

BEFORE THE PUBLIC UTILITY COMMISSION OF OHIO

**I/M/O Joint Application of
SBC Communications Inc, SBC
Delaware, Inc., Ameritech Corporation
and Ameritech Ohio for Consent and
Approval of a Change of Control**

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Case No. 98-1082-TP-AMT

DIRECT TESTIMONY AND EXHIBITS

OF

ROGER D. COLTON

PRESENTED ON BEHALF OF:

**Edgemont Neighborhood Coalition
Dayton, Ohio**

and

**Parkview Areawide Seniors
Empowerment Center
Cleveland, Ohio**

December 1998

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1 Q. PLEASE STATE YOUR NAME AND ADDRESS.

2 A. My name is Roger Colton. My address is 34 Warwick Road, Belmont, MA 02478.

3

4 Q. FOR WHOM DO YOU WORK AND IN WHAT CAPACITY?

5 A. I am a principal in the firm of Fisher, Sheehan & Colton, Public Finance and General
6 Economics (FSC). I provide technical assistance to a variety of public utilities, state
7 agencies and consumer organizations on rate and customer service issues involving
8 telephone, water/sewer, natural gas and electric utilities.

9

10 Q. PLEASE DESCRIBE YOUR INVOLVEMENT WITH ISSUES CONCERNING
11 LOW-INCOME TELECOMMUNICATIONS USAGE.

12 A. I have been involved with low-income telecommunications issues for over fifteen years.
13 Most recently, I was invited to speak at the 1998 annual NARUC meeting (November
14 1998) on the impacts of telecommunications competition on low-income and other hard-to-
15 serve consumers. Over the past ten years, I have testified before state regulatory
16 commissions in Massachusetts, Rhode Island, Connecticut, Pennsylvania, Colorado and
17 California, and have engaged in research supported by regulatory commissions (or
18 NASUCA offices) in Florida, Michigan and California on issues involving low-income
19 telecommunication needs. A brief description of my telecommunications work is included
20 as Exhibit RDC-1.

21

22 Q. HAVE YOU TESTIFIED BEFORE THIS COMMISSION BEFORE?

23 A. No.

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Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY TODAY.

A. The purpose of my testimony is to consider the impacts of the proposed SBC/Ameritech merger on low-income consumers in particular. I will assess whether the proposed merger is likely to generate positive impacts to the low-income market. More specifically, after an introduction, my testimony is divided into three parts:

1. *Part One* will examine whether low-income consumers represent a separate "market" that should be independently considered in evaluating the proposed SBC/Ameritech merger.
2. *Part Two* will consider the impacts of the proposed SBC/Ameritech merger on Ohio low-income consumers.
3. *Part Three* will propose a four part program to mitigate the reasonably anticipated adverse consequences to consumers arising from the proposed merger.

INTRODUCTION

Q. PLEASE EXPLAIN THE APPROPRIATE STANDARD TO APPLY IN ASSESSING WHETHER THIS MERGER SHOULD BE APPROVED.

A. The proposed merger should be reviewed to assess whether it is in the public interest. To be met, this standard requires that the merger result in a positive benefit to consumers.

Q. WHAT OPTIONS ARE AVAILABLE TO REGULATORS IF ADVERSE IMPACTS ARE FOUND TO ARISE FOR ONE PARTICULAR MARKET AFFECTED BY A

1 **MERGER WITHOUT ARISING IN ALL MARKETS SERVED BY THE MERGED**
2 **COMPANIES?**

3 A. The decision which Ohio's utility regulators face is not a simple choice between approving
4 the proposed merger on the one hand and disapproving the proposed merger on the other
5 hand. A third choice is to approve the proposed merger with conditions which specifically
6 serve to mitigate the adverse impacts of the merger to the market which is being harmed.

7
8 Q. **IS YOUR CONCLUSION THAT THE MERGER SHOULD BE APPROVED**
9 **SHOULD THE CONDITIONS YOU RECOMMEND BE GRANTED?**

10 A. No. My conclusion is that without the low-income mitigation measures, I propose below,
11 the merger cannot be found to be in the public interest. In the absence of these mitigation
12 measures, the merger must be disapproved.

13
14 In contrast, even if the mitigation measures I propose below *are* adopted, I do not endorse
15 the merger. I simply conclude that the adverse impacts of the merger *unique* to low-income
16 consumers have been adequately addressed. Low-income consumers, of course, are also
17 part of the larger class of residential consumers. They will be affected by the same issues
18 which affect other residential customers. I do not address those issues common to the
19 residential class as a whole. With respect to those issues, the approval or disapproval of the
20 merger (or the imposition of additional conditions) is dependent upon the Commission's
21 consideration of appropriate testimony from other parties.

22

PART I: LOW-INCOME CONSUMERS AS A SEPARATE MARKET.

