



Florida Public Service Commission

# Consumer Bulletin

Braulio L. Baez, Chairman



## An Overview of VOIP

The initials VOIP stand for “Voice Over Internet Protocol.” In simple terms, this means using technology to transmit voice conversations over a network normally used for transmitting data. The word “protocol” in this sense refers to a set of rules governing the format of the messages transmitted. The data network over which VOIP is deployed may be the Internet, a network used exclusively by a single corporation (sometimes referred to as “Intranet”), or a network managed by local and long distance providers.

The use of VOIP has increased dramatically in recent years, not only among businesses but among residential consumers. Businesses gravitate to the technology because it can be less expensive to run an Internet or Intranet phone service than a conventional voice network. Use of VOIP has become increasingly popular with residential consumers because they can, in some instances, make calls using the Internet for one-third to two-thirds less than traditional calling plans.

Internet calling may involve some compromises, however. The quality of Internet telephone service will depend on the quality of the user’s Internet connection. Changes in the connection speed for any reason can result in reduced quality of the voice signal. Because calls are routed through Internet servers, emergency 9-1-1 operators may not be able to automatically link a street address to the caller, as is the case with traditional wire line service. Prospective users should also be aware that, like cordless phones, Internet telephone service will not function during power outages. In addition, most VOIP systems require a high-speed Internet connection to maximize benefits.

The advantages and low rates are among the reasons nearly 1 million Americans subscribe to VOIP service. That number is expected to rise to 10 million by the end of 2007, according to industry estimates.

Until recently, one of the drawbacks to VOIP was finding a provider. Many companies providing the service were small, not easily located, and offered service to smaller niche market segments. This began to change earlier this year with declarations of intent by traditional long-distance carriers to enter a number of markets in the United States to provide service. A number of incumbent local exchange companies offer VOIP service to businesses and large cable television providers have announced plans to offer service to residential customers.

To use VOIP, a consumer first needs service – usually between \$20 to \$40 a month for unlimited national and local calling – and an adapter available from electronics or specialty stores. The adapter connects the phone with the Internet connection, permitting the consumer to use VOIP.

The price advantage enjoyed by VOIP users is attributable largely to the lack of regulation and taxes imposed on providers. In Florida, the Legislature has elected a “hands-off” approach to regulating VOIP providers. Congress continues to discuss the role of federal regulation and taxation of VOIP service. Consumers should be aware that if regulatory costs increase at the federal level, some of these will be passed on to consumers and have the potential to nudge prices upward. As things currently stand, however, VOIP is an option for price conscious consumers inclined to explore the latest technology in a burgeoning telecommunications market.

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**Braulio L. Baez is the Chairman of the Florida Public Service Commission. The PSC sets the rates regulated utility companies charge for natural gas, electric and telephone service within the state. In 36 counties, it sets the price you pay for the water you drink, if your water company is privately owned.**