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23

HOUSE COMMITTEE REPORT

(7)

Date referred: 3/4/87

FURTHER REFERRALS:

DATE: 3/10/87

The Labor & Commerce Committee has considered HB 23

"An Act relating to reduced rates and discounted service for low-income telecommunications customers."

RECOMMENDS:

- replace with CS HB 23 (TELECOMMUNICATIONS) the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(S):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING DO PASS:

Dave Douley

Ellis

Scott

Ed. B.

SIGNING OTHER RECOMMENDATIONS:

Walt

Dave Douley
Chairman's signature

HOUSE COMMITTEE REPORT

3/4

(5)

Date referred: 1/19/87

FURTHER REFERRALS:

Labor & Commerce

DATE: 2/26/87

The House Special Committee on Telecommunications Committee has considered HB 23

"An Act relating to reduced rates and discounted service for low-income telecommunications customers."

RECOMMENDS:

CSNB 23 (Jelle)

- replace with CS FOR HOUSE BILL 23 TELE the same title
- attached amendment(s) a new title
- do pass
- do not pass
- no recommendation
- individual recommendations
- additional referral to the _____ Committee

ADOPTS: _____ letter of intent

ATTACHES NEW FISCAL NOTE(s):

- fiscal impact same as previous fiscal note published _____
- zero fiscal note same as previous zero fiscal note published _____
- zero with analysis

SIGNING TO PASS:

SIGNING OTHER RECOMMENDATIONS:

no rec
no rec

[Signature]

 Chairman's signature

CS HB 23

CHANGES MADE BY COMMITTEE SUBSTITUTE

The word, "initiate" in lines 12 and 21 of HB 23 was changed to "propose".

The effect is to prevent a telephone company from initiating a discounted service program without a review of the program by the Alaska Public Utilities Commission. A discounted service to some rate payers could result in an increase in rates to the other rate payers. A review by the APUC of a proposed discounted rate program will prevent unreasonable rate burdens being placed on telephone customers who do not receive the discounted rate.

HB 23: Telecommunications "Lifeline Services."

The Alaska Public Utilities Commission supports this bill with the following amendment: lines 12 and 21 change "initiate" to "propose."

The Commission believes that it should have the authority to review discounted rates and the recovery of those rates. The proposed change would clarify the Commission's authority to review utility proposals.

There is no fiscal impact associated with this bill.



J. Anthony Smith, Commissioner

DATE: March 9, 1987

Summary of FCC "Lifeline" Decision

On November 23, 1984 the Federal Communications Commission released CC Docket No. 78-72 relating in part to "Lifeline Services." (Following this summary is an excerpt of that decision).

Basically, what the FCC has said is that individual states may, at their discretion, design and implement lifeline programs. The FCC will forgive up to 50% of the subscriber line charges for low income subscribers.

To take advantage of this decision, the state is responsible for defining a low income subscriber and making sure that applicants to the program meet that definition. Further the state is responsible for designing into their program a way for the state to match the FCC's 50% reduction.

It should be stressed that this is entirely voluntary for the individual states. They do not have to participate, but if they choose to they must meet the foregoing responsibilities.

**STATE OF ALASKA 1987 LEGISLATIVE SESSION
FISCAL NOTE**

REQUEST: _____

Bill Version: HB 23
Publish Date: _____

Revision Date: _____
Title: "An Act relating to reduced rates & discounted service for low-income tele. customers"
Sponsor: _____
Requester: Becky Bear

Agency Affected: Dept. of Commerce & Econ. Dev.
BRU: Alaska PUBLIC UTILITIES Commission
Components: _____

EXPENDITURES/REVENUES: (Thousands of Dollars)

OPERATING	FY 87	FY 88	FY 89	FY 90	FY 91	FY 92
PERSONAL SERVICES						
TRAVEL						
CONTRACTUAL						
SUPPLIES						
EQUIPMENT						
LAND & STRUCTURES						
GRANTS, CLAIMS						
MISCELLANEOUS						
TOTAL OPERATING	-0-	-0-	-0-	-0-	-0-	-0-
CAPITAL	-0-	-0-	-0-	-0-	-0-	-0-
REVENUE	-0-	-0-	-0-	-0-	-0-	-0-

FUNDING: (Thousands of Dollars)

GENERAL FUND						
FEDERAL FUNDS						
OTHER						
TOTAL	-0-	-0-	-0-	-0-	-0-	-0-

POSITIONS:

FULL-TIME	-0-	-0-	-0-	-0-	-0-	-0-
PART-TIME						
TEMPORARY						

ANALYSIS : (Attach a separate page if necessary)

Although implementation of this proposed legislation could result in some new filings before this Commission, the number of proceedings should be fairly minimal and would not likely result in the need for additional fiscal resources.

