

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Adoption of the National School)
Lunch Program and an income-based)
criterion at or below 135% of the Federal)
Poverty Guidelines as eligibility criteria for)
the Lifeline and Link-up programs)

Docket No. 040604-TL

DIRECT TESTIMONY OF HAROLD E. WEST, III

ON BEHALF OF

VERIZON FLORIDA INC.

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1 I. INTRODUCTION AND WITNESS BACKGROUND

2

3 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS
4 ADDRESS.

5 A. My name is Harold E. West, III. I am a Director – Regulatory Support for
6 Verizon Communications Inc. My office is located at 540 Broad St.,
7 Newark, New Jersey.

8

9 Q. PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND
10 PROFESSIONAL EXPERIENCE.

11 A. I graduated from Princeton University in 1980 with a Bachelor of
12 Sciences degree in engineering. In 1991, I received a Master of
13 Sciences degree in engineering from the University of Pennsylvania.

14

15 I have been employed by Verizon and its predecessors-in-interest for
16 over 24 years. Since 1980, when I began my career working as a
17 central office equipment engineer at New Jersey Bell (now Verizon-New
18 Jersey, Inc.), I have assumed positions of increasing responsibility in the
19 areas of Service Costs, Rates, Product Management and Sales, and
20 Regulatory Support.

21

22 I assumed my current position of Director – Regulatory Support in
23 December 1994. My responsibilities include the presentation in state
24 and federal regulatory arenas of Verizon pricing and policy positions and
25 market strategies associated with competitive entry into

1 telecommunications markets. In this position, I have presented
2 testimony several times on the subject of Lifeline and other Universal
3 Service matters.

4
5 **Q. HAVE YOU PREVIOUSLY TESTIFIED IN REGULATORY**
6 **PROCEEDINGS?**

7 A. Yes. I have testified before public utility commissions in California,
8 Delaware, Maryland, Massachusetts, New Jersey, New York,
9 Pennsylvania, Virginia, Washington and Washington, D.C., and I have
10 testified before the Federal Communications Commission on various
11 marketing, policy, and pricing issues associated with competitive entry
12 into telecommunications markets. I have also participated in
13 interconnection agreement arbitration proceedings in Delaware,
14 Maryland, New Jersey, and Pennsylvania.

15

16 **II. OVERVIEW OF TESTIMONY**

17

18 **Q. WHAT IS THE PURPOSE YOUR TESTIMONY?**

19 A. The Order Establishing Procedure (issued November 1, 2004) makes
20 clear that the parties should address the following issues:

21

22 Issue 1: Is the Commission authorized under state or federal law to order
23 the actions set forth in Order No. PSC-04-0781-PAA-TL?

24 Issue 2: Are the actions taken by the Commission in Order No. PSC-04-
25 0781-PAA-TL reasonable and non-discriminatory?

1 Guidelines, and allowing self-certification. Finally, I make several
2 recommendations that may help the Commission to accomplish the goal
3 of increasing Florida telephone penetration.
4

5 **Q. IS ANOTHER VERIZON WITNESS SPONSORING TESTIMONY IN**
6 **THIS PROCEEDING?**

7 A. Yes. Dr. Carl R. Danner has filed testimony as Verizon's expert
8 economist. In his testimony, Dr. Danner shows that Lifeline discounts in
9 general do very little to promote increased telephone penetration levels.
10 He also explains that the self-certification proposal should be rejected
11 because it will result in fraud, waste and abuse, and customer confusion
12 and irritation. Dr. Danner goes on to explain why Verizon should be
13 permitted to recover its Lifeline related costs in the event enrollment
14 increases sharply, as well as the appropriate mechanism for recovering
15 these costs.
16

17 **III. DOCKET BACKGROUND**
18

19 **Q. PLEASE DESCRIBE THE CURRENT LIFELINE AND LINK-UP**
20 **PROGRAMS AVAILABLE TO VERIZON CUSTOMERS.**

21 A. Verizon Lifeline subscribers receive a monthly credit of up to \$13.50,
22 consisting of \$10.00 in federal support and \$3.50 in state support. A
23 subscriber receives a credit of less than \$13.50 where the subscriber's
24 bill for basic local telephone service is less than the maximum available
25 credit.

