hopefully from a number of
2 different companies instead of just one or two, isn't the
3 totality of the bill that we need to be thinking about, the
4 whole telecommunications service bill?

5 MR. GREGG: I think you need to focus primarily on
6 the basic rate, rates that people have to pay to get access
7 to the network. Every other type of usage that you make of
8 that network tends to be discretionary to some extent,
9 except for rural areas, as Mr. Metts stated, where toll
10 calls are a necessity.

11 CHAIRMAN WOOD: Right.

12 MR. GREGG: But I believe that our charge is not
13 to worry so much about vertical services, not to worry so
14 much about advance service pricing. It's to make sure that
15 basic service, the price, the rate that everyone of us, no
16 matter what our economic standing is, has to pay to get on
17 that network and to keep that network at the high value it
18 current has, because 94 percent of our citizens are
19 connected. So in that regard, I think the focus is on local
20 rates.

21 I think there are ways to address the toll issue
22 through EAS, for example. There has been a movement
23 throughout the nation to increase the value that a customer
24 gets from his calling area, and, in fact, customers have
25 shown that they are willing to pay more if they get more

1 value. In fact, starting in 1988 and concluding in 1994, we
2 instituted statewide EAS in our state. Every subscriber of
3 every phone company has exactly the same calling area, and
4 exactly the same calling options, and exactly the same
5 rates.

6 Obviously, some are supported more than others,
7 but everybody is put on an equal footing and everybody has
8 options to try to fit what they need with their income and
9 their desires.

10 CHAIRMAN WOOD: What's your basic -- what would
11 the basic local rate plus SLIC, plus mandatory taxes and
12 local fees be?

13 In other words, if all you wanted was dial tone and
14 no caller ID.

15 MR. GREGG: 9.50.

16 CHAIRMAN WOOD: With the SLIC included?

17 MR. GREGG: With the SLIC. 9.50.

18 CHAIRMAN WOOD: And what would be --

19 MR. GREGG: That is all measured though. Every
20 call you make is measured.

21 CHAIRMAN WOOD: And what is a per minute or per
22 call?

23 MR. GREGG: It's per minute, distance, time of
24 day. It has all four dimensions.

25 CHAIRMAN WOOD: It's like Chicago. Okay. Just

1 like Chicago has.

2 MR. GREGG: Just like Chicago.

3 Then we have basically four different levels. You
4 can buy a greater amount of prepaid flat service.

5 CHAIRMAN WOOD: Right.

6 MR. GREGG: \$15.00. Your local change is all
7 flat. Everything else is measured.

8 CHAIRMAN WOOD: Fifteen plus nine?

9 MR. GREGG: Fifteen plus the 3.50.

10 CHAIRMAN WOOD: Okay. Okay.

11 MR. GREGG: \$22.00 plus the 3.50 for your home
12 exchange, surrounding exchanges.

13 CHAIRMAN WOOD: Okay.

14 MR. GREGG: And then the rest measured. Twenty-
15 nine bucks plus the 3.50, everything flat.

16 CHAIRMAN WOOD: Let me ask the other three
17 panelists. Mr. Gumper, in your testimony you compared it to
18 the cost of the pizzas you got. I was comparing it to the
19 cab ride I took from the Reagan Airport to here, and I don't
20 know what affordability is.

21 What is affordability since that's your panel? I
22 mean, in dollars, what affordability of basic local service?

23 Mr. Gregg gave a good range of what West Virginia
24 is talking about.

25 MR. GUMPER: Well, I think --

1 CHAIRMAN WOOD: You said 21 bucks for the pizzas?

2 MR. GUMPER: The average -- okay, yeah, the
3 average local service right now is \$21.00, and that includes
4 basically your surcharges and your taxes. The average total
5 bill is \$54.00. So you can see for the average customer
6 their basic service represents about 40 percent of their
7 total bill.

8 You know, I think when you take a look at the
9 penetration rates overall, it's obvious that telephone
10 service is affordable. The vast majority of people in this
11 country have it, and when you compare the prices of other
12 goods and what has happened to those goods and services over
13 the last 10, 15, 20 years, telephone service, particularly
14 basic service, becomes even more affordable.

15 So I would say I think a lot of states have gotten
16 rates into the neighborhood of 20 - 25 dollars for basic
17 service, and they have not seen penetration rates suffer.

18 CHAIRMAN WOOD: In the co-op, Mr. Metts, you're
19 right next to a lot of the folks I regulate, and I know your
20 rates are probably maybe even a little higher than what they
21 are. You said 14?

22 MR. METTS: \$14.90.

23 CHAIRMAN WOOD: Four, and is that with the SLIC?

24 MR. METTS: With the SLIC and 911 will be about
25 \$19.00.

1 CHAIRMAN WOOD: Okay. And calling scope of how
2 big?

3 MR. METTS: Well, some exchange is 500 customers.
4 Some exchange is 5,000, because we don't -- we don't provide
5 service in the town where we're headquartered. That U.S.
6 West. But we have one exchange has 104 customers and that's
7 all they can call, and there is no doctors, there is no
8 school, there is no medical facilities. They can call the
9 volunteer fire department, and everything else is a toll
10 call.

11 CHAIRMAN WOOD: And your toll rate would be what
12 per minute?

13 MR. METTS: The toll rate?

14 CHAIRMAN WOOD: Is it distance sensitive or is
15 there an average number?

16 MR. METTS: No, it's would be distance sensitive.

17 CHAIRMAN WOOD: I'm just trying to get an idea of
18 what the number --

19 MR. METTS: Twenty-five cents probably.

20 CHAIRMAN WOOD: Okay. Mr. Cooper, what's
21 affordable?

22 MR. COOPER: In response to Julia Johnson's
23 question, and it's something I did in Florida, this question
24 of, well, compared to other things it's gotten real cheap,
25 so therefore a big increase would be affordable.

