I. Meeting Packet

State of Florida
Public Service Commission
INTERNAL AFFAIRS AGENDA
Thursday, July 7, 2016
Following Commission Agenda
Room 105 - Gerald L. Gunter Building

1. "Water Industry: Challenges and Opportunities"
   Grace D. Soderberg, Esq., Director of State Regulatory Relations,
   National Association of Water Companies
   (Attachment 1)

2. Overview of the FCC Lifeline Reform and Modernization
   (Attachment 2)

3. Draft Report of the Status of Competition in the Telecommunications Industry
   (Attachment 3)

4. General Counsel's Report

5. Executive Director's Report

6. Other Matters

BB/ks

OUTSIDE PERSONS WISHING TO ADDRESS THE COMMISSION ON ANY OF THE AGENDAED ITEMS SHOULD CONTACT THE OFFICE OF THE EXECUTIVE DIRECTOR AT (850) 413-6463.

Attachment 1

Water Industry: Challenges and Opportunities

Grace D. Soderberg

National Association of Water Companies (NAWC)




MOVING WATER FORWARD

- Introduction to NAWC
- Water Industry Fundamentals

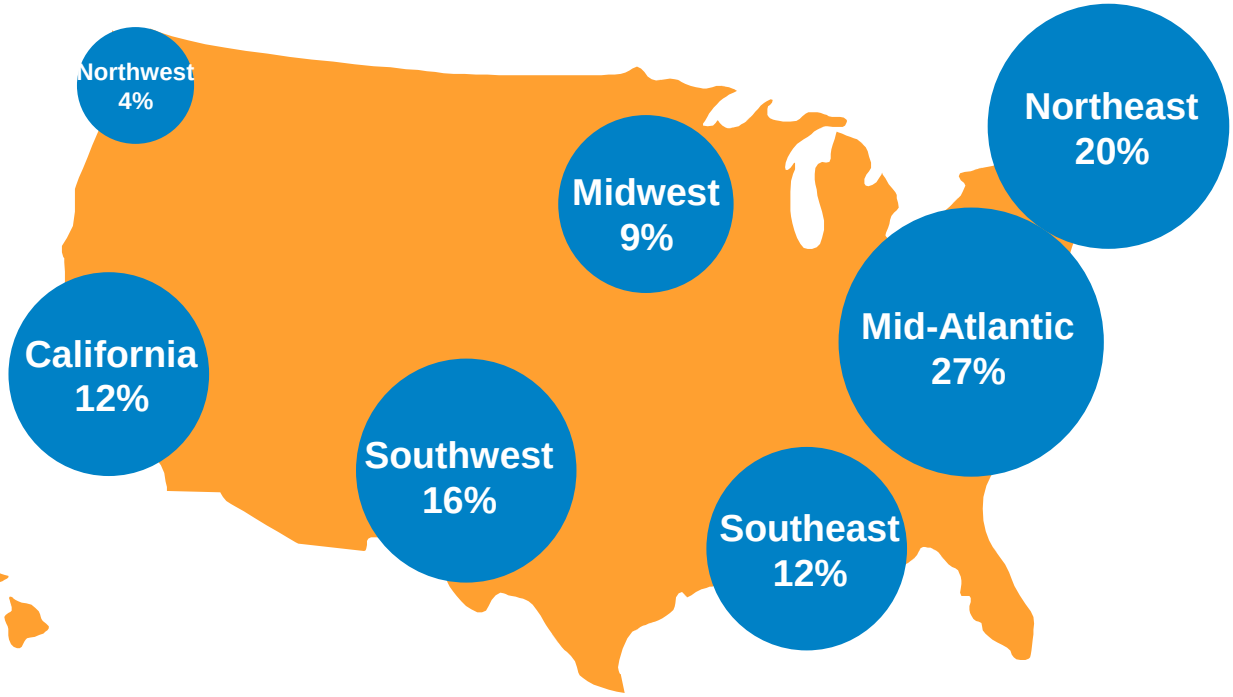
National Association of Water Companies (NAWC)

- Trade association representing all aspects of the private water service industry
- Nearly 73 million Americans receive water service from a privately owned water utility or a municipal utility operating under a public-private partnership
- Private water companies own and operate 17% of the nation's community water systems.
- Key member services include regulatory, governmental and water service solutions

NAWC: History and Background

- Founded in 1895 in Pennsylvania
- Only investor-owned utilities until 2009
- Integrated PPP-company Water Partnership Council on June 1, 2009
- Members in every region of U.S. including large companies owning or operating in hundreds of communities to small utilities with a few hundred customers

NAWC: Member Concentration



Water – A Necessity of Life

- Only utility service physically ingested
- Must be “safe” regardless of cost
- Increasingly stringent quality standards
- Increasing threats to supply
- Service largely taken for granted
- Expectation of high level of reliability
- Key role in society

Water Compared to Other Utilities

- There is no substitute
- Critical for fire protection
- Critical for economic stability & growth
- Only utility sector that has not been “deregulated”
- Environmental regulation – no Federal agency like FERC or FCC
- High capital needs - low rate of capital recovery
- Least expensive, on average, to consumers
- Fragmented - low economies of scale

A Fragmented Industry

Constraints contributing to inability to achieve maximum efficiencies from economies of scale:

Quantity

- More than 52,000 community water systems

Size

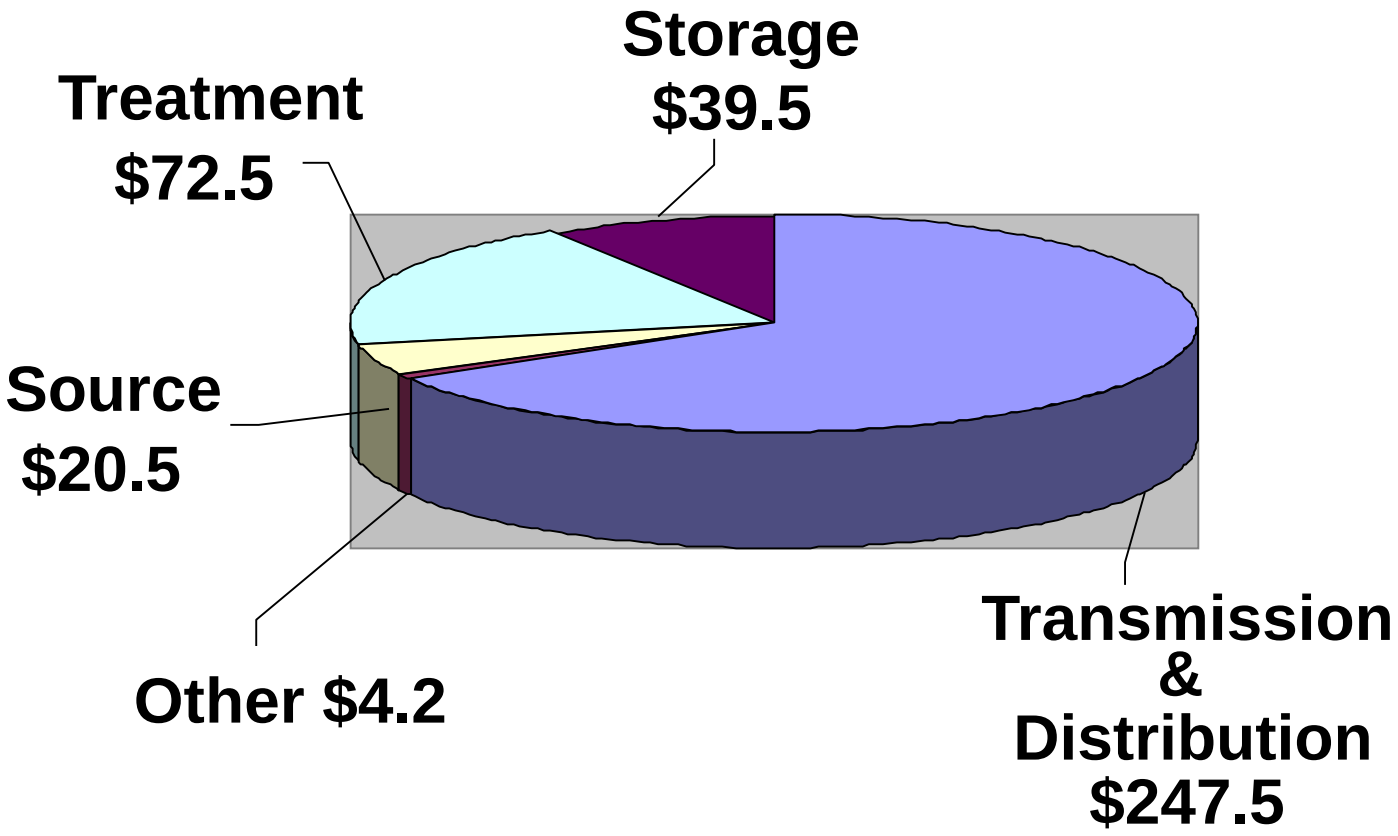
- 83% of the water systems serve less than 3,300 people
- Less than 1% of the water systems serve more than 100,000 people

Over 80% of market are public entities

Cost Comparison

- Water is most affordable utility expense on average
- In 2014, U.S. household on average spends $4,980 per year on utility services
  - Electricity - $1,851
  - Telephone and ICT - $1,764
  - Natural Gas and Fuel Oil - $688
  - Water and Wastewater - $677
- But Water requires significant investment

EPA: $384.2 Billion Needed By 2030

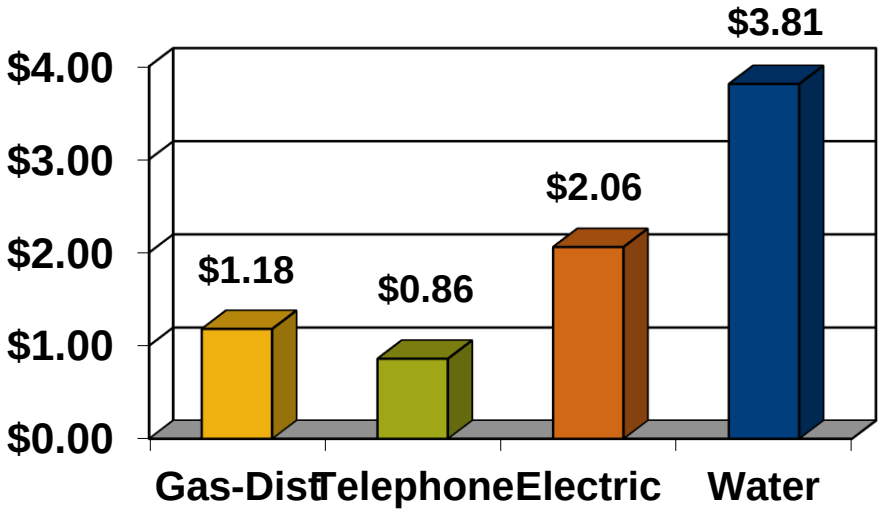


Source: EPA Drinking Water Infrastructure Needs Survey and Assessment, Fifth Report to Congress

Water Industry is the Most Capital Intensive Industry

Capital Invested per $1 of Revenue

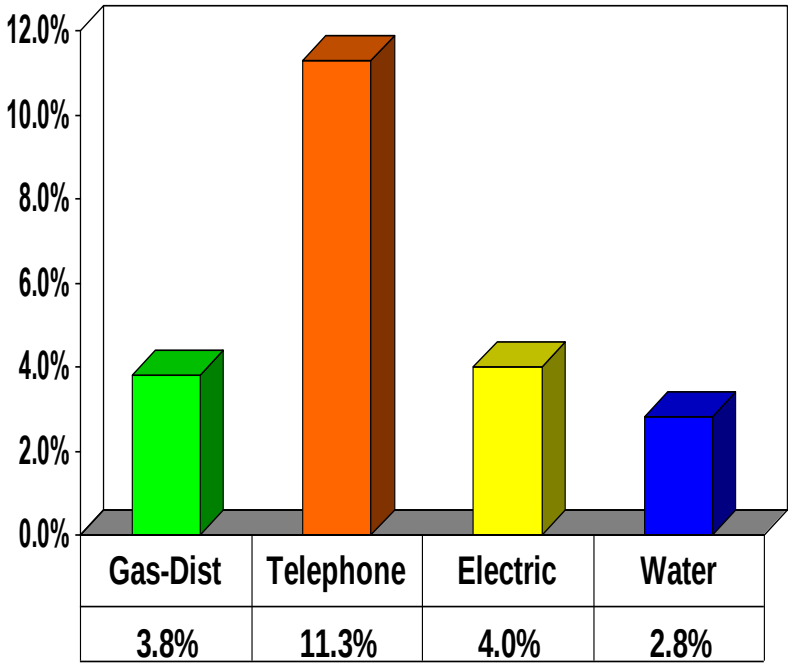
- EPA Rules require large investment (filtration plants, compliance measures)
- Substantial investment needed for supply and distribution system
- More capital per revenue than all other utilities