Prepared by: T.S. Moninski, II, Executive Director Phone: 276-6222
Division: Alaska Public Utilities Commission Date: 2/26/87

Approved by Commissioner: [Signature] Date: 2/26/87
Agency: Commerce and Economic Development

- Distribution (by preparer): [Checkmark]
- Legislative Finance
 - Legislative Sponsor
 - Requestor
 - Office of Management and Budget
 - Impacted Agency(ies)
 - Senate Secretary

RESEARCH QUESTIONS and ANSWERS

HB 23

QUESTION: How do other states handle the "lifeline" issue, and how do they pay for the subsidized low-income service?

ANSWER: Approximately 11 states currently have some type of "life-line" or low income telephone user legislation. The program is usually tied into a social service program (i.e., elderly, food stamps, disabled, etc.). The amount of the subsidy is usually in the two dollar to ten dollar range per person per month.

Some of the programs are tied into the Federal lifeline program whereby states with approved lifeline programs are forgiven up to \$1 of the current \$2 subscriber line access fee charges by the FCC. The state is then responsible for the remaining \$1. Some states have used the Federal lifeline program exclusively while others have used this and some form of taxation to recover the remaining dollar.

Another approach taken by some states is to allow low income customers the ability to spread out over several months the telephone installation charges.

EXCERPTED

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

CC
1001

In the Matter of)
)
MIS and WATS Market Structure) CC Docket No. 78-72
)
Amendment of Part 67 of the) CC Docket No. 80-286
Commission's Rules and)
Establishment of a Joint Board)

RECOMMENDED DECISION AND ORDER

Adopted: November 15, 1984; Released November 23, 1984

By the Federal-State Joint Board:

I. Introduction

A. Summary of Recommended Decision

1. The Federal-State Joint Board hereby presents its recommendations concerning: (1) the use of subscriber line charges as a means of recovering the interstate allocation of non-traffic sensitive (NTS) local exchange costs; (2) modifications to the previously adopted measures for assisting subscribers in areas where the cost of providing telephone service is unusually high; and (3) measures to assist low income households in affording telephone service. The first section of this Order summarizes our recommendations and reviews developments in these proceedings to date. The second section deals with subscriber line charges as a means of recovering the NTS local exchange costs allocated to the interstate jurisdiction. The third section concerns provisions for assisting subscribers in high cost areas. Recommendations designed to ensure that implementation of subscriber line charges does not adversely affect the ability of low income households to afford telephone service are discussed in the fourth section of the Order.

2. In general terms, we recommend that the Commission: (1) implement limited subscriber line charges for residential and single line business customers; (2) allow local companies flexibility to file optional alternative interstate tariff provisions for the recovery of carrier common line costs in order to combat bypass; (3) modify the provisions for high cost assistance to direct more aid to smaller companies and those with higher cost levels; and (4) provide the equivalent of a waiver of

exchange companies' authorized rate of return for interstate access service; now 12.75 percent, be used in calculating the level of high cost assistance. We also recommend that existing study area boundaries continue to be used for separations purposes including calculation of the level of high cost assistance. In addition, we conclude that the transition from a SPF based interstate NIS cost allocation to the new 25 percent basic allocation factor (combined with high cost assistance), should be implemented in eight annual steps rather than four as currently provided in Part 67 of the Commission's rules.

4. In addition, we recommend that the Commission adopt a two phase program for assistance to low income households. The first step would offset the effect of subscriber line charges. We recommend an optional program for a 50 percent reduction in the subscriber line charge for customers meeting a state established means test subject to verification. This revenue shortfall would be funded through the interstate carrier common line charge. States taking advantage of this assistance mechanism would be required to make an equal monetary reduction in the local exchange rate for subscribers who qualify for the subscriber line charge reduction. This reduction in local rates would be funded from intrastate sources. Implementation of this assistance measure would be at the option of the state commissions. We also recommend expedited study of broader lifeline assistance measures as the second phase of our plan. It is anticipated that the state developed means tests for the reduced subscriber line charge will assist us in developing broader lifeline measures in the near future.

B. Background

1. MTS and WATS Market Structure Proceeding

5. On December 22, 1982, the Commission adopted the Third Report and Order in the MTS and WATS Market Structure proceeding, CC Docket No. 78-72.⁸ This Order established a plan for replacing the interstate division of revenues and settlements process with a system of tariffed access charges. Under this approach, a major portion of the local loop costs allocated to the interstate jurisdiction⁹ would have been recovered

8 93 FCC 2d 241 (1983).

