

Does Florida Have a Universal Service Problem

John M. Felz

Director – State Regulatory

Presentation to the University of Florida
Public Utility Research Center
35th Annual Conference
February 6, 2008



Florida's Definition of Universal Service

- Chapter 364.025 of the Florida Statutes defines universal service as:

“an evolving level of access to telecommunications services that, taking into account advances in technologies, services, and market demand for essential services, the commission determines should be provided at just, reasonable, and affordable rates to customers, including those in rural, economically disadvantaged, and high-cost area.



Florida's Definition of Universal Service

- Chapter 364.025 of the Florida Statutes also establishes a mechanism for universal service support:

“For a transitional period not to exceed January 1, 2009, the interim mechanism for maintaining universal service objectives and funding carrier-of-last-resort obligations shall be established by the commission, pending the implementation of a permanent mechanism.”

“Prior to January 1, 2009, the Legislature shall establish a permanent universal service mechanism upon the effective date of which any interim recovery mechanism for universal service objectives or carrier-of-last-resort obligations imposed on competitive local exchange telecommunications companies shall terminate.”



Florida's Most Recent Review of this Issue

- The need for, and design of, a state universal service fund for Florida was last comprehensively addressed by the Commission in 1998-1999.
- The Commission summarized their findings and recommendations in their “Report on Universal Service and Lifeline Funding Issues” submitted to the Florida Legislature in February 1999.
- Several findings and conclusions in that report deserve another look in light of the current conditions in the highly competitive telecommunications market in Florida.



Florida's Most Recent Review of this Issue

- “As such, the problem to be faced is that competitive entry by CLECs may erode the revenue streams that currently provide substantial contribution to universal service. Where the LECs’ rates exceed costs, there is an incentive for competitors to target such lucrative high-margin services and customers. While the loss of a few customers is not critical, sufficient erosion could occur over time to undermine the viability of the existing subsidy arrangement.”
 - Quote from Page 22 of the report under the section entitled Why Universal Service Funding May Be Needed.



Florida's Most Recent Review of this Issue

- “Although the potential for a LEC to experience competitive erosion of its high-margin customers while retaining its high-cost (and perhaps priced below-cost) customer base is a real concern, the Commission has not discerned any such major impact to date.”
 - Quote from Page 27 of the report under the section entitled Potential Need for High Cost Funding



Current Market Dynamics Require Another Look at Need for an Explicit Florida USF

1. Competition for voice service that was not found to be significant in the Commission's 1999 report is now rampant.
2. Competition is most intense in the cities where the costs to serve are lower.
3. Implicit subsidies are unsustainable in a competitive environment.
4. ILEC COLR obligation requires us to serve uneconomic areas outside the cities.
5. Targeted explicit support is needed to ensure the continued ability to provide affordable universal service to high cost areas.