Source: 2009 AUS Utility Reports

Lowest Depreciation Rates

- Replacement cost much higher than historic cost
- Water industry has longest capital recovery period



Source: 2009 AUS Utility Reports

- Water Industry Challenges

Industry Challenges

Aging Infrastructure

Growing EPA Mandates

Tight Credit Markets

Scarce Supply

Declining Consumption

Increasing Expenses

Limited Opportunities for Growth

Security Concerns

Regulatory Lag

Alternative Regulation Across Utilities

- In 2013, NAWC investigated mechanisms that allow timely recovery for aging assets and rising costs
- First study of its kind; data confirms assumptions of regulatory treatment of water utilities
- Conclusions
  - Significant progress made in recent years (specifically DSICs & FTY)
  - Water remains well behind regulated energy counterparts:
    - "…electric and natural gas delivery industries have in place a larger number and a greater variety of alternative regulation policies compared to the water industry."

Alternative Regulation Survey Results

	Electricity	Natural Gas	Water
Revenue Stabilization: Mechanisms that adjust base revenues without addressing costs between rate cases. Examples: Conservation adjustments, decoupling, LRAM	27	30	5
Comprehensive Alternative Ratemaking: Mechanisms that move beyond the general rate cases of cost of service regulation and integrate future costs from investment projects and other sources. Examples: Formula rates, multi-year rate mechanisms	34	18	4
Alternative Ratemaking for Capital Expenditures: Mechanisms designed to collect the costs of standard investments to maintain the integrity of distribution systems. Examples: DSIC and CapEx riders	17	22	15

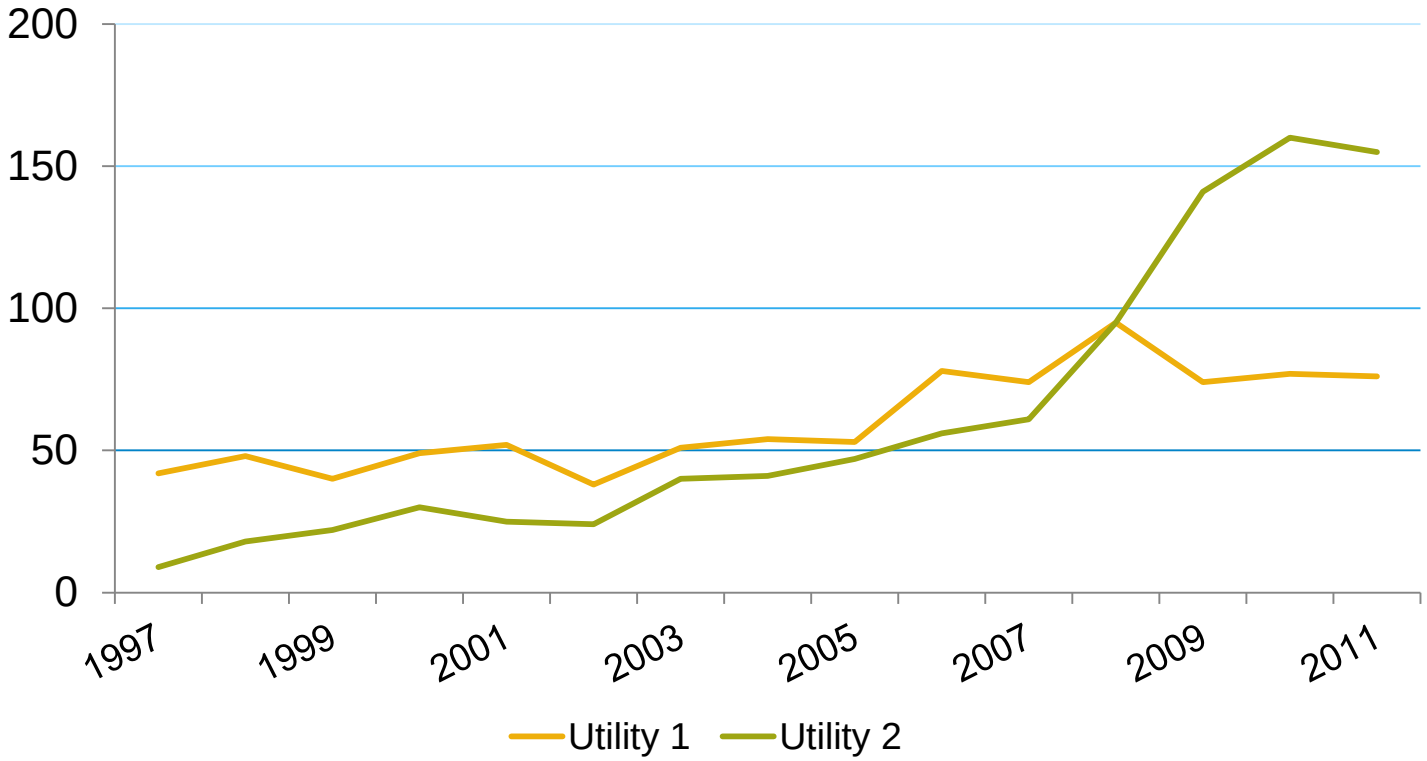
- Water Industry Opportunities

Recent Developments & Shifting Policy Momentum

- Significant policy momentum toward alternative regulation in the past three years
  - States with infrastructure cost recovery mechanisms has gone from 9 in 2011 to 15 in 2014.
- NARUC Resolutions Passed:
  - Recognizing role of alternative regulation (2013)
  - Recognizing ROE gaps across water industry (2013)
  - Identifying best practices in the regulation of small water systems (2013)