9 A portion of local telephone company plant investment and expenses is allocated to the interstate jurisdiction and recovered through the rates for interstate services. The remainder of these costs are allocated to the state jurisdiction and recovered through the charges for local exchange and

impact of the new allocation methodology on companies with high SPFs and average costs. Although such companies should have average local exchange rates at the end of the transition period, they will experience significant increases in their intrastate NTS cost allocation. An extended transition will give subscribers served by these companies more time to adjust to the necessary changes. Since both frozen SPF and the new 25 percent allocation factor with high cost assistance produce a similar total interstate cost allocation, extending the transition period will have little effect on the overall division of costs between the jurisdictions.

IV. Assistance for Low Income Households

A. Background

74. One objective of this proceeding is to maintain universal telephone service as identified in Section 1 of the Communications Act, 47 U.S.C. §151. In the Third Report and Order⁷¹ in the MTS and WATS Market Structure proceeding, CC Docket No. 78-72, the Commission further defined the universal service objective to mean "avoiding actions that would cause a significant number of local exchange service subscribers to cancel [telephone] service."⁷²

75. Consistent with these concerns, in the Third Report and Order, the Commission indicated that it would entertain requests for waiver of the mandatory flat subscriber line charges from carriers who wish to provide lifeline options to ameliorate the effects of these charges on low income individuals who would not be able to afford telephone service. Waiver requests were required to specify: (1) the terms and conditions which apply to lifeline service; (2) the interstate revenues which would be lost from lifeline subscribers; and (3) adjustments to other interstate charges which would be required to secure the revenues lost. The Commission also added:

[o]f course, states continue to have full authority to modify existing life line rates for local exchange telephone service or to institute such rates should they believe it is necessary to ameliorate the effects of interstate access charges.⁷³

71 93 FCC 2d 241 (1983).

72 Id. at 266.

73 Id. at 282.

76. In the Reconsideration Order, in CC Docket No. 78-72,⁷⁴ the Commission stated that it had not received any petitions for waiver and added that the petitions for reconsideration failed to provide any concrete proposals for complete or partial exemptions from subscriber line charges. The Commission further indicated, that the decision to reaffirm subscriber line charges should not be interpreted as foreclosing petitions for waiver for residential customers who cannot afford these charges.

77. Although the right to file a petition for waiver would normally be limited to the telephone companies whose tariffs are subject to the rule in question, the Commission extended the right to file waiver requests to state public utility commissions because of the public policy implications of lifeline service. The Commission also noted that in many cases states could maintain low residential rates without resort to waiver of subscriber line charges by creating local service lifeline rates that ameliorate the effects of these interstate charges.

78. In the Second Reconsideration Order in CC Docket No. 78-72 ⁷⁵ released on February 15, 1984, the Commission reported that it had received only two petitions for lifeline service waivers. Applications were received from the New York Telephone Company and the Pacific Telephone and Telegraph Company on September 28, 1983. Although no state commissions filed applications for waiver, the Commission found after review of state ratemaking proceedings that few state commissions had developed intrastate lifeline programs. The Commission also found that measured service options were not available to residential subscribers in many exchanges. Since the record in CC Docket No. 78-72 did not provide sufficient information to allow development of federal assistance mechanisms, the Commission decided to conduct supplemental proceedings to develop the necessary rules to provide an exemption from subscriber line charges for those who might otherwise be unable to afford telephone service.

79. Accordingly, the Commission requested additional comments concerning a lifeline exemption or other assistance for low income subscribers in the Further Notice of Proposed Rulemaking, in CC Docket Nos. 78-72 and 80-286,⁷⁶ released April 11, 1984. At the same time, the Commission requested that the Joint Board prepare recommendations concerning this issue. With regard to lifeline or other assistance for needy

74 48 Fed. Reg. 42984 (September 21, 1983).

75 49 Fed. Reg. 7810 (March 2, 1984).

76 49 Fed. Reg. 18318 (April 30, 1984).

subscribers, the Further Notice requested commenting parties to: (1) explain the type of assistance which they believe is needed, for example a subscriber line charge waiver; (2) define the group to receive assistance; and (3) explain how the assistance would be funded.

B. Comments

80. The commenting parties expressed general support for assistance for low income households. Thirty-five filings were received from state commissions, user groups and telephone companies. The Ameritech Operating Companies, the Cheyenne River Sioux Tribe Telephone Authority, Golden West Telecommunications Cooperative and Bell Communications Research argued that a lifeline program is not needed. They argued that subsidies cannot be maintained in a competitive environment since they increase costs in other areas, thereby distorting the competitive market. These parties also took the position that adoption of lifeline measures by the Commission at this time is premature because the states need more time to develop their own programs. They also argued that lifeline programs are too costly and administratively burdensome for telephone companies to administer.