1
2 **Q. PLEASE EXPLAIN THE NECESSARY FIRST STEP IN ANY EVALUATION OF**
3 **WHETHER ADVERSE IMPACTS WILL ARISE FROM A PROPOSED MERGER.**

4 **A. The first inquiry in analyzing merger impacts involves a market definition. The**
5 **significance of a market definition is straightforward. The Commission must have a frame**
6 **of reference within which to isolate and examine the anticipated effects of the proposed**
7 **merger. That frame of reference is a market. Indeed, the definition of a relevant market is**
8 **critical to assessing both the existence of, and extent of, adverse impacts from the merger.**
9 **In brief, without a definition of the relevant market, there is no way to identify and measure**
10 **the impacts --positive or negative-- of the proposed merger. Markets are to be defined from**
11 **the perspective of consumers because they are the class designed to be protected by the**
12 **state's merger statute.**

13
14 **Q. PLEASE EXPLAIN WHY YOU FOCUS ON THE LOW-INCOME MARKET IN**
15 **PARTICULAR.**

16 **A. The low-income market is a different market from the commercial and industrial market. In**
17 **addition, as I note above, while low-income customers will share some impacts of the**
18 **merger with the residential market generally, they also have impacts unique to them as an**
19 **independent market. Whether or not beneficial impacts arise for the commercial and**
20 **industrial market from this merger, or to the residential market generally, does not detract**
21 **from any conclusion about whether or not unique adverse impacts arise for the low-income**
22 **market in particular.**

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Q. PLEASE ASSESS THE CONSIDERATION OF THE MERGER IMPACTS ON LOW-INCOME CONSUMERS TO DATE.

A. The Applicants' presentation of their proposed merger focuses on the impacts to "ratepayers" generally. "Ratepayers," however, do not represent a market. "Ratepayers" not only may, but as I will show below, do consist of multiple markets. My conclusion is that the merger impacts on the low-income market are different, both in kind and in degree, from the impacts, if any, on other markets.

Q. WHY DO YOU CONCLUDE THAT LOW-INCOME CUSTOMERS REPRESENT A DISTINCT MARKET?

A. The boundaries of a market can be determined by any of several attributes. A separate market can be delineated by characteristics of the consumers in that market. A separate market can be delineated by the distinct goods and services provided within that market. A separate market can be delineated by the special treatment which the industry provides to that market. Based on these attributes, I find that any number of factors quickly distinguish low-income customers specifically as a separate market.

◆ Characteristics of the low-income consumers, as low-income consumers, distinguish those customers as a separate market. Three characteristics in particular are relevant: (1) Low-income consumers have substantially lower penetration rates for telephones in the home. Penetration rates for low-income consumers can range down to 55%, contrasted to 95% and above for the population as a whole. (2) Low-

1 income consumers have substantially higher churn rates.¹¹ Churn rates for low-
2 income customers are often as high as 30% and more, contrasted to roughly 15% for
3 the population as a whole. (3) Low-income consumers have higher hurdle rates.¹²

4 Universally, the empirical research examining the effects of income on consumer
5 hurdle rates shows that hurdle rates fall as income increases. Hurdle rates for low-
6 income consumer purchases are often as high as 90% to 100%. These high hurdle
7 rates mean that low-income expenditures must generate one year (or less) paybacks
8 for the value of investments. High hurdle rates for low-income customers simply
9 reflect the fact that, given the scarcity of financial resources for those customers,
10 they require a faster return of any "investment" so that the scarce resources can
11 again be devoted to other household uses.

12 ♦ Characteristics of the service provided to low-income consumers distinguish these
13 consumers as a separate market. The Direct Testimony of Stephen Colton discusses
14 the full range of "service" provided to consumers by a company such as Ameritech.
15 My 20-plus years of experience with low-income utility service leads me to
16 conclude that many of those services are disproportionately, if not uniquely, used by
17 low-income consumers. An illustrative, though by no means comprehensive, list
18 includes:

¹¹ A churn rate is the rate at which customers move on and off the system for whatever reason.

¹² The rate of return necessary to prompt consumer investment in a measure designed to save money is generally referred to as the "hurdle rate." The difference between the current telecommunications service provider and the least-cost provider of service, in other words, must be sufficient (*i.e.*, must have a substantial enough spread) to meet the customer's hurdle rate. Unless this exists, no consumer action will occur.

1. Low-income consumers disproportionately rely on company services allowing them to establish creditworthiness, particularly in light of characteristics that telephone companies consider to be adverse credit indicators. Low-income consumers more frequently tend to have bad credit reports for non-utility transactions, are less frequently homeowners, are less frequently financial service customers (checking and banking accounts), and are more frequently recipients of collection treatment. All of these push customers into a "process" (as defined by Stephen Colton) to establish creditworthiness or to secure bill payment.
2. Low-income customers disproportionately rely on personal contact with company customer service representatives. Low-income customers are less likely to have checking accounts and are thus more likely to make cash payments; more likely to require the need to negotiate deferred payment arrangements for unpaid arrears; more likely to experience involuntary disconnections of service; and more likely to experience account collection treatment.
3. Low-income customers are more frequently mobile than the population as a whole. As a result, they disproportionately use services relating to account transfers and service disconnections.
4. Low-income customers, by definition, uniquely use customer services directed toward receiving information about universal service assistance programs such as lifeline and link-up and enrolling in such programs.

As can be seen, in applying the service flowchart presented in Exhibit SDC-6 (attached to the Direct Testimony of Stephen Colton), it becomes evident that the service produced for

1 and delivered to low-income consumers (i.e., the outputs of Company activities) differs
2 from that produced for and delivered to the general population. As a result, low-income
3 consumers represent a distinct market.