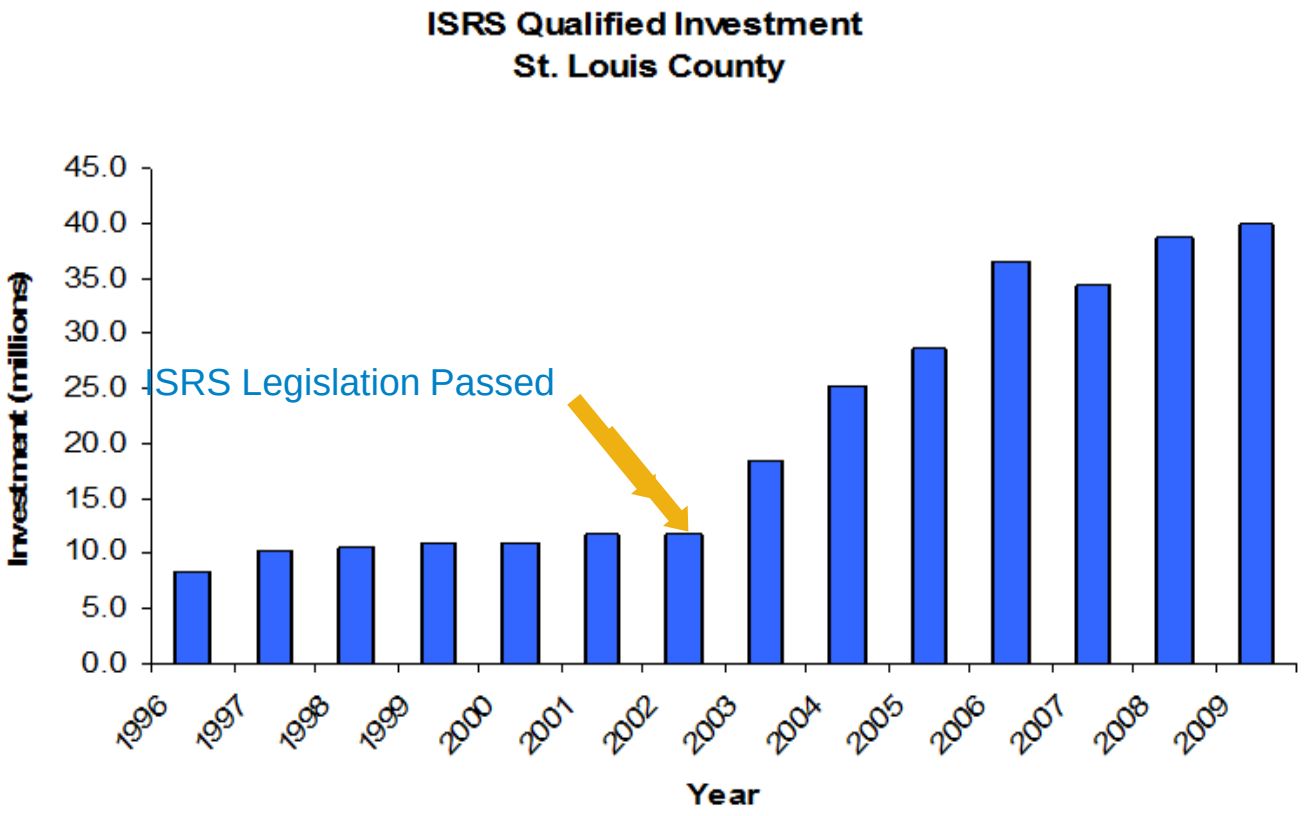
Infrastructure Investment with DSIC

- Miles of line replaced per year in **Pennsylvania** since implementation of DSIC in 1997
- Average time between rate cases has increased 66%



Infrastructure Investment with DSIC (continued)

- Investment in water infrastructure in **Missouri** has steadily increased since implementation of ISRS (DSIC equivalent)
- Average time between rate cases has doubled



Recent Developments in Best Practices

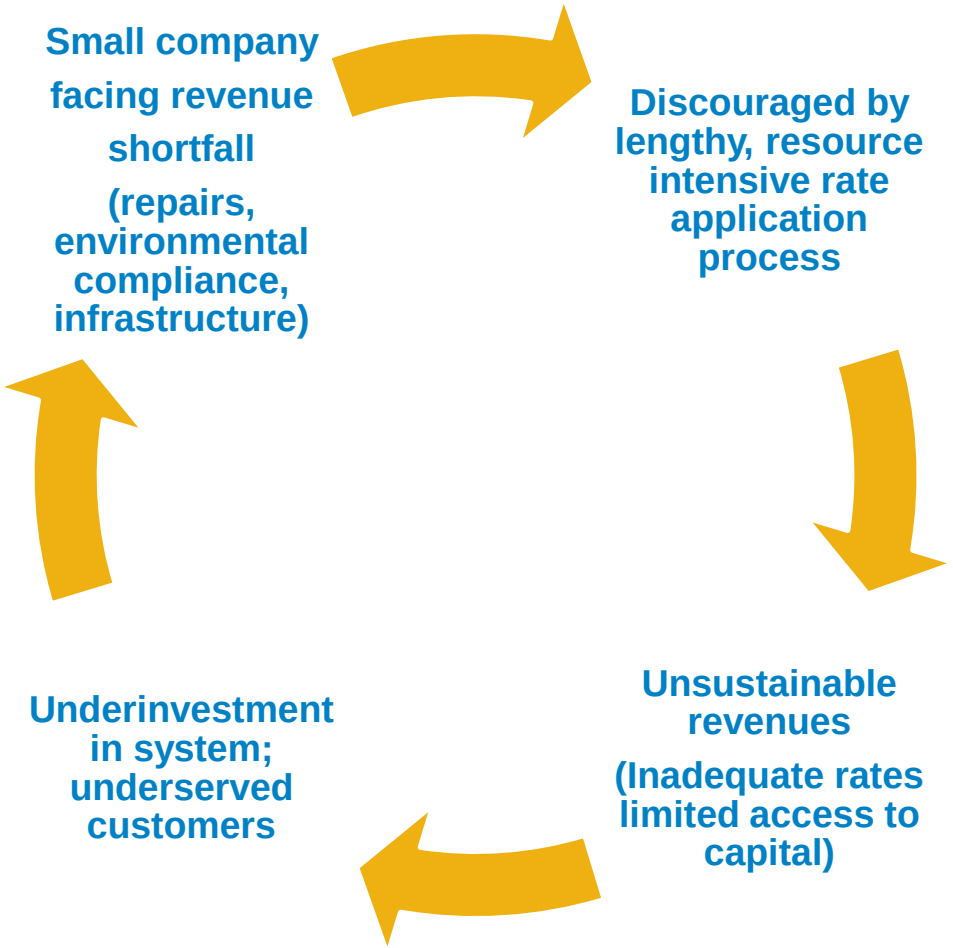
State	Best Practice	Date	Law
PA	Future test year; wastewater infrastructure mechanism; water and wastewater rate base consolidation	2/14/2012	Act 11
NJ	Water infrastructure mechanism	10/23/2012	NJAC 14:9 – 10
CT	Water infrastructure surcharge expansion; acquisitions; RAM	3/7/2013	Public Act # 13 – 78
OH	Water and wastewater infrastructure surcharge expansion; future test year	3/27/2013	HB 379
TN	Allow alternative regulatory methods	4/19/2013	HB 191
ME	Water infrastructure mechanism	6/1/2013	Chapter 675
NC	Water and wastewater infrastructure mechanism; purchased water pass through	6/6/2013	HB 710
AZ	Water infrastructure mechanism	6/27/2013	Decision 73938
NV	Water infrastructure surcharge; repression; decoupling	7/1/2013	Bill #436
IN	Future test year	7/1/2013	SB 560