81. The parties supporting an assistance program vary in their recommendations for: (1) the type of assistance; (2) source of funding (3) eligibility criteria; and (4) program administration. The major reason which these parties gave for supporting such programs is the need to preserve universal service and the possible adverse effect of additional costs on low income residential subscribers.

1. Type of Assistance

82. The parties filing comments propose three types of assistance: (1) a waiver or exemption from residential subscriber line charges; (2) a discount service with unlimited incoming calls and limited outgoing calls (without additional charge) or other form of measured service; and (3) direct subsidies through a public assistance program. The comments also propose a hybrid which includes a waiver of subscriber line charges and a low cost discount service.

83. A number of the commenting parties suggested intrastate plans developed in New York and California as models for other lifeline plans. The New York Telephone Company plan includes the following elements: (1) a requirement that applicants be recipients of public assistance; (2) a 50 percent discount on the charge for standard residential local exchange service; (3) untimed message service or reduced flat rate; and (4) applicant self certification.

84. The Pacific Bell plan in California includes the following elements: (1) a requirement that customers have a gross household income of less than \$11,000 per year; (2) limitation of assistance to single line

telephone service in the subscriber's principal residence; (3) customer self certification; (4) lifeline rates set at 50 percent of the local measured service rate (or flat rate) exclusive of federal end user charges; and (5) funding through a Universal Service Fund generated by a 4 percent tax on intrastate interLATA services. Pacific Bell of California proposes that interstate residential subscriber line charges be reduced by 50 percent for certified lifeline customers. It recommends funding the resulting revenue shortfall through an adjustment in the interstate subscriber line charge for all remaining business and residence customers in the study area. Those proposing some type of lifeline service indicate that customers receiving service should be restricted to receiving the lowest priced local service offering available.

2. Eligibility for Assistance

85. In defining the group eligible to receive lifeline assistance, most of the commenters stress the need to target those truly in need "who would be unable to maintain access to essential local service without some form of assistance."⁷⁷ They recommend using household income and resources as the determinant. The commenting parties suggested the following eligibility criteria: (1) qualification for existing public assistance programs including food stamps, welfare and social security; (2) a household income below the poverty line (approximately 10 percent of the population); and (3) a household income below a level set by the welfare department or state regulatory commission. Alaska suggests that the cost of living should be considered in addition to household income. AT&T argues that other financial resources available to the household should also be considered.

3. Funding of Assistance

86. There were substantial differences among the commenting parties regarding the appropriate method for funding assistance. They identified the following possible sources of funding: (1) Universal Service Fund (USF); (2) state or federal taxes; (3) customer line charges; and (4) increased public assistance funds. A number of parties indicated that if the states were given responsibility for establishing a state lifeline program, state funding would be appropriate. However, they took the position that if the Commission set guidelines, national funding either from the USF, federal taxes or a public assistance program would be appropriate. Some of the parties, citing an overall social purpose linked to universal service, indicated that there should be federal assistance through a

⁷⁷ Satellite Business Systems Direct Comments at 2.

mechanism other than from charges for other customers, exchange or interexchange carriers.

4. Administration of Lifeline Programs

87. Most of the commenting parties supported state administration of lifeline programs, with or without federal guidelines. Some parties suggested federal administration, but few suggested administration by local telephone companies. Many of the parties suggested that lifeline assistance be coordinated with current public assistance programs to reduce administrative burdens on the telephone companies. The main reason given by the parties for state administration is that state commissioners are better acquainted with the particular needs of low income subscribers within their states and can better tailor programs to meet those needs. A number of parties suggest that the states administer the programs using the model of other government entitlement programs even if federal guidelines are developed. NYNEX suggests eligibility requirements for lifeline plans be established by state officials with joint administration by the state and telephone company.

88. Some of the parties suggest a hybrid system for lifeline assistance, under which the state in conjunction with the local telephone company would have authority for a lifeline program using intrastate funds to recover state revenue shortfalls while a federal program using funds generated from interstate sources would be available for waivers of subscriber line charges.

C. Discussion

89. There is no evidence before us at this time to indicate that implementation of the limited subscriber line charges which we are recommending will harm universal telephone service.⁷⁸ However, we recognize that implementation of subscriber line charges in conjunction with the general upward pressure on local rates has generated legitimate concern regarding the protection of universal service.⁷⁹ Therefore, we are recommending implementation of a two-phase plan for dealing with these concerns. As the initial step we recommend implementation of a program to

78 For purposes of this discussion, the preservation of universal service refers to maintaining at least the existing level of telephone service penetration.