- 4
- 5 ♦ Third, low-income customers represent a distinct market because the industry treats
6 them as a separate market. At the federal level, the Federal Communications
7 Commission (FCC) explicitly considered the "affordability" of telecommunications
8 service to low-income consumers in its May 1997 universal service order. In
9 addition, the Public Utilities Commission of Ohio (PUCO) has had specific
10 proceedings both on the adequate provision of information on the USA program and
11 on the marketing of services through "phone sharks." Moreover, low-income
12 customers are often treated as undesirable customers. Customers who receive USA
13 assistance, for example, may not also subscribe to enhanced services such as call-
14 waiting and caller identification.³¹ In sum, a market can be delineated by the
15 industry's treatment of the market as separate and distinct. That is the case for low-
16 income consumers.
- 17 ♦ Finally, low-income customers tend to be geographically concentrated. I will
18 discuss this concentration in greater detail below.

³¹ Note also Staff Exhibit 1 in PUCO Docket 93-487-TP, where the Commission's Chief of Performance Analysis said of Ameritech's implementation of USA: "There is at best an ambivalence and at worst an outright hostility toward this program by the decision makers within Ameritech. . . Staff believes the inadequate program monitoring and overall inefficient implementation of the USA program to date draws into serious question Ameritech senior management's commitment to the success of the program." (*Staff Review of Ameritech's Universal Service Assistance Commitment*, Staff Exhibit 1, at 8).

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Q. BASED ON ALL OF THE ABOVE, WHAT DO YOU CONCLUDE?

A. I conclude that low-income consumers represent a separate telecommunications market to be considered in assessing the impacts of this proposed merger.

PART II. IMPACTS OF THE PROPOSED MERGER ON THE LOW-INCOME MARKET.

Q. HOW DO TELEPHONE PENETRATION RATES PERTAIN TO THIS MERGER PROCEEDING?

A. The precarious nature of low-income telephone service in the home makes it evident how important it is for Ohio telecommunications companies to pay particular attention to providing the service(s) necessary to help retain telephone access. I conclude, however, that the merger will place the continuing offer of those services in jeopardy in all the ways I discuss below.

Q. WHAT IMPACTS WILL THE PROPOSED MERGER LIKELY HAVE ON LOW-INCOME CUSTOMER SERVICE?

A. I conclude that the proposed merger will have the following impacts on low-income customer service in Ohio:

- o Increased standardization of operations.
- o Decreased attention to specific state and local needs.
- o Decreased attention to the non-telephone population.

I discuss each of these below.

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A. Standardization of Operations.

Q. PLEASE EXPLAIN YOUR CONCERN ABOUT THE STANDARDIZATION OF OPERATIONS.

A. I share the Staff's concerns, albeit with a somewhat different focus, about the standardization of operations. Staff states that "it is reasonable to assume that SBC will want to analyze existing Ameritech systems and make changes. We are concerned that the merger may result in a corporate decision to standardize the OSS operations even if the operations are not further centralized." (Staff Report, at 4).¹⁴

Q. WHAT CONCERN DO YOU HAVE WITH RESPECT TO THE INCREASED STANDARDIZATION OF OPERATIONS AND PROCEDURES?

A. Customer service is affected by a range of policy and operational decisions at the state and local level which, while affecting customer access to service, are not regulated by state utility commissions. I conclude that a utility merger:

- (1) tends to generate a standardization of these customer service policy and operational decisions; and
- (2) the standardization tends to move the policy and operational decisions to the "stricter" and less consumer friendly level of the merging companies.

As a result, consumers served by the company with the policies and practices that have been

¹⁴ The "Preliminary Independent Staff Proposal Relative to the Issues Identified by the Public Utilities Commission of Ohio" will be referred to in my testimony as the Staff Report.

1 "tightened" are adversely affected by the consummation of the merger.

2
3 **Q. HAVE YOU UNDERTAKEN A REVIEW OF THE STANDARDIZATION OF**
4 **SUCH POLICIES AND PRACTICES FOR AMERITECH AND SBC?**

5 **A. No.** When information and data was requested to allow such a review, the companies
6 refused to respond, or inadequately responded, to this discovery.

7
8 **Q. GIVEN THAT REFUSAL TO RESPOND, CAN YOU AT LEAST ILLUSTRATE**
9 **THE "STANDARDIZATION" THAT YOU EXPECT?**

10 **A. Yes.** While, due to the failure to obtain meaningful responses to discovery renders a
11 reliance on actual information impossible, the following hypotheticals illustrate the
12 reasonable expectations. First, assume that we have a low-income Ohio customer who is
13 behind on her bill and is seeking a deferred payment arrangement (DPA). Six months ago,
14 this customer had successfully completed her immediately preceding DPA. Assume that
15 Ameritech's DPA policy is that if you are not currently delinquent on a DPA, you are
16 eligible to enter into a DPA to pay off arrears. Assume, in contrast, that SBC has a policy
17 that no DPA is permissible unless: (1) you do not currently have a DPA; (2) you have not
18 had a DPA within the past 12 months; and (3) you have been a customer at your current
19 address for at least 12 months. In this situation, a standardization of practices at the stricter
20 SBC level would represent a decrease in service to the Ohio consumer.

