

SENATE STAFF ANALYSIS AND ECONOMIC IMPACT STATEMENT

(This document is based only on the provisions contained in the legislation as of the latest date listed below.)

BILL: CS/SB 218

SPONSOR: Committee on Regulated Industries

SUBJECT: Telecommunications

DATE: March 18, 1999 REVISED: _____

	ANALYST	STAFF DIRECTOR	REFERENCE	ACTION
1.	<u>Wimsett</u>	<u>Guthrie</u>	<u>RI</u>	<u>Favorable/CS</u>
2.	_____	_____	<u>FR</u>	_____
3.	_____	_____	_____	_____
4.	_____	_____	_____	_____
5.	_____	_____	_____	_____

I. Summary:

The bill extends until January 1, 2004, the carrier-of-last-resort obligations of incumbent local exchange telecommunications companies and the interim mechanism for maintaining universal service objectives.

This bill amends Section 364.025, Florida Statutes.

II. Present Situation:

When enacting the Telecommunications Act of 1995, the Florida Legislature was concerned that universal service be sustained in the competitive environment. Therefore, it established an interim period, during which incumbent companies were required to remain as carriers of last resort in their service areas, and it provided for an "interim mechanism" for funding universal service support goals.

The interim period is set to expire January 1, 2001.

III. Effect of Proposed Changes:

This bill amends Section 364.025, Florida Statutes to extend the operation of the interim mechanism for maintaining universal service objectives to 2004. Likewise, the bill extends carrier-of-last-resort obligations for incumbent local exchange companies to 2004.

IV. Constitutional Issues:

A. Municipality/County Mandates Restrictions:

None.

B. Public Records/Open Meetings Issues:

None.

C. Trust Funds Restrictions:

None.

V. Economic Impact and Fiscal Note:

A. Tax/Fee Issues:

None.

B. Private Sector Impact:

Although the law states that the interim mechanism will be applied in a manner that ensures that all providers contribute a fair share to the support of universal service, in fact, the incumbent companies bear almost the entire load of serving high-cost customers and pay the full state share of Lifeline support for low-income customers. A local exchange company can petition the Florida Public Service Commission to change the interim mechanism if warranted by a change in circumstances. See s. 364.025(3), F.S. To date, no local exchange company has availed itself of this relief.

The interim mechanism represents the perpetuation of implicit subsidies. The implicit subsidies that support universal service goals come from above-cost prices for access charges, vertical services like call waiting and caller identification, and business services. The incumbent local exchange companies keep prices for these services high in order to subsidize below-cost rates for basic local telephone service. As competitors enter the market, the imbalance in retail rates enables “cherry-picking,” whereby alternative local exchange companies are able to lure the incumbents’ profitable customers away. Therefore, the incumbent companies are losing the very customers who generate the profits to implicitly subsidize the cost of serving high-cost and low-income customers.

C. Government Sector Impact:

None.

VI. Technical Deficiencies:

None.

VII. Related Issues:

None.

VIII. Amendments:

None.

This Senate staff analysis does not reflect the intent or official position of the bill's sponsor or the Florida Senate.