1 It depends on what you look at. Remember, this is
2 an electronic-based, technology-based industry. If you
3 compare it to computers, it's not gotten real cheap.
4 Computers have gotten a lot cheaper. It's -- ironically
5 since the breakup so has gasoline, so has shoes, so has TV,
6 so has audio, so there is a bunch of stuff there that has
7 gotten a lot less expensive, and it's not clear that that is
8 a standard that you ought to apply.

9 Now, if you put the -- cable rates have gone up
10 more. So if you put us back to 1984, you can actually say
11 that telephone costs less than cable, but that's an
12 unregulated monopoly. That's exactly what we're trying to
13 stay away from. But I will tell you the companies in
14 Florida said, "Hey, look what cable rates have done."
15 That's exactly the comparison we don't want.

16 So the question is are rates affordable today?
17 Yes. Could you double them without causing people to drop
18 off the network? You probably could. Would some people
19 drop off the network? Yes, they would. Would a lot of
20 people end up with a higher bill, particularly my
21 constituents? Yes, they would.

22 So that affordability is a complex concept, and we
23 don't think you ought to increase basic rates today going
24 forward. The point was to start where we were and see if we
25 could get a competitive market to lower those prices.

1 CHAIRMAN WOOD: Thank you.

2 CHAIRMAN KENNARD: Thank you.

3 Commissioner Powell.

4 COMMISSIONER POWELL: Thank you, Mr. Chairman. I
5 have this set of concerns. If we were to be concerned
6 solely in the administration of our functions with consumers
7 getting the best deal possible, you might have a certain
8 kind of system. But we have other obligations and events we
9 are trying to help to foster the proper conditions for, not
10 the least of which is a form of competition that will bring
11 values, in the judgement of the Congress, to these consumers
12 as well.

13 And in light of that, I'm sort of struck by
14 certain statements that I want to explore a little further,
15 first with you, Mr. Cooper. You said something which, to
16 some degree, knocked me over in the sense that affordability
17 shouldn't have anything to do with what the market would
18 bear. I'm not so sure I fully understand what you mean by
19 that.

20 It seems to me if it's unaffordable, I wouldn't be
21 able to pay, but you seem to have a definition of
22 affordability that would allow consumers to maintain
23 subscribership but still as a matter of government policy
24 should be kept below those levels. That seems to be
25 extraordinarily intention with any kind of competitive

1 market, no matter how you created it. If you had a notion
2 that a market could produce rates that consumers or users
3 would be willing to play but nonetheless the government
4 would keep them below those rates as a matter of policy, and
5 I would just like to hear you flush that statement out a
6 little.

7 MR. COOPER: Well, the answer, the simple answer
8 is the following. That the market that you've described to
9 me only has a demand side. That is, what you're saying is
10 that we're going to price by looking at what the demand side
11 of the market says.

12 In point of fact, the magic of our capitalist
13 system is the supply side of the market. So that a
14 competitive marketplace, you're not only looking at what the
15 consumer is willing to pay, you have to look at what your
16 competitors are willing to charge.

17 And so the real driving force in a competitive
18 market, which we endorse, is on the supply side where people
19 come in and say, "If he tries to put his price up," he looks
20 at telephone service and he knows Cooper would pay twice as
21 much for service, if he tries to double my rate, the supply
22 side enters and said, "I don't have to let him do that. I
23 can steal Cooper as my customer without raising his price."
24 So that's the first part of the answer is that when we talk
25 about a supply side, and we have commended the Commission

1 for vigorously trying to get that supply side of the market.

2 The second answer is that even on the demand side,
3 and we've said this in our testimony, and I go back to the
4 original Michigan petition on the demand side, clearly
5 affordability is not an absolute concept. If you look in
6 the dictionary today, the first definition you will get of
7 affordability is a relative concept. It doesn't say
8 "ability to pay." It says, "ability to pay without undue
9 harm, burden," et cetera. So that our concept of
10 affordability is, in fact, a relative concept.

11 We do ask how much does it hurt, and that, we
12 think, is the -- when Congress said affordable, they didn't
13 point their finger to whether it was definition A or
14 definition B. So I believe that both on the demand side and
15 the supply side.

16 COMMISSIONER POWELL: Well, that's a good point,
17 but one of the things that concerns me is that in order to
18 materialize or pump the supply side, to create those choices
19 in the first place are going to require some level of price
20 flexibility or some level of ability to respond to pricing
21 in order to make it viable to enter and be that choice in
22 the first place.

23 And so, I mean, I don't really dispute your --
24 your focus is right to be concerned with both, but what I
25 struggle with is the interaction of the two; that there are

1 potentially subsidy distortions and distortions that could
2 be justified if focused exclusively on, and Dave's point
3 about quality and cost need to be considered, but if that's
4 all you focused on, you could easily engineer a system in
5 which those things were maximized, fearfully to the
6 exclusion of potential for efficient entry, and that's just
7 my caution.

8 In the interest of time, let me move to another
9 question, and I think maybe I'll direct to Mr. Gregg. I
10 kind of clicked in late to the point of your discussion but
11 the focus on basic rates, I think, was your core points, but
12 you were discussing the general issue of passing savings
13 through only to competitive customers and not to those who
14 don't seem to switch from basic rates from month to month,
15 et cetera.