1 Florida Link-Up subscribers receive a discount on telephone service
2 installation. In Verizon's service territory, these subscribers receive a
3 50% discount on the \$55 service installation charge.

4

5 There are three ways to enroll in the Florida Lifeline and Link-Up
6 Programs.

7

8 First, the Department of Children and Family Services (DCF) certifies
9 Lifeline and Link-Up eligibility for customers that receive Temporary Aid
10 to Needy Families (TANF), Food Stamps and/or Medicaid. Eligible
11 customers receive a certification letter from DCF to include with their
12 Lifeline application. Once Verizon receives the Lifeline application and
13 DCF certification letter from the customer, Verizon immediately provides
14 the appropriate Lifeline and/or Link-Up benefits to that customer.

15

16 Second, customers participating in Supplemental Security Income (SSI),
17 Federal Public Housing Assistance Program/Section 8 Low Income
18 Home Energy Assistance Program (LIHEAP), and/or Bureau of Indian
19 Affairs programs, as well as the other programs listed above, can supply
20 proof of participation in one of the programs directly to Verizon to qualify
21 for Lifeline and Link-Up.

22

23 Third, customers with incomes at or below 125% of the Federal Poverty
24 Guidelines (FPG) may apply for Lifeline and Link-Up with the Office of
25 Public Counsel (Public Counsel). Each month, Public Counsel sends

1 Verizon a list of customers who satisfy this income-based criterion.
2 Verizon reviews the list for accuracy, and typically applies the
3 appropriate credit to eligible customer accounts within seven working
4 days, if not sooner.²

5
6 **Q. WHAT IS THE CURRENT LIFELINE SUBSCRIBERSHIP LEVEL IN**
7 **FLORIDA?**

8 A. In Florida, approximately 1.1 million households are eligible for Lifeline
9 and Link-Up under the current eligibility criteria, and approximately
10 150,000 (13.7%) of the eligible households actually subscribe.

11
12 **Q. COMMISSION ORDER NO. PSC-04-0781-PAA-TL (PAGE 3) STATES**
13 **THAT FLORIDA'S LIFELINE SUBSCRIBERSHIP LEVEL IS LESS**
14 **THAN HALF THE NATIONAL AVERAGE OF 38%. PLEASE**
15 **COMMENT.**

16 A. The figures cited in the Commission's Proposed Agency Action (PAA)
17 Order are accurate, but potentially misleading because the national
18 average is skewed by California's 131% subscribership level.³ When
19 California is removed from the data, the national average drops to less
20 than 20%.

21
22 **Q. HOW ARE LIFELINE BENEFITS FUNDED?**

² The credit is applied to customer accounts retroactive to the date the customer is approved by OPC.

³ *In the Matter of Lifeline and Link-Up*, WC Docket No. 03-109, Report and Order and Further Notice of Proposed Rulemaking, 12 FCC Rcd 04-87 at Appendix K, Table 1.B (April, 2, 2004) (FCC Lifeline Order).

1 A. Ten dollars of the \$13.50 credit comes from the Federal Universal
2 Service Fund, and Verizon currently pays the remaining \$3.50 (without
3 reimbursement).

4
5 **Q. PLEASE EXPLAIN THE PROPOSED CHANGES TO THE CURRENT**
6 **LIFELINE PROGRAM.**

7 A. The Commission seeks to add the National School Lunch (NSL)
8 Program to the Lifeline and Link-Up eligibility criteria, and to increase
9 the income eligibility criterion from 125% to 135% of the FPG. In
10 addition, the Commission seeks to allow customers to self-certify that
11 they are eligible for Lifeline and Link-Up. Under the Commission's
12 proposal, self-certifying customers would receive only \$8.25 in federal
13 support, unlike customers certified through third parties, who would
14 receive \$10.00 in federal support and \$3.50 in state support. To enroll,
15 a self-certifying customer would call Verizon to verbally certify eligibility.
16 Verizon would immediately enroll the customer in Lifeline and Link-Up
17 over the telephone, and then mail the customer a self-certification form.
18 To remain in the program, the customer would have to return the signed
19 self-certification form to Verizon within 60 days.

