

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Discovery for Study on )  
Fair & Reasonable Rates and on )  
Relationships Among Costs and )  
Charges Associated with Certain )  
Telecommunications Services )  
Provided by LECs, as Required by )  
Chapter 98-277 )

Special Project  
No. 980000A-SP  
Filed: November 13, 1998

SMALL LECs' FINAL COMMENTS

ALLTEL Florida, Inc. ("ALLTEL"), Frontier Communications of the South, Inc. ("Frontier"), GTC, Inc. ("GTC"), Vista-United Telecommunications ("Vista"), Northeast Florida Telephone Company ("Northeast"), TDS Telecom/Quincy Telephone ("TDS") and ITS Telecommunications systems, Inc. ("ITS") (collectively, the "small LECs") submit the following final comments:

1. The small LECs filed written comments in this matter on September 25, 1998. A copy of those comments is attached hereto as Exhibit "A." Rather than repeating those comments, the small LECs note that those comments continue to reflect the position of the small LECs and request that the Commission consider those written comments when it drafts its report to the Legislature.

2. Mr. Tom McCabe of TDS spoke on behalf of the small LECs at the workshop on October 1, 1998. His remarks can be found in the transcript at Tr. 85-110.

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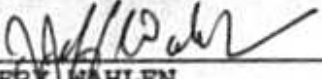
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3. As noted by Mr. McCabe, the issues before the Commission in this matter are of great importance to the small LECs. [Tr. 85.] The federal Telecommunications Act of 1996 contemplates a world in which the rates charged by rural LECs are comparable to those charged by the LECs serving urban areas. [Tr. 86.] Rate rebalancing and the creation of a state universal service fund are both necessary to achieve this result. [Tr. 103.]

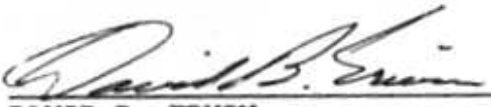
4. The small LECs support the positions advocated by the large LECs relating to rebalancing [Tr. 103], and agree with the comments of Mr. Ben Poag. [Tr. 86.]

5. While the small LECs have not experienced the level of local competition seen by the large LECs, they have not been immune from all forms of competition. [Tr. 90.] In differing degrees, small LECs have seen bypass, intralATA toll competition, wireless competition and competition from pay telephone providers. [Id.] Consequently, the contributions historically provided by services such as intralATA toll are under greater pressure and may not always be available to support local services priced below cost. [Tr. 91.] As the Commission prepares its report to the Legislature, it should not forget that small LECs are subject to competitive pressures and that rebalancing and the development of a state universal service fund are appropriate for small LECs as well.

DATED this 13<sup>th</sup> day of November, 1998.

  
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ORIGINAL

**Fair and Reasonable Rates  
Comments of the Small LECs  
Docket 980000-A**

Chapter 364.025, Section 2, 2(a) requires the Florida Public Service Commission to present its conclusions to the Florida Legislature as to the fair and reasonable Florida basic residential local exchange rate taking into consideration affordability, the value of service, comparable rates in other states, and the cost of providing basic residential local exchange service.

The purpose of these comments is to provide the position of the Small LECs regarding fair and reasonable rates and the impact on rural subscribers and universal service. These comments are filed on behalf of the following companies:

ALLTEL Florida, Inc.  
Frontier Communications of the South, Inc.  
GTC, Inc.  
Vista-United Telecommunications

Northeast Florida Telephone Company  
TDS TELECOM/Quincy Telephone  
ITS Telecommunications Systems, Inc.

**Background**

A major challenge faced by Florida as well as other states is opening telecommunications markets to competition while preserving universal service. The Federal Telecommunications Act of 1996 states that:

"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."

In the current regulatory framework, universal service has been supported through a complex system of inter-customer and inter-service subsidies. These subsidies were devised by requiring the LECs to charge certain classes of customers (business) higher basic local rates so that other classes of customers (residential) were charged lower basic local rates with the intent of supporting universal service. Additional sources of subsidies have included discretionary services such as vertical services, toll and access which were typically priced at rates above cost in order to maintain lower residential rates. This system of support was made possible in the past because local exchange service was provided through a system of exclusive franchises granted for a specified geographical territory. In return for these exclusive franchises, LECs assumed the responsibility of serving all customers within their service territories.

