State of Florida

Public Service Commission

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

DATE: July 27, 2018

TO: Carlotta S. Stauffer, Commission Clerk, Office of Commission Clerk

FROM: Samantha Cibula , Office of the General Counsel SML.

RE: Docket No. 20060476-TL

Please file the attached materials in the docket file listed above.

Thank you.

Attachment

Docket No. 060476-TL
May 11, 2007 Operator Services Data Request
Response Summary

Ten carriers and the FPTA responded to the operator services' data requests. Five carriers reported that the vast majority of their total revenue comes from operator services. These carriers (and their revenue percentages) are Custom Teleconnect, Inc. (98 percent), Evercom (100 percent), Intellicall Operator Services, Inc. (85 percent), Network Operator Services (90 percent), and Network Communications International Corp. (97 percent). The remaining five carriers are AT&T, Embarq, Verizon, Qwest, and DeltaCom/BTI. DeltaCom/BTI treats the percentage of its revenue from operator services as confidential

Rate Caps Remain

Assuming the rate caps remain in effect, the vast majority of respondents believe that the rate caps should be increased. The FPTA believes caps should have annual rate adjustments using a reasonable and automatic mechanism. According to Evercom, caps do not make a difference for inmate services because the highest rates are in rate-capped Texas while the lowest rates are in Virginia, a state without rate caps. AT&T believes that a cap may be appropriate only for inmate payphone services. Reasons for increasing the caps include:

- The caps have been deregulated in the interstate market and in other states (AT&T);
- Costs have increased (Embarq, Custom Teleconnect, Evercom, Intellicall, Network Operator Services, and Network Communications);
- ILECs can use market-based pricing (Embarq);
- Rate caps have not been adjusted for inflation since 1999, so it is appropriate for the caps to be reviewed and increased. (Custom Teleconnect, Network Communications);
- Unless there is a market breakdown, rate caps are inefficient and interfere with competition. (DeltaCom/BTI); and
- Consumers will have additional options and more choices. (Intellicall)

If the caps are to be increased, some form of interstate average is a popular recommendation for rate development:

- Custom Teleconnect suggests using AT&T's interstate rates;
- AT&T suggests that the FPSC conduct an industry study and use average prices;
- Evercom and Qwest recommend using Qwest's national average rates;
- Qwest also suggests using a similar Florida average;
- Embarq suggests using either inflation-adjusted current caps or interstate rates;
- Verizon recommends using interstate rates (from major operator service providers and other carriers) as a "floating" cap; and
- The FPTA recommends using dominant carriers' rates as a proxy.

Network Operator Services was the only carrier to respond that rates could be cost-based, but added the proviso that all costs must be taken into consideration. If costs are less than the rate caps, only Network Operator Services stated reducing rates is "reasonable." The other respondents stated that rates should not be cost-based because:

- Under Chapter 364, FPSC does not have authority to set rates based on the costs to provide a nonbasic service. (AT&T);
- Rapid market changes argue against it. (AT&T);
- There are too many variables. (Embarq, Intellicall);
- Costs and cost-based averages vary from carrier to carrier. (Qwest, Evercom);
- It is impractical and inappropriate. (Verizon);
- Retail rates are not cost-based and they should not be in a competitive world. (Custom Teleconnect);
- Rates for inmate payphone services should be set on a case-by-case basis. (Evercom);
- Administration would be "unreasonable" for the Commission. (Intellicall); and
- Using costs to set rates requires cost studies, which is burdensome or impossible. (FPTA)

Five carriers stated that all carriers should prepare and submit cost data in the same way (Embarq, Qwest, Verizon, Intellicall, and Network Communications). AT&T reiterated that cost-based pricing is inappropriate and that the nonbasic basket rules would apply. Custom Teleconnect and Evercom agreed that parties should not be required to develop cost studies. Network Operator Services said that the FPSC should prepare the cost studies.

<u>Elimination of Rate Caps</u>

Seven of the ten carriers and the FPTA stated that the FPSC can eliminate rate caps. Custom Teleconnect and Network Communications stated that they do not believe that the rate caps can be eliminated; Intellicall did not answer the question. Five respondents (Custom Teleconnect, Intellicall, Network Operator Services, Network Communications, and the FPTA) stated that the rate caps should not be eliminated. If the rate caps were to be eliminated the respondents provided a variety of answers to the question about how much they would charge:

- Custom Teleconnect, Network Communications, and Verizon said they would use some form of other carriers' interstate rates;
- Qwest would most likely use its national average rate ($0.90 per minute and $6.50 operator surcharge);
- Embarq's rates: $1 station credit card, $1.60 station other, $4 person-to-person, $2 busy verification, and $3 emergency interrupt;
- Intellicall's rates: $1.15 per minute, $6.50 automated operator handled, $7.50 live operator handled, $1 operator surcharge, $5.99 Bong, and $12.50 person-to-person;
- AT&T said that because of price cap regulation, its rates are capped by the revenue amount in its nonbasic basket;
- Network Operator Services was unable to provide rates for the data request response;
- DeltaCom/BTI said it has no plans to change rates, but that it would monitor the marketplace and price accordingly; and
- Evercom responded that its rates would change on a case-by-case basis for each correctional facility.

Additional Comments

- Removing rate caps serves the public interest because the market is competitive for providers and consumers. (AT&T, Embarq, Verizon, and Qwest);
- There are multiple providers, although all payphone companies and call aggregators may not always have more than one option. Removing rate caps also would provide a multitude of benefits for the providers including increased innovation, ability of companies to differentiate themselves and to serve wider markets, and the ability of ILECs to use market prices yet still recover costs. (Embarq);
- Removing rate caps would result in competitive rates and commission payments that would support the deployment and maintenance of payphones. (Qwest);
- Removing rate caps will foster competition and promote the deployment and retention of existing payphones. (Verizon);
- Consumers can use dial-around, prepaid and carrier calling cards, and wireless. (AT&T, Embarq, Qwest, and Verizon); and
- Rates may decrease depending on the market. (AT&T, Embarq, and Qwest). Even if there are not immediate decreases, competitive pressures will militate against any unreasonable increases and may cause rates to decrease. (Verizon)