16 It seems to me part of our -- and this may even
17 play into the question of line items and what values they do
18 or don't serve, but it seems to me that in the exercise of
19 how consumers are going to interact one has to be concerned
20 about conditioning them to change the paradigm as well.
21 That is, someone mentioned about consumers for the vast
22 majority of the time that they have had an interaction with
23 a phone see it as a guarantee level of affordability, a
24 utility-like model.

25 But as we introduce a competitive model, there is

1 a fear to me, it seems to me, that the logical thing, if you
2 are a producer, is to pass it through to competitive -- to
3 your competitive customers.

4 Now, I would be very concerned if there were true
5 barriers to basic residential customers switching to more
6 competitive alternatives, but I don't want to accept, I
7 don't think, that if people won't choose options available
8 to them, if there is information as to -- informed
9 information available in the market for them to make those
10 choices, just because they don't for whatever reasons, which
11 would be difficult for us to determine, that we should
12 nonetheless play to that lower common denominator.

13 I'm somewhat surprised by this assertion because
14 if you take an AT&T, they don't hide the 10 one-rate plan.
15 My TV is bombarded with this. I get called with it all the
16 time because they have learned that the switch stimulates
17 demand and they get a benefit from people switching to some
18 of these more competitive plans. Nonetheless, they still
19 have a problem every month with people who will not switch
20 from it.

21 And at some point isn't it responsible to say that
22 the policy shouldn't be geared to take care of a class of
23 consumers that will not make those choices for whatever
24 reason?

25 MR. GREGG: Well, you are correct, but in spite of

1 being bombarded every conceivable way, through radio,
2 television, newspapers and actual phone calls to their
3 homes, there is a vast majority of customers who simply will
4 not and do not switch, do not care to get in the game at
5 all. And this is probably true in terms of shopping for
6 bread. I go to the corner grocery even though I know I'm
7 paying 50 percent more rather than drive a couple more
8 blocks to go to the big supermarket, and that's going to be
9 true in any competitive market.

10 I think my response was if the concern is we've
11 reduced access \$9 billion, we want to make sure the end
12 users get \$9 billion of savings. The only way you're going
13 to actually be able to verify that is by some sort of
14 prescriptive requirement. If you're not willing to do that,
15 if you're willing to let the market work and let the players
16 make economically rational decision, you're going to get
17 what you've gotten, which is that the savings go to the
18 competitive customers. Why would you in your right mind
19 pass it through to customers who are going to pay whatever.

20 COMMISSIONER POWELL: Um-hmm. Um-hmm.

21 MR. GREGG: And the distinction, though, to get
22 back to Mr. Cooper's perspective, is that while we do have a
23 competitive market in toll, we still do not have a
24 competitive market by any stretch of the imagination for
25 local service, and that is why it would be unconscionable to

1 let local service rates rise now.

2 For example, one paradigm would be cap rates where
3 they are. Rates are affordable right now. Cap them where
4 they are. Let competition seek out the areas where they can
5 provide service below that price, where the cost is low. If
6 those internal subsidies that exist within states, those are
7 not affected by the external subsidies that the federal
8 government gives them. if those have to be recompensed by
9 some sort of Universal Service Fund, that's the state's
10 responsibility first. And if they need additional
11 assistance, that is when I believe the federal government
12 should kick in additional external subsidies.

13 COMMISSIONER POWELL: Thank you.

14 CHAIRMAN KENNARD: Ms. Hogerty.

15 MS. HOGERTY: Yes, Mr. Gregg, I was interested in
16 your suggestion. I believe that you suggested that perhaps
17 the fund should be somewhere close to where it is today, and
18 you have also suggested that implicit subsidies are
19 something that you should let the competitive market deal
20 with, and I think that's just what you were talking about
21 with Commissioner Powell.

22 Could you expand on that some more?

23 MR. GREGG: Well, basically you've got --

24 MS. HOGERTY: And if you want to use competition
25 as a standard, do you have some kind of criteria that could

1 be used.

2 MR. GREGG: Once again, going back to where we are
3 now. Rates are affordable. We've got a high cost fund of
4 1.7 billion; Lifeline, a half a billion; schools and
5 libraries, 1.3; and whatever the rural health care is going
6 to end up being. So you're looking at basically about a 3
7 billion plus fund that's being recovered by approximately
8 five percent surcharge by most long distance companies.

9 I believe that for the high cost issue, the \$1.7
10 billion, that fund right now is sufficient. The funds that
11 Mr. Metts' phone company gets, the funds that the small
12 rural telcos in my state get that keeps their rates
13 affordable are flowing now. If you can guarantee that they
14 will at least continue to flow at that level, I think that
15 we in the states can deal with the internal subsidies that
16 come about because of average rate, those flows of business
17 to residential and urban to rural.

18 Right now those flows are happening through
19 average rates. We have an implicit Universal Service Fund.
20 Unless and until competition begins to erode those internal
21 implicit flows there is no need for any additional Universal
22 Service funding. And if you look at the pace of local
23 service competition developing, I believe it will be -- any
24 losses, any revenue losses from beginning competition will
25 be more than offset by access line growth and revenue growth

1 of the incumbents. That's what we have seen so far. Even
2 in areas where there has been the greatest competition
3 growth, there still has been very healthy growth by the
4 incumbent.

5 MS. HOGERTY: So would you see the way this
6 playing out is that the incumbents would come to their state
7 regulators and say we need to start de-averaging our rates?

8 MR. GREGG: Right, the state regulators are the
9 ones that have set up whatever system exists in their
10 particular state. And as I said in my statement, it varies
11 wildly across the United States. They are the ones that
12 know where the high cost areas area. They know them
13 inherently. They are from those states.

