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DIVISION OF POLICY ANALYSIS &  
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## Public Service Commission

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November 10, 1999

FCC MAIL ROOM

### VIA AIRBORNE EXPRESS

Ms. Magalie Roman Salas  
 Secretary  
 Federal Communications Commission  
 445 Twelfth Street, SW - TW-A325  
 Washington, DC 20554

Re: Proposal Submitted by the Coalition for Affordable Local and Long Distance Services (CALLS) in dockets: CC Docket No. 96-262, Access Charge Reform; CC Docket No. 94-1, Price Cap Performance Review for Local Exchange Carriers; CC Docket No. 99-249, Low-Volume Long Distance Users; CC Docket No. 96-45, Federal-State Joint Board On Universal Service

Dear Ms. Salas:

Enclosed please find the original and five (5) copies of the Preliminary Comments of the Florida Public Service Commission with regard to the proposal submitted by the Coalition for Affordable Local and Long Distance Services (CALLS), in the above-noted dockets. Please date stamp and return one copy in the enclosed, self-addressed envelope.

Sincerely,

Cynthia B. Miller  
 Intergovernmental Counsel

CBM:tf

cc: Wanda Harris Competitive Pricing Division  
 International Transcription Service  
 Brad Ramsay, NARUC

Before the  
FEDERAL COMMUNICATIONS COMMISSION  
Washington, DC

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In the Matter of:	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Low-Volume Long Distance Users	)	CC Docket No. 99-249
	)	
Federal-State Joint Board On Universal Service	)	CC Docket No. 96-45
_____	)	

**PRELIMINARY COMMENTS OF THE FLORIDA PUBLIC SERVICE COMMISSION  
ON NOTICE OF PROPOSED RULEMAKING**

The Florida Public Service Commission ("FPSC" or "Florida Commission") hereby respectfully submits its comments in the above docket. These comments are in response to the Federal Communications Commission's ("FCC's") Notice of Proposed Rulemaking released on September 15, 1999, regarding a universal service and interstate access reform proposal submitted by the Coalition for Affordable Local and Long Distance Services ("CALLS").

These are only initial comments. We anticipate filing reply comments and are continuing to look at the proposal so that we may better evaluate the benefits and detriments. The Florida Commission commends the coalition members for their efforts in developing a comprehensive universal service and interstate access reform plan, which would include a simplified charge on

consumers' bills.<sup>1</sup> Simplicity of charges on the customer's bill is indeed an admirable goal. Also, the proposal clearly aims at creating some certainty over a five-year period. However, for the reasons listed below, we are filing--at least preliminarily--in opposition to this proposal. This plan is intended to cover only price cap incumbent local exchange carriers ("ILECs") who voluntarily elect to participate over a five-year period. We comment specifically on the impact on consumer bills, the potential incompatibility of this proposal with the Telecommunications Act of 1996 ("1996 Act"), and the increase to universal service costs. The FPSC is concerned that this proposal could increase the residential Subscriber Line Charge ("SLC") by up to 100% from today's level over a five-year period.<sup>2</sup>

#### Impact on Consumers' Bills

Before adopting the CALLS proposal or any other similar plan, the FCC should consider what has occurred with regard to fees arising from the federal jurisdiction. While the FCC has made a concerted effort in the case of both the SLC and the Presubscribed Interexchange Carrier Charge ("PICC") to mitigate the burden of these charges on single-line residential and single-line business users, the long distance carriers have reacted to the structure of these charges by shifting the burden back to the single-line user. The FCC capped the SLC at \$3.50 for single-line residential customers, while increasing it for non-primary residential lines. PICCs have also been set at higher levels for non-primary lines. Universal service assessments are based on a

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<sup>1</sup> The Coalition for Affordable Local and Long Distance Services ("CALLS") is comprised of AT&T, Bell Atlantic, BellSouth, GTE, SBC, and Sprint.

<sup>2</sup> Single-Line Residential SLCs for price cap carriers are currently capped at \$3.50. This proposal would set the SLC for year one at a cap of \$5.50, then gradually increase it to a cap of \$7.00 by July 2003.

percentage of interstate/international revenues, with no differentiation based on the class of customer. The table below shows the charges as they are actually set by the FCC.

**FCC APPROVED CHARGES TO CARRIERS**

CHARGES (ILEC/FCC)	First Line	Additional Lines	First Line Including AT&T UCC <sup>3</sup>
MAXIMUM NETWORK ACCESS CHARGES (SUBSCRIBER LINE CHARGE)	\$3.50	\$6.07	\$3.50
PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE	1.04	2.53	1.04
FEDERAL UNIVERSAL SERVICE SUPPORT	varies by % of interstate/international revenues	varies by % of interstate/international revenues	0.99
TOTAL	\$4.54	\$8.60	\$5.53

The SLC is billed by the LEC directly to end users. The PICC amounts are charged by the LEC to the IXCs. The IXCs are then permitted by the FCC to recover the fees as they deem appropriate. IXCs are assessed for universal service based on a percentage of their interstate and international revenues. The next table shows how one carrier has chosen to apply those charges to residential bills.

