

ORIGINAL

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**FINAL COMMENTS OF  
BELLSOUTH, GTE AND SPRINT-FLORIDA**

**SPECIAL PROJECT NO. 980000A-SP  
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This document, which provides an overview of the comments, documents and exhibits submitted to the Commission, is being jointly sponsored by BellSouth Telecommunications, Inc. ("BellSouth"), GTE-Florida, Inc. ("GTE") and Sprint-Florida, Inc. ("Sprint-Florida"). The Final Comments of Dr. William E. Taylor and Dr. Robert G. Harris and the Supplemental Comments of Mr. F. Ben Poag are being submitted contemporaneously with this document.

In addressing what constitutes "a fair and reasonable" residential basic local telecommunications service rate, BellSouth, GTE and Sprint-Florida ("ILECs") provide a comprehensive discussion of the factors required by the Legislature to be addressed; namely, value of service, affordability, comparable rates, and cost, together with the companion topic, rate rebalancing. In a nutshell, the current ILEC rates: do not reflect the enormous value that residential basic local service currently provides to all residential subscribers; are significantly lower than the residential basic local service rates in most other states; and provide only a portion of the necessary cost recovery.

While it would appear, at first blush, that the ILECs' current residential basic local service rates are "fair and reasonable," that, in fact, is not the case. Although the current ILEC residential basic local service rates are fair and reasonable from the standpoint of "affordability," they are not "fair" and they are not "reasonable" from the standpoint of "value of service," "comparable rates" or "costs."

As far as "affordability" is concerned, while the residential basic local service rate may appear to be affordable because it is being subsidized by other ILEC-provided services, those other services are priced in a manner which makes them unaffordable for many customers. In

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fact, many choose not to subscribe to residential basic local service because they cannot afford the current toll and vertical service prices, which prices reflect the subsidy burden.

The comments and other support provided by the ILECs demonstrate that residential basic local service rates are currently too low and should be increased. At the same time, the rates for other services should be decreased in order to provide a telecommunications market that is less subsidy burdened, resulting in prices for all telecommunications services that are attractive and affordable to the greatest number of customers. Further, rebalancing will provide prices that should make the residential market more attractive to new entrants. To the extent there are low-income customers that require assistance to stay on the network at the current or higher residential basic local service rates, Lifeline and Linkup programs are available.

Each of the factors impacting the determination of a "fair and reasonable" residential basic local telecommunications service rate is discussed below in greater detail. Additionally, there is a section which addresses rate rebalancing and another which addresses and analyzes the comments received by the Commission in the public hearings held in the ILECs' territories, as well as in the correspondence received by the Commission.

### **I. Value of Service**

It is uncontroverted that residential basic local telecommunications service is of considerable value to consumers. This value is an essential element in the determination of a "fair and reasonable" residential basic service price. Currently, the price consumers pay for residential basic local service is well below the value which consumers derive from the service. As was noted by Dr. Robert Harris, "(T)he capability of today's network, beyond simply making or receiving a call, generates large consumer surplus, value and social benefits." (Report on

Residential Telephone Service in Florida: Public Policy, Pricing and Affordability (9/24/98) page 14 ("Harris Report").) This statement holds true in both real and relative terms.

Historically, the value of residential basic local service was not as great as it is today, while the price - in absolute dollars - was the same as, or in some exchanges higher than, it is today. But even in the past, the value the consumer received from residential basic local service far exceeded the price paid. For example, each single-line residential consumer, for a flat monthly rate, had unlimited access to every other residential and business customer in his or her local exchange or calling area. Moreover, the basic price reflected the size of the subscriber's calling area. (Poag, Oct. 1 Tr. 34-36.) Additionally, the residential basic local service subscriber had access to the long distance carrier of the subscriber's choice. This access permitted the residential subscriber to place calls to, and receive calls from, almost every other telephone in the free world.

Today, the residential subscriber continues to have a ubiquitous connection to every telephone in the world, but now receives much, much more in value. Not only can the residential subscriber make and receive voice telephone calls, the subscriber can now access the Internet from his or her home telephone line, can send and receive facsimiles, can place calls to and receive calls from mobile phones, and can use toll-free numbers to call anywhere in the world. The residential basic local service also gives the consumer access to shop-at-home and bank-at-home services, as well as makes telecommuting - that is work-at-home - possible. In other words, residential basic local telecommunications service both reflects and enables the many technological advances occurring in the information age. The ability to take advantage of these technological advances has created additional value in residential basic local service subscription.

Perhaps the most significant "information age" advances that enhance the value of residential basic local service are the Internet and the mushrooming use of toll-free numbers. As noted by Dr. Harris: "(A)ccess to the Internet eliminates many of the boundaries that existed between information and a wide cross-section of the public, including students and senior citizens, rural and urban residents." (Report, page 16.) With respect to the role of toll-free numbers in enabling residential consumers to have greater access to far-flung information, Dr. Harris observed that: "(T)he increase of toll-free numbers indicates that consumers and companies are using this means of communication more frequently." (Harris Report, page 17.)

Access to the Internet from the home telephone line gives the residential consumer access to: voting information; electronic mail for contacting relatives or for transmitting homework; telecommuting to work; forums on political issues; information about the marketplace - including shopping for automobiles, houses or stocks. This access to the world of information from home is particularly beneficial to those people with disabilities, difficulty travelling - such as mothers with young children or caregivers to the aged or infirm - or those who have trouble communicating. On a more Florida-specific level, the increased infrastructure value created by use of the Internet spreads throughout society because this "network of networks" is essential for Florida's growing information economy. As Dr. Harris noted, "It allows Floridians to access information from their state government, tropical weather updates, and job information." (Harris Report, page 17.)

Similar to the rapid growth in Internet usage - from just a handful of users five years ago to 58 million users just 9 months ago to 79 million users in 1998 - the growth in toll-free calling is equally rapid. In fact, this usage is so great that the relatively new 888 prefix faces depletion and is being augmented by the 877 prefix. The original 800 numbers were depleted in 1996 after

nearly 20 years, while the 888 prefix was depleted in only 2 years. Each prefix represents 7.9 million toll-free numbers. (Harris Report, page 18.) This growth in the use of toll-free numbers demonstrates that consumers with nothing more than basic residential service have access to well over 15 million additional business and residential phones without having to pay usage or toll charges. In traditional value of service terms, each residential subscriber's local calling area just grew by 15 million access lines.

The high value that consumers place on having residential basic local exchange service is best demonstrated by the fact that local and long distance usage is increasing dramatically. This usage growth is both for traditional voice communications (both local and toll), as well as for data communications represented by the increasing number of hours spent on the Internet and the increasing number of faxes being sent and received by residential subscribers. As noted in Dr. Harris' Final Comments to the Florida Public Service Commission, dated November 13, 1998, ("Final Comments"), personal computer penetration per household has grown from 24.1% in 1994 to 36.6% in 1997; 4.6 million fax machines were used in homes and home-based offices in 1997; and the number of telecommuters has grown from 4 million in 1990 to 11 million in 1997. Each of those developments has resulted in more frequent use of the network. Additionally, there has been a dramatic increase in the number of wireline to wireless (e.g., cellular and PCS) minutes of use in BellSouth Florida service area - from 508,643 minutes in 1993 to over 1.6 million in 1998. (Harris, Final Comments, pages 12-24.)

## **II. Affordability**

The Legislature has designated affordability as a key criterion in the fair and reasonable rate assessment because of its longstanding link to universal service objectives. For decades, the

goal of promoting universal service has led policymakers to price basic local service so that it is affordable for the vast majority of households, in order to achieve and maintain high penetration levels. (Harris Report, page 20.)

Affordability is a relative, rather than absolute, concept. But that does not mean affordability cannot be objectively evaluated. To this end, industry experts in this proceeding have submitted economic analyses of affordability that consider the price of basic local service relative to its value; to income; to inflation; to cost; and to rates in other states, among other things. They have, in addition, presented studies of actual consumer behavior and survey information.

The Legislature asked the Commission to undertake this fair and reasonable rate study because it is the expert in analyzing telecommunications issues. As such, the Legislature expects the Commission's conclusions to be rooted in facts and solid economics, not speculation and unscientific theorizing. If the Commission is to fulfill this expectation, it will advise the Legislature that the basic rate could increase significantly and still remain affordable for most households. Along with this finding, the Commission should emphasize that affordability must be considered from a total-bill perspective, and that the Lifeline program can best assure telephone service for those who might not be able to afford a higher basic monthly rate.

### **Affordability Measures**

Affordability Relative to Income: A service can become more affordable either because income increases and the purchase price remains the same, or because income stays the same and the purchase price decreases. In the case of residential basic telephone service, prices have remained fairly constant while incomes have increased. Basic local service prices have remained similar from 1983 until 1996, while incomes increased by over 75% during that time. In 1983,

the price of basic residential service was about 1% of median household income in Florida. Penetration levels were high, even without Lifeline. In 1996, basic local service was only .55% of median household income. (Harris Report, pages 22-24.) These figures suggest that today's prices could increase significantly and still be affordable. Maintaining the same relationship between basic rates and household income in 1996 as existed in 1983 equates to a monthly rate of about \$24.55 for basic residential in 1996. (Harris Report, page 25.)

FCC data on penetration by income support the affordability of rates at this level. These statistics show that in 1997, 80-90% of households with income levels less than \$10,000 had telephone service available. Given the relatively high penetration level for even low income customers, there is certainly no justification to continue to subsidize medium to high income customers by keeping their residential rates artificially low. (Comments of F. Ben Poag (Poag Comments), page 24.)

It is probably impossible and, in any case, unwise to try to set a rate that is affordable for every single household; the economy couldn't function if that standard were applied to the pricing of other goods and services. Instead, the regulatory policy should strive for a residential basic service rate that is affordable to most households. If that rate is deemed unaffordable for some segment of customers, the solution is not to hold rates down for all customers, but to target subsidies to only those who need them, as is the case with rent and food supplements. (Harris, Oct. 8 Tr. 62-63.)

Affordability Relative to Inflation: As noted, prices for basic residential service are about the same now as they were 15 years ago. Due to inflation, however, the real prices have dropped to a fraction of their earlier levels. For example, BellSouth's basic service price in 1983 was \$13.95. Even though the overall price level in the economy has increased by approximately 60%

since then, the BellSouth monthly price today is only \$14.15 (including the \$3.50 subscriber line charge (SLC).) In 1998 dollars, the 1983 price of basic service equates to \$23.25. Or, from another perspective, the monthly service rate today in 1983 dollars is \$8.49. (Harris Report, pages 27-28; Harris, Oct. 8 Tr. 58.)

Affordability Relative to Basic Service Prices in Other States: The Florida Legislature specifically asked the Commission to consider basic rates in other states in determining a fair and reasonable rate for Florida. Florida's rates are low compared with prices in other states. (Harris, Oct. 8 Tr.59.) In fact, the Commission's own consumer handout for the public hearings in this project noted that "Florida has some of the lowest rates for basic residential telephone service in the Southeastern United States." ("Fair and Reasonable Rate Study," FPSC, page 5.)