- Small Systems

Remaining Challenge: Small Systems

- Affects the majority of systems across the U.S.
- Small system rate applications are very expensive per customer
- Small system rate applications are complicated and time consuming limiting timely filings
- Large percentage of CIAC plant reduces rate base
- Capital not readily available for emergencies

Small Systems: Breaking the Cycle of Underinvestment



July 2013: Resolution Supporting Regulatory Best Practices for Small Water Systems

- Identifies 10 core regulatory practices and 3 general management practices
- All mechanisms and policies are in place in at least one state
- Primary aim is to alter the ratemaking effort to match the scope of the impact
- Mechanisms can lessen the regulatory burden on system owners and ultimately help ratepayer
- Examples:
  - Simplified rate applications; use of annual report to fulfill majority of rate application process
  - Electronic filing procedures
  - Simplified rate-of-return mechanisms
  - Cost of living adjustments
  - Facilitating emergency infrastructure funds
  - Limiting use of CIAC

Examples of Best Practices in Place

- Florida:
  - CPI Adjustment
  - Staff-Assisted Rate Case Application
  - Inter-agency cooperation: DEP-PSC MOU
  - Index Pass-Through
  - Use of future test year
  - Acquisition adjustment rule
  - Interim rates
  - Option to rely on operating ratio methodology

Examples of Best Practices (cont.)

- California:
  - CPI Adjustment
  - Staff-Assisted Rate Application, simplified procedures
  - Inter-agency cooperation: Capacity Development Program for small systems through DPH
- Virginia:
  - Direct staff assistance
  - With proper public notification and documentation, rate increases approved as long as %increase < 50% of current revenue

Examples of Best Practices (cont.)

- Indiana:
  - Extensive educational resources for small systems
  - Small Utility Toolkit
  - Excel template for annual revenue increase program (16 lines)
- Nevada
  - Simplified rate application template in Excel
  - Electronic filing
  - Automatic adjustments tied to “GDP Deflator”

Productive Regulatory Environment

- Cooperative regulatory practices
  - Cooperation does not displace diligence or rigor
- Measured by its output – less frequent rate cases, significant customer participation, avoidance of rate shock and regulatory lag
- Customers receive reliable and safe service from its utility at the best available price
- Requires from the utility:

Access to capital	Expertise
Efficient operation	Solid management
Creativity	

- Looking Forward

The Regulatory Compact

- Companies – Deliver safe and reliable service
- Consumer Advocates – Represent interests of the public for quality and cost
- Commissions – Balance:
  - Appropriate service quality
  - Affordability of rates
  - Financial health of the utility

A fair return authorized and a fair "opportunity" to earn it

Fair Return on Equity and Predictable Regulatory Climate Essential To:

- Utilities ability to attract capital
- Maintain and replace aging infrastructure
- Comply with Water Quality Standards
- Expand water service to those who need it

Regulatory Stability

Wall Street perspective:

"…most heavily weighted factor in Standard & Poor's Rating Services' analysis of a regulated utility's business risk profile."

S&P RatingsDirect®, "Assessing U.S. Investor-owned Utility Regulatory Environments", January 7, 2014.

The Future

- Major capital investment is needed and the private sector can and should play a role
- Communicating the Value of Water will continue to be a challenge
- Regulatory and Structural change can help assure quality service at a reasonable price
- Important to keep Wall Street comfortable with the “Regulatory Compact”

Thank you

For further information, contact:

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Attachment 2

State of Florida

Public Service Commission

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TALLAHASSEE, FLORIDA 32399-0850

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

DATE: June 28, 2016

TO: Braulio L. Baez, Executive Director

FROM: Office of Telecommunications (Fogleman, Beard, Deas, Long, Curry, Bates)
Office of General Counsel (Murphy, Lherisson)

RE: FCC 2016 Lifeline Modernization Order

Critical Information: Please place on July 7, 2016 Internal Affairs.
BRIEFING ONLY - FOR INFORMATIONAL PURPOSES

The Federal Communications Commission (FCC) released its 224-page Lifeline Modernization Order (Order) significantly reforming the program as it is known today.[1] The FCC's Order takes a variety of actions to encourage more Lifeline providers to deliver newly supported broadband services as the FCC transitions from primarily supporting voice services to broadband services. The FCC anticipates that its new rules will be in effect by December 2016.[2]

While the explicit support of broadband is an important piece of the change, the aspects that impact Florida's program relate to customer eligibility, implementation of a national verifier, and reductions in support for voice only services. As part of the expansion to support broadband through the Lifeline program, the FCC also established minimum service standards for broadband and mobile voice services to ensure those services meet the needs of consumers.

Finally, the FCC outlined a five-year transition that will move support from voice only to services that at least include a broadband component. The FCC will reevaluate the phase-out of support for stand-alone voice services as part of a 2021 report on the State of the Lifeline Marketplace.

Lifeline reform will be addressed on Wednesday, July 27, 2016, at the Summer NARUC meetings in Nashville, Tennessee. Attached are both a more detailed summary of the full Order (Attachment A) and a brief summary of the FPSC's comments on the Notice of Proposed Rulemaking in 2015 and the outcome of those issues in the Order (Attachment B).

cc: Keith Hetrick, General Counsel
Apryl Lynn, Deputy Executive Director, Administrative
Mark Futrell, Deputy Executive Director, Technical

[1] FCC 16-38, WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization, Third Report and Order, released April 27, 2016, https://apps.fcc.gov/edocs_public/ attachmatch/FCC-16-38A1.pdf, access on June 23, 2016.
[2] Beginning on the later of December 1, 2016 or 60 days following Paperwork Reduction Act approval.