20

21 **IV. LIFELINE AND LINK-UP OBJECTIVES**

22

23 **Q. WHAT IS THE GOAL OF EXPANDING THE LIFELINE CRITERIA,**
24 **AND WHAT SHOULD THE COMMISSION FOCUS ON TO ENSURE**
25 **THAT THIS GOAL IS ACCOMPLISHED?**

1 A. The Commission's purpose in expanding the Lifeline criteria should *not*
2 be to increase the number of people who receive state and federal
3 subsidies, but, rather, it should be to increase telephone subscribership
4 among low income Floridians. As the Commission stated in its
5 comments to the FCC, dated August 18, 2003, "the FPSC continues to
6 support the original intent of Lifeline and Link-Up, which is to help low-
7 income households obtain basic telephone service." (Emphasis
8 added.)⁴ The Commission's goals are consistent with those of
9 Congress and the FCC. See 47 U.S.C. Section 254(b)(3) ("consumers
10 in all regions of the Nation, including low-income consumers . . . should
11 have access to telecommunications and information services . . ."); see
12 also *Federal-State Joint Board on Universal Service*, C Docket No. 96-
13 45, report and Order, 12 FCC Rcd 8776, ¶¶ 332–346 (discussing the
14 purpose of Lifeline and Link-Up support, and changes designed to
15 address "low subscribership levels" among low-income consumers.)
16 Thus, the measure of success depends not on whether adding the new
17 criteria results in an increase in the number of people participating in the
18 Lifeline program, but, rather, whether it results in an increase in
19 subscribership to telephone service.

20

21 **V. ISSUE NO. 2**

22

23 **Q. ARE THE ACTIONS TAKEN BY THE COMMISSION IN THE PAA**
24 **ORDER REASONABLE AND NON-DISCRIMINATORY?**

⁴ Comments of the Florida Public Service Commission Regarding the Federal-State Joint Board on Universal Service Lifeline and Link-Up Recommended Decision, WC Docket No. 03-109, at 2 (August 18, 2003).

1 A. The proposed actions are unreasonable, but not discriminatory.

2

3 As demonstrated in the testimony of Verizon witness Carl Danner
4 (pages 4 –18), and as explained further below, the proposed actions are
5 unreasonable because the vast majority of people who would receive
6 Lifeline support under the proposed criteria are people who already
7 have telephone service, and thus the Commission's proposals will do
8 little, if anything, to advance the Commission's goal of increasing
9 telephone subscribership.

10

11 An example from an FCC Staff study bolsters the position that Lifeline
12 participation does not equate to higher telephone subscribership among
13 low-income consumers. FCC Staff estimates that, if the FCC were to
14 adopt the additional 135% FPG criterion, it would cost between \$105
15 million and \$123 million per year in extra universal service funding.⁵
16 However, FCC Staff also estimates that, in 2004, between 967,000 and
17 1,136,000 additional households would take Lifeline support if states
18 adopted the 135% FPG criterion, but only 259,000 would be subscribing
19 to new telephone service because of the new criterion.⁶ In other words,
20 between 73% and 77% of those "new" Lifeline households would have
21 already subscribed to telephone service without the additional Lifeline
22 support. Thus, FCC Staff estimates that only 23 to 27 cents of every

⁵ FCC Lifeline Order, Appendix K.

⁶ *Id.*

1 dollar spent on Lifeline support under the new 135% criterion would
2 actually go toward increasing telephone subscribership.⁷

3
4 An example from Verizon's comments to the FCC also helps to
5 demonstrate that Lifeline participation alone does not equate to higher
6 telephone subscribership among low-income consumers.⁸ In its
7 comments, Verizon submitted a comparison of Lifeline participation with
8 low income telephone subscribership. That comparison showed that
9 Maryland and Delaware, which have the lowest rates of Lifeline
10 participation, have high telephone subscribership rates among low
11 income households, of 90.2% and 92.0% respectively, while Wisconsin
12 and Michigan, with several times greater Lifeline participation rates,
13 have low-income subscribership rates of under 88%.⁹

14
15 Academic studies also show that telephone subscribership often
16 depends on factors that are unrelated to Lifeline subscribership or the
17 cost of local service. For example, one study compared separate
18 counties in California, New York, and Pennsylvania, and found
19 significant differences in subscribership based on a number of criteria
20 other than income.¹⁰ The reasons for these disparate results, the
21 authors conclude, is that telephone subscribership levels are a function

⁷ *Id.* Dr. Danner also explains why this study likely overestimates the proportion of new subscribers that the Commission's proposal would produce in Florida.