79 In this regard, we note the Commission's ongoing studies concerning the effect of federal decisions and local rate increases on consumers, and emphasize the need to continue and expand such monitoring efforts.

offset the subscriber line charge for low income households. In conjunction with this, as the second phase of the plan we recommend further study, on an expedited basis, of broader measures to assist low income households in affording telephone service.

90. We recommend that the Commission provide an optional program for a 50 percent reduction in the subscriber line charge for customers who satisfy a state determined means test which is subject to verification. The shortfall in subscriber line charge revenues resulting from the subscriber line charge reduction would be recovered through an increase in the nationwide average carrier common line charge. The states wishing to take advantage of this assistance mechanism would be required to implement an equal (monetary) reduction in the local exchange rate for subscribers who qualify for the subscriber line charge reduction. This reduction would be funded from intrastate sources. The decision to implement this joint federal-state assistance mechanism would be left to the individual state commissions.

91. We believe that this approach represents an appropriate joint federal-state response to concerns about the preservation of universal service. We believe that the eligibility criteria for assistance should be established by the individual states since they are in a better position than the federal government to assess the need for assistance and develop means tests suited to local conditions and circumstances. A single nationwide standard would not be able to accomplish this. We also recommend further study of broader assistance measures by the Joint Board as the second phase of our plan. We expect that the means tests developed by the individual states in implementing the reduced subscriber line charge will be valuable in developing broader lifeline assistance measures in the near future. Development of such eligibility criteria by the state commissions will encourage active state involvement in instituting programs for broader lifeline assistance and contribute substantially to the successful implementation of such measures.

V. Ordering Clauses

92. Accordingly the Joint Board RECOMMENDS, That the Commission adopt the attached revisions to Parts 67 and 69 of the Commission's rules.⁸⁰

FEDERAL COMMUNICATIONS COMMISSION
For the Federal-State Joint Board

⁸⁰ This recommendation is adopted pursuant to Sections 4(i) and (j), 201, 202, 203, 205, 218, 221, 403 and 410 of the Communications Act, as amended, 47 U.S.C. §§ 154 (i) & (j), 201, 202, 203, 205, 218, 221, 403 and 410.

AN ACT RELATING TO REDUCED RATES AND DISCOUNTED SERVICE FOR
LOW-INCOME TELECOMMUNICATION CUSTOMERS

INTENT

The purpose of HB 23 is to allow telecommunications utilities (e.g., telephone companies) to initiate reduced rate service to its low-income customers.

THE PROBLEM

Alaska's low income residents could find their access to basic telephone service cut off if the current evolution (i.e., deregulation and competition) of Alaska's telephone service results in an increase in intrastate service rates.

Alaska law does not permit telephone companies to offer reduced rates or discounted service to low-income customers.

CHANGES PROPOSED BY HB 23

HB 23 modifies the Alaska Public Utilities Commission Act to permit a public utility to initiate a discounted service or a reduced rate for telephone service for low-income customers.

In other words, it remove the prohibition that currently prevents reduced rates or discount service.

Note that in no way does HB 23 require telephone utilities or the Alaska Public Utilities Commission to provide discounted service.

PAST ACTION ON BILL

An identical bill (HB 539) passed the House last session, but died in the Senate State Affairs Committee due to concern over whether telephone rates were going to rise.

Note that the primary concern of this bill is the "safety net" aspects of communication -- not concern with fluctuations in the market structure.

FISCAL NOTE

Zero fiscal notes were presented by the Alaska Public Utilities Commission and the Division of Public Assistance.

POSITIONS OF AFFECTED GROUPS

Both the Alaska Public Utilities Commission and the Alaska Telephone Association support this bill.

Note that the Federal Communications Commission supports this concept.

Alascom and GCI did not testify at the hearings last session. Alascom does not have a position on this bill at this time.

HOUSE BILL #23
SECTIONAL ANALYSIS

Section 1.

Section 1 amends AS 42.05.301 by adding a new subsection (b) thus making the existing section, subsection (a). The new subsection (b) has the effect of being an exemption to subsection (a) in that a public utility may provide essential telecommunications services at a discount to low income customers. It also states that the Alaska Public Utilities Commission cannot require a public utility to provide such a service. It further says that APUC may not require a telephone utility to incur costs that are not recoverable through a tariff should the utility provide a discounted service.

Section 2.

Section 2 is essentially the same as section 1 (above), but amends AS 42.05.391 by adding a subsection (e). This subsection has the same effect as the new subsection (b) in AS 42.05.301 (Above).