Overview of FCC Lifeline Modernization Order

In the FCC's Lifeline Modernization Order, the FCC focuses the Lifeline program on broadband by encouraging broadband providers to offer supported broadband services that meet the FCC's standards. These standards are intended to ensure ratepayers supporting the program are obtaining value for their contributions and Lifeline subscribers can participate fully in today's society. The FCC also takes important steps to improve the management and design of the program. Finally, the FCC moves to eliminate outdated program obligations, with the goal of providing incentives for broadband providers to participate, increase competition and provide meaningful broadband offerings to Lifeline subscribers.

Legal Authority

The FCC based its action to include Broadband Internet Access Service (BIAS) as a supported service for the purposes of the Lifeline Broadband program in Section 254 of the Telecommunications Act. In Section 254, Congress expressly recognized the importance of ensuring that low-income consumers "have access to telecommunications and information services, including . . . advanced telecommunications and information services" and that universal service is an "evolving level of telecommunications service."[3]

Section 254 also outlines issues the FCC should consider when defining what services should be supported by the federal universal service program. Below are the statutory criteria found in Section 254(c)(1) with a short summary regarding how the FCC believes that these changes in definitions are warranted:

- Essential to education, public health, or public safety: Access to broadband shortens the distance to high-quality education, meaningful employment, and reliable healthcare.

- Subscribed to by a substantial majority of residential customers through the operation of market choices: Eighty-four percent of American adults use the Internet. Surveys have shown that when households have the means, they connect to the Internet at home at rates upward of 95 percent. Currently, approximately two-thirds of Americans subscribe to broadband at home.

- Deployed in public telecommunications networks by telecommunications carriers: Over the last few years, billions of dollars in capital investment have been spent on the deployment of broadband networks by telecommunications carriers.

- Consistent with the public interest, convenience, and necessity: One-third of recent job seekers have reported that the Internet was the most important resource available in finding employment.

Consistent with those statutory objectives, the FCC defined BIAS as a supported service, and eligible for support when bundled with voice or as a standalone service.

[3] §§47 47 W.S.C. 254(b)(3); 254(c)

Minimum Service Standards for Broadband

The FCC's Order modified its rules to establish minimum service standards for all Lifeline supported services based on services to which a "substantial majority" of consumers have already subscribed (see Table 1). The FCC will use data collected from carriers to update these standards.[4] While the FCC concludes that 70 percent of consumers constitutes a "substantial majority" as it relates to fixed broadband speeds, it acknowledges that it lacks the data to precisely determine what percent of consumers subscribe to other modes of service at particular service levels.

Despite this, the FCC set minimum standards for other supported services at levels that it believes constitute a substantial majority of consumers based on the information available. Carriers will be required to annually certify with the FCC that they are in compliance with the applicable minimum service levels. The FCC declined to set any minimum service standards for fixed voice services.

Table 1
Mobile and Fixed Service Standards

<table>
<tr><th>Date</th><th>Mobile Voice</th><th>Mobile Broadband</th><th>Fixed Broadband</th></tr>
<tr><td>12/01/16</td><td>500 Minutes</td><td>Usage Allowance: 500 MB</td><td>Speed: 10/1
Usage Allowance: 150 GB</td></tr>
<tr><td>12/01/18</td><td>750 Minutes</td><td>Usage Allowance: 1 GB</td><td rowspan="6">Updated annually based on usage reported to FCC</td></tr>
<tr><td>12/01/19</td><td>1,000 Minutes</td><td>Usage Allowance: 2 GB</td></tr>
<tr><td>12/01/20</td><td>1,000 Minutes</td><td rowspan="3">Updated annually based on usage reported to FCC</td></tr>
<tr><td>12/01/21</td><td>1,000 Minutes</td></tr>
<tr><td>12/01/22</td><td>1,000 Minutes</td></tr>
</table>

Voice Support Phase Down

The FCC states that to be sustainable and achieve its goals of providing low-income consumers with robust, affordable and modern service offerings, a forward-looking Lifeline program must focus on broadband services. Therefore, the FCC concludes that it is necessary that, following an extended transition period, the Lifeline discount will no longer apply to a voice-only offering. The FCC did include an exception in those census blocks with only one Lifeline provider.

After this transition, the federal Lifeline program will continue to support voice service when bundled with a broadband service which meets the FCC's minimum service standards. Prior to the complete phase out of support for voice only services, the FCC will reevaluate its conclusion

[4] The FCC will collect data from carriers on its Form 477 that is filed twice a year. Additional wireless data will be available as part of the FCC's annual Mobile Competition Report.

as part of a 2021 report on the State of the Lifeline Marketplace. Table 2 below outlines the FCC's phase down schedule.

Table 2
Lifeline Support Phase Down Schedule

Effective Dates	Fixed Voice	Mobile Voice	Fixed Broadband	Mobile Broadband
Through 11/30/19	$9.25	$9.25	$9.25	$9.25
From 12/1/19 to 11/30/20	$7.25	$7.25	$9.25	$9.25
From 12/1/20 to 11/20/21	$5.25	$5.25	$9.25	$9.25
After 11/30/21	$0	$0	$9.25	$9.25

National Lifeline Eligibility Verifier

By this Order, the FCC establishes a National Lifeline Eligibility Verifier (National Verifier) to verify the eligibility and enroll subscribers for Lifeline service nationwide. The National Verifier will include electronic and manual methods to determine eligibility and will include a Lifeline Eligibility Database. In addition to determining eligibility for Lifeline, the National Verifier will allow access by authorized users, provide support payments to providers and conduct recertification of subscribers.

The FCC intends for the National Verifier to remove the responsibility for determining eligibility from entities providing service to subscribers. The intent is to replace a patchwork of eligibility determinations that vary from state to state with a uniform platform for administering Lifeline. The FCC believes that transferring eligibility certification from providers will make it easier for them to comply with Lifeline rules. The objectives of the National Verifier include protection against and reduction of waste, fraud, and abuse; lower costs to the fund and providers; and offer greater choice to subscribers.

While the National Verifier will initially include both manual and electronic certification to determine the eligibility of subscribers, the long-term goal is to do so electronically. The FCC expects Universal Service Administrative Company (USAC) to work with states and other federal agencies and Tribal Nations to develop an efficient system of eligibility confirmation. Lifeline providers will only be able to claim and receive support after a subscriber has been confirmed to be eligible. If a subscriber is not listed and claimed in the Lifeline Eligibility Database, the provider will not be permitted to claim support for that customer.

The National Verifier will allow subscribers to contact it directly to initiate and complete eligibility determinations and applications for Lifeline service. During the application and certification process, the National Verifier will communicate directly with subscribers and will notify them of the final status of their application. Once in the Lifeline Eligibility Database, a subscriber will be given information on which benefits are available and providers in their area. The FCC directed USAC to develop a management system to advance the objectives of the National Verifier.