14 I tend to agree with Commissioner Furchgott-Roth
15 that I don't think it's possible for people sitting in
16 Washington constructing a wonderful machine to somehow
17 magically figure out the cost in every sub grid of every
18 census block in the United States. I just don't think it's
19 possible. It's like trying to reach the horizon. You can
20 never make an abstraction of reality reality.

21 So for those reasons I believe that dealing with
22 those implicit subsidies, those internal subsidies, should
23 be left in the first case to the states. If and when we
24 have real data that there is an additional need there to
25 support affordability, then we can come to the federal

1 government and see if we need any additional external
2 subsidies.

3 MS. HOGERTY: Mr. Gumper, I wanted to ask you
4 about Lifeline and Link-Up.

5 Do you know how many of those who are actually
6 eligible for those services are taking them?

7 MR. GREGG: No, I don't.

8 MS. HOGERTY: Okay.

9 MR. GREGG: I would estimate it's probably a
10 fairly small percentage for a couple of reasons. One,
11 obviously as it's already been alluded to, there is no
12 question that in many parts of this country, particularly
13 the more rural areas, not only in program like Lifeline and
14 Link-Up, but the school lunch program and things like that,
15 we know that people who are eligible for it many times
16 prefer not to participate.

17 The other thing I would point out is because the
18 Joint Board expanded the Lifeline, Link-Up Program effective
19 January 1st of this year, there were a lot of states that
20 did not have a program prior to that, so they have
21 implemented those programs, so there is obviously going to
22 be some time required to ramp up those programs to a more
23 appropriate participation rate since they are fairly new and
24 there is going to be a need for consumer education in those
25 states where they never had the program existing before.

1 MS. HOGERTY: Mr. Metts, what kind of an education
2 program do you have for Lifeline and Link-Up?

3 MR. METTS: Well, there is a state program by the
4 State Corporation Commission mandates that you do certain
5 things for that program every year, and we send out mailers
6 to the customer base and that type of thing. And they have
7 to qualify, they have to go through State Human Services and
8 be able to qualify for light, heat, Medicare, those types of
9 things, but it's --

10 MS. HOGERTY: So it's an annual mailing --

11 MR. METTS: Yes.

12 MS. HOGERTY: -- is the way you notify?

13 MR. METTS: Yes.

14 MS. HOGERTY: Okay. Don't you think that perhaps
15 if the education effort were beefed up a little bit you
16 might get a better subscription?

17 MR. METTS: I do not know that. It is possible
18 that it could, but I don't know that that would do it.

19 MR. GREGG: In our state the Health and Human
20 Services Department dispenses information about the
21 telesystems program with every welfare recipient
22 application.

23 MS. HOGERTY: I don't know if -- do I have some
24 more time? Mr. Cooper --

25 CHAIRMAN KENNARD: No.

1 MS. HOGERTY: Am I out of time?

2 CHAIRMAN KENNARD: You're out of time.

3 MS. HOGERTY: Okay.

4 CHAIRMAN KENNARD: If you have one more question,
5 go ahead, Martha.

6 MS. HOGERTY: That's okay.

7 COMMISSIONER TRISTANI: Mr. Chairman, I have two
8 questions and I'll try and be brief.

9 CHAIRMAN KENNARD: Okay.

10 COMMISSIONER TRISTANI: One is a follow up on
11 Lifeline, Link-Up, and I will say being from New Mexico I am
12 proud that our state was a little bit ahead of the curve
13 with this program, with the requirements, so I know that
14 it's a good program.

15 Having said that, though, I'm troubled from some
16 of the things I have heard today that there are some states
17 that have not changed eligibility requirements, and so that
18 alone tells me that there must be a lot of eligible people
19 that aren't linked up because they can't apply.

20 And may I ask, Mr. Cooper, what state that was
21 where it was vetoed or --

22 MR. GUMPER: I believe that was the State of
23 Minnesota.

24 COMMISSIONER TRISTANI: Okay.

25 MR. COOPER: And, again, it's a state I have been

1 active in. But there is another answer here, is that the
2 FCC identified a sensible approach, which was automatic
3 enrollment. As you've just heard two people tell you that
4 State Department of Health and Human Services gets a piece
5 of paper back from a customer and then sends another piece
6 of paper to the phone company. Instead of simply saying all
7 these people are receiving food stamps, light, heat, et
8 cetera, put them in the Lifeline Program, which is what the
9 board recommended. Tremendous resistance. These are people
10 who have already declared themselves to be in need and found
11 to be in need. Why are we forcing them to fill out another
12 piece of paper?

13 And that answer to that is there is a lot of folks
14 who have said they've gotten food stamps or they have gotten
15 those programs, and have not come in for Lifeline. They
16 don't know. We don't need the mailing. We just need an
17 exchange of data tapes and all these folks will get that
18 benefit.

19 A perfectly good idea, applied in a couple of
20 places. But to my knowledge, no other state since the Board
21 and the FCC recommended that we adopt automatic enrollment,
22 no other state has done so.

23 COMMISSIONER TRISTANI: Okay. I'm going to go
24 back to, and it relates to Lifeline, Link-Up, the class of
25 people who aren't connected, six percent.

1 Mr. Gumper, first of all, I want to thank you for
2 sharing the study which you talked about, and I haven't had
3 time to read through all of it, but I will tell you that it
4 doesn't say income doesn't matter. It says there are a
5 variety of issues, and I won't go into detail, but it keeps
6 pointing back to income makes a difference. Certain
7 minority groups like African-Americans and Latinos are more
8 disconnected.

