

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

**In re: Adoption of the national School Lunch )      Docket No. 040604-TL**  
**Program and an Income-Based Criterion at )**  
**Or below 135% of the Federal Poverty )**  
**Guidelines as Eligibility Criteria for the )**  
**Lifeline and Link-up programs )**

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**REBUTTAL TESTIMONY OF**

**DR. MARK N. COOPER**

**ON BEHALF OF**

**AARP**

**DECEMBER 17, 2004**

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1 **Q. PLEASE STATE YOUR NAME, ADDRESS, AND OCCUPATION.**

2 A. Dr. Mark N. Cooper, President, Citizens Research, 504 Highgate Terrace, Silver  
3 Spring, Maryland, 20904. I am also Director of Research for the Consumer Federation of  
4 America (CFA). I am also a fellow at the Center for Internet and Society at Stanford  
5 University, the Columbia Institute on Tele-information and the McGannon Center at  
6 Fordham University.

7

8 **Q. PLEASE BRIEFLY SUMMARIZE YOUR RELEVANT EMPLOYMENT**  
9 **EXPERIENCE AND RESEARCH INTERESTS.**

10 A. Prior to founding Citizens Research, a consulting firm specializing in economic,  
11 regulatory, and policy analysis, I spent four years as Director of Research at the  
12 Consumer Energy Council of America. Prior to that I was an Assistant Professor at  
13 Northeastern University teaching courses in Business and Society in the College of Arts  
14 and Sciences and the School of Business. I have also been a Lecturer at the Washington  
15 College of Law of the American University co-teaching a course in Public Utility  
16 Regulation.

17

18 **Q. HAVE YOU PREVIOUSLY TESTIFIED ON TELECOMMUNICATIONS**  
19 **ISSUES?**

20 A. I have testified on various aspects of telephone rate making before the Public Service  
21 Commissions of Arkansas, California, Colorado, Connecticut, Delaware, the District of  
22 Columbia, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kentucky, Manitoba,  
23 Maryland, Missouri, New Jersey, New York, North Carolina, Ohio, Oklahoma,

1 Pennsylvania, South Carolina, Tennessee, Texas, Vermont, Virginia, Washington, and  
2 Washington, D.C., as well as the Federal Communications Commission (FCC), the  
3 Canadian Radio-Television and Telecommunications Commission (CRTC), and a  
4 number of state legislatures.

5 For over two decades and a half I have specialized in analyzing regulatory reform  
6 and market structure issues in a variety of industries including railroads, airlines, natural  
7 gas, electricity, medical services, and cable television, in addition to telecommunications.  
8 This includes approximately 200 pieces of testimony split fairly evenly between state  
9 regulatory bodies, federal legislative bodies, and federal administrative bodies.

10

11 **Q. HAVE YOU EVER TESTIFIED ON UNIVERSAL SERVICE ISSUES?**

12 A. With respect to universal service and Lifeline issues, I have presented testimony in  
13 Connecticut, Florida, Hawaii, Illinois, Kentucky, Manitoba, Mississippi, New York,  
14 North Carolina, Ohio, Oklahoma, South Carolina, and Texas, as well as before the FCC  
15 and CRTC.

16 I have conducted several major studies of universal service, including  
17 Disconnected, Disadvantaged and Disenfranchised (Consumer Federation of America  
18 and Consumers Union, October 11, 2000), The Need for Telephone Lifeline Programs in  
19 New Jersey: An Update (Center for Media Education and the Consumer Federation of  
20 America, July 1998), The Need for Telephone Lifeline Programs in Kentucky (Kentucky  
21 Youth Advocates and Center for Media Education, October 1997), Low Income Children  
22 and the Information Superhighway: Policies for State Public Service Commissions After  
23 the Telecommunications Act of 1996, (Prepared for the Alliance for South Carolina's