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In today's changing telecommunications environment, the reliance on implicit subsidies that have traditionally supported universal service can not be sustained in a competitive marketplace. Competitors, who have no obligation to serve all customers in the market, will naturally target high volume, low cost businesses and residential customers. As a result, LECs will need to reduce rates for those services that are priced above cost or risk losing the most profitable customers that typically provide the greatest level of support to universal service.

Although none of the small LECs in Florida has experienced significant and widespread local exchange service competition as provided for under the Telecommunications Act, the small LECs have all encountered competition in one form or another such as bypass, intraLATA presubscription, wireless, and competition from pay telephone service providers. In addition to competition, small LECs have seen revenue erosion from legislative mandates or Commission action, such as access reductions, elimination of interlata and intralata subsidies, and expansion of Extended Area Service (EAS), with no provision to replace these lost revenues. All of these factors are reducing the revenue source used by small LECs to maintain the current basic local exchange rates and to enhance and maintain network infrastructure to ensure that rural customers have access to high quality service(s), advanced telecommunications services and information services. Thus the small LECs believe that a balanced approach to restructuring prices for telecommunications services and universal service funding are *essential* in ensuring the continuation of universal service and the deployment of an advanced telecommunications network as required by the Telecommunications Act of 1996.

The Telecommunications Act of 1996 outlines in Section 254 requirements essential to the preservation of universal service. Under this law, Congress intended that the Federal-State Joint Board and the Federal Communications Commission (FCC) base universal service policies on specific policies outlined in the Act. The small LECs believe the first three principles are intertwined in the issue before the Florida Public Service Commission, which is a determination of fair and reasonable rates. These principles are:

1. Quality services should be available at just, reasonable, and affordable rates,
2. Access to advanced telecommunications and information services should be provided in all regions of the Nation, and
3. 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.

The small LECs' positions on affordability, value of service, comparable rates in other states, and the cost of providing basic residential local exchange service are guided by these principles.



In the determination of affordability, should the impact on low income consumers be of primary importance?

No. Federal and State policies have been implemented to address the needs of low-income subscribers through Lifeline and Link-up programs. Customers qualifying for one of the six programs eligible for Lifeline service receive an interstate credit of \$7.00 and a state credit of \$3.50 for a total assistance of \$10.50. The chart below shows the price of basic residential local exchange service after the Lifeline credit for each of the small LECs based on their average residential basic local rate.

<u>Company</u>	<u>Basic Rate</u>	<u>Lifeline Rate</u>
TDS Telecom/Quincy	\$12.70	\$2.20
ALLTEL	\$9.75	\$0.00
Frontier	\$10.90	\$ .40
GT Comm		
Gulf	\$7.47	\$0.00
St. Joe	\$7.24	\$0.00
Floral	\$7.60	\$0.00
Indiantown	\$8.96	\$0.00
Northeast	\$9.00	\$0.00
Vista-United	\$9.27	\$0.00

Do just and reasonable rates play a role in infrastructure investment?

Yes. In its consideration of just and reasonable basic residential local exchange rates, the Commission should take into consideration how basic residential local rates impact infrastructure investment, whether from incumbent LECs or new entrants. Companies/investors will invest their money if there is a opportunity to earn a reasonable return on their investment. Capital dollars are a scarce resource, especially for small rural LECs, and their investment decisions are often directed to the achievement of the greatest possible return. The continued reliance on implicit subsidies creates uncertainty in the investment decision of incumbent LECs and provides confusing market signals to new entrants. The lack of certainty that incumbent LECs or new entrants will be able to set rates at just and reasonable levels to ensure a reasonable return on its core service, dialtone, will ultimately lead to a situation of "haves" and "have nots" between rural and urban areas.

Regardless of the services residential and business customers purchase, society as a whole benefits from the deployment of a high quality, advanced telecommunications infrastructure. Telecommunications infrastructure is a critical component to economic



development, distance learning, health care, etc. which are all essential to the needs of rural areas. Telecommunications services are a public good that reflects a total societal benefit and cost responsibility.

The Commission should establish rates at levels that provide incentives for companies to continue to invest and maintain infrastructure to ensure that access to advanced telecommunications and information services will be available in all regions of the Nation as set forth in the Act.

Should the determination of affordability be compared to other communications services?