9 Not surprising, or actually this statistic
10 surprised me, but I guess it shouldn't have, single civilian
11 female with children has the second lowest telephone
12 penetration rate, 82.6 percent, exceeded only by the
13 homeless. And I'm bringing up that statistic because you
14 also said that you thought, and maybe I misunderstood you,
15 you thought we'd reached this optimum, like 94 percent. the
16 Commission shouldn't be doing more, and let me -- let me
17 just go a little further.

18 My question to you and the rest of the panel is
19 have we reached an optimum? Is this something the FCC
20 should be looking at? Should we be looking at in
21 conjunction with the states? Do we know enough about the
22 reasons for non-subscribership?

23 MR. GUMPER: I would say, first of all, I don't
24 think we know enough, and I think that was what Jorge's
25 study really points out; that this is a very complex issue.

1 Some of the variations, I would point out, and the reason
2 why I quoted the statistics from California is because
3 California happens to have a very aggressive low income
4 program.

5 COMMISSIONER TRISTANI: Um-hmm.

6 MR. GUMPER: They have one of the highest
7 penetration rates. I think New York and California today
8 represent a big chunk of the Lifeline and Link-Up
9 participants. And yet even in a state like California,
10 which has a very aggressive program, and New York, as my
11 testimony also quoted because he also has some statistics
12 from New York, New York, Lifeline costs \$1.00 a month. It's
13 hard to believe that when you can get telephone service for
14 \$1.00 a month that affordability is a primary issue if
15 you're talking about the price of basic telephone service.

16 So the question then comes is why do you have such
17 large variations in people who own their own homes, and
18 those statistics are owned, so those people own their own
19 homes, and yet we see variations where in some cases there
20 is no variation in some counties. In other cases, it's 35 -
21 40 percent.

22 I would say those kind of extreme variations in
23 two states that have very aggressive Lifeline programs, and
24 you can get telephone service at very, very cheap rates,
25 then affordability is not the issue.

1 Now, there may be places where it still is
2 because, again, we have just started the Lifeline, Link-Up
3 programs, and as Mark has indicated, obviously there has
4 still been a lot of resistance in some areas to follow a
5 norm. So I don't think you can just say we can wash our
6 hands.

7 As I said to the Chairman before, I think the
8 current Lifeline and Link-Up programs that exist should
9 address the issue of affordability.

10 COMMISSIONER TRISTANI: If properly implemented.

11 MR. GUMPER: Yes.

12 COMMISSIONER TRISTANI: Now, let me just -- what
13 do we do about Native American reservations, which as the
14 Navajo, and the statistics are in here where I think it's 18
15 percent penetration? And, of course, I think distance has a
16 lot to do with that.

17 MR. GUMPER: I tried to allude, you know, in my
18 remarks, because I think realistically in those areas where
19 it is very, very expensive, there it's not so much a
20 question of affordability, I don't believe. I think it's a
21 question that it is cost prohibitive.

22 And then the question is do you as a Joint Board
23 recommend and adopt a program which basically provides large
24 amounts of funding to wire line companies to deploy
25 facilities to those very remote areas, or, in fact, do you

1 look to a wireless solution.

2 And I would say that given what has happened in
3 the wireless market and the price structures that have been
4 occurring more recently there -- you know, when this debate
5 started three - four years ago wireless was probably not a
6 very viable alternative. Today, the amount of minutes that
7 people get in wireless packages and the price they can get
8 it at, realizing that in some cases that package covers the
9 entire United States, is it feasible or reasonable to
10 subsidize wire line companies to the same level just to
11 provide local usage where in fact someone can get five - six
12 hundred minutes of nationwide use for the same amount of
13 dollars?

14 I would say it's not.

15 MR. COOPER: I think if you look at people who own
16 their own homes, you've excluded people who don't. And if
17 you look at the median income of those two groups, you would
18 find a dramatic difference.

19 The simple fact of the matter is that the single
20 most important determinant of telephone subscribership is
21 income. If you look at six percent of people who don't have
22 phones, you will discover that two-thirds of them, three-
23 quarters of them have income below 200 percent of poverty.
24 Simple observation.

25 Now, that means that there are some people who

1 have higher incomes who don't have telephones, and then
2 you're going to ask yourself, but the big problem is income.
3 The second question you will discover if you run the
4 econometric models, it will always enter the analysis,
5 language spoken at home. If you don't speak English at
6 home, the phone is less valuable to you because everybody
7 out there on the network speaks English primarily, so you've
8 got less value to you.

9 And so the language and cultural stuff will help
10 to answer that. But all of those other factors get pretty
11 small when it comes to -- you start from income.

12 Now, Frank is right. After you -- after you've
13 controlled for income, you've got all these other things
14 that affect telephone subscribership, but I think the thing
15 you're reacting to we sort of gave, and it's an impression I
16 don't think he intended to give, he says income doesn't
17 matter. He didn't say that.

18 But there comes a point where if you look at the
19 statistics, if you hit about \$40,000 of household income, or
20 50, from there on up 98 percent of the people have phone
21 service in every income group. Two percent of those folks
22 don't, but there down you get down to, you know, 20 percent
23 who don't have in the lowest income.

24 So with respect to the question of affordability
25 income definitely still matters, and the Lifeline Program is

1 important, and it's targeted but it's not fully subscribed
2 nor is the benefit 100 percent in most places as defined by
3 the Joint Board and the FCC.

4 COMMISSIONER TRISTANI: Is there anything else the
5 FCC could be doing that it's not doing?

6 MR. COOPER: Well, as I've said, we -- we thought
7 the FCC did a terrific job in defining the program. We just
8 don't have people buying into it, and we don't have people
9 doing automatic enrollment. We are still fighting this
10 business about how do we send paper around, educate and move
11 it around. So the answer is that, as I said, make it clear
12 that if they don't expand the eligibility, they're not going
13 to get the money.