The current average monthly rates for the three largest Florida ILECs are from \$2.58 to \$4.36 lower than the national average. (Poag Comments, pages 10-11.) BellSouth's prices for its highest rate group in eight other southern states range from \$16.14 (in Louisiana) to \$22.51 (in Mississippi). On average, the rate for the highest rate group in Florida is about \$5.00 below prices in these other states in the region. (Harris Report, pages 29-30.)

As discussed further at Section III of these Final Comments, state comparisons show that penetration levels are not adversely impacted by higher residential basic rates. For instance, Tennessee and North Carolina have higher subscribership levels than Florida, even though their average residential rates are higher and their income levels are lower. (Poag Comments, page 18.) Further, even though rates for other states in the southeastern sunbelt (Alabama, Georgia, Louisiana, Mississippi, North Carolina, South Carolina, and Tennessee) are 20-34% higher than the large ILECs' rates in Florida, subscription there has increased more than Florida's over the

past nine years. (Poag Comments, page 18-19.) These data indicate that higher rates in Florida will not harm penetration and would still be affordable.

Affordability Relative to Value of Service: While the real price of basic local service has declined over the past 15 years, the value and versatility of the service has grown by leaps and bounds, as discussed in much more detail in the attached final Comments of Dr. Harris. As Dr. Harris explains, the basic residential subscriber today gets a much more useful basic service than he or she did 15 years ago, so the price paid for that service could be significantly higher and still remain affordable. (See also Harris Report, pages 14-20.)

Affordability Relative to Cost: Because of deliberate social subsidization of basic local service rates, those rates are well below their underlying costs. Firms have no incentive to invest in unprofitable services. They will instead enter markets where prices are well above costs and siphon off the subsidies that today support basic local service. To maintain investment in the network; to continue providing new and innovative services; and to assure competitive and affordable residential basic service in the long run, prices must move toward their costs. (Harris Report, pages 33-36; Harris, Oct. 8 Tr. 9-10.)

### **Studies of Consumer Behavior**

Any evaluation of affordability must necessarily be done from the consumer's perspective. As such, studies based on actual consumer behavior yield some of the best guidance about affordability. These studies show that demand for residential basic service is not very sensitive to its price, but that demand is sensitive to the prices of other services purchased by the consumer. The studies also show that income is the key socio-economic factor affecting disconnects. (Perry workshop handout, page 8; Comments of Donald. M. Perry (Perry

Comments), page 10-12.) In fact, the charges for non-basic services are the key reason people lack phone service. (Danner Workshop Handout (Customer Impact Data), page 3.)

The Basic Service Price Has Little Effect on the Decision to Subscribe.

The most complete study relating residential access demand to the price of basic service and the price of other telecommunications services was undertaken by Professor Jerry Hausman of MIT, Dr. Timothy Tardiff of National Economic Research Associates, and Dr. Alexander Belinfante of the FCC ("HTB Study"). This study uses FCC data from 1984 through 1988 that includes people with and without telephone service. (Perry Comments, pages 12-13; Danner Customer Impact Data, page 2.) In short, the HTB Study found that the price of basic service has little effect on whether people decide to have telephone service - that is, the elasticity of demand with respect to basic local rates is extremely small. (Perry Comments, pages 14-15; Danner Customer Impact Data, page 2.)

The more surprising HTB finding, however, was that the magnitude of elasticity with respect to toll is significant. What this means, in practical terms, is that if basic rate increases were accompanied by long distance rate decreases (as in a typical rate rebalancing), telephone subscribership could increase, despite basic local rate increases. (Danner Customer Impact Data, page 2.) This effect is not just theoretical, as explained below in the discussion of the FCC's subscriber line charge ("SLC").

Charges Other Than the Basic Rate Determine Affordability of Phone Service.

The HTB Study suggests that affordability of telephone service is properly viewed in the context of the entire bill, rather than just the basic service rate. Numerous other studies confirm this conclusion. All of these studies, based on interviews of households without telephone service, reveal that the basic rate is not the key factor in remaining phoneless. Installation and

deposit fees; large long-distance bills; and inability to control calling are much more prominent factors. (See Mr. Danner's summary of results of five studies, Customer Impact Data, pages 3-4.) The study data also confirm that cost factors are not the only reasons people lack phone service. In a survey done at the direction of the California Commission, 40% of non-customers cited such things as mobility, no need/desire, and lack of information as reasons for not having a phone. (Danner Customer Impact Data, page 4, citing 1993 Field Research Corp. Study.)

In view of this considerable evidence, Mr. Dunkel's contention that "the surveys have said that it's basic exchange rates that is most important to keeping these people off the network" (Dunkel, Oct. 1 Tr. 180-81) is just plain wrong. Pressed to name such studies at the workshops Mr. Dunkel came up with only one study - the AARP study, and that study proves nothing of the kind. Instead, it shows that almost three-quarters of those interviewed said they could not afford the front-end cost of getting phone service - the installation and deposit. (Danner Customer Impact Data, page 3.)

Unable to legitimately support his own contentions with any empirical data, Mr. Dunkel instead tried to discredit the studies showing that the basic monthly rate is not the key to affordability. In this regard, he returned again and again to the claim that the California Field Research study found that international toll charges were a major cause of disconnects. The irrelevancy of this criticism to the issue at hand was obvious. As Commissioner Clark pointed out, "It doesn't matter if it's international toll. It's the toll bill that is causing it." (Oct. 1 Tr. 216.)

## **Consumer Surveys**

Surveys geared to predicting what people will likely do are somewhat less helpful than observed consumer behavior in assessing affordability of phone service. Nevertheless, a well designed survey may provide some useful insights into the affordability question.

### The PSC Staff Survey

In conjunction with this proceeding, the Florida Public Service Commission Staff drafted a survey to try to measure affordability in the sense of predicting how customers would respond to basic local service rate increases. While the parties were encouraged by Staff's receptivity to their input during the drafting process, the final survey instrument did not eliminate all of the problems identified.

Among these problems, starting point bias was the subject of considerable discussion at the workshop. In Staff's survey, respondents faced a series of either increasing or decreasing prices to determine their willingness to pay for telephone service. A number of researchers have found that the starting point of the series of questions - the initial bid - biases the respondent's willingness to pay. (Perry Comments, pages 23-25.) In this case, starting point bias is manifest in the fact that the data shows a greater number of disconnects when the initial bid is \$2 bid than when it is \$20. For respondents asked the ascending series of bids, 9% said they would disconnect at \$2, 19% at \$5, 35% at \$10, and 48% at \$20. Of the group responding to the descending bids, 6% said they would disconnect at \$2; 9% at \$5, 17% at \$10, and 22% at \$20. These numbers are somewhat different from those Mr. Perry presented at the workshop in his preliminary analysis. Although a coding error appears to have affected the level of the numbers, Mr. Perry's conclusion about the presence of starting point bias remains valid. Indeed, even AARP's Dr. Cooper agreed there was starting point bias present in the survey: "[T]here is a

starting point bias. The people who were given the \$20 question first gave higher answers. I believe it's almost across the board." (Cooper, Oct. 8 Tr. 179, 172-73.)

For whatever reason, it appears that the survey results overestimated the number of households that would disconnect because of rate increases. When Commissioner Deason asked Dr. Cooper if he really believed there would be an 8 or 9 percent drop in penetration if there was a \$2 rate increase, he answered: "No. As I said, these [Staff survey results] are much higher than the econometric estimates. So people say that stuff." (Cooper, Oct. 8 Tr. 181.) On the dissonance between the survey results and the established econometric estimates, Dr. Cooper observed: "Do these numbers jibe with the econometric estimates of price elasticities? These are bigger impacts. These are bigger impacts." (Cooper, Oct. 8 Tr. 174.)

Indeed, even taking the survey results in the best light and using only the 6% disconnect number (instead of the 9% from the increasing bid sequence), the survey would take Florida's penetration rate down to about 87%. Only two states - New Mexico and Arkansas - have penetration rates below 90%, and both have rates lower than or equal to Florida's current rates. Obviously, a 6% loss in subscribership (let alone the larger losses shown by the increasing bid questions) is at odds with current experience, as well as the econometric estimates. Faced with these results, most researchers would probably use the econometric studies to calibrate the survey results, and Staff may choose to do so to get a more realistic picture of likely consumer behavior. (Perry Comments, pages 31-32; Oct. 1 Tr. 308.)

#### The GTE Survey

In conjunction with this proceeding, GTE performed its own survey to assess the affordability and value of telephone service, as well as Lifeline participation. The GTE survey yielded a number of useful insights.

First, affordability is relative to value; thus, customers receiving substantial value from a service are less likely to reduce spending for it in response to a price increase. Considering level of penetration and the ratings assigned by respondents, local and related telecommunications services received the highest value ratings of all services. (Perry Workshop Handout, page 22.)

Second, among stated actions, if the price of telephone service increases, disconnection is the least popular option people are likely to take, with less than 5% "most likely" to disconnect. The reported percentage of disconnects was less than 1% in most income bands as a proportion of total respondents. The group with the highest reported disconnections (i.e., those who refused to state their income) was probably low income, as most were enrolled in at least one of six listed Federal assistance programs. (Perry Workshop Handout, page 26.)

The survey predicted slightly greater network drop-offs than the "observed behavior" that was the basis of the HTB Study. The GTE survey results predict disconnects of 0.6% of customers at \$2, ranging to 6.0% of disconnects at \$20. The HTB Study shows .2% to 1.7% disconnects at \$2 and \$20, respectively. In this regard, it is noteworthy that the GTE study assumed only local rate changes, with all others remaining unchanged. It did not examine the "cross price" effects of toll price changes like HTB did.

Third, the survey found that a majority (about 68%) of subscribers who were eligible but not participating in Lifeline were not aware of their eligibility. This finding is consistent with Staff's own draft Lifeline study finding that very high numbers of potential Lifeline participants do not take advantage of this program. The obvious conclusion is that increased awareness of Lifeline can lead to increased participation in the program, thus mitigating any potential decrease in penetration due to rate increases.

### There Was No Effective Rebuttal of the ILECs' Facts.

In contrast to the ILECs' fact-based, economic examination of affordability, the parties supporting the status quo - the Attorney General (AG), Office of Public Counsel (OPC), Florida Legal Services, and the American Association of Retired Persons (AARP) - advanced mostly alarmist views predicated on assumptions contrary to the facts. These interests argue that monthly basic rate increases will force customers off the network. (See, e.g., Florida Legal Services (FLS) Comments, pages 11-12; Cooper Workshop Handout, page 12.) These arguments are unsupported by reality.

In this regard, it is instructive to examine what happened to subscribership when the FCC established the \$3.50 SLC in the 1980s. The SLC was effectively a form of rate rebalancing which reduced access charges (and, therefore, long-distance rates) and raised basic monthly rates. This action was very controversial, prompting claims from consumer groups that millions of customers would be forced off the network as a result. (Danner Comments, pages 65-66; Oct. 9 Tr. 456.) In fact, the opposite occurred. Millions of customers joined the network. (Danner, Oct. 9 Tr. 456.) The extra value of being able to make cheaper long-distance calls far outweighed the \$3.50 impact on the monthly basic rate (and produced consumer welfare gains in the hundreds of millions of dollars. (Taylor, Oct. 9 Tr. 272) .) This real-world example not only demonstrates that residential basic local service rates can be rebalanced without the disastrous consequences claimed by Mr. Dunkel, Dr. Cooper, and Mr. Ochshorn. It also shows that pricing reform can make telephone service more attractive and affordable even if the basic local exchange rate goes up - because it's the total bill that's important to the customers. (Danner Comments, pages 66-68.)