<sup>3</sup>For illustration purposes, includes AT&T's \$0.99 per account universal connectivity charge (UCC), which is actually billed to AT&T residential subscribers.

**HOW AT&T FLOWS THROUGH THE CHARGES TO RESIDENTIAL CUSTOMERS**

CHARGES (ILEC and AT&T)	First Line	Additional Lines <sup>4</sup>
MAXIMUM NETWORK ACCESS CHARGES (SUBSCRIBER LINE CHARGE)	\$3.50	\$6.07
CARRIER LINE CHARGE Per Account (PRESUBSCRIBED INTEREXCHANGE CARRIER CHARGE)	1.51	--
UNIVERSAL CONNECTIVITY CHARGE Per Account (FEDERAL UNIVERSAL SERVICE SUPPORT)	.99	--
TOTAL	\$6.00	\$6.07

The effect of the charges shown is that single-line residential customers presubscribed to AT&T pay the same amount in total for the SLC, PICC, and universal service assessments as customers pay for non-primary lines in the same account. Thus, the way the charges are passed through to customers shifts a larger portion of the fees to residential customers than what the FCC seems to have intended.

Other carriers have levied similar charges. MCI charges a PICC of \$1.46 per account and Sprint charges \$1.50 per account. Each of these two carriers assesses a universal service charge for residential customers by a percentage rather than a flat rate, and each charges residential customers a higher percentage than for business customers. Not only a larger portion of the PICC is shifted to single-line residential customers, but a proportionately larger share of universal charge assessments is passed through to them as well. Consider that AT&T, MCI and Sprint combined serve some 82.4% of the current nationwide residential toll market.<sup>5</sup> In Florida,

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<sup>4</sup>Customers with multiple lines on the same account are charged in this manner. Customers with multiple lines in different accounts would pay the carrier line charge and universal connectivity charge.

<sup>5</sup> Table 11-5, FCC *Trends in Telephone Service*, September 1999.

AT&T alone has some 63.1% of the market.<sup>6</sup> Thus, the majority of residential customers are affected by the fee schedule imposed by the carriers, a schedule that does not reflect the way the charges are assessed on them.

The CALLS proposal in some measure may mitigate part of the customer confusion as well as the overcharges for the PICC. Proponents of the plan appear to believe that consumers will be no worse off. Depending on the assumptions that are made about how the IXC's will pass through future increases in the PICC under the current plan, customers could possibly be better off with the CALLS plan in that regard. However, the long distance market is vastly more competitive than the local market, with little expectation of full local competition for residential customers in the near future. Once the PICC charge is shifted to the SLC, it is even less likely to be competed away than it is now. The FCC should consider that these ever increasing charges may be having a deleterious effect on affordability, particularly for the low-volume toll users who will probably receive no net benefit from the calls proposal. In our preliminary review, the FPSC sees nothing in the CALLS proposal that mitigates the impact on low-volume users.

In principle, the FPSC sees merit to pursuing cost recovery mechanisms that are subject to competitive market pressures. For example, the Comments of the State Members of the Universal Service Joint Board raised another option.<sup>7</sup> The FCC might consider whether, because of the limited competitive pressures faced by ILECs when recovering loop costs through the SLC, it would be appropriate to concentrate interstate cost recovery into one rate mechanism that

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<sup>6</sup> Ibid.

<sup>7</sup> Comments of the State Members of the Federal-State Joint Board on Universal Service, CC Dockets Nos. 96-45, and 96-262, July 23, 1999.

is charged to interexchange carriers ("IXCs"). The CALLS proposal, however, goes in the opposite direction. Adoption of the proposal appears to give up prematurely on the other avenues. That is, it seeks revenue recovery through the SLC, which is insulated from the greater competitive forces that bear upon an IXC's recovery of the PICC.

If the FCC decides to pursue the Joint Board's recommendations of incorporating the SLC into the PICC, we believe that IXCs should be constrained as to how they may pass these charges to consumers. This should not be viewed as a decree by the FCC for IXCs to implement this recovery as a mandatory PICC pass-through. Instead, IXCs that choose to recover these costs through a line item on end-users' bills should be limited as to the amount of recovery based on customer class similar to the way the SLC is recovered from ILEC today. Single-line residential customers should not shoulder an unreasonable proportion of the funding burden. We believe that this proposed framework should be re-examined only after widespread local competition develops.