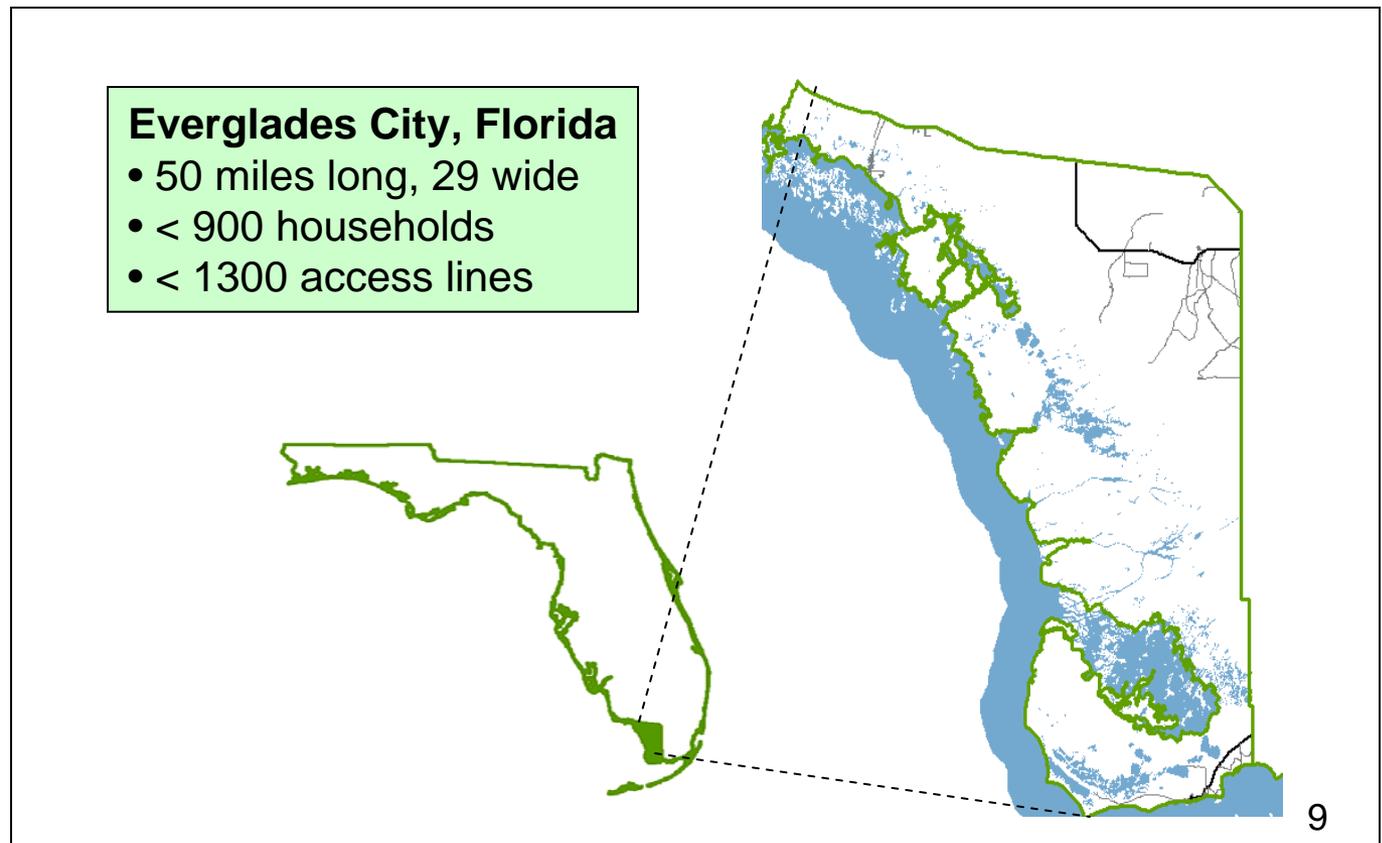


Where is Explicit Support Needed?

1. Using total state to determine “need” maintains assumption that implicit subsidies can be relied upon, so...
2. The “need” for support must be determined more granularly than on an entire state basis to ensure continued affordable, quality service to all.



- **Fundamental Fact:** There are areas in Florida that are uneconomic to serve using any network technology – wireline or wireless.



In reality, we serve many high-cost areas such as St. Mark's and Kenansville. Pre-competition, it was possible for relatively Lower cost areas (Starke) to implicitly subsidize higher cost areas.