1 Children, January 1997), Universal Service: An Historical Perspective and Policies for  
2 the 21st Century (The Benton Foundation and the Consumer Federation of America,  
3 1996), Protecting the Public Interest in the Transition to Competition in Network  
4 Industries (in The Electric Utility Industry in Transition (Public Utilities Reports and the  
5 New York State Energy Research Development Authority), 1994, Consumers with  
6 Disabilities in the Information Age: Public Policy for a Dynamic Market (The Dole  
7 Foundation, 1993), Utility Lifeline Programs: Prevalence and Performance (American  
8 Association of Retired Persons and the Consumer Federation of America, 1991),  
9 Expanding the Information Age for the 1990s: A Pragmatic Consumer Analysis  
10 (American Association of Retired Persons and the Consumer Federation of America,  
11 1990), The Telecommunications Needs of Older, Low-Income and General Consumers in  
12 the Post-Divestiture Era, (American Association of Retired Persons and the Consumer  
13 Federation of America, 1987), Low Income Households in the Post-Divestiture Era: A  
14 Study of Telephone Subscribership and Use in Michigan (Michigan Divestiture Research  
15 Fund, 1986), and Energy and Equity: Rising Energy Prices and the Living Standards of  
16 Lower Income Americans (Westview, 1982).

17

18 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

19 A. I have been asked by AARP to examine the Commission action and initial  
20 testimony in this proceeding and prepare rebuttal to the testimony.

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22 **ISSUE 1: Is the Commission authorized under state or federal law to order the**  
23 **actions set forth in Order No. PSC-04-0781-PAA-TL?**

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**Q. DO YOU AGREE WITH THE GENERAL CONCLUSION OF THE TELEPHONE COMPANY WITNESSES THAT THE COMMISSION HAS EXCEEDED ITS AUTHORITY?**

A. No.<sup>1</sup> While the AARP lawyer will brief the question of the precise wording of the legal authority for the Commission to implement steps to improve the participation in the Lifeline program, I believe there is a simple, common sense way to understand why the Commission is not exceeding its authority.

It is hard to imagine that the current actions by the Commission to strengthen the Lifeline program could be beyond the scope of the agency’s authority. Quite the contrary, the overall public policy goal of the program would suggest that it is the obligation of the Public Service Commission to do the best job it can to get full participation in the program.

It is clear that the Commission has the authority to order and implement the Lifeline program. Under the current set of procedures, participation in the program is extremely low. Fewer than one-in-seven of those eligible participate. Florida is far behind the national average in participation.<sup>2</sup> As a result, not only do low-income

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<sup>1</sup> “Direct Testimony of Harold E. West, III on Behalf of Verizon Florida Inc.,” *In re: Adoption of the national School Lunch Program and an Income-Based Criterion at Or below 135% of the Federal Poverty Guidelines as Eligibility Criteria for the Lifeline and Link-up Programs*, Before The Florida Public Service Commission Docket No. 040604-TL, November 17, 2004, p. 7-9; “Direct Testimony of Sandra A. Khazraee,” *In re: Adoption of the national School Lunch Program and an Income-Based Criterion at Or below 135% of the Federal Poverty Guidelines as Eligibility Criteria for the Lifeline and Link-up Programs*, Before The Florida Public Service Commission Docket No. 040604-TL, November 17, 2004, p. 1; “Direct Testimony of Carlos Morillo on Behalf of BellSouth Telecommunications Inc.,” *In re: Adoption of the national School Lunch Program and an Income-Based Criterion at Or below 135% of the Federal Poverty Guidelines as Eligibility Criteria for the Lifeline and Link-up Programs*, Before The Florida Public Service Commission Docket No. 040604-TL, November 17, 2004, p. 3.

<sup>2</sup> Federal Communications Commission, “Report and Order and Further Notice of Proposed Rulemaking,” *In the Matter of Lifeline and Link-Up*, April 29, 2004, Appendix K: Lifeline Staff Analysis: Quantifying the Effect of Adding an Income Criterion to the Lifeline Eligibility Criteria, Section 1: Baseline Information.

1 households who are eligible suffer, but Florida as a whole suffers. Because of the low  
2 level of participation, Florida pays more into the fund than it receives. While the  
3 telephone company witnesses complain about over-subscription in California,<sup>3</sup> they  
4 ignore half a dozen states where the participation rate is four times higher than Florida.<sup>4</sup>

5 The Commission is charged with setting up the implementation procedures and  
6 studying the impact. Moreover, in authorizing the program, the legislature recognized  
7 the close relationship between the Federal and state rules for the program. State  
8 policymakers required the threshold in Florida to certainly be no worse than, even  
9 improve on, those adopted by Federal policymakers. Already behind in participation and  
10 suffering a multi-million dollar outflow of resources, the Commission would be derelict  
11 in its duty if it did not take actions that at least mirror the Federal changes and policies  
12 that improve the performance of the program.