In the absence of any facts to rebut the ILECs' powerful evidence, rebalancing opponents were left grasping at straws. For instance, the AG's Mr. Dunkel claimed that "Florida has a universal service problem" (Dunkel, Florida Workshop Presentation, page 20) because his statistics showed Florida's penetration rate to be about a point lower than the national average. But as Dr. Harris explained, penetration statistics are not accurate to the degree that Mr. Dunkel implies. (Harris, Oct. 8 Tr. 41-42.) In fact, the critical value for Florida is about 2.3%; that is, the difference between state and national averages would have to be greater than 2.3% to be statistically significant. (A. Belinfante, Telephone Penetration by Income by State, Jan. 1998, at Table 6.) In any case, as explained above, other Southeastern states have higher penetration rates even though they have higher basic rates and lower income levels.

Mr. Dunkel also tried to conjure an affordability problem from his data showing that BellSouth disconnected 230,000 customers last year for non-payment. (Dunkel, Oct. 1 Tr. 178-79.) What Mr. Dunkel ignored is the well known fact that the majority of disconnections are related to the inability to pay toll charges (Harris Comments, page 31) - a fact that rightly led Commissioner Clark to question the relevancy of Mr. Dunkel's linking the disconnect number to basic service affordability. (Oct. 1 Tr. 179.)

Faced with all the evidence that an affordable rate for basic service is quite a bit higher than today's rates, the consumer advocates tried to introduce a hardship component into the affordability assessment. (Cooper, Oct. 8 Tr. 149.) This contention ignores the important fact that Lifeline service would remain available for those customers who would truly suffer economic hardship as a result of rate increases. Moreover, the hardship argument, like others made by rebalancing opponents, appears to depend on a very extreme rate rebalancing proposal no ILEC has made here. Given the evidence, it is hard to imagine that reasonable basic local rate

increases (for example, those reflected in Sprint's strawman proposal) would cause hardship to many customers.

### **III. Comparable Rates**

The rates for residential basic local service that are available in other states provide a good benchmark for what constitutes a "fair and reasonable" rate in Florida. This is particularly true when the rate comparison also includes evidence of penetration levels and subscriber income levels. Judged against the benchmark of the residential basic local rates available in the southeastern states, as well as the nationwide average, the ILECs' residential basic local service rates in Florida are well below those benchmarks in terms of both dollar and penetration levels. On the other hand, Florida residents have higher incomes as compared to the incomes in the other southeastern states and the national average.

As pointed out by Mr. Poag, nationwide, the average residential basic local service rate is \$13.94, income is \$22,000, and the penetration level is 95 percent. Similarly, in the other southeastern states, the average rate is \$14.64, the average income is \$20,000, and the average penetration level is 94 percent. In comparison, the ILECs' Florida rates are Sprint-Florida, \$9.58, GTE, \$10.02, and BellSouth, \$11.36, Florida income is \$24,000, and the penetration level is 94 percent. (Poag, Oct. 1 Tr. 41-51.) In fact, for each of the other southeastern states, the penetration level is higher in 1997 than in 1988, while the Florida penetration level is actually lower in 1997 than in 1988. From the standpoint of comparable rates, Florida's residential basic local service rate could be increased and still be "fair and reasonable."

Messrs. Ochshorn and Dunkel attempted to offer commentary that the ILECs' comparable rate information was incomplete and misleading. These attempts were a failure. In fact, the

examples offered by Messrs. Ochshorn and Dunkel essentially confirm that on a comparable rate basis, Florida's residential basic local service rates are clearly inadequate and could be higher.

Mr. Ochshorn contended he had found residential rates from several jurisdictions that he claims are comparable to the similar rates in Florida. However, as Mr. Poag demonstrates, Mr. Ochshorn's comparisons are apples to oranges.<sup>1</sup> For example, Mr. Ochshorn quoted a California unlimited residence rate of \$11.25. However, in reviewing the source, the \$11.25 rate was for just the Pacific Bell exchanges and is limited to a twelve-mile local calling area, and usage charges or zone usage measurement (ZUM) charges are applicable up to sixteen miles and toll charges over sixteen miles. Likewise, Mr. Ochshorn's \$11.71 rate for New York, which came from FCC data for Rochester, New York - Frontier Telephone, did not include the mandatory (non-optional) EAS charge of \$1.25, which brings the total rate to \$12.96. There are about 425,000 access lines in the Rochester local calling area. By comparison, Sprint's Winter Park exchange rate is \$11.23 with Touchtone, which is \$1.73 lower than Frontier's Rochester exchange rate, but has a local calling area of approximately twice the size (840,000 access lines). (Poag, Supplemental Comments, page 3.)

Even the Texas \$8.80 rate quoted by Mr. Ochshorn is a Southwestern Bell rate group rate 3, which has local calling area access line limits of 30,001 to 60,000. This rate is more comparable to Sprint-Florida's Cape Haze and Dade City (rate group 2) exchanges rate of \$8.22 with Touchtone. It is not, however, an appropriate comparison, as contended by Mr. Ochshorn, to BellSouth's West Palm Beach exchange rate of \$10.30 with 548,000 access lines or General Telephone's Tampa exchange rate of \$11.81 with 716,000 (Tampa East) to 1,000,000 (Tampa West) access lines. Finally, with regard to the Pennsylvania rates provided by Mr. Ochshorn, the

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<sup>1</sup> The Illinois rates quoted by Mr. Ochshorn are not addressed in detail since the rates quoted were replaced in 1996 with mandatory measured service rates.

\$10.88 rate is for New Castle, Pennsylvania, which is a rural (Cell 4) exchange with 46,001 to 83,000 "weighted" access lines in the local calling area. In comparison, Sprint's rate group 3 exchanges, e.g., Kissimmee, Orange City, Port Charlotte, can have up to 100,000 access lines in their local calling area for a basic monthly rate of \$8.98 with Touchtone. (Poag, Supplemental Comments, pages 3-4.)

Thus, when put in proper context, the states that Mr. Ochshorn alleges have comparable residential rates to Florida are not comparable. In fact, when the rates and local calling areas are actually put on a comparable basis, the data validates the fact that Florida's residence basic local service rates are lower than the rates in other states, including the states used by Mr. Ochshorn.

#### **IV. Costs**

BellSouth, GTE, and Sprint-Florida provided detailed analyses of the cost of residential basic telecommunications service, the main service under scrutiny in establishing "fair and reasonable" rates, as part of their responses to the Commission Staff's Data Request dated June 19, 1998. The service costs presented as part of the contribution analyses<sup>2</sup> encompass all the physical cost components necessary to allow residential customers access to the telephone network.

In fact, one of the first steps in cost development is to determine the network components required to fulfill the technical service description of the offering. In order to attain access to the network (which is equivalent to residential basic telephone service), a residential customer requires all of the following; a loop, a physical point of presence in the switch (termination), and interoffice connections. Costs associated with these pieces of equipment are directly caused by the residential customer's request for this service and thus are appropriately included in the cost

analyses conducted by BellSouth, GTE, and Sprint-Florida. None of the companies embrace the practice of arbitrarily deciding whether or not to include a physical component of plant in a cost study based on a desired outcome<sup>3</sup>. The description of the service and the tariff structure determine what needs to be considered in a cost study.

Several workshop participants have advocated the partitioning of loop costs among various services, labeling the loop a common cost. This is incorrect for a number of reasons. First, common costs, which will be discussed in further detail later, do not vary with the demand. However, an increase in demand for basic residential service increases loop costs since the loop is the main vehicle required for access to the telephone network. Secondly, as mentioned previously, the customer's request for service triggers loop costs. The loop cost is directly caused because of the request for the service thus it is appropriately included in a TSLRIC study.<sup>4,5</sup> Dr. Taylor expands on this topic from an economic perspective in his Initial and Final Comments (Taylor Initial Comments, pages 26-33; Taylor Final Comments, pages 9-19), pointing out that:

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<sup>2</sup> The other pieces of the contribution analysis are demand and rates.

<sup>3</sup> Mr. Dunkel's assertion that it is a "very common technique, if you want to make the cost of a service look low, is to do the cost excluding the loop" is totally unfounded. This is not the manner in which cost studies are conducted and violates many of the underlying economic principles upon which costs are developed. Additionally, Mr. Dunkel's implication that cost analysts rely on "common tricks" is boarding on the slanderous. (Dunkel, Oct. 1 Tr. 157-58.)

<sup>4</sup> Mr. Dunkel concedes there is no direct relationship between the loop and minutes of use. He states, "(if) you are going to do one toll minute a month, you have to have a loop; or if you are going to do a thousand minutes a month, you have to have the same loop." (Dunkel, Oct. 1 Tr. 224.) The allocation of loop costs based on minutes of use has no cost-causative basis. Any attempt to allocate the loop costs involves cost **recovery**, not cost **identification**. As Dr. Harris points out, "costs are what costs are, and us calling them something else, saying they're lower, doesn't make it so." (Harris, Oct. 8 Tr. 13.) Dr. Harris further supports the argument for including the loop in the residential basic service costs. He makes the point that the loop provides a dedicated means of access, "no one else can use your loop even if you're not using it, even if you never use it..." (Harris, Oct. 8 Tr. 25.)

<sup>5</sup> Dr. Taylor also explained cost causation: "a cost is caused...when you do an activity, if you put the loop in, the cost is incurred. If you take the loop out or if someone else buys the loop from you the cost is saved. That's the cost causation standard. That standard doesn't depend at all on how the loop is used, or how the product or service is used, or the benefit or value that's created from that use." (Taylor, Oct. 9 Tr. 272-73.)

- Cost causation explains why the resources used in providing the loop have been expended. The answer is that costs associated with the loop are caused by *a customer gaining access to the network*. That is true whether that access is gained as part of a standard bundled offering like residential basic local service or, in the new environment, by purchasing an unbundled loop. Once the loop is provisioned, the cost has been incurred. The way in which it is *used* (if at all) does not change that cost. Therefore, the cost of the local loop is *not* shared by all the usage services that can be delivered over the loop.
- The only economically efficient form of pricing is one based squarely on the principle of cost causation. Use *per se*, or the benefit derived from use, is irrelevant to the manner in which cost is caused. Therefore, if public policy is properly designed to recover cost *as it is caused*, then the loop's cost should be recovered in the rate for the service of which it is an integral part, namely, residential basic local service.

(Taylor, Final Comments, pages 9-19.)

The Commission Staff defined the cost standard to be used in preparing responses to their data request as Total Service Long Run Incremental Cost (TSLRIC) per Section 364.3381 (2). The Commission has defined TSLRIC as "the costs to the firm, both volume sensitive and volume insensitive, that will be avoided by discontinuing, or incurred by offering an entire product or service, holding all other products or services offered by the firm constant." (FPSC Order PSC-96-1579-FOF-TP, page 25) This was the methodology adhered to by all three of the respondents. In fact, as Sprint-Florida's Mr. Poag explained during the workshops, these "are the same types of incremental cost studies that we have filed in tariff filings and other proceedings

before the Commission, the same basic type studies that we have always filed." (Poag, Oct. 1 Tr. 6.)