The FCC directed USAC to submit the "Draft National Verifier Plan" before December 1, 2016. The plan should fully describe the National Verifier, set out a proposed strategy, estimated

timeline, and estimated budget for deploying each part of the National Verifier. After approval, USAC will provide an Implementation Update on or before July 31 and January 31 of each year until implementation is complete.

The FCC expects the National Verifier to be live in at least five states by December 31, 2017. In addition, the FCC expects that in 2018, the National Verifier will be deployed to twenty additional states. By December 31, 2019, the FCC expects that Lifeline eligibility will be determined in all states and territories using the National Verifier. As the National Verifier is deployed, the responsibility to verify eligibility will transition from Eligible Telecommunications Carriers (ETCs) or state administrators to the National Verifier. USAC will inform stakeholders of its deployment schedule in the states when it is ready to deploy the National Verifier.

Lifeline Eligibility and Qualifying Programs

Once in effect, the FCC's new rules specify the only qualifying programs for the Lifeline enrollment that will be accepted for federal support. State-specific eligibility criteria will no longer qualify consumers in the federal program. States that have their own Lifeline program can continue to use their own criteria to distribute state Lifeline support. One new qualifying program added as part of the FCC's reform is the Veterans Pension benefit. The FCC has maintained its income qualification criteria at 135 percent of the federal poverty guidelines. Table 3 below outlines the differences between the eligibility criteria that are used today in Florida and the new FCC criteria.

Table 3
Lifeline Qualifying Programs Changes

Current Florida Qualifying Programs	New FCC Qualifying Programs	Effect
Supplemental Nutrition Assistance Program	Supplemental Nutrition Assistance Program	No change
Medicaid	Medicaid	No change
Supplemental Security Income	Supplemental Security Income	No change
Federal Public Housing Assistance	Federal Public Housing Assistance	No change
Tribal Temporary Assistance to Needy Families, Tribal Head Start Subsidy and Tribal Food Distribution	Tribal Temporary Assistance to Needy Families, Tribal Head Start Subsidy and Tribal Food Distribution	No change
	Veterans Pension benefit.	New program
135 to 150 Percent of Federal Poverty Guidelines[5]	135 Percent of Federal Poverty Guidelines	Change in Percentage
National School Free Lunch Program		Discontinued
Temporary Cash Assistance[6]		Discontinued
Low-Income Home Energy Assistance Program		Discontinued

[5] Section 364.10(2)(a) F.S.
[6] Also known as Temporary Assistance for Needy Families.

Lifeline Broadband Provider Designation

As an initial matter, the FCC will continue to require Lifeline providers be designated as ETCs. The Order intends to encourage entry of new Lifeline providers to supply broadband by creating a "streamlined" Lifeline Broadband Provider (LBP) designation process administered by the FCC. The FCC asserts its jurisdiction to designate BIAS providers as ETCs solely for the purpose of receiving reimbursement through the Lifeline program. LBPs will be designated by the FCC based on Section 214(e)(6) of the Act. The FCC argues that state designations for this new LBP ETC designation would thwart federal universal service goals and broadband competition, and, accordingly, preempt state designations.

The FCC's "streamlined" designation process will deem LBP petitions granted within 60 days of a completed filing, providing that the carrier is financially stable and experienced in providing broadband services. Carriers are expected to be serving at least 1,000 non-Lifeline customers with either voice or broadband service at the time they file their petitions with the FCC. In addition, carriers must have offered broadband service to the public for at least two years preceding the filing.

Carriers that have received the LBP designation from the FCC can expand their designated service area by filing a letter with the FCC identifying the new service area it plans to offer Lifeline-supported services. The carrier will also have to certify that there has been no material change to the information submitted in the petition for which the carrier received its LBP designation.

The FCC states that it does not preempt state ETC designation for providers seeking voice Lifeline ETC designation to provide voice service or for providers seeking broader ETC designations that include high-cost funding. If voice-only support is phased out of the Lifeline program in 2021, states will only designate ETCs seeking support from high-cost and low-income programs.

Lifeline Obligations and Forbearance

The FCC's Order considers what ETC service obligations continue to be appropriate and what obligations can be eliminated, through targeted forbearance, to encourage broader participation and competition. The FCC considers three general classes of Lifeline carriers: (1) Voice Lifeline ETCs, (2) Lifeline/High-Cost ETCs, and (3) LBP ETCs.

Voice Lifeline ETCs

For existing Voice Lifeline ETCs, the FCC concludes that it is in the public interest to forbear from requiring such carriers to offer Lifeline-supported broadband internet access service. As a result of this forbearance, existing Voice Lifeline ETCs will be able to continue to offer voice service, consistent with the Lifeline program's rules. At the same time, Voice Lifeline ETCs remain eligible for Lifeline broadband support to the extent that they elect to provide that service. ETCs that seek to avail themselves of this forbearance and only offer voice service must file a notification with the FCC.

Lifeline/High-Cost ETCs

Lifeline/High-Cost ETCs are eligible for Lifeline voice and broadband support. The FCC did forbear from the ETC obligation to offer Lifeline BIAS and to permit them to solely offer voice in the Lifeline program, provided they file a notification with the FCC. This forbearance, however, does not apply to areas where ETCs commercially offer broadband that meets the Lifeline minimum service standards pursuant to their high-cost USF obligations. In areas where the provider receives high-cost support but has not yet deployed a broadband network consistent with the provider's high-cost service obligations, the obligation to provide Lifeline-supported BIAS begins only when the provider has deployed a high-cost supported broadband network to that area and makes its BIAS commercially available.

Lifeline/High-Cost ETCs may also forbear from voice services and only offer broadband in limited circumstances. Specifically, the FCC would grant forbearance from the obligation to offer and advertise Lifeline voice service where the following conditions are met: (a) 51 percent of Lifeline subscribers in a county are obtaining broadband; (b) there are at least three other providers of Lifeline BIAS that each serve at least five percent of the Lifeline broadband subscribers in that county; and (c) the ETC does not actually receive federal high-cost universal service support. This conditional forbearance does not grant relief from the Lifeline voice service obligations to those Lifeline subscribers that the Lifeline/High-Cost ETC serve at the time the forbearance conditions are met.