Yes. Generally, people consider basic local exchange service to be a necessity. Thus, basic exchange rates should be set at levels sufficient to ensure affordability. However, the simple fact that local exchange service is considered a necessity should not imply that rates should be subsidized in order to free up disposable income for other services. The small LECs believe that rates charged for other non-essential communications services such as newspapers, cable television service, and Internet access should be considered when reviewing consumers' willingness and ability to pay for telephone service.

For example, in the United States, as of February 1998, there were 65,864,090 basic cable television service subscribers. Approximately 70% of consumers that have access subscribe to cable television service. Based on the FCC's Report on Cable Industry Prices, the average monthly cable rate as of July 1, 1997 ranged from \$27.26 to \$28.83 for competitive and non-competitive areas respectively. Additionally over 11 million consumers are served by non-cable multi-channel video providers. In Florida, nearly 4.3 million Florida consumers subscribe to cable television service.

Internet Access, which is becoming increasingly more popular, is typically priced at rates that exceed the basic residential telecommunications exchange rate of the small LECs. Additionally, consumers who purchase a daily newspaper or other forms of printed news media can spend as much as \$15 - \$20 a month.

Value of Service

Value of service refers to the importance of basic telecommunications service to individual customers and to society as a whole. Historically, the "value of service" has meant the number of subscribers a basic local exchange subscriber can call or be called by for a flat monthly rate and the societal benefit associated with public health and safety. Through the implementation of expanded local calling, residential customers have shown a willingness and ability to pay more for flat-rate basic local exchange service in order to call their community of interest. From a society viewpoint, universal support mechanisms (implicit and explicit) at the federal and state levels are designed to increase subscribership by keeping rates affordable, with the belief that the value of the network is

greater to all users, the greater the number of people on the network. Additionally, society benefits with widespread availability of telephone service to access public safety services such as emergency services. There are few communities today where consumers do not have access to enhanced emergency 911 systems via their local telephone service. The value that consumers perceive in telephone service as a safety device is observed in the willingness of consumers to pay for Cellular service for emergency contact purposes.

Today, however, the value of service concept includes more than just simple voice conversations between subscribers. Residential local service now allows subscribers to reach any other person with a telephone, a pager, a facsimile machine, a cellular unit or a personal computer anywhere in the world. In rural communities, value of service might refer to the isolation that might be relieved by telephone contact with others. In today's highly mobile society, contact with family, friends, doctors, schools, is a core value that converts to actual cost savings to consumers. In addition to avoiding the need to get in the car and travel, thus devouring time and money, through "on-line" access, consumers have access to both educational and shopping services that otherwise may not be available in rural communities. They are able to take advantage of shopping direct services that result in actual dollar savings over the more conventional means of shopping.

#### Comparable Rates In Other States

TDS Telecom, the parent company of Quincy Telephone Company operates in three southeastern states, Georgia, Alabama, and South Carolina that are in the process of rebalancing local rates. In Alabama, local residential rates are beginning transition over a five year period to a state benchmark of \$16.30. In 1996, the State of Georgia began a five year transition of intrastate access rates to the 1995 interstate level. The lost access revenues are being recovered through increases in residential local exchange rates of up to \$1.00 per year. In South Carolina, residential basic local exchange rates are being rebalanced to the state-wide average rate of \$14.35. Companies whose rates are in excess of the state-wide average are unaffected.

Other states in which TDS operates that have rebalanced local rates are Michigan and Pennsylvania. In Michigan, rural LECs have increased residential basic local rates to \$13.05 with an intrastate subscriber line charge of \$3.50. This equates to a basic residential local exchange rate of \$16.55 compared to Florida's average rural residential basic local exchange rate of \$9.21 (not including the interstate subscriber line charge). In Pennsylvania, TDS Telecom companies have increased local rates to \$18.50 (not including the interstate subscriber line charge.)

#### Cost of Providing Residential Basic Local Exchange Service

Rural networks are typically high cost regardless of how efficiently they operate. There are many factors that contribute to the high cost to serve rural customers such as density,

The factors under consideration in this proceeding, affordability, value of service, comparable rates in other states and cost, support a balanced restructuring of basic residential local exchange rates. Of particular interest to rural LECs is comparability of rates and services between urban and rural areas. The small LECs believe that restructuring local rates will provide the proper incentives to invest and maintain high quality telecommunications service in rural areas and allow all telecommunications rates to be restructured to comparable rates in urban areas.