To further expand on the definition of TSLRIC methodology, TSLRIC uses incremental costing techniques to identify the additional costs associated with providing a service. Incremental costs are based on cost causation and include all of the costs directly generated by expanding production, or alternatively, costs that would be saved if the production levels were reduced. The production unit could be an entire service, or a unit of a service. For residential basic telephone service, if the level of production increased, additional costs would be incurred for loops, switch terminations, and interoffice connections, i.e. the physical network components of the service. Conversely, if the telecommunication providers discontinue residential basic service, these costs would be saved (avoided).

Direct costs may be volume sensitive and/or volume insensitive. Volume sensitive costs are considered to be Long Run Incremental Costs (LRIC). LRIC identifies the price floor, i.e. the level below which rates cannot be set and still cover their direct costs. TSLRIC includes both volume sensitive and volume insensitive costs. TSLRICs are the basis for testing for subsidy since they represent the minimum cost per unit that the service must recover. Additionally, long run incremental cost studies ensure that the time period studied is sufficient to capture all forward-looking costs affected by the business decision being studied. Another corollary to the long-run principle is that all costs are variable in the long run. The implication here is that all resources will exhaust and new purchases must be made to meet demand for the service or product. As Mr. Dickerson of Sprint explains: "The long-term perspective, the purpose of that is so that these fixed costs, which are the nature of our business to a large degree, can therefore be recognized and included in the service cost calculation." (Dickerson, Oct. 8 Tr. 108.)

A shared cost is incurred to produce a family of products but is not a direct cost of any one product of the family. In other words, these costs are those that can be attributed to the joint products and services taken together, on a cost-causative basis, but cannot be directly attributed to any one product by itself. Any attempt to allocate shared costs through some recovery mechanism would be arbitrary. An example of a shared cost is a packaged right-to-use (RTU) fee that provides more than one vertical feature.

Common costs are costs that are incurred for the benefit of a firm as a whole, but not for the benefit of any individual product or family of products. Such costs do not change with changes in the firm's product mix or volume of output. Common costs are often referred to as overheads, and generally include, for example, executive, accounting and legal costs. Obviously, the loop component of basic residential telephone service does not meet this criterion. As Dr. Harris stated in the workshop, the loop "is not a common cost because it is dedicated to a particular customer." (Harris, Oct. 8 Tr. 26.)

Shared and common costs are not included in costs produced for pricing decisions, i.e. in a TSLRIC study. Yet, shared and common costs are true costs to the company and should not be ignored.<sup>6</sup> Thus, in setting rates, consideration must be given to some level of contribution to the total costs of the corporation, i.e. the TSLRIC plus shared and common costs. This is a point the Federal Communications Commission (FCC) recognized in establishing the Total Element Long Run Incremental Cost (TELRIC) methodology for unbundled network elements in their First Report and Order in CC Docket 96-98 (FCC Order) released August 8, 1996. In this order the FCC allowed the inclusion of a portion of shared and common costs since in many instances the TELRIC would equal the rate.

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<sup>6</sup> The result of setting all rates equal to TSLRIC would be the eventual failure of a company. There must be some contribution to the firm's shared and common costs in order to allow the company to remain solvent.

Each of the three companies, BellSouth, GTE, and Sprint-Florida, developed costs based on the TSLRIC methodology. The costs were: direct, long run, and based on cost causation. Shared and common costs were excluded. Each company's cost results for residential basic local telecommunications service, by rate group are set forth in Attachment A. All of the companies followed the same underlying methodology, however the results are legitimately different. BellSouth's service areas differ from GTE's and from Sprint's, terrain differs, customer densities and locations differ, vendors differ, labor rates differ, material prices and discount levels differ, and technology deployments differ. Additionally, even though each company maintains strict transmission levels, the network practices and guidelines set to attain these standards are not identical. These different provisioning practices lead to different costs. Even within the same company, the cost of residential service varies by tariff-defined rate group.

Many of the factors that cause differences between company results will influence the costs between rate groups. The results presented by each company support the contention that the existing rate for residential basic telephone service is substantially lower than cost. (The disparity between rate and cost is most evident in the rural areas.) This chasm between the rate and the cost is a result of historical compacts. The ILECs consciously set residential rates at a level below the cost in order to meet the social objective of universal service. This subsidy-laden arrangement was able to survive in a monopolistic world, where guaranteed cash flow from other services made up the difference between the rate and the cost. However, competition has shifted the playing field and the well of revenues from other services is "drying-up" as competitors skim lucrative accounts from the ILECs. As Mr. Calnon of GTE explained in the workshops: "As entry occurs, in the major metropolitan areas for large business customers and those subsidies are competed away, they are eroded, that creates the appearance of competition, but it is a form of

competition that is damaging because the support is no longer in the system. The end result to that is ultimately upward pressure on basic rates." (Calnon, Oct. 1. Tr. 115.)

This Commission's task is to evaluate the consequences of maintaining the current disparity between rates and costs and the ultimate impact on the ILECs, competitors and Florida business. Additionally, the decision must be balanced with the goal of maintaining "fair and reasonable" rates attainable by the majority of consumers. The ILECs have provided supportable cost studies that adhere to the TSLRIC methodology and as Dr Taylor states: "You can't change what the costs are, but once you know what the costs are, the regulator can set prices above, below, around those costs for various public policy reasons." (Taylor, Oct. 9. Tr. 268.)

#### **V. Rate Rebalancing**

A "fair and reasonable" residential basic local telecommunications service rate cannot be determined in a vacuum. The fairness and reasonableness of the basic rate must be viewed in context with the rates for the other network-provided telecommunications services which can be purchased by a consumer from either the provider of the basic service or other providers. The fact is, most consumers look at their total telecommunications bill in determining whether to subscribe to basic local service or to stay on the network.

Today's rate structure harms consumers in several ways. First, subsidized basic rates are anti-competitive, blocking competition from reaching residential customers. Second, prices set high to subsidize basic service force residential customers to use the phone less, causing real economic losses. Third, it is unfair to force some residential customers to subsidize others. Fourth, bill analysis shows that most customers subsidize themselves on the same bill to at least some extent. (Danner Comments, pages 39-40.)

Additionally, as noted elsewhere in these final comments, studies have shown that most consumers who decline to subscribe to, or cancel their subscription to, residential basic local service do so because they cannot afford the long distance toll charges. (Poag, Oct. 1 Tr. 32-33.) Consequently, it is essential that any increase in the residential basic local service rate take into account the impact on the consumer's total telecommunications bill.

One approach is to consider "rate rebalancing;" that is, accompanying any increase in the basic rate with decreases in the rates for toll and vertical features on a revenue neutral basis. Although rate rebalancing should, in theory, result in an average consumer's total telecommunications bill remaining about the same, in practice, not all consumers will be average consumers, and some consumers will receive smaller-than-current bills, while others will see larger bills. That is because certain customers either purchase none or only a few vertical features or make few or no long distance calls, while others purchase a great deal of such services. Based on recent studies, however, it is highly likely that many of those customers who have refrained from purchasing vertical features or making long distance calls because of the price will, in fact, do so at the lower prices resulting from rate rebalancing. (Danner Customer Impact Data, page 2.)

In his comments, for example, Sprint-Florida's Ben Poag presented a rate rebalancing proposal which incorporated a multi-year increase in the residential basic local rate with a contemporaneous reduction in the rates for toll service and vertical features. The increases in the residential basic local rate would be pegged to the current average residential basic local rate for the other Southeastern region states. Once this average rate of \$15.62 per month is reached, any further increases would be limited to 6% per year, or about \$1 per year. Given the number of years over which the initial increases would take place, by the time the \$15.62 benchmark is

reached, there should be considerable residential basic local service competition which will allow consumers to choose another residential basic local service provider if the consumers find the ILECs' basic local service prices to be unattractive. (Poag Comments, pages 30-31; Oct. 1 Tr. 60-61.)

As noted previously, in considering whether a residential basic local service rate - which is higher than today's rate - is affordable, it is critical that that consideration also take into account the fact that the rates for toll and vertical features will be reduced - that is, rebalanced - in a revenue neutral manner. In fact, the ILECs are on record that any increase in residential basic local rates must be accompanied by a rebalancing of the rates for other services. (Poag, Oct. 1 Tr. 23.) Only by doing so will the universal service subsidy burden borne by those other services be reduced. Furthermore, such reductions are necessary to stimulate demand - both for the reduced-price services as well as the increased-price basic service, and to allocate a more efficient amount of resources to those services. (Harris Report, page 10.)

It would be a serious mistake to conclude that no increase in the residential basic local rate is warranted because there will be some consumers who will see an increase in their telecommunications bill, even with rebalancing. For the average customer, the basic service charges are less than one-third of the total telecommunications bill. This suggests that the average consumer will have a greater interest in the prices for the discretionary services that make up over two-thirds of his or her telecommunications bill, than in the price of the basic service. And, as prices for toll and vertical features are reduced, discretionary services (i.e., toll and vertical features) will become more attractive, not only to customers who already purchase some of those services, but for those customers who purchase none or few of those discretionary services at today's prices. (Poag, Oct. 1 Tr. 33-34.)

If, in fact, there are low-income customers for whom a basic rate increase will create financial hardship, there is the Lifeline program available to them. It should be recognized, however, that approximately half of the telephone expenditures by low-income households are for toll and other discretionary services. (Poag, Oct. 1 Tr. 10.) In Florida, 60 percent of the Lifeline customers subscribe to non-basic services. (Marsh, Oct. 1 Tr. 28.) In that event, low-income customers who today are paying premium prices for non-basic services will directly benefit from rate rebalancing.

In addition to benefiting the ILECs' current residential customers, rate rebalancing will also benefit the development of residential competition. Most everyone would agree that competition has been very slow to develop in the basic local service market today. (Harris, Oct. 8 Tr. 15; Cooper, Oct. 8 Tr. 142; Danner, Oct. 9 Tr. 433.) This is not surprising, because there's little money to be made there. (Harris, Oct. 8 Tr. 15, 23-24.) This fact was acknowledged by AARP's witness, Dr. Mark Cooper, when he stated, "(W)hen competitors do their analysis of which markets to enter, they don't only analyze basic service rates. You look at the contribution analysis they do, and no one in his right mind develops a telephone network with the intention of selling only basic service. You can't get into that business." (Cooper, Oct. 8 Tr. 155.) Consequently, the new entrants are focusing their entry strategy at serving only those low-cost, high-profit margin customers.

The consumer choice envisioned by the Florida Legislature and the U.S. Congress has arrived for business customers--because companies can make money "hand over fist" in that market - but not for the average residential subscriber. (Harris, Oct. 8 Tr. 15.) The consumer advocates' recommended response to this situation is to do nothing - leave prices just as they are, leave the web of intercustomer and interservice subsidies intact, and resign ourselves to the fact

that competition may never come to the residential market. (See Cooper, Oct. 8 Tr. 137, 157, 183, 192; Ochshorn, Oct. 2 Tr. 390.) However, by rebalancing and making the price for basic service more attractive, residential customers in other markets, e.g., the more rural and higher-cost areas, will also be attractive for new entrants. (Poag, Oct. 1 Tr. 10.)