13 My response to Issue 2 elaborates on this theme.

14

15 **ISSUE 2: Are the actions taken by the Commission in Order No. PSC-04-0781-PAA-**  
16 **TL reasonable and non-discriminatory?**

17

18 **Q. HOW DO YOU VIEW THE COMMISSION ACTION?**

19 A. The Commission's actions to improve the participation in the program are  
20 reasonable,<sup>5</sup> but its approach is discriminatory.<sup>6</sup> Therefore, it is important to distinguish

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(hereafter, FCC, Baseline Information).

<sup>3</sup> Khazraee, p. 7, West, p. 13.

<sup>4</sup> FCC, Baseline Information.

<sup>5</sup> Here I disagree with West, p. 9; Morillo, p. 4, and Khazraee, p.2.

<sup>6</sup> The telephone company commenters disagree on this point. Khazraee, p. 6, and West, p. 9 state it is not

1 between the purposes of this action and the specific approach the Commission chose to  
2 accomplish its goal.

3

4 **Q. WHY DO YOU FOCUS ON VERIZON'S COMMENTS?**

5 A. Verizon's<sup>7</sup> excessive complaints about the modifications to the identification and  
6 certification of the eligible population provide a useful point of departure for  
7 understanding why the Commission can and should improve the approach to enrollment  
8 for low income households. Because Verizon's testimony is primarily an argument  
9 against the very concept of a Lifeline program, it misrepresents what the commission has  
10 proposed.

11

12 **Q. WHAT IS THE PURPOSE OF THE PROGRAM?**

13 A. Verizon's lengthy attack on the principles of the Lifeline program is out of place,  
14 especially as it has already agreed to deliver benefits to exactly the target population the  
15 Commission identifies in this action. These arguments have been rejected by Florida and  
16 the Federal Communications Commission. When it agreed to deliver Lifeline benefits to  
17 the target population, the company should have been prepared to enroll every household  
18 identified as eligible. It has no grounds to complain about an expansion of the program.

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discriminatory, while Morillo, p. 6; claims it is.

<sup>7</sup> "Direct Testimony of Carl R. Danner on Behalf of Verizon Florida Inc.," *In re: Adoption of the national School Lunch Program and an Income-Based Criterion at Or below 135% of the Federal Poverty Guidelines as Eligibility Criteria for the Lifeline and Link-up Programs*, Before The Florida Public Service Commission Docket No. 040604-TL, November 17, 2004; West, pp. 7, 11, also strongly misstates the goal of the Lifeline program.

1           The purpose of this program is to deliver benefits to low-income households.  
2           Specifying better ways to reach households does not expand eligibility; it improves the  
3           efficiency of the program in reaching the target population.

4           Verizon sees the issue as one of keeping the target population as small as possible  
5           and reducing rates only for those who would not otherwise have subscribed to telephone  
6           service. According to the company’s testimony, it believes that the Lifeline program is  
7           economically irrational and inefficient. Every time an additional household signs up for  
8           the program, Verizon views it as an affront.

9           For example, Verizon witnesses point out that the “FCC staff estimated that about  
10          80 percent of new beneficiaries of the expanded Lifeline/link-up program would already  
11          have telephone service and that about 20-percent would be new to the network.”<sup>8</sup> A  
12          similar result obtains for Florida in Verizon’s opinion – “at least 76% of new Lifeline  
13          recipients already had telephone service, and received no more than the equivalent of a  
14          cash grant through their Lifeline discount.”<sup>9</sup> Thus, Verizon argues against the program  
15          because “[m]onthly rate discounts do relatively little, if anything, to increase penetration.  
16          Most, if not all, customers on Lifeline would have a phone even without the Lifeline  
17          discount on monthly service.... For the most part, Lifeline monthly discounts are a way  
18          by which some customers are given small cash grants.”<sup>10</sup>

19          Verizon’s argument, if applied to the food stamp or school lunch program, would  
20          be tantamount to requiring families to show that they would starve if they did not receive

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<sup>8</sup> Danner, pp. 14-15.

<sup>9</sup> Danner, p. 8.

<sup>10</sup> Danner, p. 7.



1 the benefit. If a student would have eaten, in the absence of the school lunch program,  
2 the benefit is a waste in Verizon's view.