14 You may have to lean harder on the question of --
15 five and a quarter is very attractive for states to take the
16 money and run. There is a lot of people looked down and
17 said, "That's a big discount, why do we need a match?" And
18 you made it too easy to do that.

19 So I think you've defined a great program. It
20 just hasn't been taken up in the rest of the country, and
21 then now you ask yourself how do we put some muscle behind
22 getting people to adopt the program.

23 CHAIRMAN KENNARD: Thank you.

24 Commissioner Baker?

25 COMMISSIONER BAKER: Thank you, Mr. Chairman.

1 I'll base my questions on Mr. Cooper's testimony,
2 but I will invite any of the panelists to respond.

3 First, regarding line items, Mr. Cooper, you
4 stated that in your opinion line items should not appear on
5 consumer bills, correct?

6 MR. COOPER: Yes.

7 COMMISSIONER BAKER: Okay. But aren't line items
8 consistent with the notion of making Universal Service
9 support explicit? That is, consumers realize what portion
10 of their bill goes to support high cost funding?

11 MR. COOPER: Well, the word "explicit" appears in
12 the statute, and in that section of the statute it talks
13 about service provider contribution. It never says -- and
14 so if a service provider is told here is how much your cost
15 of Universal Service is, that is explicit to the service
16 provider, and that's the way the provision was written.

17 Could you have written a provision which said
18 consumers should be told it cost them \$2.00 a month?
19 Congress could have written that. They said explicit, they
20 said telecommunications service providers. And, in fact, if
21 you tell them you are paying \$2 million or whatever the
22 number is and there is no other subsidy any place in any HUR
23 playing -- paying, it is explicit to the telecommunications
24 service provider, which is what that section of the Act
25 says.

1 MR. GUMPER: I'd like to respond to that for a
2 second.

3 COMMISSIONER BAKER: Yes, and I guess, Mr. Gumper,
4 if I can anticipate your response because my follow-up
5 question would be, I mean, can't we all reasonably
6 anticipate that providers charged with an obligation of
7 contributing to a support fund would in fact pass this along
8 to consumers?

9 MR. COOPER: We didn't say they couldn't pass it
10 along, and they will try, and we'll see where they put it.
11 Some might say -- one company might put in the bottom of the
12 bill, which is what we saw in long distance, and another
13 company might say, "Hey, we don't put that on your bill."
14 And the consumer will start to figure out and they'll look
15 at that. So essentially this is just like any other cost of
16 business. Why don't they break out the CEO's salary on the
17 bottom of the bill, or the unemployment insurance that they
18 pay? Every company pays unemployment insurance for those
19 bills. Do you see it on the bottom of the bill saying, "You
20 see that, you're paying for unemployment insurance in the
21 State of Georgia?"

22 The answer is that each cost of business is
23 recovered in the price sold to the customer and we don't
24 separate out those things on the bottom of the bill.

25 MR. GUMPER: Okay, let's though point out that in

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1 the telecommunications industry every telcom company, except
2 for the local exchange carriers, has the flexibility to
3 recover their contribution in any way, shape or form they
4 desire. And I agree with you, most of them will put it as a
5 line item in one shape or another on a customer's bill, and
6 we've seen that happen as this past year has rolled out.

7 The only exception are the local exchange
8 carriers. We do not have the flexibility to just simply say
9 we will recover those costs any which way we can. We have
10 to be given permission of our regulators to recover those
11 costs. And right now today the local exchange carriers
12 recover our contribution and for Bell Atlantic's case it's
13 about 215 million a year we put into the fund through our
14 access charges which, quite frankly, we don't think is a
15 very viable way to do that. And it's sort of a little bit
16 of follow, you know, the nut under the cap because, you
17 know, the long distance carriers in effect reimburse us
18 through access charges for most of our contribution, and it
19 probably would make a lot more sense for us not to put it in
20 our access charges, but to put it on a line item on the
21 bill. But the only way we can do that is if we're given the
22 permission from the regulators.

23 MR. GREGG: Mr. Baker, my preference would be to
24 prohibit service charges altogether like Section 167(h) of
25 the Georgia Telephone Competition Act. However, if you are

1 going to impose surcharges, I believe that the most
2 important thing is that they not be made mandatory. Right
3 now we have virtually every company putting a surcharge of
4 one type or the other. AT&T is 93 cents per month. Others
5 are 4.9 percent, 5.2 percent.

6 However, I believe if you do not make them
7 mandatory, that the market will ultimately drive them out.
8 If consumers do not like paying all these other extra
9 charges that are on their bill, there is going to be
10 somebody who is going to come up and fill a niche and says
11 no hidden charges, 10 cents a minute, and when we say it you
12 can believe it. We're not going to be like MCI. We're not
13 going to be like AT&T and say 10 cents a minute, but what we
14 really mean is 10 cents plus five percent.

15 So I believe as long as you let -- if you're going
16 to have surcharge -- I'd rather have it in the cost of
17 overall rates, but if you're going to have surcharges or
18 allow surcharges, allow them, don't mandate them, because if
19 you mandate them it will be like the SLIC. It will stay
20 there forever.

21 COMMISSIONER BAKER: Okay, which leads into my
22 next question. And again starting with Mr. Cooper's
23 comments, you would favor a reduction or elimination of the
24 SLIC; is that correct?

