

State of Florida



Public Service Commission  
CAPITAL CIRCLE OFFICE CENTER • 2540 SHUMARD OAK BOULEVARD  
TALLAHASSEE, FLORIDA 32399-0850

**-M-E-M-O-R-A-N-D-U-M-**

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**DATE:** AUGUST 12, 2003

**TO:** DIRECTOR, DIVISION OF THE COMMISSION CLERK & ADMINISTRATIVE SERVICES (BAYÓ)

**FROM:** DIVISION OF COMPETITIVE MARKETS & ENFORCEMENT (PRUITT, SIMMONS) *SAS* *y ALT*  
OFFICE OF THE GENERAL COUNSEL (BANKS) *BR JR*

**RE:** DOCKET NO. 030754-TL - REQUEST FOR APPROVAL OF ADJUSTMENT TO BASIC SERVICE REVENUES PURSUANT TO SECTION 364.051, FLORIDA STATUTES, BY VERIZON FLORIDA INC.

**AGENDA:** 08/19/03 - REGULAR AGENDA - PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE

**CRITICAL DATES:** SEPTEMBER 1, 2003 - EFFECTIVE DATE OF TARIFF

**SPECIAL INSTRUCTIONS:** IMPLEMENTATION OF SECTION 364.051(3), FLORIDA STATUTES, AS AMENDED BY THE TELE-COMPETITION INNOVATION AND INFRASTRUCTURE ENHANCEMENT ACT

**FILE NAME AND LOCATION:** S:\PSC\CMP\WP\030754.RCM

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CASE BACKGROUND

On August 1, 2003, Verizon Florida Inc. (Verizon) filed a tariff (T-03-0859) requesting an increase in revenues for its basic service pursuant to Section 364.051(3), Florida Statutes, as amended by the Tele-Competition Innovation and Infrastructure Enhancement Act (Tele-Competition Act or Act).<sup>1</sup> Basic service is

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<sup>1</sup> Staff notes that Verizon's tariff filing also includes adjustments to the rates of non-basic residential and business exchange services such as message rate service and PBX service. Section 364.051(5), Florida Statutes, which establishes the limitations on price increases for non-basic service categories, was not amended by the Act. Therefore, as stated in Section 364.051(5)(a), Florida Statutes, ". . . the [non-basic] rate shall be presumptively valid."

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defined in Section 364.02, Florida Statutes, as "flat-rate residential, and flat-rate single-line business local exchange services." Verizon requested an effective date of September 1, 2003.

Section 364.051(3), Florida Statutes, as amended by the Tele-Competition Act, allows a price-regulated local exchange telecommunications company (LEC), on 30 days' notice, to "adjust its basic service revenues once in any 12-month period in an amount not to exceed the change in inflation less 1 percent." (emphasis added) Prior to the recent amendment, the statute allowed LECs to adjust their basic service "prices," rather than basic service "revenues." In regulatory parlance, the term "revenues" has historically meant some aggregation of the total dollars collected from a class of customers or from the system as a whole. Under the statutory revision, staff believe LECs now have greater flexibility to increase or decrease individual rates provided that the total revenue increase for basic service is no greater than the allowable percentage. This is a substantial change from the prior statute which the Commission determined set a limit on increases for individual "prices" within the basic service category, as opposed to the overall "price" for the category.

Verizon's tariff filing includes two types of changes: (1) regrouping, and (2) moving rates closer to costs. Section 2.07.C.14.o, Administrative Procedures Manual, provides that tariff filings of a price-regulated local exchange company that meet the requirements of Section 364.051, Florida Statutes, may be processed administratively by staff. However, because this is the first tariff filing under Section 364.051, Florida Statutes, as amended by the Act, staff is bringing this tariff filing before the Commission.

#### Prior Statute

Prior to the amendment of Section 364.051(3), Florida Statutes, by the Tele-Competition Act, a price-regulated LEC such as Verizon was allowed, on 30 days' notice, to adjust its basic service prices once in any 12-month period in an amount not to exceed the change in inflation less 1 percent. The provision became operative on January 1, 2000, for all price-regulated companies except BellSouth and on January 1, 2001, for BellSouth.

Prior to its amendment, Section 364.051(3), Florida Statutes, stated:

In the event that it is determined that the level of competition justifies the elimination of price caps in an exchange served by a local exchange telecommunications company with less than 3 million basic local telecommunications service access lines in service, or at the end of 5 years for any local exchange telecommunications company, the local exchange telecommunications company may thereafter on 30 days' notice adjust its basic service prices once in any 12-month period in an amount not to exceed the change in inflation less 1 percent. Inflation shall be measured by the changes in the Gross Domestic Product Fixed 1987 Weights Price Index [GDPPI], or successor fixed weight price index, published in the Survey of Current Business or a publication, by the United States Department of Commerce. In the event any local exchange telecommunications company, after January 1, 2001, believes that the level of competition justifies the elimination of any form of price regulation, the company may petition the Legislature. (emphasis added)

Since the statute stated that the company's basic service "prices," rather than "price," could be adjusted, the Commission determined that adjustments allowed under Section 364.051(3), Florida Statutes, were envisioned to apply to individual "prices" within the basic service category, as opposed to the overall "price" for the category.<sup>2</sup>

This interpretation was also consistent with the Commission's prior interpretation of Section 364.051(2), Florida Statutes, which addressed the time period in which basic service rates would be capped. In Order No. PSC-97-0488-FOF-TL, the Commission denied BellSouth's request to increase rates for basic telecommunications

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<sup>2</sup> Docket No. 010831-TL, Review of the Sprint-Florida, Incorporated Tariff Filing to Increase Rates for Basic and Nonbasic Services Pursuant to Section 364.051, Florida Statutes.

service based on the reclassification of several rate exchanges.<sup>3</sup>  
In denying the request, the Commission stated:

We do not believe that the statute contemplates a rate increase for price-regulated LECs under the rationale that it is appropriate to raise basic telecommunications service rates for certain customers by moving them into a different group as long as the rates of any group are not raised. The statute does not say that rate group rates will be capped. It says that rates will be capped. "Rates" means all rates to customers for basic local and protected non-basic telecommunications services.