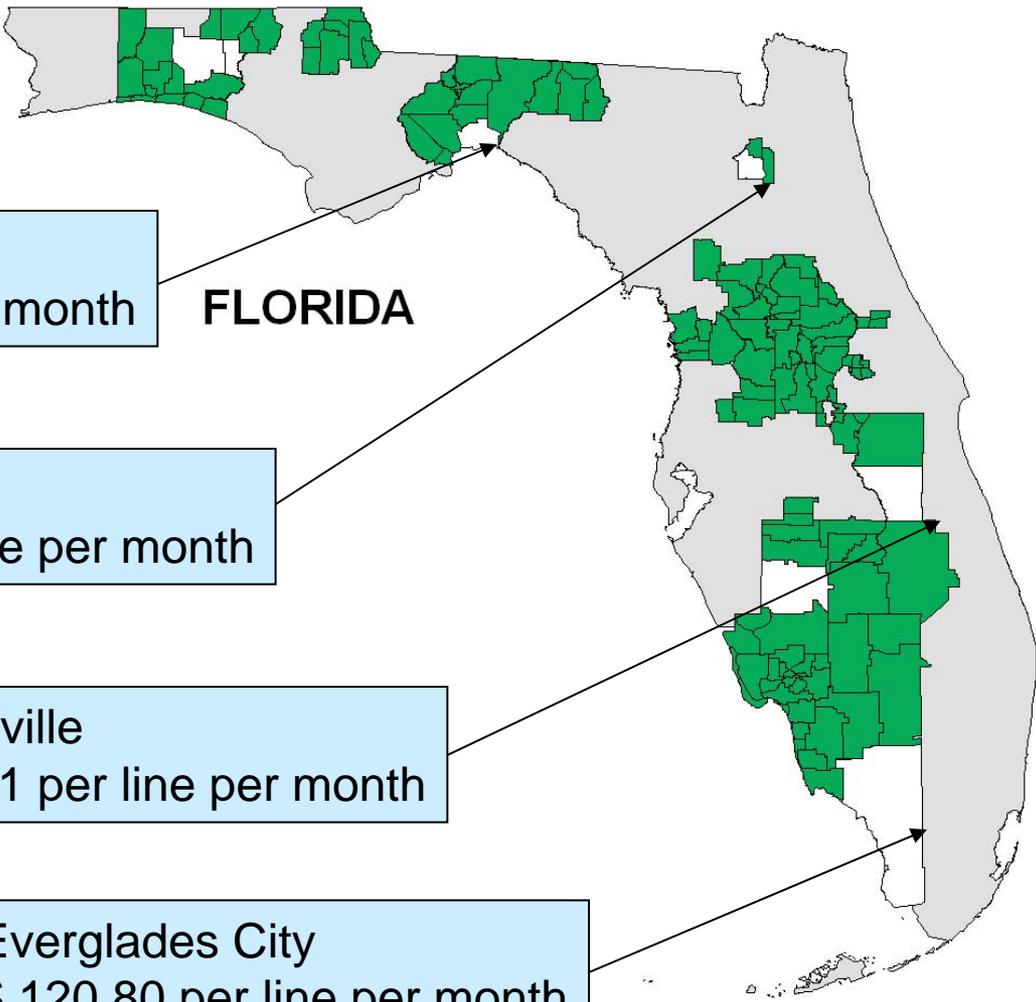
Cost info based on FCC HCPM and are provided to illustrate relative cost comparisons only.