21
22 Second, utility company collections are driven by what are called "treatment amounts." A

1 treatment amount is the minimum level of arrears (either in dollars or in age or a
2 combination of the two) that a customer must incur before the utility will take collection
3 action against them. Assume, for example, that Ameritech will not initiate collection
4 activity (including the disconnection of service) unless and until a customer is \$100 or 90-
5 days in arrears. If SBC has a treatment amount of \$50 or 60-days, or anything stricter than
6 the \$100/90-day threshold, Ohio consumers will experience a reduction in service if the
7 treatment amount is standardized at the stricter level.
8

9 **Q. ARE YOU SUGGESTING THAT EACH OF THESE SPECIFIC POLICIES ARE**
10 **ACTUAL INSTANCES OF WHERE OHIO CUSTOMERS WILL EXPERIENCE**
11 **DECREASED SERVICE AS A RESULT OF THE PROPOSED MERGER?**

12 **A.** No. As I have previously indicated, we requested information on customer service policies
13 and received no meaningful answers. What I am suggesting, therefore, is that the Ohio
14 Commission recognize that Ohio consumers can experience a degradation in service in
15 innumerable ways through the "standardization" of practices and procedures (as projected
16 by the Staff). Thus standardization generally serves to harm the low-income population in
17 particular. The discussion above is intended merely to illustrate this process so the
18 Commission can understand the harms that may arise.
19

20 **Q. WHAT DO YOU CONCLUDE?**

21 **A.** The standardization of operations to which the staff refers in its report, when applied to
22 customer service issues, represents a substantial potential for Ohio customers to receive less

1 service as a direct result of the merger.

2
3 **B. Decreased Attention to Specific State and Local Needs.**

4 **Q. PLEASE EXPLAIN YOUR CONCERN ABOUT THE DECREASED ATTENTION**
5 **TO SPECIFIC STATE AND LOCAL NEEDS.**

6 **A.** I share the Staff's concerns, albeit with a somewhat different focus, about the dilution of
7 focused attention on state and local needs. Staff states that "the focus on quality of service
8 for Ohio's residential customers may be further diluted due to the increased breadth of the
9 corporation's business, the increased focus on competitive opportunities over a substantially
10 broader geographic region, and the increased spatial difference between corporation
11 decision-making and policy structure (Texas) and the residential customers in Ohio." (Staff
12 Report, at 6).

13
14 **Q. WHAT CONCERN DO YOU HAVE ABOUT THE INCREASED BREADTH OF**
15 **THE CORPORATION'S BUSINESS, THE INCREASED FOCUS ON A**
16 **SUBSTANTIALLY BROADER GEOGRAPHIC REGION, AND THE INCREASED**
17 **SPATIAL DIFFERENCE FROM CORPORATE DECISIONMAKING AND OHIO**
18 **CONSUMERS?**

19 **A.** It has been shown that mergers result in a degradation of low-income specific service
20 offerings to local areas for two reasons:

21 (1) The increased physical distance between the locus of corporate decisionmaking and
22 the specific geographic area to be served; and

1 (2) The increased customer base to whom a merged company is accountable.

2
3 **Q. PLEASE EXPLAIN THE BASIS FOR YOUR CONCLUSION.**

4 **A.** Let me consider the health care industry in particular. The merger and consolidation of
5 health care plans has been found to result in plans favoring standardization, which in turn
6 reduces the plans' responsiveness to the unique health needs and conditions of local
7 communities. A 1993 survey of managed care organizations, for example, found that
8 utilization review organizations that served national markets --compared with similar
9 organizations with state or regional markets--placed considerably less value on local norms
10 of clinical practices and local participation in making utilization review policies.

11
12 **Q. IN ADDITION TO THE EFFECTS OF MERGERS ON SERVICE, IS THERE**
13 **REASON TO BE CONCERNED ABOUT THE INCREASING GEOGRAPHIC**
14 **SCOPE RESULTING FROM THE PROPOSED MERGER?**

15 **A.** Yes. One goal that a merger evaluation based solely on an impact-on-competition decision
16 rule would not consider is the impact of mergers on the democratization of the
17 decisionmaking process. The need for public participation has become even greater as the
18 stakes in this decisionmaking have increased: the offer of services to entire segments of the
19 population; the commitment of billions of dollars to one economic endeavor rather than
20 another. The decisions made by telecommunications companies affect all of society,
21 including all of its diverse constituent parts. The board of directors of a private
22 telecommunications company has neither the incentive nor the ability to consider these

1 diverse interests. Whether "economic efficiency" should be sacrificed to some extent (or to
2 what extent) in order to provide high quality rural telecommunications service to a low-
3 income Appalachian community in southeastern Ohio, for example, is a decision *not* best
4 left to middle class white executives sitting in Texas. Mergers are likely to further separate
5 the impacts of decisions from the locus of decisionmaking and, in addition, make public
6 participation in decisionmaking even more difficult than it is today.⁵¹

7
8 This separation of decisionmaking from the persons who are affected by the decisions will
9 most likely adversely affect low-income consumers. As decisionmaking is concentrated in
10 remote forums; consumers (and particularly *low-income* consumers) have less opportunity
11 to have any say in the processes which affect their lives. The political power of low-income
12 customers is slim under the best of circumstances promoting participation. This is an
13 empirically established fact, not merely a political observation. Substantial research has
14 found that political involvement, efficacy, and a sense of "public self" decreases
15 dramatically for those lower in the spectrum of socio-economic status. Lower socio-
16 economic groups are the least likely group not only to get involved politically, but to speak
17 out—even on their own behalf— or to be involved in a utility regulatory process. Mergers
18 which further separate the location of decisionmaking both geographically and socially
19 from the affected low-income population create even more insurmountable barriers.