3 AARP has never accepted this narrow view of the goal of the Lifeline program as  
4 a matter of principle or of practice. Reductions in telephone rates make service more  
5 affordable and leave more resources in the pocketbooks of low-income households so  
6 they have more money for the other necessities of life, like buying food. Thus, policies  
7 to promote the affordability of telephone service should not be measured only in terms of  
8 the ability to increase penetration.

9 It does not suffice to say that if a household has a phone it must be affordable,  
10 regardless of how much of a burden it places on the household budget. Affordability is  
11 more complex than that. In this context, the test of affordability is not simply whether or  
12 not people keep the phone, or whether or not they use it, but how much of a burden a  
13 reasonable level of consumption of this necessity places on the household budget.  
14 Households will continue to subscribe to the network because the phone is a necessity,  
15 but if they are forced to pay more for this necessity and reduce their consumption of other  
16 necessities, then the phone is not truly affordable, and could seriously diminish the living  
17 standard of the household.

18 Dictionary definitions support this view. *Webster's* cites this concept as the  
19 primary definition of affordable:

20 (a) To manage to bear without serious detriment; (b) To manage to pay for  
21 or incur the cost of (*Webster's Third New International Dictionary*, Philip  
22 Babcock Grove (Ed.), (Merriam-Webster Inc., Springfield Mass, 1986), p.  
23 36).

24  
25 Random House provides a similar definition:

1 (1) To be able to undergo, manage, or the like without serious  
2 consequence; (2) to be able to meet the expense of or spare the price of  
3 (*Random House Webster's College Dictionary* (Random House, New  
4 York; 1995), p. 24).

5  
6 The first definitions from both sources (“bear the cost of without serious  
7 detriment” or “consequence”) are relative in the sense that the burden imposed is  
8 qualified by the term “serious detriment or consequence.” If it hurts a lot to pay for  
9 telephone service, telephone service is not deemed to be affordable, even though the  
10 subscriber continues to pay for it. The second definitions (“to manage to pay for” “be  
11 able to meet the expense of”) are absolute concepts in the sense that there are no  
12 qualifiers. No matter how much it hurts, if a subscriber continues to pay for  
13 telecommunications service, telephone service is deemed by implication to be affordable.

14 Thus, the relative notion of affordability seems to be the primary denotation. The  
15 standard is not whether one can pay the price, but whether that price causes serious  
16 detriment, consequence or inconvenience.

17  
18 **Q. DOES THE FCC VIEW THE PROGRAM AND ITS EFFORTS TO**  
19 **DELIVER BENEFITS MORE EFFECTIVELY TO THE TARGET POPULATION**  
20 **AS YOU DO?**

21 A. Yes. While increasing penetration is an important and easily measured outcome,  
22 it is not the only positive effect of the program. In the FCC’s Order adding the  
23 Temporary Assistance to Needy Families (TANF) and the National School Lunch (NSL)  
24 programs to the list that would identify eligible households, the FCC recognized the two  
25 effects: “We believe adding these programs is likely to help improve participation in the

1 Lifeline/Link-Up program, and in doing so, would increase telephone subscribership  
2 and/or make rates more affordable for low income households.”<sup>11</sup>

3         The FCC’s decision to identify more screener programs is framed in exactly the  
4 terms I have used. The purpose is “to improve the effectiveness of the low-income  
5 support mechanism.... We believe there is more that we can do to make telephone  
6 services affordable for more low-income households. Only one-third of households  
7 **currently eligible for Lifeline/Link-Up assistance** subscribe to this program.”<sup>12</sup> Florida’s  
8 **Lifeline program** is even less effective, with less than one-seventh of eligible households  
9 currently subscribed.

10         As a practical matter, the administrative burden of identifying only those  
11 households that would not have otherwise subscribed to the network and delivering the  
12 benefit only to those households would be extremely costly to say the least. Identifying  
13 low-income households as the target population is an expedient means of targeting the  
14 benefit to the groups most likely to be in need. Thus, the correct way to understand the  
15 Lifeline program is to recognize that the broadly defined target population is low-income  
16 households for the purpose of making telephone service affordable.

17         Verizon and the other telephone company commenters who complain about the  
18 expansion of the program to include the new eligibility criteria misunderstand and  
19 misrepresent why the Commission and the FCC use public assistance programs or  
20 income thresholds. The various approaches to identifying and certifying those eligible to  
21 receive benefits is a practical decision that takes into consideration ways to deliver the  
22 benefits to the defined underlying population. **When the Commission adds a public**

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<sup>11</sup> Order, para. 13.