⁸ Comments of Verizon, WC Docket No. 03-109, at Appendix C (August 18, 2003).

⁹ *Id.*

¹⁰ See Jorge Reina Schement and Scott C. Forbes, "Identifying Temporary and Permanent Gaps in Universal Service," *The Information Society*, Vol. 16, k No. 2 at 117-126 (2000).

1 of a number of factors, and those factors “intermix in ways that make
2 parsing them out nearly impossible given the statistical data available.”¹¹

3
4 In light of the foregoing, the proposed expansions to the Lifeline
5 eligibility criteria will not significantly advance the goal of increasing
6 telephone penetration in Florida, and therefore are unreasonable.

7
8 The proposed agency actions, however, are not discriminatory.
9 Although self-certifying customers would receive \$8.25 in support, and
10 customers certified by third parties would receive \$13.50 in support,
11 each applicant has the opportunity to apply for the full \$13.50 Lifeline
12 credit. Even if the Commission were to decide that the proposed two-
13 tiered approach is discriminatory, it is not unduly discriminatory. The
14 difference in support amounts is justified because, as discussed below,
15 the customers certified through third parties will be subjected to a more
16 rigorous process that substantially reduces the potential for waste, fraud
17 and abuse.

18
19 **VI. ISSUE NO. 4**

20
21 **Q. WHAT ARE THE ECONOMIC AND REGULATORY IMPACTS OF**
22 **IMPLEMENTING THE ACTIONS TAKEN BY THE COMMISSION IN**
23 **THE PAA ORDER?**

¹¹ *Id.* Dr. Danner also references other studies and data that make this point.

1 A. Implementing the proposed agency actions will have several deleterious
2 effects. First, the proposed self-certification process creates the very
3 real potential for waste, fraud and abuse. Because the cost of the
4 federal fund is ultimately borne by consumers, such fraud, waste and
5 abuse could threaten the sustainability of the fund, and the affordability
6 of telecommunications services for all Americans. Second, as explained
7 below, the proposed self-certification process has the very real potential
8 to lead to customer confusion and misunderstandings. Third, the
9 proposed additions will certainly impose additional costs on the industry,
10 which may ultimately be borne by consumers. Indeed, Commissioner
11 Deason expressed concern about these costs in his dissent to the PAA
12 Order: "I feel the costs associated with the revisions, which could
13 ultimately be passed on to consumers, have not been fully examined at
14 this time."¹²

15

16 **VII. ISSUE NO. 5A**

17

18 **Q. SHOULD CONSUMERS BE ALLOWED TO SELF-CERTIFY FOR**
19 **PROGRAM-BASED LIFELINE AND LINK-UP ELIGIBILITY?**

20 A. No, for all of the reasons discussed below.

21

22 **Q. IS VERIZON CONCERNED THAT THE PROPOSED SELF-**
23 **CERTIFICATION PROCESS WILL RESULT IN WASTE, FRAUD AND**
24 **ABUSE OF LIFELINE SUPPORT?**

¹² PAA Order at 12.

1 A. Yes. Under the proposed self-certification process, the customer does
2 not have to provide any proof of eligibility; the customer can simply sign
3 a document stating that the customer is eligible to receive Lifeline.
4 Experience in other states illustrates that self-certification increases the
5 risk of waste, fraud, and abuse. For example, the FCC Staff estimates
6 that during 2002, in California, 131% of households that qualify for
7 Lifeline support under the Commission's current rules were receiving it.
8 That is, according to the information provided to the Joint Board, a
9 minimum of 780,000 of the 3.2 million households that took Lifeline
10 support in California during 2002 were not eligible to receive it.¹³