⁵¹ Despite the sweeping statements of Company witness Jennings about the local nature of SBC decisionmaking, when queried about specific decisions (for example, involving decisions affecting budget), she conceded that such decisions would be made in Texas. In addition, for example, the charitable giving decisionmaking, including decisions on charitable giving in Ohio, will be removed from Ohio and consolidated in Texas.

1
2 To say that Ameritech will still be "regulated" by the PUCO and that the merger has no
3 impact on the accessibility of consumers to the PUCO does not address the issue. With the
4 locus of decisionmaking in Texas, SBC management will not be subject to the same direct
5 local face-to-face contacts; will not be subject to dealing with low-income advocates in
6 legislative and administrative proceedings; will not be subject to being called upon to justify
7 their actions or inactions in public forums; and the like. Having worked with low-income
8 consumers for over 20 years (as community organizer, legislative liaison, attorney, and
9 technical consultant); I am well-aware of the adverse impacts which geographic removal has
10 on the ability to influence corporate decisionmaking.

11
12 Consider the following illustration. No one would seriously dispute that one issue of
13 intense political interest to the low-income and urban communities in Ohio is the
14 distribution of advanced telecommunications infrastructure. In addition, no one would
15 seriously dispute that making decisions about infrastructure investment involves decisions
16 made at the highest levels of company management. If adequate and appropriate
17 investment in advanced infrastructure is *not* made in Ohio's low-income and urban
18 communities, the locus of the company's decisionmaking becomes particularly important.
19 An Ohio-based company management decisionmaking team would be subject to local
20 influence, whether through local officials, media or direct interaction with the community.
21 In contrast, a Texas-based company management decisionmaking team would be
22 substantially removed from that influence.

1

2 **Q. IS THERE ANY OTHER REASON YOU HAVE CONCERNS ABOUT WHETHER**
3 **A MERGED SBC/AMERITECH WILL FAIL TO ADDRESS THE SPECIFIC**
4 **NEEDS OF LOW-INCOME COMMUNITIES IN OHIO?**

5 **A. Yes. There has been substantial effort expended to secure Ameritech's compliance with its**
6 **negotiated settlement regarding the provision of information about Ohio's Universal Service**
7 **Assistance (USA) program, as well as regarding Ameritech's enrollment of eligible low-**
8 **income customers into the USA program. The unwillingness or inability of Ameritech to**
9 **comply with its settlement agreement is discussed further in the Direct Testimony of**
10 **William Gruber. To the extent that customer service decisionmaking is consolidated in a**
11 **remote location, there will be yet additional barriers to gaining compliance with the agreed**
12 **upon obligations.**

13

14 **Q. HOW WILL THIS LACK OF A LOCAL COMMUNITY FOCUS LIKELY HARM**
15 **OHIO CONSUMERS?**

16 **A. The lack of telephones will deny low-income consumers the ability to take advantage of**
17 **high technology solutions to common community problems. Without an ability and**
18 **willingness to focus on particular community needs, Ohio's low-income communities will**
19 **simply be left behind.**

20

21 **Q. PLEASE EXPLAIN.**

22 **A. Large portions of the low income population cannot afford telephone service in their homes,**

1 and this number has grown since divestiture, as the cost of basic service continues to rise.
2 In 1991, while fewer than one out of 100 upper income families did not have a telephone,
3 roughly 25 out of 100 low income families did not.

4
5 **Q. ARE THERE PARTICULAR ASPECTS OF THIS DISPARATE PENETRATION**
6 **THAT ARE DISTURBING?**

7 **A.** Telephone penetration patterns are not racially neutral either. While the national average
8 penetration rate for telephone service is 94 percent,¹⁶¹ the penetration rate for black
9 households (regardless of income) is only 86 percent.¹⁶² The racial inequality is a particular
10 problem for the poor. While 75 percent of all households with incomes less than \$5,000
11 had telephones, only 64 percent of black households and 65 percent of Hispanic households
12 with incomes less than \$5,000 have telephone service.¹⁶³

13
14 **Q. ARE THERE SPECIFIC LOW-INCOME POPULATIONS THAT HAVE**
15 **PARTICULAR PROBLEMS WITH ACCESS TO TELEPHONE SERVICE IN THE**
16 **HOME?**

¹⁶¹ Jorge Reina Schement (1996). *Beyond Universal Service: Characteristics of Americans without Telephones, 1980-1993, Communications Policy Working Paper #1*, at 1, Benton Foundation: Washington D.C.