(Order at p. 7-8)

The Commission's decision on this point was upheld by the Florida Supreme Court in BellSouth Telecommunications, Inc. v. Johnson, 708 So. 2d 594 (Fla. 1998).

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<sup>3</sup> All local exchanges are assigned to a rate group based on the number of access lines in the local calling area. Under traditional regulation, when the number of access lines in the local calling area increased to the extent that the exchange would fall into a different rate group, the exchange was "regrouped" or reclassified.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should the Verizon Florida Inc. tariff filing (T-03-0859) requesting an adjustment of basic service revenues be acknowledged as compliant with Section 364.051, Florida Statutes, as amended?

**RECOMMENDATION:** Yes. The filing does not exceed the allowed increase in revenues for basic service under Section 364.051(3), Florida Statutes, as amended. (Pruitt)

**STAFF ANALYSIS:** On August 1, 2003, Verizon filed a tariff requesting an increase in revenues for its basic service effective September 1, 2003. Pursuant to Section 364.051(3), Florida Statutes, as amended, a price-regulated LEC such as Verizon may adjust its basic service revenues once in any 12-month period, on 30 days' notice, provided the increase does not exceed the change in GDPPI-1%. As such, in its tariff filing Verizon used the 1<sup>st</sup> Quarter 2003 change in GDPPI-1% (1.0499%) to determine the allowable revenue increase for basic service. Staff has determined that currently, there are no final statistics for the 2<sup>nd</sup> Quarter 2003 GDPPI.

Now that the statutory provision is expressed in terms of adjusting basic service "revenues," rather than basic service "prices," staff believes that there is no longer any numeric constraint on individual rate increases. If the overall revenue effect of the basic rate increases is less than inflation minus one percent, staff believes the filing would be compliant with Section 364.051(3), Florida Statutes, as amended.

A table listing the rate changes for Verizon's residential and business basic service customers is provided on Attachment 1 of this recommendation and a summary is provided below.

The tariff filing moves eight exchanges to their appropriate rate group, which will result in customers with similar calling scopes paying the same price for basic service. Basic rates tend to be the highest in the urban areas where local calling scopes are more expansive; however, from the standpoint of the company's cost of providing basic service, urban areas are the least expensive to serve. In an effort to move rates closer to costs, Verizon's tariff filing increases the rate for residential customers in Rate Group 1 (smallest calling scope) by \$.40 compared to \$.04 for

residential customers in Rate Group 5 (largest calling scope). Residential customers who are being reclassified to a different rate group will see a total increase between \$.49 and \$.69.

In addition, the basic service business customers in the eight regrouped exchanges will see a price increase between \$.80 and \$1.50. Rates for basic service business customers who are presently in Rate Group 5 will have an increase of \$.29. While Verizon's proposal to increase basic business rates only in the highest rate group may be counter to its stated objective of moving rates closer to costs, most of the basic business access lines are in Rate Group 5.

Verizon has provided a price-out demonstrating that its filing to increase basic service revenues represents a percentage increase that is less than the change in GDPPI-1%. In addition, staff believes that the requested rate changes, although varying somewhat in absolute and percentage terms depending on the rate group, do not create an undue advantage or disadvantage for any customer group. Pursuant to Section 364.10, Florida Statutes, any actions which do create an undue advantage or disadvantage would be prohibited. For these reasons, staff recommends that Verizon's filing to increase basic service revenues should be acknowledged as compliant with Section 364.051(3), Florida Statutes, as amended.

**ISSUE 2:** Should this docket be closed?

**RECOMMENDATION:** Yes. If no person whose substantial interests are affected by the proposed agency action files a protest within 21 days of the issuance of the order, this docket should be closed upon the issuance of a consummating order. (Banks)

**STAFF ANALYSIS:** At the conclusion of the protest period, if no protest is filed, this docket should be closed upon the issuance of a consummating order.

**Verizon Florida  
 Table of Proposed Rates**

**Residential Basic Exchange**

<u>Rate Group</u>	<u>Present Rate</u>	<u>Rate Group Movement</u>	<u>Other Increase</u>	<u>Proposed Rate</u>
1	\$ 9.72	\$ --	\$.40	\$10.12
2	10.64	--	.31	10.95
2>3	10.64	.46	.23	11.33
3	11.10	--	.23	11.33
3>4	11.10	.51	.09	11.70
4	11.61	--	.09	11.70
4>5	11.61	.45	.04	12.10
5	12.06	--	.04	12.10

**Business Basic Exchange**

<u>Rate Group</u>	<u>Present Rate</u>	<u>Rate Group Movement</u>	<u>Other Increase</u>	<u>Proposed Rate</u>
1	\$24.47	\$ --	\$ --	\$24.47
2	26.82	--	--	26.82
2>3	26.82	1.23	--	28.05
3	28.05	--	--	28.05
3>4	28.05	.80	--	28.85
4	28.85	--	--	28.85
4>5	28.85	1.21	.29	30.35
5	30.06	--	.29	30.35