11

12 In its comments to the FCC, the Commission voiced many of Verizon's
13 concerns:

14 Consistent with our comments to the Joint Board,
15 ***the FPSC has concerns with the application of***
16 ***self-certification due to the increased risk of***
17 ***waste, fraud, and abuse.*** As stated earlier, we
18 believe the long-term sustainability of the fund is
19 contingent upon the application of appropriate
20 accountability standards. ***We believe rigid***
21 ***verification is appropriate and believe that if***
22 ***states want to exercise the flexibility to have***
23 ***self-certification, they must implement effective***

¹³ FCC Lifeline Order, Table 1.B. It would not be correct to assume that since subscribership exceeds 100% of those theoretically eligible, that all California households below the income threshold are receiving Lifeline service. In the absence of an audit or verification exercise, there is no way to know to what extent eligible beneficiaries are being reached.

1 **verification procedures on a going forward**
2 **basis.**

3
4 * * *

5
6 The FPSC has reservations that a verification
7 process that relies on end-users validating their
8 eligibility can be effective at minimizing waste,
9 fraud, and abuse. For example, under existing
10 federal rules, customers can simply sign a
11 document stating that they are eligible to receive
12 Lifeline support without providing any
13 documentation demonstrating this to be the case. **If**
14 **a verification process is intended to confirm a**
15 **customer's eligibility, allowing self-certification**
16 **as a means of verification by its very nature**
17 **defeats this purpose.** At a minimum, a periodic
18 verification process should affirmatively validate a
19 customer's eligibility. This could be done through
20 documentation such as providing a copy of a
21 customer's most current Medicaid card, filing a form
22 certified by a representative of a qualifying agency,
23 or through automatic enrollment.¹⁴

24

¹⁴ Comments of the Florida Public Service Commission Regarding the Federal-State Joint Board on Universal Service Lifeline and Link-Up Recommended Decision. WC Docket No. 03-109, at 4–5 (August 18, 2003) (emphasis added).

1 Commissioner Jaber expressed similar concerns in her dissent to the
2 PAA Order, emphasizing that “there are concerns with accountability
3 and verification involved in a self-certification program that have not
4 been resolved.”¹⁵

5
6 Because the proposed self-certification process has none of the “rigid”
7 and “effective” verification procedures advocated in the Commission’s
8 comments to the FCC, it should not be adopted.

9
10 **Q. IS VERIZON CONCERNED THAT THE PROPOSED SELF-**
11 **CERTIFICATION PROCESS WILL RESULT IN CUSTOMER**
12 **CONFUSION AND IRRITATION?**

13 A. Yes. Programs, such as this one, that allow a customer to sign up over
14 the telephone but require the customer to return a form are fraught with
15 the potential for customer confusion and frustration. Certain customers
16 will inevitably fail to return their executed form within 60 days, and will
17 be dropped from the Lifeline rolls. Certain others, assuming the
18 Commission adopts effective verification procedures, will be found
19 ineligible for reasons that could include fraud or abuse, or simply
20 misinformation or a misunderstanding. The result will be a body of
21 customers who (1) will first be told they are eligible for the program, and
22 (2) will then receive telephone service and bills on that basis for a period
23 of time, before (3) being told they are not eligible for the program, and
24 they will be back-billed because they were never entitled to the reduced

¹⁵ PAA Order at 12.

1 rate in the first place. Customer reactions to this chain of events are
2 predictable. Customers may become confused or angry, they may
3 demand repeated explanations or a right to appeal, and they may seek
4 to have related disputes heard by the Commission or reviewed by its
5 staff. Verizon, for its part, may need to have a further conversation with
6 each affected customer to verify which non-Lifeline service package or
7 basic service the customer desires. Such customer contacts can be
8 costly for Verizon to undertake. Some customers may blame Verizon
9 for the outcome, damaging the Company's business reputation. In an
10 extreme case (where a customer's lack of eligibility is not discovered for
11 a long period of time), the accumulated back charges for non-Lifeline
12 service may become a substantial issue in and of themselves.

13

14 For these practical reasons, the Commission should continue to rely on
15 affirmative verification of customer eligibility before Lifeline service
16 benefits begin. Whatever advantage there is to some customers in
17 starting their Lifeline service slightly sooner will be outweighed by the
18 problems caused for Verizon, the Commission and affected customers
19 themselves. It is far better to verify eligibility up front, and then start
20 program benefits.