Given these consumer benefits, why would anyone oppose rebalancing? The answer seems to be a misplaced effort to maximize consumer welfare by not raising residential basic local service rates. However, if the objective is to maximize consumer welfare, then rebalancing will unmistakably do so, because, as noted previously, the price of basic service alone does not determine the welfare of the average residential consumer. (Danner Comments, page 51.) The California experience related by Mr. Danner nicely illustrates this point.

In 1987, the California Public Utilities Commission decided to raise Pacific Bell's residential local rate by only a dime because of one Commissioner's concern that a residential basic rate increase would harm the poor. But neither the Commissioner nor anyone else had any real facts about the impacts of pricing reform on particular subgroups of customers. Consequently, Mr. Danner, who was at the time assistant to then-President Wilk, reviewed GTE California and Pacific Bell bills. (Danner Comments, pages 58-59.) The results of this preliminary review disproved the conventional wisdom that the basic monthly rate was critical to consumer welfare. The monthly basic service price was only a portion of the bill, and it was obvious that many consumers would benefit from reductions in other charges. (Danner Comments, pages 59-60.)

A subsequent, more detailed study of GTE and Pacific Bell data revealed that:

1.) Local charges were generally less than 30% of the customer bill (the proportion for Florida is similar (Danner Comments, pages 46-47), confirming that other charges were more important to consumers than the basic rate;

2.) Pricing reform would reduce the average residential bill;

3.) Low-income Lifeline customers would benefit because they had significant toll and interLATA bills, but would be shielded from much of the basic rate increase;

4.) Certain minority groups tended to make the most toll calls, and therefore stood to receive the greatest benefits of pricing reform; and

5.) There are consistent patterns of toll and interLATA usage across all customer segments, including the poor and elderly.

(Danner Comments, pages 60-61.)

As a result of this analysis, the California Commission in 1995 ordered comprehensive "flash-cut" rate rebalancing, taking GTE's flat rates from \$9.75 to \$17.25 per month, and Pacific Bell's from \$8.35 to \$11.25. At the same time, toll rates and access charges were sharply reduced. (Danner Comments, pages 62-63.) This rate rebalancing was broadly supported - even the ratepayer advocate wanted to go further than the companies in terms of increasing basic and decreasing other rates, because they understood the consumer benefits of doing so. There are some former Commissioners who today regret that they didn't go further with the rebalancing effort at the time. (Danner, Oct. 9 Tr. 483.)

Indeed, the rate rebalancing had the intended effect. The residential basic rate increases did not harm penetration. In 1994, one year before the increases, the residential penetration rate in California was 94.8%; for 1996, one year after, the figure was 95%. (Danner, Oct. 9 Tr. 449.) The national averages for these time periods were 93.8% and 93.9%, respectively. In addition,

the rebalancing provoked remarkably little reaction from customers (Danner, Oct. 9 Tr. 450), suggesting that the increases did not cause hardship for consumers.

The California experience shows that understanding the facts is critical to any rebalancing discussion. With these facts, the Commission can critically examine common claims that rebalancing will harm particular groups of customers.<sup>7</sup> As noted previously, for low-income consumers, programs like Lifeline and Linkup will eliminate any hardship a local rate increase might otherwise cause. In this regard, consumer advocates should be vigorously arguing for an adequate universal service fund (as well as rebalancing), rather than opposing rebalancing. Moreover, as demonstrated by the California experience, low-income customers will benefit from price reductions for toll and vertical features.

Aside from the rebalancing critics' lack of factual support for their claims of harm, their arguments are rooted in an imaginary rebalancing scheme. For instance, Dr. Cooper referred often to "radical rate rebalancing" and proposals to double the cost of service. (Cooper, Oct. 8 Tr. 147, 150, 160, 183-84.). There is plainly nothing "radical" about the "strawman" rebalancing proposal made by Mr. Poag, or about anything the ILECs have advocated in this proceeding regarding rebalancing. As Dr. Harris explained, correcting prices need not be instantaneous, but the market must know that regulators are committed to moving prices in the right direction with a sufficient sense of urgency. (Harris, Oct. 8 Tr. 46.) This kind of signal is impossible under existing statutory mechanisms, which place strict constraints on local rate changes, even if price caps are removed. (Section 364.051, Florida Statutes.)

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<sup>7</sup> For example, anti-rebalancing interests often raise the specter of the potential negative effects on the poor and the elderly. As to the elderly, it is self-evident that not all elderly are poor. Because Dr. Cooper did not break out low-income elderly from medium and high-income elderly (Cooper, Oct. 8 Tr. 168), his presentation provided little useful insights for rebalancing decisions.

Rebalancing is a big step, and no ILEC is urging the Commission or the Legislature to undertake it without careful consideration. To the contrary, the ILECs urge Florida policymakers to look at the facts and to weigh the genuine interests of customers, rather than accept unduly narrow conceptions of consumer welfare. By examining the facts and offering informed explanations, regulators and legislators can develop political support for pro-competitive, pro-consumer pricing. (Danner Comments, page 65.)

## **VI. Summary of Public Hearing Comments**

In accordance with Legislative directive, the Commission conducted public hearings around the State to obtain consumer input into the fair and reasonable rate evaluation. The attached Tables summarize the public testimony taken in the service territories of BellSouth, GTE and Sprint-Florida. Table I briefly describes each participant's type of comment or complaint. Table II lists the numbers of complaints and comments by four general categories, while Table III breaks down the complaints and comments into more specific categories.

As reflected in Table II, there is relatively little difference in the numbers of complaints and comments opposing rate increases (43) and the number supporting rebalancing (37). In fact, if multiple appearances of individuals and organizations are discounted, the majority swings away from opposition to rate increases to support for rebalancing. (Specifically, Monte Belote, former director of Florida Consumer Action Network (FCAN), appeared 7 times; 2 current FCAN representatives appeared twice each; and 12 individuals (one of whom appeared twice) identified themselves as being affiliated with the American Association of Retired Persons (AARP).) In addition, some individuals' testimony opposing rate increases was seemingly contradictory, such that it is not clear what position these individuals take on rebalancing. For

instance, one of the Pensacola witnesses opposed any rate increases, but also opposed subsidization and believes costs should be based on value, while an Orlando customer complained about the high mark-up on vertical services. One of the principal objectives of rebalancing, of course, is to eliminate the existing system of subsidies, which keeps some rates - such as those for vertical services - well above their costs.

It is also noteworthy that 22 individuals expressed support for Lifeline and/or Linkup programs. Without more information, it is difficult to draw any general conclusions about this group's thoughts on rate rebalancing, but it might be reasonable to assume that if low income groups are shielded from the effects of any local rate increases, this group might not oppose rebalancing.

It is, in addition, instructive that the highest category of complaints and comments fell into the "Other" group. That is, these witnesses testified about matters other than rate increases, rate rebalancing, or Lifeline. Presumably, they were not interested enough in the rate increase/rate rebalancing issue to express an opinion either way. Nevertheless, a number of these comments were at least related to the underlying themes of this proceeding, even if the witness did not identify a position on the fair and reasonable rate. For instance, several (10) of the public witnesses complained that competition has not developed as promised and one cautioned against discouraging future telecommunications infrastructure investments. As explained elsewhere in these Final Comments, increased competition and continuing network investments are among the many benefits of rate rebalancing.

In addition to the comments received at the public hearings, over 300 letters were received by the Commission and were placed in the correspondence file of Special Project 980000A-SP. While this special project was set up to address fair and reasonable rates, the

correspondence received by the FPSC covered various areas. As shown in the attached Table IV, "Categorization of Customer Correspondence," a large portion of the letters were customers commenting on the affordability of their current service with regards to the fact that no increase in local rates are necessary, or with the surcharges that customers find on their bills (e.g., taxes, universal service, internet fees, etc.). However, the majority of the correspondence that addressed the area of affordability was from the portion of the population that is on a fixed income and currently subscribes to basic local service with no features.

In sum, the record of public testimony shows substantial support testimony for equitable and rational rate rebalancing. It is also true that many customers either spoke against any local rate increases or wrote letters expressing that opinion. However, even for these customers, there is not enough information to know how they would react to a rebalancing outcome which would reduce some rates and increase others. Presumably, most customers would favor lower bills and would be indifferent to bills of the same level or slightly higher.

Rebalancing is a complex issue which does not lend itself to close examination during a public hearing. As such, the Commission should view the public comments in light of the demonstrated importance of the total bill (rather than just the basic local service rate) to customers, and should also closely consider the benefits for particular customer segments - such as low income and minority groups - that are likely to occur if toll and ancillary service prices come down.

**VOICE-GRADE, FLAT-RATE RESIDENTIAL LOCAL EXCHANGE SERVICE**

<i>Recurring</i>		<b>Monthly Cost</b>			
<b>Rate Group</b>		<b>BellSouth</b>	<b>GTE</b>	<b>Central</b>	<b>Sprint</b> <b>United</b>
	1	\$47.79	\$64.95	\$48.26	\$41.10
	2	\$58.47	\$32.82	\$57.84	\$30.40
	3	\$39.63	\$34.24	\$42.57	\$25.66
	4	\$33.51	\$30.47	\$39.15	\$23.74
	5	\$33.16	\$27.73	\$17.41	\$18.98
	6	\$28.72	N/A	\$26.40	\$17.85
	7	\$26.93	N/A	N/A	N/A
	8	\$24.18	N/A	N/A	N/A
	9	\$24.82	N/A	N/A	N/A
	10	\$23.87	N/A	N/A	N/A
	11	\$24.23	N/A	N/A	N/A
	12	\$21.40	N/A	N/A	N/A
<b>Average of All Rate Groups</b>		\$25.25	N/A	\$31.40	\$23.84
				Sprint State Average:	\$25.21

**Table I - Summary of Public Hearing Comments**

<b>LOCATION/DATE</b>	<b>WITNESS</b>	<b>REPRESENTING</b>	<b>TYPE OF COMMENT/COMPLAINT</b>
WPB - 08/25/98	Scott Sherman	Res End User (Minister)	Other - Small business, churches, synagogues and social service agencies (non-profit) are paying 2-1/2 times more for basic services than residential consumer; competition should be used as a tool in balancing rates charged (business rates vs. residential rates); Feels small businesses and social agencies are subsidizing residential consumers; Does not believe competition of long distance carriers has been a benefit; Feels competition in cellular has been beneficial; Feels basic local rate is a real bargain.
WPB - 08/25/98	Dennis Grady	President of Chamber of Commerce of the Palm Beaches	Other - feels business rates are subsidizing residential rates; Believes cellular competition has been beneficial to consumers; Balance of costs vs. choice and quality of services needed; Feels basic local rate is a bargain.
WPB - 08/25/98	Sally Kanter	Res End User	Supports Lifeline/Linkup programs; Other - Wants fair and reasonable rates; Big business v. subsidized callers.
WPB - 08/25/98	Bob Marx	President of Reed Robert's Marketing Communication	Other - Feels businesses are subsidizing others; Supports Rate Rebalancing; Recognizes value of competition; Suggests bundling of services vs. subsidizing; Feels quality of services and customer satisfaction is good; Feels local service rate is a bargain.
WPB - 08/25/98	William "Bill" Kollmer	Res End User and Small Business Owner	Other - Supports rate rebalancing; Feels small businesses should not subsidize other customers; Feels local service rate is a bargain.
WPB - 08/25/98	Max Davis	Member of Chamber of Commerce of the Palm Beaches, Business Owner and Res End User	Other - problem with business phone bill vs. residential phone bill; Feels competition has helped reduce his business phone bill; Feels local service rate is a bargain.
WPB - 08/25/98	Bernard Gilberg	Res End User	Long Distance Complaint re: excessive directory assistance charges; Other - Believes businesses (BST) are entitled to a fair profit; Comments on earnings vs. taxes paid by BellSouth; Feels local service rate is a bargain; fully satisfied with BellSouth service; States businesses do not pass their savings on to consumers.
WPB - 08/25/98	Arnold Halperin	President of Lake Worth West Democratic Club, d former Business Owner and Res End User	Expanded Area Calling (supports 25¢ calls within Florida); Other - Opposes local service competition; States businesses have subsidy and tax write-offs available.
WPB - 08/25/98	Milton Kleinman	Res End User	Supports LifeLine/Link Up Programs; Expanded Area Calling (supports 25¢ calls within Florida); Other - Feels local basic rates are reasonable; Receives good service from long distance carrier; Disagrees with theory of subsidies of business v. residence; Victim of Slamming; Victim of Cramming.