St. Marks
\$ 110.96 per line per month

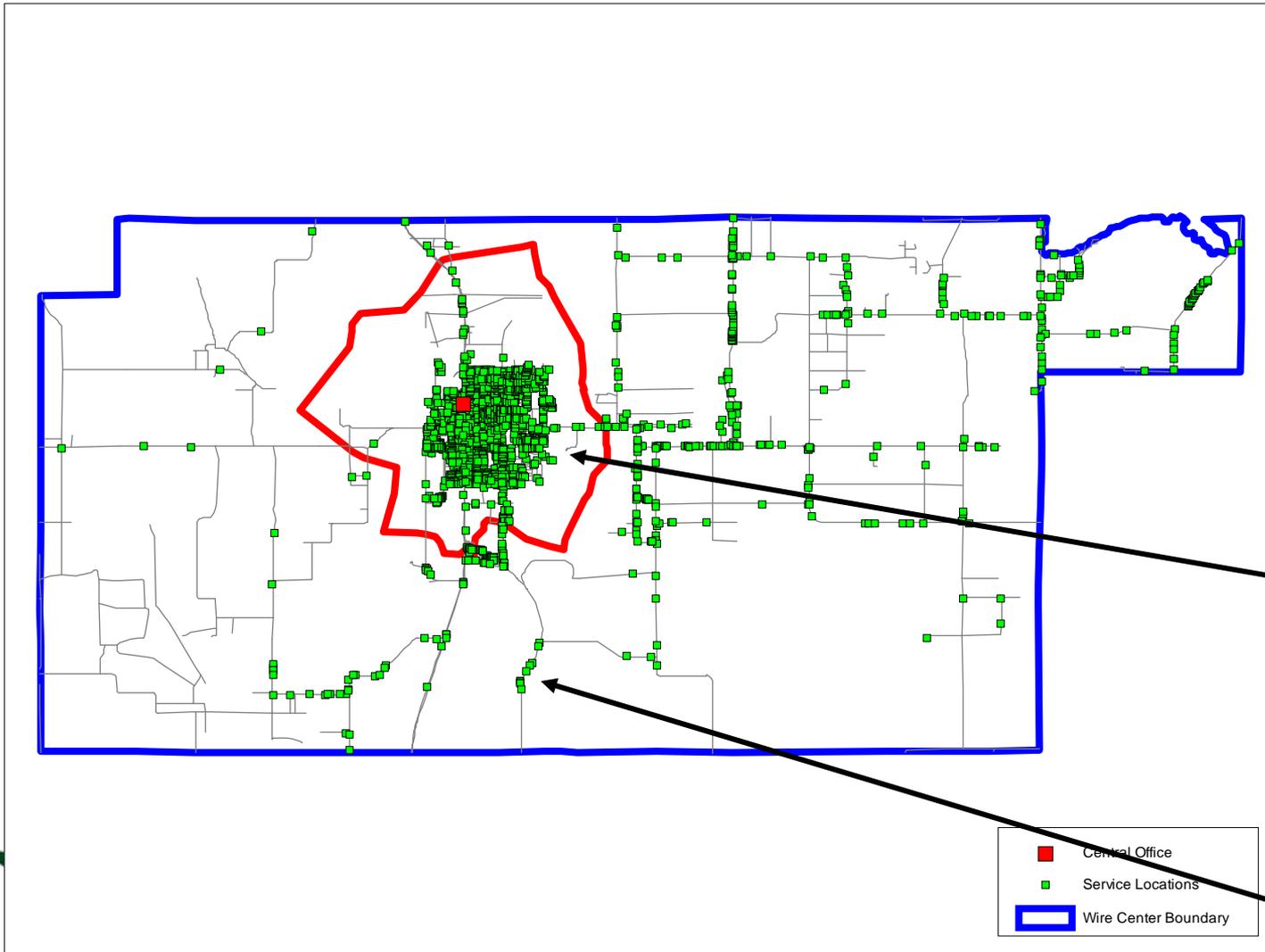
Starke
\$ 30.92 per line per month

Kenansville
\$ 143.71 per line per month

Everglades City
\$ 120.80 per line per month



Fort Meade, Florida Investment Overview



Wire Center

Total Lines Served

2,893

Investment per Line

\$2,650

City

Total Lines Served

2,188

Investment per Line

\$1,308

Outside City

Total Lines Served

705

Investment per Line

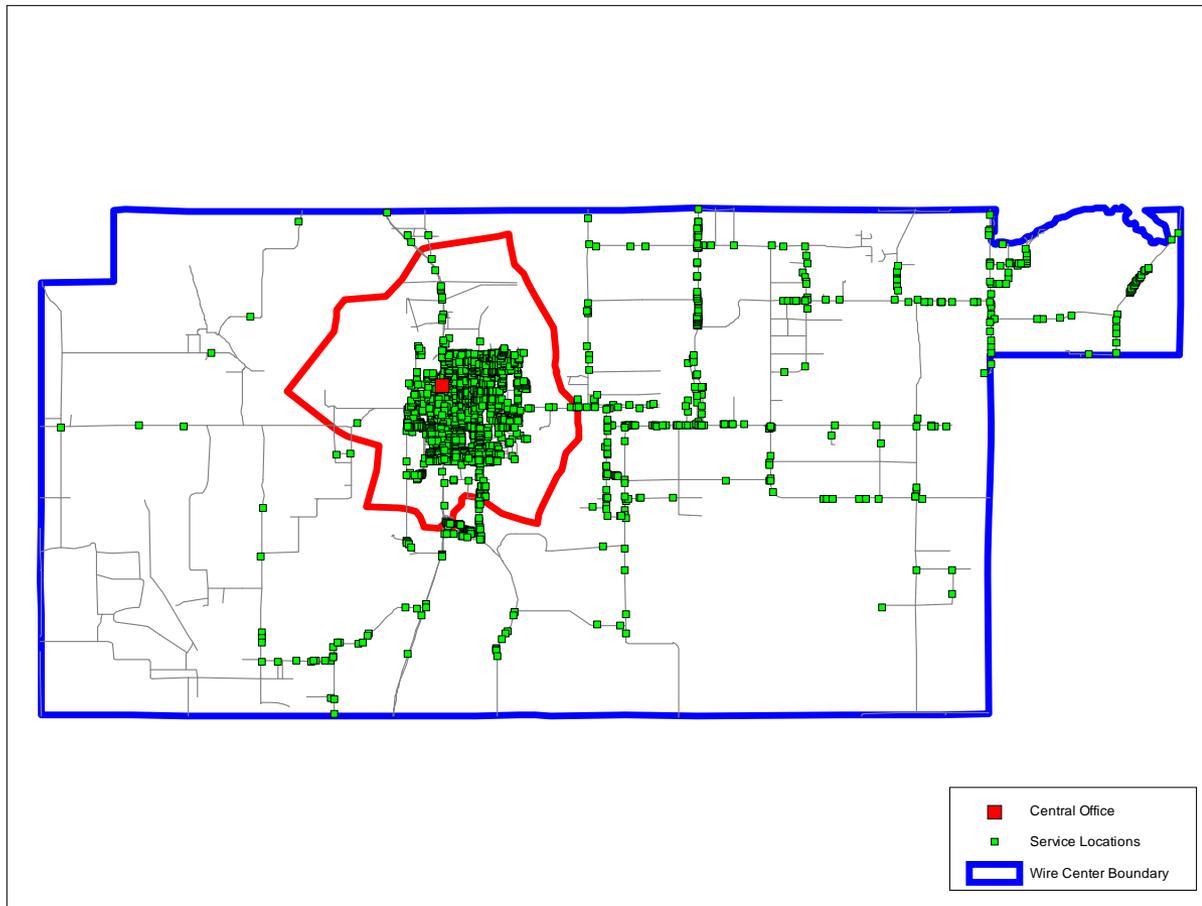
\$6,820₁₁

The right way to support universal service...

- A sub-wire center approach that distinguishes between costs to serve urban vs. rural.
- We must determine which areas are uneconomic to serve by creating zones within individual wire centers
- Support—however it is then calculated, whatever it is based on, and whatever services it includes—is then provided to these uneconomic areas



How it could work...Fort Meade FL



Zone 1: Downtown city area has cost of \$26.90 per line per month

Zone 2: Outlying areas Have cost of \$68.69 per line per month

Assume \$50 benchmark

2,188 lines in Zone 1 receive \$0 support

708 lines in Zone 2 receive total of \$159K annually in support

Any provider could receive support if it is shown that service is provided throughout high-cost area, which is Zone 2 (in its entirety).

Summary and Conclusions

- Current support for universal service in Florida is based on implicit subsidies.
- Assumes implicit subsidies can be used to offset costs of serving uneconomic areas.
- They can't continue.
 - Competition prevents low-cost wire centers from subsidizing high-cost wire centers.
 - Competition prevents low-cost portions of a wire center from subsidizing high-cost portions of the same wire center.
 - Competition prevents higher margin services from subsidizing high-cost basic local services.



Summary and Conclusions

- Therefore, universal service support must be made explicit to ensure rural customers' access to affordable services.
- Support must be calculated at a granular level: sub-wire center.



Lifeline Support

- Commission's 1999 Report also considered Lifeline funding needs.
 - Absence of explicit state level funding of Lifeline not sustainable in a competitive environment.
 - Based on subscribership at the time, Commission recommended no explicit state Lifeline support was appropriate.
- Given recent initiatives to significantly increase Lifeline subscribership, the need for explicit state Lifeline funding should be reexamined.