21

22 **Q. WOULD AN ANNUAL AUDIT OF A STATISTICALLY VALID SAMPLE**
23 **OF SELF-CERTIFIED CUSTOMERS BE A SUFFICIENT SAFEGUARD**
24 **AGAINST WASTE, FRAUD AND ABUSE OR THE INADVERTENT**
25 **USE OF THE PROGRAM BY INELIGIBLE CUSTOMERS?**

1 A. No. An audit would not be an efficient safeguard unless ineligible
2 customers were a very small fraction of those picked for the sample
3 (which the California experience suggests will not be the case).
4 Additionally, an annual sample audit is of no value unless follow-up
5 actions are taken based on its results – which would raise, once again,
6 the problem of notifying customers that they are not actually eligible for
7 a program in which they may have enrolled a year ago (or longer), and
8 that they now face a substantial back payment obligation for benefits
9 they thought they deserved. Customers will not be well served by such
10 a result. Even if the audit does not reveal systematic problems, it is a
11 virtual certainty that some ineligible customers will be discovered.

12

13 With all due respect to the Commission and its efforts to promote
14 subscribership through this program, the proposed self-certification
15 approach suffers from considerable practical problems, and should not
16 be adopted.

17

18 **Q. ARE THERE ADDITIONAL REASONS THAT THE COMMISSION**
19 **SHOULD NOT ADOPT THE PROPOSED SELF-CERTIFICATION**
20 **PROCESS?**

21 A. Yes. Even if this process could be reasonably administered, it still
22 would not constitute sound public policy. That is because it will impose
23 significant costs on the industry and ratepayers, without providing
24 corresponding benefits.

25

1 If the Commission adopts a self-certification process, Verizon will incur
2 both one-time upfront costs and recurring costs.

3

4 **Q. WOULD YOU DESCRIBE THE ONE-TIME UPFRONT COSTS**
5 **VERIZON WOULD INCUR TO IMPLEMENT THE COMMISSION'S**
6 **SELF-CERTIFICATION PROPOSAL?**

7 A. Yes. The upfront costs will be those associated with changing existing
8 systems and processes and employee training. Specifically, systems
9 work would include creation of a rate element in Verizon's order entry
10 system to accommodate the lower credit for self-certified Lifeline
11 customers. Corresponding work would be required within Verizon's
12 billing system to allow for the application of the new credit on the
13 customer's bill, and to establish a tracking mechanism for receipt of the
14 required written certification within sixty days. New processes
15 associated with sales negotiations, tracking of written certifications, and
16 subsequent updating for customer accounts would need to be
17 developed and documented, followed by training for all Business Office
18 and Support Center consultants and supervisors on these new
19 processes.

20

21 **Q. WOULD YOU DESCRIBE THE RECURRING COSTS VERIZON**
22 **WOULD INCUR IF THE COMMISSION'S SELF-CERTIFICATION**
23 **PROPOSAL WERE TO BE ADOPTED?**

24 A. Yes. The recurring costs will be those associated with explaining the
25 new Lifeline option to customers, performing the new certification

1 tracking and account maintenance functions associated with
2 administering the program and performing all existing Lifeline functions
3 for a significantly increased customer base. Specifically, for each
4 customer who indicates in some way that they might be eligible for
5 Lifeline, not only would the current Lifeline program be explained to the
6 customer – as is done today – but the second program would also need
7 to be described, and the relative advantages, disadvantages and
8 requirements of each program would need to be addressed. Verizon
9 estimates that this process would add an average of ten minutes to
10 every customer call whenever the business office consultant had some
11 indication that the customer might qualify for Lifeline.

12

13 Verizon would also need additional human resources (1) to process
14 receipt and documentation of written certifications returned by
15 customers, (2) to regularly track each new self-certified Lifeline
16 customer account to identify those accounts for which written
17 certification was not provided within the sixty day period, (3) to remove
18 Lifeline benefits from those accounts for which the required written
19 certification was not received, and (4) to retroactively back-bill the
20 credits already applied to ineligible customers' previous bills.