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
WPB - 08/25/98	Monte Belote	Res End User (former director of Fla. Consumer Action Network)	Opposes Increase in Local Rates; Supports LifeLine/Link Up Programs; Other - Opposes pay phone rate increase; Feels BST provides good service; Against rate rebalancing; Feels 3-way calling rate is excessive.
WPB - 08/25/98	Robert Halperin	Res End User	Surcharges/Taxes on Bill; Supports LifeLine/Link Up Programs; Long Distance Complaint re: excessive directory assistance charges; Other - Appreciative of 1-800 number of FPSC -- no 1-800 number for FCC.
WPB - 08/25/98	Wendy Dohanian	Res End User	Opposes Increase in Local Rates; Surcharges/Taxes on Bill.
WPB - 08/25/98	Walter Lipiner	Res End User	Opposes Increase in Local Rates.
Miami - 09/04/98	Dennis J. Griffis, Jr.	Res End User	Opposes increase in local rates; Surcharges/Taxes on bill; Other - Interest re: late payment on phone bills; Hold button; Inability to communicate with a live person; Supports separation of costs b/w residential and business; Feels competition would make local rates lower.
Miami - 09/04/98	Arnold Velazquez	Res End User	Other - feels residents will pay higher rates if outside competitors are allowed into the market; feels business rates should be reduced to benefit residential rates; home owner vs. business owner; Subsidies and balance should be fair and equitable
Miami - 09/04/98	Maggie Mustelier	Res End User and AARP	Opposes increase in locate rates; Other - Opposes increase in long distance rates; Supports new competitors in local market; residential v. business.
Miami - 09/04/98	Robert "Bob" Kuehneisen	Res End User	Long Distance Complaint - states he has no choice in opting out of long distance service and fees; Surcharges/Taxes on bill.
Miami - 09/04/98	Terry Cuson	President and CEO of North Dade Regional Chamber of Commerce; Vice Chairman of Dade Coalition of Chambers of Commerce; Res End User	Other - Supports rate rebalancing; residential line subsidies vs. businesses penalized; Against telephone welfare; Equitable rates for residents and businesses; Revenue neutral.
Miami - 09/04/98	Arline Broleman	President and CEO of Hialeah-Miami Springs Northwest Dade Chamber	Other - Supports rebalancing of rates (small business owner v. home owner).
Miami - 09/04/98	Jose Molina	Res End User	Supports Lifeline/Linkup Programs; Other - Supports subsidies for senior citizens; Supports restructuring and rebalancing of rates.
Miami - 09/04/98	Barbara Gaynor	President of small non-profit organization, Mothers' Voices	Other - Supports rebalancing of rates (fair and equal); Feels it is unfair for a small non-profit organization to pay same business rates as a major corporation; No separate delineation for non-profit organizations.

<b>LOCATION/DATE</b>	<b>WITNESS</b>	<b>REPRESENTING</b>	<b>TYPE OF COMMENT/COMPLAINT</b>
Miami - 09/04/98	Monte Belote	Res End User (former director of Fla. Consumer Action Network)	Opposes increase in local rates; Other - States BellSouth needs to open up local service to real competitors; Feels rate rebalancing only means more profits for BellSouth.
Miami - 09/04/98	Mario Arus	Executive Director for Hialeah Dade Development (non-profit org.)	Other - Excessive telephone rates; States home businesses pay a different rate than residential, even out-of-home businesses.
Miami - 09/04/98	Joe Garcia-Rios	Res End User and business owner, The Trading Room	Other - Unfair and inequitable telephone bill rates (residential v. business); telephone rates vs. manpower charges (i.e. installation of an ISDN phone line - manpower hours)
Miami - 09/04/98	Marty Jacobsen	Res End User	Long Distance Complaint (service and rates); Other - Home based business rates v. residential line rates (unfair and unequitable).
Miami - 09/04/98	G. Abrams	Res End User	Surcharges/Taxes on bill; Other - Feels PSC is part of the problem, since they are appointed and not elected; Scam of telephone resale vendors using the names "I Don't Care, It Makes No Difference;" Opposes second line and proposed AT&T surcharges; Opposes surcharges for socially correct funds (wire schools to computers).
Miami - 09/04/98	Charles Brooks	Res End User	Other - Slamming or scamming the public with unauthorized services and charges; Third party billing policy; Taxation without representation; Charges for services not used (specifically AT&T).
Miami - 09/04/98	Ralph Gonzalez	Res End User	Surcharges/Taxes on bill; Long Distance company charges; Other - Lines for local use v. long distance (still have to pay toll charges for both).
Miami - 09/04/98	Jerome Reisman	Res End User (Attorney)	Other - Opposes business phones subsidizing residential phones; Feels differentiation should be made between subsidizing those in need vs. those who don't need it.
Miami - 09/04/98	Mrs. Walter Hirsch	Res End User	Other - Against telemarketers calling her home at all hours and automatic dialers.
WPB - 10/19/98	Jeanette Mueller	Member of several non-profit organizations and Res End User	Other - Supports an increase in local residential rates.
WPB - 10/19/98	Cathy Lieber	Executive Director of Palm City Chamber of Commerce; Small Business Owner and Res End User	Other - Supports equitable rate rebalancing between business and residential.

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WPB - 10/19/98	Joe Negron	Res End User (Attorney)	Other - Supports BST's commitment as a company to its employees and families; Feels prices should reflect actual costs + reasonable profits; Supports equitable rates between business and residential; Feels affluent residents can pay a higher rate to help subsidize small businesses; Enhanced competition will lower residential costs.
WPB - 10/19/98	Sally Kanter	Res End User	Opposes Increase in Local Rates; Supports LifeLine/Link Up Programs; Supports Expanded Area Calling (25¢ rate); Other - Telephone repair calls not answered or completed in a timely manner.
WPB - 10/19/98	Mary Shaw	Res End User (former BST employee)	Supports Expanded Area Calling; Other - Against inequitable or subsidy rates; Feels the burden of unprofitable customers should be shared in the telecommunications market; rural areas to be served as fairly as other areas.
WPB - 10/19/98	Steven Reiskind	Res End User and Small Business Owner	Other - Equitable costs for business and residential.
WPB - 10/19/98	Edith Cowan	Res End User	Opposes Increase in Local Rates; Other - Equitable costs; Suggestion of a tiered telephone bill system for small businesses vs. big businesses.
WPB - 10/19/98	Joyce Malone	Florida Citizens For A Sound Economy ("CSE")	Other - Supports deregulation to rebalance Florida's telephone rates; Supports competition in market to enhance local residential telephone service; States residential consumers have no choice in local basic service; Incumbent providers will lose money on basic service to residents if there is no competition.
WPB - 10/19/98	Marc Spiegel	Res End User and Small Business Owner (Home)	Other - Supports rate rebalancing; Supports competition and choices of local service providers.
WPB - 10/19/98	Jack Horniman	President of J.L.H. Assoc. (Small Business Owner) and Res End User	Other - Supports equity and fairness in pricing of service (business v. residential); Supports rate rebalancing.
WPB - 10/19/98	Gigi Tylander	Tylander's Office Supply and Res End User	Supports LifeLine/Link Up Programs; Other - Supports equitable prices; Opposes businesses subsidizing residential service.
WPB - 10/19/98	Bruce Daniels	AARP and Small Business Owner	Opposes Increase in Local Rates.
WPB - 10/19/98	Wayne Grau	Small Business Owner	Supports LifeLine/Link Up Programs; Other - Supports equitable rates; Supports higher rates for businesses vs. residential; Supports opening up local market to competition to reduce costs.
WPB - 10/19/98	Tim Snow	President of Non-Profit Organization	Supports LifeLine/Link Up Programs; Other - Supports rate rebalancing.

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
Pensacola - 9-9-98	Thomas Carter	Pensacola Chamber of Commerce & First American Bank	<ul style="list-style-type: none"> <li>- Supports equitable rates for all services</li> <li>- Opposes business subsidization of residential service</li> <li>- Bus. rates 3 times the cost of residential</li> <li>- If rates are raised, the funds should be set aside to offset the higher rates that medium and small businesses are paying</li> </ul>
Pensacola - 9-9-98	L. H. Haynes, Jr.	Res End User and Bus User	<ul style="list-style-type: none"> <li>- Opposes increase in any service rates</li> <li>- Opposes subsidization, costs should be based on value</li> </ul>
Pensacola - 9-9-98	Shirley Furr	Res End User	<ul style="list-style-type: none"> <li>- Disapproves of automated B. O. response line vs. live intercept when dealing with the telephone company</li> <li>- Long distance companies provide an immediate response</li> <li>- Telephone bill should contain an explicit explanation of charges</li> </ul>
Pensacola - 9-9-98	Anne Bannett	Res End User	<ul style="list-style-type: none"> <li>- Current telephone book is difficult for people with disabilities to handle</li> <li>- Separate the Yellow from White, or combine White with White and Yellow with Yellow</li> </ul>
Pensacola - 9-9-98	Terry Ausborn	Res End User	<ul style="list-style-type: none"> <li>- Disapproves of automated B.O. response line vs. live intercept</li> <li>- Slow response from svc. rep. when providing answers, and the answers provided are inadequate</li> <li>- Disapproves of billing format</li> <li>- Explanation from BST, FCC, FPSC or Congressman Scarborough regarding FCC charges were inadequate</li> <li>- Opposes FCC charges being passed to customer by long distance carriers - he does not have long distance on one of his lines</li> </ul>
Pensacola - 9-9-98	Ralph Fenn	CWA - Local 3109	<ul style="list-style-type: none"> <li>- CWA seeks PSC support to protect universal service and ensure that customer service provisions are adequate for customer's needs</li> <li>- CWA supports LifeLine</li> <li>- BST trains their employees to enable them to respond to customer inquiries regarding their service</li> </ul>
Pensacola - 9-9-98	Jim Johnson	Res End User & Bus. User	<ul style="list-style-type: none"> <li>- Opposes the large difference in residential vs. business rates</li> </ul>