<sup>12</sup> Order, para. 1.

1 assistance program or an income standard as a screen, it is not expanding the scope of the  
2 program; it is finding a better way to reach the target population.

3

4 **Q. DOES THE ECONOMETRIC EVIDENCE VERIZON CITES ON THE**  
5 **ELASTICITY OF DEMAND DEMONSTRATE THAT AFFORDABILITY**  
6 **SHOULD ONLY BE DEFINED AS INCREASES IN PENETRATION?**

7 A. Not at all. It simply shows that telephone service is a necessity and that people  
8 will strain to keep it. Inelastic demand is one of the characteristics of a necessity. It turns  
9 out that income elasticities—the response of demand for telephone service to changes in  
10 income—are generally positive but less than one and larger than the price effects. This  
11 gives the telephone the price and income elasticities we expect from a necessity.

12 Because the price elasticity is low, consumers have difficulty substituting for this  
13 commodity when its price increases. Yet, because the income elasticity is high relative to  
14 the price elasticity, the result is a large decrease in utility when a price increase occurs:

15 When substitution effects are large relative to income effects, consumers  
16 can substitute away from goods whose prices have risen with little loss in  
17 utility. However, when income effects are large relative to substitution  
18 effects, an increase in price means a relatively large decrease in utility.  
19 Since the income effect is indicated to be large relative to the substitution  
20 effect in the price elasticity of demand for access for households with low  
21 income, particularly if they are young, the welfare of these households  
22 may be significantly decreased by increase in the price for basic service.  
23 Lester Taylor, Telecommunications Demand: A Survey and Critique  
24 (Cambridge Massachusetts: MIT press, 1980), p. 82).

25

26 **Q. IS THE LIFELINE PROGRAM JUST A CASH TRANSFER, AS WITNESS**  
27 **DANNER ARGUES?**

1 A. Not really. In order to get the discount, you must take telephone service. This  
2 captures the externalities that are associated with the telephone network. An externality  
3 arises when the action of one person affects the welfare of another person in a way that is  
4 not reflected in the market prices. There are two economic externalities that indicate that  
5 ratepayers would be better off with a Lifeline program.

6 Telephone subscribers derive a benefit from having a larger network. The more  
7 people one can reach, or be reached by, the more value the network has. Businesses in  
8 particular benefit from a denser network. This is the direct, network externality of  
9 increased penetration rates.

10 Economic theory generally suggests that lump sum taxes are the way to raise  
11 funds for a Lifeline program and monetary transfer payments dispersed through public  
12 assistance programs are the way to distribute the resources. However, the unique nature  
13 of the phone system dictates otherwise.

14 Simply making welfare checks larger, if that were a possibility, would not  
15 necessarily capture the full benefits of the Lifeline program. The direct external benefit of  
16 the telephone is a true externality. That is, network value is not necessarily optimized  
17 when individuals optimize their personal welfare. Some people would take the increase in  
18 their income but not join the network. They would allocate their resources according to  
19 their personal needs. The subscribers who could benefit from a denser network would not  
20 derive the full benefit of the program because the penetration rate would not be raised to  
21 the optimum level.

22 Because individuals do not take the true externality into account in making their  
23 personal choices, it is not clear in this case whether the total welfare of society would be

1 maximized by allowing individuals to make free choices with increased welfare  
2 payments. This would argue for a commodity-specific program like a telephone voucher  
3 to ensure that the external benefits are captured.

4         Given the small costs associated with running a commodity-specific program  
5 through the rate structure and the externality gains of increasing penetration, we might  
6 conclude that a lump sum transfer from the treasury to the phone system to make up the  
7 revenue shortfall from lowered rates for eligible households would be optimum. Rates for  
8 the target group would be lowered, but rates for others would not be raised.

9

10 **Q. ARE THERE NON-ECONOMIC JUSTIFICATIONS FOR THE PROGRAM?**

11 A. Having made the argument that the Lifeline program has several strong economic  
12 justifications, it is still important to reiterate the social justification. If a subsidy is  
13 involved in the Lifeline program, it can still be justified on social grounds.