25 MR. COOPER: Yes.

1 COMMISSIONER BAKER: Okay. Squeezing the balloon
2 at one end, which makes it bigger at the other, where does
3 the balloon get bigger? Do the reductions in the SLIC
4 translate into dollar increases in the high cost fund?

5 MR. COOPER: We think the balloon ought to let
6 some air out of it.

7 (Laughter.)

8 MR. COOPER: There is no doubt there is a lot of
9 excess profits and other things that will make plenty of
10 room for these funds without simply having to find them some
11 place else. So there is no doubt, and we've been consistent
12 in that. We think there is too much air in the balloon.

13 MR. GREGG: Remember the SLIC supports incumbent
14 local carriers, and the question of whether reductions in
15 the SLIC are going to be sufficient to trigger basic rate
16 increases, as you say, squeeze the balloon and it comes out,
17 is once again a state issue.

18 This is a federally imposed end user surcharge
19 that basically affects the state performance of companies.
20 Let the states judge it, and as Dr. Cooper said, there is
21 probably a lot of air that can be let out without any
22 adverse affect on anybody.

23 MR. GUMPER: Just for the record, I will point out
24 I don't think there is a lot of air.

25 (Laughter.)

1 MR. GUMPER: And also I've agreed with almost
2 everything you've said, Billy, up to this point.

3 (Laughter.)

4 If you reduce the SLIC, the balloon is in the
5 charges that the IXCs pay us because unless we were to
6 change the separations rules, those are interstate revenues.
7 And if you reduced the collection of the subscriber line
8 charge, presumably it would mean an offset in interstate
9 access charges either through a PICC or through a per minute
10 kind of charge, not a local rate increase.

11 MR. COOPER: I predicated on an efficiency finding
12 and a cost finding that allows that air to get out, and in
13 that I agree with Frank. It will stay in this jurisdiction
14 and you really do have to base it upon a finding that the
15 dollar figure has declined so that it doesn't just pop up
16 someplace else.

17 COMMISSIONER BAKER: Next question. Heretofore we
18 have addressed cost of service by looking at either flat,
19 that is, per line charges or per minute charges. That's
20 been the traditional way. That's been the way we've done it
21 up till now and that's the way we're going to do it for
22 purposes of the order that will issue regarding high cost
23 fund.

24 But it's entirely conceivable, and some would say
25 likely, that in the not too distant future there will be a

1 new means of measuring service and that is "bit metering,"
2 to use an expression. In which case, conceivably voice gets
3 very, very cheap. But laying that side, any thoughts as to
4 how or whether we need to address that issue so that the
5 current order that will issue will at least not be
6 incompatible with a market that might exist in the very near
7 future where bit metering at least supplements if not
8 supplants the tradition division between flat line and
9 permanent charges.

10 MR. COOPER: Well, I'd be a big fan of bit
11 metering because voice is very skinny and it doesn't take up
12 a lot of space and it's very simple. But that is the
13 fundamental premise of how I approach this. That is, the
14 loop that connects everyone's house to a central office is
15 capable of providing a tremendous amount of service, and it
16 is critical and we have said this for years and years that
17 capturing all of that growth to contribute to share the cost
18 of this network is exactly the way you accomplish
19 affordability. So that whether you want to measure bits,
20 you will hear people argue that some bits are different, we
21 suddenly learn if there are big streams and they behave
22 differently, but the answer is absolutely, the amount of
23 service provided over that loop should share all the costs
24 of the loop, and that's a position that I've counted seven
25 times since the Act was passed that this Commission has

1 reaffirmed that fundamental concept. It's extremely
2 important at both the federal and state level.

3 CHAIRMAN KENNARD: Okay, I'm afraid we're going to
4 have to wrap up. It's unfortunate because I think we were
5 just getting warmed up there, but we are about 45 minutes
6 behind schedule and we really need to get moving.

7 We'll have a 15-minute break, reconvene at 3:30,
8 and I did want to thank this great panel that we had to get
9 us going. Thank you very much.

10 (Applause.)

11 (Whereupon, a recess was taken.)

12 CHAIRMAN KENNARD: I think we should get going
13 since we already falling behind schedule.

14 Our second panel today is on consumer and
15 education issues, and we will proceed the way we did with
16 the earlier panel. I will ask each of the panelists to
17 introduce themselves and give an eight-minute presentation.
18 We have our trusty timekeeper here who will keep us on
19 track, and then afterwards we will have an open session of
20 questioning and answers for the panel.

21 Our first panelist will be Michael Travieso.

22 MR. TRAVIESO: Travieso.

23 CHAIRMAN KENNARD: Travieso. Thank you.

24 MR. TRAVIESO: Like the gas.

25 CHAIRMAN KENNARD: Okay, great. Thank you.

1 MR. TRAVIESO: Thank you, Mr. Chairman and Member
2 of the Commission and the Board.

3 My name is Mike Travieso. I am the Maryland
4 people's counsel. My job is to represent the residential
5 customers in the State of Maryland of all utility services,
6 including telephone services.

7 I would prefer not to actually read my testimony
8 today. It's been submitted in written form and it's in the
9 record. Instead, I'd like to pull the major points out of
10 that testimony and perhaps make a few observations which are
11 based somewhat on anecdotal information, but also I think
12 are things that have been discussed in literature from the
13 NNRI and the regulatory assistance project, and Barbara
14 Alexander and others.

15 First, I would say that many customers, telephone
16 customers still do not understand the difference between
17 long distance toll and local telephone service.

18 Second, while most people probably know that they
19 can switch long distance carrier, if they choose to. Few,
20 if any, know that at some point in time in the near future
21 they will have a choice of local exchange carriers. Most
22 customers don't understand that the advertisements that you
23 see for 1010 calling or for competitive long distance 10
24 cents a minute calling, which guarantees a savings, are
25 based on what Billy Jack referred to this morning as the

1 default service, and not on calling plans which a large
2 percentage of customers actually have.