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
Pensacola - 9-9-98	Donna Peoples	Pensacola Cultural Center	<ul style="list-style-type: none"> <li>- Their non-profit charitable organization is classified as a business</li> <li>- Nonprofit corporations should be charged somewhere between the residential and business rates to allow the funds to flow to the community</li> </ul>
Jacksonville - 9-8-98	Steve Linbaugh	Res End User	<ul style="list-style-type: none"> <li>- EAS issues - he resides just outside of Jax. - toll calls required</li> <li>- No rate break by long distance carriers in FL</li> <li>- Would choose carrier with greater local calling area &amp; pay greater price</li> <li>- Subscribers moving to cellular to replace residential service</li> <li>- Offer basic service with no frills</li> </ul>
Jacksonville - 9-9-98	Keith Graves	Res End User	<ul style="list-style-type: none"> <li>- Opposes business subsidization of residential service</li> </ul>
Jacksonville - 9-9-98	Tony Trotti	Res. End User & Bus User	<ul style="list-style-type: none"> <li>- Opposes the large difference in residential v. business rates</li> <li>- Businesses are billed 3 times the residential rate</li> <li>- More business is being conducted on residential lines</li> </ul>
Jacksonville - 9-9-98	Jan Roberson	Bus User - Owner of Specialties, USA	<ul style="list-style-type: none"> <li>- Opposes the large difference in residential vs. business rates</li> </ul>
Jacksonville - 9-9-98	Stephen Zaricki	Communities In Schools of Jacksonville	<ul style="list-style-type: none"> <li>- Provide reduced rates for nonprofit organizations</li> </ul>
Jacksonville - 9-9-98	Monte Belote	Former. Dir. of Florida Consumer Action Network	<ul style="list-style-type: none"> <li>- There is no competition for local telephone service</li> <li>- What happened to the items promised by the change in the law in 95'?</li> <li>- BST is a good example of telephone corporate welfare</li> <li>- Why should local customers be required to pay for BST's corporate decisions, such as airplanes, offices in Hong Kong, etc.</li> <li>- Opposes raising residential rates</li> </ul>
Jacksonville - 9-9-98	Dr. William Scott	State Department of Elderly Affairs & AARP	<ul style="list-style-type: none"> <li>- Opposes increase in residential rates for poor or elderly customers</li> <li>- Telephones are a necessity</li> <li>- Establish exception rate for poor, elderly &amp; sick</li> </ul>

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
Jacksonville - 9-9-98	William Price	Bus User	- Opposes business subsidization of residential service
Jacksonville - 9-9-98	John Howey	Res End User	- Opposes increase in residential rates for elderly customers
Ft. Lauderdale - 9-3-98	Abe Asofsky	City Commissioner on behalf of City of Coconut Creek & Volunteer for AARP	- Opposes increase in residential rates - Geographical boundaries for local calls should be expanded
Ft. Lauderdale - 9-3-98	Jack Tobin	Legislator	- Tobin has worked with commissioners in the past - Basic telephone service is a necessity - Universal service should be available to all residents - LifeLine participants should not be allowed to add extra services
Ft. Lauderdale - 9-3-98	Ruth Forbes	A State Legislative Committee of AARP	- Opposes business subsidization of residential service
Ft. Lauderdale - 9-3-98	Representative Wasserman-Schultz		- Public should be made aware the PSC is going to do objective studies - Citizens have not called him to complain that rates are too high - Rate rebalancing should not result in increase in residential rates - Access charges should come down
Ft. Lauderdale - 9-3-98	Debra Bush	Bus User - Telephone Corporation	- Opposes business subsidization of residential service - Supports Lifeline - Universal service should fund Lifeline - Lower access charges to promote competition - Mandate that prices must reflect the actual cost to provide service - Force local telephone companies to provide true picture of cost of services - Force telephone companies to fully explain charges appearing on bills - FCC charges have increased the cost - There should be a differentiation for charges when dialing up Internet service vs. regular service
Ft. Lauderdale - 9-3-98	David Rush	Res End User and Bus User	- Opposes business subsidization of residential service
Ft. Lauderdale - 9-3-98	Gary Arenson	Res End User and Bus	- Opposes general subsidization

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		User	- Everyone should pay fair share for services, except the needy
Ft. Lauderdale - 9-3-98	Ron Klein	State Senator	- Public needs understanding of the components of resident services and business service - There is little competition in the local telecommunications market
Ft. Lauderdale - 9-3-98	Steve Queior	President of the Greater Fort Lauderdale Chamber of Commerce	- Supports rate rebalancing - Opposes business subsidization of residential service - Supports lowering small business rates which will enable them to possibly increase and/or retain jobs
Ft. Lauderdale - 9-3-98	Charles Seitz	Red End User and Bus User	- Telephone rates are unfair and reasonable - Solution is competition - he changed to a competitor (cable company) and receives a better rate - Companies are not going to compete for the \$10.00 residential line - The residential rate is inadequate and the business rate is inflated - Understands the necessity of the Lifeline program
Ft. Lauderdale - 9-3-98	Michael Largely	Bus User	- Rebalance rates to ensure that businesses pay only their fair share of the cost - A comparison of the cost of service to businesses in Florida vs. other states should be done for use with competition related issues
Ft. Lauderdale - 9-3-98	Donald Braun	Res End User	- Opposes FCC charges - the access charges passed by long distance carriers - He does not make any long distance calls - Not eligible for the LifeLine program because handicapped and disabled veterans are not included
Ft. Lauderdale - 9-3-98	Lynn Delorenzo	Res End User and Bus User	- Opposes business subsidization of residential service - Competition is based on inflated rates to compensate for the subsidization
Ft. Lauderdale - 9-3-98	Steve Wolfman	Res End User	- Supports Lifeline - More businesses are operating from residences - In the future the phone company is going to need to offer optional rates

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
			because this will be its revenue base.
Ft. Lauderdale - 9-3-98	Milton Kleinman	Res End User	<ul style="list-style-type: none"> <li>- EAS issues - uniformity is needed when dialing from one area code to another</li> <li>- Calls should either be considered long distance or local, not both combined in the same area code</li> <li>- He was slammed</li> </ul>
Ft. Lauderdale - 9-3-98	Conrad Walters	Res End User	<ul style="list-style-type: none"> <li>- Spends hours trying to reach the right person at BST to complaint about a bill</li> <li>- Waiting for the competition that was suppose to result from the new law</li> <li>- BST service reeks</li> <li>- Opposes automated system for 411 calls</li> <li>- Opposes business subsidization of residential service</li> </ul>
Orlando - 9-24-98	Roy Pooley	Chairman - State Legislative Committee of AARP	<ul style="list-style-type: none"> <li>- At hearings last year, the officers of BST could not answer questions regarding the cost of serving residential &amp; business customers</li> <li>- They had no idea why BST was asking for a rate increase</li> <li>- BST's profits from vertical service is obscene - \$9,000%</li> <li>- Elderly people would find an increase in rates difficult</li> </ul>
Orlando - 9-24-98	Valerie Hikey-Patton	Res End User	<ul style="list-style-type: none"> <li>- Opposes increase in residential rates</li> <li>- Elderly people need the phone, teenagers also benefit from the use of the phone</li> </ul>
Orlando - 9-24-98	Paul Holmes	Res End User	<ul style="list-style-type: none"> <li>- Opposes rates increases in residential service, especially for the elderly because the phone is a necessity</li> </ul>
Orlando - 9-24-98	David Wright	Res End User and Bus User	<ul style="list-style-type: none"> <li>- Competition has provided greater value, increased the variety of products available to the consumer</li> <li>- Business subsidization of residential customers is not logical or reasonable</li> <li>- There will be more competition for vertical services</li> <li>- Supports subsidization for the poor &amp; needy, like LifeLine</li> <li>- There is a need to increase competition</li> <li>- In order to attract competitors, they need a reasonable rate of return</li> </ul>

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Orlando - 9-24-98	Gary Earl	Ex. Dir. - Jobs and Education Partnership and Local Wages Coalition	<ul style="list-style-type: none"> <li>- Supports subsidization for specific groups, the poor and needy</li> <li>- Need to reduce the disparity and subsidization from one group to another</li> <li>- Institute a universal measure to determine the ability of a consumer to pay for telephone service - i.e., income tax returns</li> </ul>
Orlando - 9-24-98	Tyler Weisman	Res End User	<ul style="list-style-type: none"> <li>- Would like EAS applied to the city of Winter Springs</li> <li>- Willing to pay higher rate to have access to those areas</li> <li>- BST offers LATA-wide program</li> <li>- Disapproves of BST application of terminology in determining rates, i.e., "home office" is considered business and "residence office" is considered residential</li> <li>- The existing tariff covering call forwarding needs to be addressed to include digital service</li> </ul>
Orlando - 9-24-98	Aaron Kaufman	Res End User	<ul style="list-style-type: none"> <li>- Charge for installation of residential telephone jack was excessive</li> <li>- Bill format should be changed to 8 x 11 to facilitate ease in reading</li> <li>- Opposes FCC charges - also difficult to understand</li> <li>- Understands subsidization</li> <li>- Concerned about slamming - customer has to pay the long distance charges incurred when attempting to identify the name of the company that did the slamming, if that company operates out of the state</li> </ul>
Orlando - 9-24-98	Rex Toi	Res End User	<ul style="list-style-type: none"> <li>- There should be symmetry between telephone companies and the services they provide, such as EAS service issues</li> <li>- Companies should provide the same services, i.e., unlimited, undocumented 25 cent calls</li> <li>- There is no need for a phone company to track the number of 25 cent calls</li> <li>- He has not witnessed any local competition - would like competition</li> <li>- There should be a bill insert containing a list name and telephone of local competing telephone companies in the state</li> </ul>
Orlando - 9-24-98	Monte Belote	Previously associated with the Florida Consumer Action	<ul style="list-style-type: none"> <li>- Applauds 1994 rate reduction</li> <li>- BellSouth is still the monopoly player</li> <li>- Opposes increase in rates</li> </ul>