14         As a society we do not restrict ourselves to simple economics. For reasons of  
15 human decency we are willing to create programs that transfer wealth and, in the strict  
16 sense, reduce economic efficiency. I have defined a decent standard of living in our  
17 society to include meeting the needs for daily communication at rates that do not erode a  
18 household's budget. I believe that the decision to embrace universal service as a goal and  
19 to consider Lifeline entails a decision to make such a trade-off.

20

21 **Q. IS THE ACTION NON-DISCRIMINATORY?**

22         AARP's lawyer will brief the strict question of whether the approach is unduly  
23 discriminatory in a legal sense. However, I believe it is unnecessarily discriminatory

1 from the point of view of public policy. The decision to allow self-certification serves  
2 the purpose of facilitating enrollment in the Florida program and stemming the flow of  
3 resources out of the state. Restricting self-certifiers to a lower level of benefits  
4 contradicts that purpose. The Commission has correctly concluded that attesting to  
5 eligibility backed up with an auditing approach will effectively control fraud and abuse.  
6 Therefore, the decision to allow a lower level of benefits to self-certifiers is unnecessary  
7 and inequitable.

8

9 **ISSUE 3: Should the Commission address the Lifeline and Link-up issues in**  
10 **rulemaking pursuant to Section 120.54, Florida Statutes?**

11

12 **Q. IS A RULEMAKING NECESSARY TO MAKE THE CHANGES YOU**  
13 **RECOMMEND?**

14 A. I do not believe that a rulemaking is necessary. However, I am not opposed to a  
15 rulemaking.

16

17 **ISSUE 4: What are the economic and regulatory impacts of implementing the**  
18 **actions taken by the Commission in Order No. PSC-04-0781-PAA-TL?**

19

20 **Q. WHAT IS THE ECONOMIC IMPACT OF THE CHANGES IN THE**  
21 **PROGRAM?**

22 A. Delivering the benefits to the target population will have a significant positive  
23 impact on the population in need. Automatic enrolment will boost participation from just

1 13 percent to close to 100 percent. This will have the effect of significantly increasing  
2 telephone penetration and making telephone service more affordable for a large number  
3 of low-income households in the state.

4

5 **Q. WHAT IS THE REGULATORY IMPACT OF THE PROGRAM?**

6 A. As stated above, in my view the regulatory impact is positive in the sense that it  
7 will improve the ability of the program to identify the target population and deliver the  
8 intended benefits to that population. If the Commission adopts my recommended  
9 approach to certification and enrollment, it will greatly improve the efficiency of the  
10 program in reaching the target population. It will also simplify the administrative process  
11 for the telephone companies.

12

13 **ISSUE 5A: Should consumers be allowed to self certify for program-based Lifeline**  
14 **and Link-Up eligibility?**

15

16 **Q. WHAT IS YOUR VIEW OF THE ENROLLMENT PROCESS?**

17 A. I believe that the enrollment process should be thoroughly reformed. The  
18 certification/enrollment process is obviously failing, with such a low take rate. The  
19 proposals on the table are all unnecessarily complex and impediments to a simple and  
20 direct process. The companies advocate improving outreach to boost applications. Each  
21 of the companies proposes a different approach to certification and verification.

22 Consider BellSouth's proposal, which is by far the best of the lot. Individuals will  
23 self certify, if the outreach effort reaches them and informs them. Once a year, BellSouth



1 will make a list of Lifeline enrollees available to the agencies that administer the  
2 programs that have been used to claim eligibility. The agency will inform BellSouth of  
3 any subscribers who are not enrolled and those subscribers will be informed that there is  
4 a discrepancy. They can then correct the problem.

5 A simpler, more direct and more effective approach would be to just  
6 automatically enroll into the Lifeline program all subscribers who participate in one of  
7 the designated programs that make a subscriber categorically eligible for the Lifeline  
8 program. Since the subscribers have identified themselves and been certified as in need  
9 under a designated program, why should they have to do so again? Since the agencies  
10 administering the designated programs will have to look over the names, why only pick  
11 out a subset? Moreover, in this way, the take rate will be close to 100 percent.

12 Automatic enrollment would result in a sharp reduction in households that use  
13 income to certify, since those who have failed to enroll in any of the identified programs  
14 are unlikely to enroll in the Lifeline program. Those who have enrolled in the underlying  
15 programs will not be required to re-certify themselves.