3 Consumers of telephone service, in general, are
4 not equipped to make intelligent choices. Making an
5 intelligent choice is obviously an important component of a
6 properly functioning competitive market. Customers do not
7 understand their bills. You have a NOPR that you've issued
8 on this -- more or less on this subject matter, and
9 customers do not know which services are regulated and which
10 services are not regulated.

11 Most customers do not understand that state
12 utility commissions cannot help them with problems with
13 their long distance companies. They don't understand the
14 jurisdictional split. And despite the reference, I guess it
15 was Commissioner Tristani made to the 100,000 calls received
16 by the FCC complaining about slamming, most people don't
17 know what the FTC is, they don't know what the FCC is, and
18 they don't know what the state public utility commissions
19 are, nor do they know what they do.

20 Dissipation rates and Lifeline and Link-Up
21 programs are low because consumers do not know that these
22 programs exist generally. The question is not how many
23 participants are there in Lifeline or Link-Up programs. The
24 question is what percentage of the eligible population
25 actually participate. And it's clear to us that very many

1 of these customers do not actually know that these programs
2 exist. There is insufficient notice to consumers about the
3 existence of these programs.

4 I might add a footnote here that what I was going
5 to say about that is that automatic enrollment is the
6 obvious solution to that problem, but Mark Cooper has
7 already said that, so I would only second that as a
8 proposition that if you go to a social service agency and
9 you are eligible for LIHEAP or whatever the state
10 eligibility requirement is in the state law, that you be
11 told that you can automatically enroll at that point in
12 these kinds of programs and you would be enrolled unless you
13 declined to enroll.

14 What are some reasonable solutions to these
15 problems as we move into the all market-based
16 telecommunications service industry?

17 I believe that federal and state regulators must
18 play a major role in educating consumers. I believe
19 unabashedly that government is good, for example, and that
20 government can do good, so that we can use our agencies,
21 state and federal agencies to provide information to
22 consumers in ways that we probably haven't done in the past
23 because we've had a regulated marketplace.

24 There ought to be toll free hot lines to
25 appropriate government agencies. Government agencies should

1 have web pages which provide information to consumers.
2 Government agencies can mandate that the bill be used as a
3 way to inform consumers.

4 For example, I believe that a bill should
5 separately identify different providers that are providing
6 services to that customer by name and by telephone number.
7 This would be a very easy way to allow a customer to detect
8 whether they've been slammed or not, and some states do not
9 have those kind of requirements. And I'm sure if you tried
10 to figure out from reading your telephone bills what
11 services you get and how much you're being charged for them,
12 many of you have probably had difficulty doing that.

13 Those bills could tell consumers where to complain
14 if they have particular problems with providers and which
15 agencies have jurisdiction over which companies. We could
16 require periodic bill inserts to explain about
17 telecommunications deregulation and about customer rights
18 along the lines of what's now required in the Truth and
19 Lending Act, and the Telecommunications Disclosure and
20 Dispute Resolution Act.

21 We could have public service announcements
22 sponsored by the FCC and/or state commissions. We could use
23 the FCC and state commission staff to hold public forums.
24 We could set up clearinghouses of information that could be
25 shared amongst state agencies and then be made available to

1 consumers where appropriate.

2 We could create and/or staff up consumer resource
3 centers within agencies. We must do more than just field
4 telephone calls. We actually have to help solve the
5 problems. I know in my state we have a consumer division of
6 the Public Service Commission. It is the stepchild of the
7 Public Service Commission. It is the second which gets the
8 least attention, has the least amount of resources, has no
9 access to staff counsel until very recently, is not seen as
10 a good place to work, et cetera, et cetera. That has to be
11 changed if we're going to move into a situation in which, in
12 my belief, agencies are going to turn into more like
13 consumer protection agencies and less like rate-making
14 agencies as we deregulate all of the, or virtually all of
15 the utility services except perhaps network services and gas
16 and electric.

17 We can provide consumer oriented information
18 through brochures on things like how to evaluate a provider,
19 how to compare prices, how to detect fraud and deceptive
20 practices, what questions to ask a company soliciting your
21 business, how and where to file a complaint, and things of
22 this nature.

23 I might indicate that it's not only government
24 agencies that can and should be doing these things, but I
25 believe government agencies ought to be doing these things.

1 My own agency has hired a person, we are a little law firm,
2 that's basically what we are. We've taken away one lawyer
3 position and we've hired one public information position so
4 that we can have a person during this time period who can
5 arrange for our staff to go out and talk to the public.
6 I've been on cable TV. I've been on public radio. I've
7 been on public television, and I've gone around to the AARP.
8 I've been all over the place trying to explain these things
9 to the public.

10 So I think that's a key and I would urge
11 commission, federal and state, to sort of reexamine their
12 traditional roles and to come to the conclusion that
13 consumer education and consumer protection is going to be an
14 extremely important role in the future.

15 I appreciate the opportunity to be come and
16 testify before you today.

17 CHAIRMAN KENNARD: Thank you very much.

18 We have a surprise guest today, Michele Farquhar
19 on behalf of Western Wireless.

20 MS. FARQUHAR: First, I would like to thank the
21 Universal Service Joint Board for reaching out to the
22 wireless industry for their thoughts on critical Universal
23 Service issues, such as consumer education and affordability
24 of basic telecom service. I also appreciate the opportunity
25 to represent John Stanton, who is the chairman and CEO of

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