21

22 Furthermore, Verizon would be required to perform all current Lifeline
23 processes on a significantly increased customer base. Verizon agrees
24 that self-certification would significantly increase Lifeline enrollment –
25 although, as explained above, much of the increase would be

1 attributable to fraud and abuse. The additional interest in Lifeline
2 generated by self-certification would cause increased call volumes
3 (which would result in the increased subscribership) as customers call in
4 to inquire about the program, and the subsequent higher enrollment
5 would increase the cost of the annual recertification process. In fact, a
6 second, parallel recertification process may be required to address the
7 new class of Lifeline customers.

8

9 **Q. CAN YOU QUANTIFY THE ADDITIONAL COSTS THAT WOULD BE**
10 **INCURRED IF THE PROPOSED SELF-CERTIFICATION PROGRAM**
11 **WERE TO BE ADOPTED?**

12 A. Yes. These costs will not be insignificant. Verizon estimates that the
13 upfront costs will total \$780,000, including \$750,000 for programming
14 system changes, and \$30,000 for process changes and training.
15 Recurring costs will total \$525,000 per year, including \$325,000 in
16 staffing costs to handle the increases in call handling time and call
17 volumes and \$200,000 for new certification tracking and account
18 maintenance functions.

19

20 Moreover, the necessary increases in the federal fund size that would
21 result from the addition of this criterion would outweigh the potential
22 benefits. As Chairman Powell stated, “the cost of [universal service]
23 programs is ultimately borne by American consumers. Accordingly . . .
24 we must balance the needs of funding these programs against the real
25 burden that our contribution requirements could impose on consumers if

1 we do not manage those requirements carefully.”¹⁶ Given that this
2 measure will increase the size of an already burgeoning fund, but, as
3 described above, will not significantly increase telephone penetration, it
4 is clear that this program should not be adopted.

5

6 **VIII. ISSUE NO. 5B**

7

8 **Q. HOW MUCH ASSISTANCE SHOULD BE PROVIDED FOR**
9 **CUSTOMERS USING SELF-CERTIFICATION?**

10 A. As stated above, the Commission should not adopt the self-certification
11 proposal, and therefore should not provide Lifeline assistance in the
12 absence of third-party verification.

13

14 **IX. VERIZON’S POSITION ON THE NSL AND 135% FPG**
15 **PROPOSALS**

16

17 **Q. YOU PREVIOUSLY DESCRIBED VERIZON’S CONCERNS WITH THE**
18 **SELF-CERTIFICATION PROPOSAL. DOES VERIZON HAVE**
19 **CONCERNS WITH THE COMMISSION’S OTHER PROPOSALS?**

20 A. Yes. For the reasons stated above, increasing the number of
21 subscribers who receive Lifeline support does not significantly increase
22 telephone subscribership. Of course, this holds true for the NSL and
23 135% FPG proposals as well as the self-certification proposal.
24 Moreover, even if the Commission’s goal were to add Lifeline

¹⁶ *Schools and Libraries Universal Service Support Mechanism*, Separate Statement of Chairman Michael K. Powell Approving in Part and Concurring in part, 17 FCC Rcd 11521, 11540 (2002).

1 subscribers, as opposed to increasing telephone penetration, the NSL
2 and 135% FPG proposals would do little to accomplish that objective.
3 That is true because most customers who would qualify through the
4 proposed NSL criterion already qualify through one of the other existing
5 eligibility criteria. Likewise, the increase in the income-based eligibility
6 criterion from 125% to 135% of the FPG will do little to increase the
7 number of Lifeline subscribers. As Dr. Danner explains in his testimony,
8 customer demand for telephone service increases with income, and
9 therefore the lion's share of income-based Lifeline eligible customers
10 were addressed when the Commission established the 125% of FPG
11 threshold. Indeed, the FCC found that increasing the eligibility range
12 from 135% to 150% would have no impact, strongly suggesting that as
13 the range is expanded (i.e., going from 125% to 135% per the
14 Commission's PAA) diminishing returns quickly set in.