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
		Network	<ul style="list-style-type: none"> <li>- Opposes universal service charges</li> <li>- Unfair for customers to have to pay for BST's skyscrapers in Jax., an airport for Lacher's use, image advertising, etc.</li> <li>- Supports mandatory enrollment for Lifeline and LineUp</li> <li>- Provide a telephone with no frills</li> <li>- Continue aggressive enforcement of slamming and cramming</li> <li>- Provide an explanation of the method of calculating the taxes or fees on telephone bills</li> </ul>
Orlando 9-24-98	Ed Paschall	Res End User (AARP)	<ul style="list-style-type: none"> <li>- Opposes the subscriber line charge being a separate line item, should be included in the residential rate</li> <li>- Business rates are higher than residential due to volume of calls a business generates, and businesses can deduct the phone service from their taxes</li> </ul>
Orlando 9-24-98	Roy Pooley	Res End User	<ul style="list-style-type: none"> <li>- Our country has the best, most efficient and probably cheapest telephone service</li> <li>- Opposes the concept of forwarding cost when analyzing the cost of telephone service and competitive telephone cost</li> <li>- When competition takes hold, it will lower rates</li> <li>- There is a dollar value, under tax reductions, for business customers that does not exist for residential customers</li> <li>- MediaOne is providing local service in Jax. at considerably less cost than BST</li> </ul>
Sarasota - 9-10-98	Alan Mulhall	AARP	Strongly opposes increase in local rates
Sarasota - 9-10-98	Clarence Brien	Res. End User	Opposes GTE's inside wire maintenance rate increase
Sarasota - 9-10-98	Earl Blackburn	Res. End User	Wants county-wide calling
Sarasota - 9-10-98	Graydon Thompson	Res. End User	Recommends all end users to initiate PIC freezes
Sarasota - 9-10-98	Geraldine Swormstedt	Res. End User	Dislikes paying more for intrastate than interstate calls
Sarasota - 9-10-98	Fred Tomaski	Fl. Consumer Action Network	Opposes increase in local rates
Sarasota - 9-10-98	Kerry Kirschner	Executive Director-Argus Foundation	Establish a USF that every telecommunication provider pays in to
Sarasota - 9-10-98	Monte Belote	Res. End User (former director of Fla. Consumer	Telephone service is declining cost industry; don't increase rates

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
		Action Network)	
Sarasota - 9-10-98	Mary Quillen	Res. End User	Service connection NRCs too high; pay phones too high; wants truth in advertising; service issues when rains
Sarasota - 9-10-98	King McDonald	Res. End User	Reviewed info in library, issues are local service, which with taxes total \$16.78, not all the ancillary services.
St. Petersburg - 9-23-98	Mort Zimble	Res. End User	Opposes business rates for fire alarm and elevator telephones in residential condo units
St. Petersburg - 9-23-98	Albert Burkhardt	Res. End User	Opposed increase to local rates, which in effect is also tax increase
St. Petersburg - 9-23-98	Gonzales Ortez	Res. End User	Taxes on bill; ECS local detail issues
St. Petersburg - 9-23-98	Joe Gioe	Res. End User	Taxes on bill; believes Commissioners should be elected
St. Petersburg - 9-23-98	Joe Blaber	AARP volunteer	Keep basic rates as low as possible; executive summary not in library and was unsuccessful in obtaining from GTE; had to get from PSC; believes Lifeline a good plan
St. Petersburg - 9-23-98	Stephen Fellner	Res. End User	Taxes on bill; opposes any increase in basic service rates; supports electing Commissioners
St. Petersburg - 9-23-98	Robert Stano	Res. End User	Wants PSC to determine rates not Legislature; had problems with GTE's insert with ad; doesn't believe should compare other states rates
St. Petersburg - 9-23-98	Ernie Bach	Res. End User	Competition has not developed as promised in 1995
St. Petersburg - 9-23-98	Lois Herron	AARP	Every citizen has a right to basic residential service, it's a necessity
St. Petersburg - 9-23-98	Dick Holmes	Res. End User	Need lowest possible rate; not feasible to compare other states without also examining calling scopes
St. Petersburg - 9-23-98	Joe Brinton	Res. End User	Opposes taxes, especially Gross Receipts Tax
St. Petersburg - 9-23-98	Rosette Walsh	President - Fl. Consumer Action Network	Opposes IXCs named "I Don't Care" and "It Doesn't Matter"; no rate increases without review of accurate cost information; taxes on bill
St. Petersburg - 9-23-98	Arthur Herbert	Res. End User	Increases should not exceed 15%, based on Commission's access to cost info.
St. Petersburg - 9-23-98	Rose Marie Gasser	Res. End User	Intrastate calls higher than interstate; competition should mean lower prices; increases must be cost justified, and PSC shouldn't forget minimal social security cost of living increases.
St. Petersburg - 9-23-98	David Goodwin	Chosen Commun. Services; Res. End User	Need more cooperation from ILECs for effective competition; slamming and taxes on bill
St. Petersburg - 9-23-98	Matt Nolte	Res. End User	Slamming
Tampa - 9-23-98	Adam Smith	Tampa Chamber of Commerce	Role of government should be to assure consumers receive full benefits of competition while universal service goals maintained

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
Tampa - 9-23-98	Jay Lasita	St. Petersburg City Council	Doubling basic phone rates is tantamount to doubling a tax; opposes increase; believes it was mistake to remove rate-of-return regulation in 1995 until competition in place
Tampa - 9-23-98	Senator Tom Lee		Issues are extraordinarily complex; make sure in the long term that competition exists in Fl and that it does result in not just less expensive service, but better service and, most importantly, fair and equitable service for entire state
Tampa - 9-23-98	Marilyn Smith	Res. End User	Phone necessity for security and safety; resents phone company selling name to telemarketers and then trying to market gadgets to consumers to keep people from calling them
Tampa - 9-23-98	Vince Kudla	Res. End User	Reduce access charges; don't mind paying what something costs, but needs to be consistent between local and long distance
Tampa - 9-23-98	Monte Belote	Res. End User (former director of Fla. Consumer Action Network)	Keep current price caps; telecommunications is a declining cost industry; no need to raise rates
Tampa - 9-23-98	Al Davis	Fl. State Conference of NAACP	Phone is as essential as being able to turn on faucet to get water; doesn't like IVRUs; Fl has many seniors which can't afford increase; taxes on bill increase price of local service too much
Tampa - 9-23-98	Tom Franklin	Res. End User	Rates, if anything, should be dropped, not raised; international rates too high
Tampa - 9-23-98	Rosette Walsh	President - Fl. Consumer Action Network	Appreciates slamming rules/fines recently passed by PSC; Opposes IXCs named "I Don't Care" and "It Doesn't Matter"; no rate increases without review of accurate cost information; taxes on bill
Tampa - 9-23-98	Fred Tomaski	Res. End User (Fl. Consumer Action Network)	Opposes increase, GTE making plenty of money; many citizens won't accept the programs which qualify them for Lifeline
Tampa - 9-23-98	Barbara Merritt	Res. End User	Service issues: takes too long for repairs, delayed dial tone; call waiting ID didn't work - GTE told her to replace eqpt., finally learned not available in her central office; finds the run-around frustrating
Tampa - 9-23-98	Matt Nolte	Res. End User	Quality of service - fix it right the first time.
Tallahassee	Mary Ann Taylor	Res End User	EAS problems
Tallahassee	Anita Davis	NAACP	Support Lifeline/LinkUp
Tallahassee	Mark Comerford	Res End User	Long Distance Problems
Tallahassee	David Frank	Res End User (AARP)	Oppose increase in local rates

LOCATION/DATE	WITNESS	REPRESENTING	TYPE OF COMMENT/COMPLAINT
Tallahassee	Ed Paschall	AARP	Oppose increase in local rates
Fort Myers	SteveBraunstein	Res End User	Problems when having new service installed
Fort Myers	Scott French	AARP	Oppose increase in local rates
Fort Myers	Charles Conley	Res End User	Payment office closings, EAS problems
Fort Myers	Guthrie	Res End User	Question on fees on MCI LD bill
Altamonte	Loren Elsey	Res End User	Unhappy with divestiture; too many fees, surcharges
Altamonte	Stan Kohler	Res End User	EAS problems
Altamonte	Chip O'Neill	Res End User	Oppose increase in local rates
Altamonte	Monty Belot	(former director of Fla. Consumer Action Network)	Oppose increase in local rates
Altamonte	Dominick Gilet	Res End User	Wants alternatives to disconnect for nonpay
Altamonte	Doug Joyner	Marion County School Board	Doesn't like monthly fee for toll blocking; inside wire mtce --- Doesn't see competition - bid Marion Cty svc - no bidders
Altamonte	Gladys Zahand	Res End User	Doesn't understand bill; PIC change charges
Altamonte	Peter Glenner	Res End User	Business office closings
Altamonte	Dorothy McCall	Res End User	Slamming problem

<b>Table II - SUMMARY OF PUBLIC HEARING COMMENTS BY TYPE</b>	
<b>COMMENT/COMPLAINT TYPE</b>	<b># OF COMMENTS/COMPLAINTS</b>
Opposes increase in local rates/rates already too high	43
Supports rate re-balancing/business rates should not subsidize residential rates	37
Phone service necessity; need to ensure affordable rates; support of Lifeline/LinkUp programs	18
Other	71

<b>Table III - SUMMARY OF PUBLIC HEARING COMMENTS BY TYPE</b>	
<b>COMMENT/COMPLAINT TYPE</b>	<b># OF COMMENTS/COMPLAINTS</b>
Opposes increase in local rates/rates already too high	43
Opposes increase in inside wire maintenance plan	1
Surcharge/taxes on bill	18
Expanded area calling	9
Long distance complaint	10
Slamming/Cramming/Telemarketers	8
Service Issues	9
Competition has not developed as promised	10
Phone service necessity; need to ensure affordable rates; support of Lifeline/LinkUp programs	22
Problems with finding info at libraries/bill inserts	2
Establish Universal Service Fund that all telecommunications providers pay into	2
Supports rate re-balancing/business rates should not subsidize residential rates	37
DA Problems	1
Don't discourage future telecommunications infrastructure investments	1

**Table IV**

<b>Categorization of Customer Correspondence</b>	<b># of Letters</b>
<b>Access Fees/Internet fees/Taxes/Surcharges</b>	<b>180</b>
<b>Vacation Service (rate high, NRC high, access, surcharge)</b>	<b>28</b>
<b>IntraLata toll too high</b>	<b>9</b>
<b>Payment Office Closed/No Office Available</b>	<b>11</b>
<b>Expanded local calling - Problems and requests</b>	<b>49</b>
<b>Can not understand bill</b>	<b>11</b>
<b>Affordability/Value of service (Rates too high - Don't want any increases)</b>	<b>199</b>
<b>Touch-tone, inside wire maintenance too high</b>	<b>17</b>
<b>Long distance Complaint/Rates too high/Incorrect billing</b>	<b>20</b>
<b>Slamming/Cramming</b>	<b>11</b>
<b>DA rates too high</b>	<b>10</b>
<b>DA problem</b>	<b>1</b>
<b>Local rates higher than where moved from</b>	<b>4</b>
<b>Elderly shouldn't have to pay late fee</b>	<b>1</b>
<b>Wants information on this study</b>	<b>5</b>
<b>Payphone Complaint - Billing/Rates/Inmate payphones</b>	<b>7</b>
<b>Want to maintain flat rate local service</b>	<b>4</b>
<b>Service complaint/Repair problems</b>	<b>11</b>
<b>NRC charges too high</b>	<b>9</b>
<b>Want companies to have both flat rate and measured svc</b>	<b>3</b>
<b>Letters in Spanish</b>	<b>3</b>
<b>Local Billing concerns/due dates/format of bill</b>	<b>7</b>
<b>Would like choice for local service</b>	<b>5</b>
<b>Wants Information on PSC survey</b>	<b>1</b>
<b>Public Hearing Notice not Timely received</b>	<b>15</b>
<b>Complaint on Cell Phone rates</b>	<b>1</b>
<b>Opposes competition for local service</b>	<b>1</b>
<b>LifeLine Questions/No features should be allowed</b>	<b>2</b>