¹⁶² "Blacks and Hispanics experience lower telephone penetration than whites, not surprising since blacks and Hispanics have average lower incomes than whites. But such thinking is misleading. . . [E]ven when they share the same level of income, blacks and Hispanics have lower telephone penetration levels than whites. That is, at all levels of income below \$40,000, whites have higher levels of telephone penetration." *Schement*, at 3.

¹⁶³ *Schement*, at 3.

1 A. Yes. Amongst specific low-income households, telephone penetration rates are
2 dramatically low:

- 3 o Of households on public assistance, 35 percent lack telephones;
- 4 o Of households receiving food stamps, 31 percent lack telephones;
- 5 o Of households receiving energy assistance, 21 percent lack telephones.¹⁰

6 Indeed, of those households completely dependent on public assistance, the penetration rate
7 of telephone service is only 43.5 percent (leaving more than 56 percent without service).¹⁰

8

9 Q. **HAVE YOU CONSIDERED THE PENETRATION RATE FOR TELEPHONE**
10 **SERVICE IN OHIO SPECIFICALLY?**

11 A. Yes. If one looks at penetration rates for having a telephone in the home for the state of
12 Ohio, one would conclude that telephone service is virtually universal. According to the
13 most recent Census data, only five percent (5%) of all occupied housing units in the state of
14 Ohio do not have a telephone in the home. Of all households living below 100 percent of
15 Poverty in Ohio, however, 18 percent do not have telephone service.

16

17 Q. **WHAT DO YOU CONCLUDE?**

18 A. I conclude that the penetration rate of 95+% percent that is often cited for the proposition
19 that universal service has been achieved in Ohio has little meaning. While some

¹⁰ Alexander Belinfante (1989). *Telephone Penetration and Household Family Characteristics*, Federal Communications Commission Docket No. CC 87-339. Washington D.C.

^{10a} *Id.*

1 populations may have extremely high penetration rates for having a telephone in the home,
2 low-income households have extremely low penetration rates.

3
4 **Q. IN LIGHT OF THE ABOVE, WHAT IMPACT WOULD YOU EXPECT IN OHIO?**

5 **A.** Ohio has extraordinary pockets of poverty much of which is served by Ameritech. A
6 review of a service territory map for Ohio's telecommunication utilities shows that
7 Ameritech has a substantial presence in 35 of Ohio's 87 counties. An analysis of poverty
8 levels in Ohio reveals the following:

- 9 ♦ Nine of Ohio's twenty "poorest" counties (i.e., those with the highest proportion of
10 persons with incomes of less than 50 percent of the federal Poverty Level) are
11 Ameritech counties.
- 12 ♦ In 18 of Ameritech's 35 counties, the proportion of persons below Poverty is equal
13 to or greater than the statewide average. The four southeastern Ohio counties of
14 Lawrence, Gallia, Monroe and Perry have poverty rates of from 1.5 to 2.0 times the
15 statewide average. Not surprisingly, these counties also have amongst the highest
16 proportion of households with incomes of at or below 50 percent of the Poverty
17 Level.
- 18 ♦ In eight of those 18 Ameritech counties (Lawrence, Gallia, Monroe, Jefferson,
19 Perry, Belmont, Highland, and Mahoning), 1-of-10 (or more) of all *households* live
20 with an annual income of less than \$5,000, while 1-of-5 (or more) of all households
21 live with an annual income of less than \$10,000.
- 22 ♦ In five of those 18 Ameritech counties (Highland, Lawrence, Fayette, Perry, Gallia),

1 the no-telephone population is 200% higher than the statewide average (10% vs.
2 5%).

3
4 **Q. HAVE YOU CONSIDERED THE TELEPHONE PENETRATION RATE FOR THE**
5 **BELOW POVERTY POPULATION, IN PARTICULAR, IN THOSE COUNTIES?**

6 **A. Yes. There are eighteen Ameritech counties where the percentage of below Poverty Level**
7 **households living without telephones in the home was equal to or greater than the statewide**
8 **average. Those counties are set forth in Exhibit RDC-2. In 14 of those 18 counties, more**
9 **than one-of-five low-income households lived without telephone service. In six of those 18**
10 **counties, roughly one-in-four (or more) of below Poverty Level households lived without**
11 **telephone service.**

12
13 **Q. HAVE YOU CONSIDERED, ALSO, THE IMPACTS OF POVERTY IN THE**
14 **URBAN AREAS SERVED BY AMERITECH?**

15 **A. Yes. I have examined poverty and telephone penetration rates in Cleveland (Cuyahoga**
16 **County), Toledo (Lucas County), Akron (Summit County), Youngstown (Mahoning**
17 **County), Columbus (Franklin County), and Dayton (Montgomery County). The results are**
18 **set forth in Exhibit RDC-3. I find that:**

19 ♦ **With the exception of Columbus, the major urban areas in Ohio have from 1.5 to**
20 **nearly 3x the poverty that the state as a whole does.**

21 ♦ **This poverty is heavily concentrated in the core cities. Without exception, the level**
22 **of poverty is substantially higher in the core cities than it is in either the county or**

1 the Metropolitan Statistical Area (MSA) in which the city is located.

2 ♦ The lowest income persons and households are heavily overrepresented in the core
3 cities. While those cities have 18% of the state's total population, they have more
4 than 36% of all persons living below 50% of the federal Poverty Level and nearly
5 34% of all households living with annual incomes of less than \$5,000.