#### Potential Incompatibility with the Telecommunications Act of 1996

The FPSC is concerned that the CALLS proposal is also going in the wrong direction with regard to universal service, when it appears to result in increased charges on the single-line residential subscriber. The goal of universal service has long been to ensure affordable service for all. That tenet was reiterated in the Telecommunications Act of 1996 which requires that rates be "just, reasonable, and *affordable*." (Sec. 254(b)(1) and (I)) [Emphasis added] The FCC considered the issue of affordability with regard to the SLC in its May 8, 1997 order on universal service, stating:

We wish to avoid action that directly or indirectly raises the price of the basic residential telephone service that guarantees access to the local telephone network. We also believe, as did the Joint Board, that raising the existing flat-rate charge on every consumer's line for access to interstate telephone service--the subscriber line charge (SLC)--is not desirable, because it could adversely affect the affordability of local service. Therefore, we decide in today's Order and its companion *Access Charge Reform Order* that we will not order the creation of any additional end-user charges for local service over these lines. Our primary reason for not mandating the recovery of universal service contributions through basic rates, directly raising charges for basic access through an increase in the primary residence SLC, or adopting any new end-user charge from the local telephone company to the residential consumer for basic access is that we have high subscribership rates today, and therefore believe that current rate levels are "affordable." We see no reason to jeopardize affordability by raising rate levels.

(¶16)

The FCC reiterated this position in paragraph 763, adding that "We also observe that the development of local competition will provide a market-based discipline on such end-user charges."

The CALLS proposal would entail additional universal service amounts to be recovered. Our initial impression is that this appears to be a back-door increase to the universal service fund. As currently framed, this plan would include an additional \$650 million in "universal service" funding, and would require added Lifeline funding that could approach \$220 million per year.<sup>8</sup> The CALLS proposal does not allow regulators to revise the fund based on changes to the fund's underlying assumptions. Given the propensity of carriers to charge a higher percentage to residential users, as we have discussed previously in these comments, it appears any additional

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<sup>8</sup> Based on information in the FCC's *Trends in Telephone Service*, September 1999, Table 8.2, there were 5,358,960 Lifeline subscribers nationwide in 1998. The amount additional support required to implement the CALLS proposal would be per month, generating an annual support amount of \$225,076,320, less the amount of current support for the PICC of \$3,093,173. (from the FCC's June 1999 *Monitoring Report*, Table 2-3.) This yields \$221,983,147 in additional support needed for Lifeline over current level.

universal service support might be borne by many of the very customers that universal service was designed to support.

The limited deaveraging proposed by CALLS would shift a larger share of the burden to rural consumers, another group targeted by universal service goals. CALLS would allow carriers to charge a lower amount in low-cost areas, typically urban. Thus, rural consumers would pay more than their urban counterparts. It appears that this is not the intent of the Act, which states:

ACCESS IN RURAL AND HIGH COST AREAS.--Consumers in all regions of the Nation, including low-income consumers and those in rural, insular, and high cost areas, should have access to telecommunications and information services, including interexchange services and advanced telecommunications and information services, that are reasonably comparable to those services provided in urban areas and that are available at rates that are reasonably comparable to rates charged for similar services in urban areas. (Sec. 254(b)(3))

It is not clear at this time how much impact this would have on universal service in rural areas, mainly because it is not clear how much difference there will be in rates. More thought needs to be given to these questions.

CALLS states in paragraph 2 of its proposal that its “plan will promote comparable and affordable universal service, reduce long distance bills, and promote competition in rural and residential markets.” While this seems to imply that residential and rural consumers will somehow be better off, the FPSC has not been convinced, at this point, that such a benefit would be accomplished through the CALLS plan. To the contrary, as indicated above, the CALLS proposal would increase the local monthly bill for many customers.

Conclusion

The purpose of universal service is to ensure affordable basic telecommunication services for all customers, especially high cost and low income customers.<sup>9</sup> The FPSC believes that customers should receive the utmost consideration before any fees charged to them are increased. Before implementing any plan, the FCC also should consider the impact it will have on affordability.

Respectfully submitted,



Cynthia B. Miller  
Intergovernmental Counsel

Dated this 10th Day of November, 1999.

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<sup>9</sup> We acknowledge that the CALLS plan does give special consideration to Lifeline customers; however, these benefits do not outweigh the overall negative impact of the plan. Also, the source of funding for the additional Lifeline expenses is not identified.

CERTIFICATE OF SERVICE

I hereby certify that copies of these FPSC comments are being mailed to approximately 400 parties on an abbreviated compilation of the service lists for the above dockets.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Cynthia B. Miller". The signature is written in a cursive style with a large initial "C".

Cynthia B. Miller  
Intergovernmental Counsel

DATED this 10th day of November, 1999.