16 Automatic enrollment also eliminates the issue of first enrolling some households  
17 and then having to remove them from the program in 60 days, which could happen under  
18 the Commission's approach. For the larger phone companies, the enrollment process can  
19 be automated by the matching of lists.

20 It is possible, but highly unlikely, that people who are enrolled in one assistance  
21 program do not want to receive the benefits from another. However, where that is the  
22 case, the automatic enrollment process can be accommodated by an opt-out process. At  
23 the time of enrollment in the certifying program, the applicant can be asked if they want

1 to opt out of the Lifeline program. It is also possible to mail a letter to each Lifeline  
2 participant, noting that they are receiving the benefits and giving them the option of  
3 opting out. I strongly believe that few of these automatically enrolled would withdraw.

4 Of course, notifying the potential Lifeline participants that they are eligible at the  
5 time they are enrolling in other programs will also boost telephone penetration  
6 substantially. Since this is a moment when they have made the decision to apply for  
7 assistance, they have overcome the stigma and other factors that tend to keep program  
8 participation down.

9

10 **ISSUE 5B: If so, how much assistance should be provided for customers using self-**  
11 **certification?**

12

13 **Q. WHAT LEVEL OF ASSISTANCE SHOULD SELF-CERTIFIERS**  
14 **RECEIVE?**

15 A. Customers using self-certification should receive the same benefit as any other  
16 program participant. As noted above, there should be only one level of benefits for all  
17 households enrolled in the program. The full benefit should be provided.

18

19 **ISSUE 6: Is the Commission authorized under state or federal law to establish a**  
20 **state Lifeline funding mechanism?**

21

22 **Q. Is the Commission authorized under state or federal law to establish a state**  
23 **Lifeline funding mechanism?**

1 A. I believe Federal law is permissive with respect to state Lifeline funding  
2 mechanisms. AARP’s lawyer will brief the issue of state statutory authorization.

3

4 **ISSUE 6a: What is the appropriate state Lifeline funding mechanism and how**  
5 **should it be implemented and administered?**

6

7 **Q. SHOULD THE LIFELINE PROGRAM BE FUNDED FROM WITHIN**  
8 **THE INDUSTRY?**

9 A. Yes, I believe that it is appropriate for the Lifeline funding to come from within  
10 the industry. For the externality reasons cited above, it is reasonable for the funding to  
11 come from within the industry rather than from general revenues, as suggested by  
12 Verizon.<sup>13</sup>

13 Since telephone subscribers benefit from the network externality, the benefit is  
14 neither universal nor is it fungible—only people on the network enjoy it and it  
15 can only be enjoyed in the form of increased communications.

16 Funding a program to increase penetration rates through the tax structure  
17 constitutes a transfer of welfare from some taxpayers who derive no such  
18 benefits to ratepayers who do derive this benefit. Their loss of welfare may not  
19 be offset—in an efficiency sense—by the gains in welfare of ratepayers. Because

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<sup>13</sup> Danner, p. 16. Danner states that “welfare payments are typically delivered to low-income individuals through the general tax system.” In fact, the school lunch program, foods stamps, Low Income Heating Energy Assistance, and Medicaid, are all commodity specific programs, rather than simple income transfer programs. With varying degrees of specificity, they identify a specific good or service that is deemed to be a necessity and target that good or service, much like the Lifeline and Link-up programs do. These other commodity specific programs have frequently been used as the screener programs for Lifeline.

1 of the network externality, aggregate efficiency and equity are served best by a  
2 transfer from the industry delivered to eligible households through the rate  
3 structure. Even before the passage of the Telecommunications Act of 1996,  
4 telecommunications assistance programs funded within the sector had become  
5 part of the regulatory landscape. Since the passage of the Act many jurisdictions  
6 have begun to consider and adopt Lifeline programs.

7

8 **Q. IS IT APPROPRIATE FOR THE COMPANIES TO CONTRIBUTE TO**  
9 **THE SUPPORT OF THE LIFELINE PROGRAM?**

10 A. Yes, both the Federal and state statutes require telephone companies to contribute  
11 to the support of these programs. However, support of the Lifeline program should not  
12 be borne by consumers. AARP opposes passing the costs of Lifeline on to consumers  
13 through the use of line item charges.

14

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16 A. Yes.

17

18

19

20

**CERTIFICATE OF SERVICE**

**I HEREBY CERTIFY** that a true and correct copy of this document has been served by

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