6
7 **Q. WHAT DO YOU CONCLUDE?**

8 A. In sum, I conclude that the poverty problems I have discussed throughout my testimony are
9 a particular problem in Ohio's urban core as well as in the rural southeastern part of the
10 state.

11
12 **Q. IS THE MERGER DESIGNED TO BRING POSITIVE BENEFITS TO THESE**
13 **LOW-INCOME HOUSEHOLDS?**

14 A. No. First and foremost, this merger is designed to allow the merged company to compete
15 for large business customers. Consider that Company witness Kahan explicitly and
16 repeatedly testifies that:

17 ♦ "We will implement this strategy by first following our large corporation customers.
18 This is a direct benefit of this merger as neither company on its own could
19 undertake such an aggressive entry." (Kahan, at 22).

20 ♦ "We believe a strong, financially viable Ameritech Ohio is essential to the State of
21 Ohio and essential to providing high quality, reasonably priced telecommunications
22 services to its retail and wholesale customers. . .this is particularly true to the extent

1 Ameritech Ohio is better able to compete for large business customers in Ohio."
2 (Kahan, at 23).

3 ♦ "...we can either continue to focus on our current regions and run the risk of losing
4 our large and mid-sized customers who provide a disproportionate share of the
5 revenues that are needed to grow our business or we can expand and compete
6 through the opportunity to follow and serve those customers anywhere they operate
7 around the globe." (Kahan, at 25).

8 ♦ "As SBC successfully competes for these large corporate customers, as we will be
9 able to do as a result of our strategy..." (Kahan, at 26).

10
11 **Q. IS THE MERGER SPECIFICALLY DESIGNED TO HELP THE MERGED**
12 **COMPANY PROVIDE SERVICE TO ITS LOW-INCOME CUSTOMERS?**

13 **A.** No. The merger is designed to help the merged company develop and market new high
14 technology to those customers who are able to afford such technology. Again, consider Mr.
15 Kahan's testimony:

16 ♦ "[ADSL and AIN-based services] are sophisticated services critical to any state's
17 efforts to retain existing business and to attract new businesses. An advanced
18 telecommunications network is a critical component of the infrastructure necessary
19 to succeed in business in today's high technology world." (Kahan, at 11).

20 ♦ "...big business customers provide local service providers with the revenue and
21 incentive to develop new and advanced products and services. These new services
22 and products, although initially developed for and marketed to big business

1 customers, eventually are expanded to the residential and small business market."

2 The emphasis on high technology innovation directed toward large business continues
3 throughout Mr. Kahan's testimony. The impact on residential and small business customers
4 generally involves a trickle down effect. The benefit to low-income customers, particularly
5 those without telephones, is non-existent.

6
7 **Q. WHAT DO YOU CONCLUDE?**

8 **A.** Efforts to bring technology into these communities with such a lack of telephone
9 penetration service would require precisely the type of local attention that mergers have
10 been found to impede.

11
12 **C. Decreased Attention to the Non-Telephone Population.**

13 **Q. PLEASE EXPLAIN YOUR CONCERNS ABOUT THE DECREASED ATTENTION**
14 **TO THE NON-TELEPHONE POPULATION.**

15 **A.** I share the Staff's concerns, albeit with a somewhat different focus, about the potential for
16 decreased attention to the non-telephone population. Staff states that "the merged
17 corporation may focus most of its energy on more competitive opportunities to the
18 exclusion of less competitive services." (Staff Report, at 7).

19
20 **Q. WHAT CONCERN DO YOU HAVE ABOUT ANY DECREASED ATTENTION TO**
21 **THE NON-TELEPHONE POPULATION?**

22 **A.** In short, my concern is this: as I discuss in more detail below, we know that it is more

1 difficult and less profitable to service the low-income market. It is, as a result, reasonable to
2 expect the Company to avoid doing so unless it is required to do so. Ohio's adverse
3 experience with Ameritech's implementation of the USA program confirms this concern. In
4 addition, the testimony of Company witness Kahan about the "benefits" of the merger (pp.
5 18 - 38) explicitly focuses exclusively on the high end, high revenue, high profit customers.

6
7 Having said all of this, I have discussed in detail above the extent to which the penetration
8 of telephone service in the home is not only lower, but *substantially* lower in the low-
9 income community. The primary need for company activity in the low-income community
10 is not to increase the penetration of higher revenue service. Nor is it to increase the
11 penetration of bundled services (such as local access/internet/cable television packages).
12 The need is to increase the penetration of basic local service.

13
14 The Staff suggests that as a result of the merger, "the merged corporation may focus most of
15 its energy on more competitive opportunities to the exclusion of less competitive services."
16 Mr. Kahan's testimony (pp. 18 - 38) confirms this is precisely what will happen. It is
17 reasonable to conclude, therefore, that the merger will result in a *reduction* in efforts to
18 increase telephone penetration in the low-income community unless the merged company is
19 *directed* to do so. This will, at best, result in no improvement in penetration rates and may
20 well result in a reduction in penetration rates.