15

16 **Q. WHAT WOULD BE REQUIRED OF VERIZON IF THE COMMISSION**
17 **WERE TO ADOPT THE PROPOSAL ADDING NSL TO THE LIST OF**
18 **LIFELINE ELIGIBILITY CRITERIA AND INCREASING THE INCOME**
19 **BASED ELIGIBILITY CRITERION FROM 125% TO 135% OF THE**
20 **FPG?**

21 A. Verizon would need to update its on-line reference tools used by
22 Business Office and Support Center consultants to include the new NSL
23 criterion as an example of acceptable proof of participation, as well as to
24 reflect the increased income percentage. A service alert to these same
25 employees would be required to notify them that the Lifeline eligibility

1 criteria had changed. Lastly, the physical Lifeline application form would
2 need to be revised to include the new NSL criterion. Verizon does not
3 believe the costs associated with these efforts to be material.

4

5 **Q. DOES VERIZON HAVE THE SAME DEGREE OF OPPOSITION TO**
6 **THE NSL AND 135% FPG PROPOSALS THAT IT HAS TO THE SELF-**
7 **CERTIFICATION PROPOSAL?**

8 A. No. Verizon is less concerned with the NSL and 135% FPG proposals
9 than it is with the self-certification proposal. When compared to the self-
10 certification proposal, these proposals have much less potential for
11 waste, fraud and abuse, are less costly to implement and administer,
12 and should not dramatically expand the size of the federal fund.
13 Furthermore, in the Rate Rebalancing Docket (Consolidated Docket
14 Nos. 030867-TL, 030868-TL, 030869-TL, and 030961-TI), Verizon
15 committed to expanding the income-based Lifeline eligibility criterion
16 from 125% to 135% of the FPG coincident with the implementation of its
17 rate rebalancing plan, and Verizon stands by that commitment.

18

19 **X. RECOMMENDATIONS**

20

21 **Q. IN LIGHT OF VERIZON'S POSITIONS REGARDING EXPANSION OF**
22 **THE LIFELINE ELIGIBILITY CRITERIA, DO YOU HAVE ANY**
23 **RECOMMENDATIONS ON HOW THE COMMISSION SHOULD**
24 **PROCEED?**

25

1 A. Yes. The state has recently invested significant sums to modify DCF's
2 computer-based eligibility system for the express purpose of informing
3 low-income clients of the availability of Lifeline and Link-Up and to
4 provide proof of eligibility upon certification. Before expanding the
5 Lifeline and Link-Up eligibility criteria, the Commission should continue
6 to operate under the current criteria, and provide an opportunity to
7 determine the impact of the DCF system modifications on telephone and
8 Lifeline subscribership.

9
10 While the Commission evaluates the affects of these modifications, the
11 Commission should also try to determine the most effective and efficient
12 way to increase telephone penetration in the state – and what role, if
13 any, Lifeline and Link-Up should play in that effort.

14
15 If, after studying the issue, the Commission still wishes to increase
16 Lifeline subscribership, the Commission should consult with DCF and
17 other organizations that have frequent contact with low-income
18 individuals to assist in marketing Lifeline and Link-Up to eligible
19 consumers. State organizations designed to assist low-income
20 households, as well as other entities that deal with low-income
21 individuals on a daily basis, are the ones most likely to be able to reach
22 consumers through outreach efforts. Commissioner Jaber expressed a
23 similar sentiment in her dissent to the PAA Order:

24 My preference is to ensure that the lifeline program
25 as it exists today is more effective. I believe our

1 emphasis at this time should be on identifying and
2 implementing effective outreach efforts to educate
3 the public on the availability of the lifeline and link-
4 up programs and assist qualified persons in
5 obtaining this support as quickly and efficiently as
6 possible.¹⁷

7
8 For its part, Verizon has engaged in efforts at the grassroots level to
9 alert organizations providing services to low-income Floridians. For
10 example, Verizon recently distributed posters, flyers and applications,
11 along with more detailed Lifeline and Link-Up information to a number of
12 community-based, non-profit organizations in the hope of partnering with
13 those organizations to promote Verizon's Lifeline service. Verizon also
14 recently purchased mass media advertising in select newspapers and
15 on radio stations to market its Lifeline Program. These types of
16 marketing efforts may be an effective tool in expanding Lifeline and Link-
17 Up enrollment.

18
19 **Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?**

20 **A. Yes.**

21

22

23

24

¹⁷ PAA Order at 12.