21
22 Q. PLEASE EXPLAIN WHY YOU BELIEVE THE TELECOMMUNICATIONS

1 **INDUSTRY VIEWS LOW-INCOME CUSTOMERS AS LESS THAN DESIRABLE.**

2 A. We know that higher acquisition costs combined with high churn rates make efforts to
3 attract low-income customers less attractive, particularly vis a vis what staff calls "more
4 competitive opportunities." Consider that:

5 ♦ We know that the lack of low-income reliance on mass media advertising, and the
6 increased reliance on personal contact, drives acquisition costs higher. A recent
7 study by the Pew Charitable Trust in Philadelphia found that the mass media is one
8 of the least trusted institutions in the low-income community and that low-income
9 persons look to personal relationships to gain knowledge and make purchase
10 decisions. The failure of mass media to reach the low-income community has been
11 repeatedly confirmed for low-income programs involving utilities and energy
12 assistance/energy efficiency.

13 ♦ We know that these high customer acquisition costs are compared to the lower
14 retention costs for customers with premium services and the add-on of bundled
15 services. Not only have communications carriers indicated that they will focus on
16 retention campaigns rather than acquisition campaigns, they have further indicated
17 that retention campaigns will be focused on premium customers. Data mining, too,
18 in support of customer retention, is directed toward premium customers.

19 ♦ We know that the demand for higher service levels (as discussed in detail above)
20 along with certain payment risks (ranging from credit and collection risks to
21 working capital costs) makes low-income customers less attractive. Credit
22 initiatives ranging from the adoption of credit-scoring techniques, to toll restrictors,

1 to credit history information sharing, have all been directed toward restricting access
2 to the communications network, not expanding it.

3 In short, I agree with the Staff's observation and conclude that Staff's conclusion has
4 particularly ramifications for low-income consumers.

5
6 **Q. WHY IS THIS A PROBLEM THAT SHOULD BE ADDRESSED?**

7 **A.** Inability to obtain affordable, accessible telephone service can create life threatening
8 situations for the poor. Frequently, the most important problem arising from the lack of
9 access to telephone service is the denial of access to agencies and institutions that can
10 provide help. For example, the lack of telephone service in the home threatens timely
11 access to medical attention. The elderly, in addition, suffer more acutely from problems
12 compounded by their physical isolation. In a Connecticut study conducted by RPM
13 Systems, three groups were found to be "at greater-than-normal risk" because of lack of
14 telephone service, including "persons over 60 and living alone."¹¹¹ The study found that of
15 59 "no-telephone households" with elderly members, 30 were senior citizens living alone,
16 23 had a disability or serious medical problem, and 10 of those disabled seniors lived alone.
17 More than half of the seniors living alone (17 of 30) lived more than three minutes away
18 from the telephone they would need to rely upon in an emergency.

19
20 Findings from a Michigan study on telephone usage among the elderly indicate that the

¹¹¹ RPM Systems, *An Exploratory Study of Low-Income Telephone Subscribers and Non-Subscribers in Connecticut*. New Haven: RPM Systems: 1988.

1 elderly were far more likely to consider the reason for their telephone calls to be essential
2 than were non-elderly callers.^{12A} Medical calls were cited by 22 percent (compared to 1
3 percent of non-elderly); social service calls were mentioned first by 10 percent (as
4 compared to zero percent of non-elderly):

5
6 Lack of access to a telephone jeopardizes access to public assistance programs as well.
7 According to one study looking at why households do not participate in the Food Stamp
8 program in Vermont, even for those households who knew who to contact for assistance in
9 understanding the application and income reporting requirements, the inability to contact
10 the agencies by phone was one of the most significant problems in obtaining such
11 assistance.^{13A}

12
13 Finally, in *Butte Community Union v. Lewis*,^{14A} the court found that lack of telephone
14 service was found to be a significant barrier to employment since the types of employment
15 low-income households generally obtain involve jobs offered and accepted via telephone.

16
17 In short, the primary problem is not the lack of access to the internet, or an inability to bank-
18 by-phone, or the lack of access to high technology services. The basic problem of low-

^{12A} Mark Cooper, *Low-Income Households in the Post-Divestiture Era: A Study of Telephone Subscribership in Michigan*, Washington D.C.: Consumer Federation of America, 1986.

^{13A} Sandage Advertising & Marketing, *Food Stamp Program: Focus Group Research Report*, at 6, prepared for Vermont Department of Social Welfare (1989).

^{14A} 745 P.2d 1128, 1131 (Mont. 1987).

1 income consumers is the lack of access to basic local service. Solving this problem of basic
2 access is the predicate to addressing the further technology issues that I have identified
3 below.

4
5 **Q. PLEASE SUMMARIZE YOUR CONCERNS.**

6 **A.** I have identified and explained three adverse consequences to the low-income market that
7 will arise as a result of the proposed merger. All four adverse consequences are consistent
8 with Staff observations about merger impacts. My conclusions are as follows:

- 9 1. The proposed merger will likely result in a decision to increase the standardization
10 of customer service policies and practices to the particular detriment of low-income
11 consumers.
- 12 2. The proposed merger will likely result in a decreased focus of attention on specific
13 state and local needs that are not common to the service territory as a whole to the
14 particular detriment of low-income consumers.
- 15 3. The proposed merger will likely result in a decreased focus of attention on the needs
16 of the non-telephone population to the particular detriment of low-income
17 consumers.