Lifeline Broadband Providers ETCs

For providers that receive ETC designation as LBP, such a designation makes them eligible for Lifeline broadband support, with the accompanying obligation to offer Lifeline broadband service. Conversely, such providers do not have any Lifeline voice service obligations as a result of their designation specifically as an LBP. The FCC also provides for streamlined relinquishment procedure for LBP. Under the FCC's new rules, a LBP's advance notice of its intent to relinquish its designation shall be deemed granted by the FCC 60 days after the notice is filed, unless the FCC notifies the LBP that the relinquishment will not be effective automatically.

Mobile Wi-Fi and Hotspot Requirements

The FCC recognizes that in order to adopt advanced telecommunications services, households will require devices that enable them to bridge the digital divide. Therefore, the FCC has required Lifeline ETCs that provide both supported mobile broadband service and devices to their consumers must provide devices that are Wi-Fi enabled and offer devices equipped with hotspot functionality.

Porting Freeze

To further incentivize investment in Lifeline service offerings, the FCC implements Lifeline benefit port freezes, which limit how frequently Lifeline consumers can switch from one Lifeline carrier to another. For voice services, the customers will have to stay with their selected Lifeline carrier for 60 days. For customers receiving Lifeline support for broadband services, the length of time they are locked in to that provider is 12 months.

In certain circumstances, Lifeline subscribers may cancel service and receive a new Lifeline-supported service with another provider until the end of the original 12-month period. In these

circumstances, the subscriber is not required to re-verify eligibility until the end of the original 12-month period. A subscriber may transfer his Lifeline benefit to another provider prior to completion of the 12-month period if:

- The subscriber moves their residential address
- The provider ceases operations or otherwise fails to provide service
- The provider has imposed late fees for non-payment related to the supported service(s) greater than or equal to the monthly end-user charge for service
- The provider is found to be in violation of the FCC's rules during the benefit year and the subscriber is impacted by such violation

Budget

As part of its Order, the FCC establishes a budget for the expanded Lifeline program of $2.25 billion, indexed to inflation. By way of comparison, the authorized support for the Lifeline program in 2015 was $1.49 billion.[7] The new rules would require FCC staff to notify the FCC when spending reaches 90 percent of the budget and prepare an analysis of the causes of spending growth, with recommended actions for the FCC to consider. Currently, the rate of support will be maintained at $9.25 per household.

Program Evaluation

The FCC's program evaluation consists of two parts. First, the FCC includes affordability of voice and broadband service as a component of its first and second program goals and separately measures progress towards that goal component. The FCC clarifies that the Lifeline program includes as its goal ensuring the affordability of voice and broadband service. Second, the FCC will begin a long-term process of evaluating the new Lifeline program. By May 24, 2017, USAC must begin a procurement process for an outside, independent, third-party evaluator to complete a program evaluation of the Lifeline program's design, function, and administration. The outside evaluator must complete the evaluation and USAC must submit the findings to the FCC by December 31, 2020, so that the evaluation can be incorporated, as appropriate, into the State of the Lifeline Marketplace Report, due June 30, 2021.

Non-Usage Reforms

The FCC's non-usage reforms include allowing the sending of a text message by the subscriber to qualify as "usage" for its rules. As a result of allowing texts to satisfy the usage requirement, the FCC shortened the non-usage period from 60 to 30 days, along with a corresponding reduction in the time allotted for service providers to notify their subscribers of possible termination from 30 to 15 days.

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[7] Universal Service Administrative Company, 2015 Annual Report, http://www.usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-2015.pdf, accessed on June 5, 2016, p. 41.

Rolling Recertification

The FCC addresses recertification for Lifeline benefits by specifying that the annual recertification of subscribers should be on a rolling basis, based on the subscriber's service initiation date. This will prevent the entity responsible for recertification from processing recertification and potential de-enrollment procedures for all subscribers at the same time. In addition, the FCC revised several rules that have the effect of:

- clarifying that the entity responsible for recertifying subscribers must first query the appropriate state or federal database to determinate on-going eligibility prior to using other means to recertify subscribers
- requiring a subscriber be given 60 days to respond to recertification efforts
- specifying that de-enrollment should occur within five business days after the expiration of the subscriber's time to demonstrate eligibility

Publishing Lifeline Subscriber Counts

The FCC also directs USAC to modify its online Lifeline tool to make available to the public information about the Lifeline program, such as the total number of subscribers for which a provider seeks support for each Study Area Code, including how many subscribers are receiving enhanced Tribal support. The FCC also directs USAC to consider new ways in which states or other government entities may be given increased access to the National Verifier or the National Lifeline Accountability Database for the purposes of better program administration.

Comparison of Florida Statutes with FCC Order

There are apparent inconsistencies between the Florida Lifeline Statute and the FCC Order. These inconsistencies will need to be resolved during implementation of the Order. Section 364.10(2)(a), Florida Statutes (F.S.), provides, in part, that

> Each local exchange telecommunications company that has more than 1 million access lines and that is designated as an eligible telecommunications carrier shall, and any commercial mobile radio service provider designated as an eligible telecommunications carrier pursuant to 47 U.S.C. s. 214(e) may, upon filing a notice of election to do so with the commission, provide Lifeline service to any otherwise eligible customer or potential customer who meets an income eligibility test at 150 percent or less of the federal poverty income guidelines for Lifeline customers. Such a test for eligibility must augment, rather than replace, the eligibility standards established by federal law and based on participation in certain low-income assistance programs.

It appears that the 150 percent federal poverty guidelines referenced above may not be compatible with the 135 percent federal poverty guidelines established in the FCC's Lifeline Modernization Order. The Order removes state-specified customer eligibility criteria for eligibility in the federal Lifeline program. Using the 150 percent versus 135 percent of the federal poverty guidelines may be considered a "state-specified eligibility criteria."

As previously discussed, the FCC envisions a National Verifier, which will be used by all states to verify customer eligibility for the Lifeline program. Section 364.10(2)(g)2, F.S., states:

> If any state agency determines that a person is eligible for Lifeline services, the agency shall immediately forward the information to the commission to ensure that the person is automatically enrolled in the program with the appropriate eligible telecommunications carrier. The state agency shall include an option for an eligible customer to choose not to subscribe to the Lifeline service. The Public Service Commission and the Department of Children and Families shall, no later than December 31, 2007, adopt rules creating procedures to automatically enroll eligible customers in Lifeline service.

As the National Verifier is deployed, the responsibility to verify customer eligibility will transition from ETCs or state administrators to the National Verifier. As such, the automated enrollment system that has been developed with DCF may become obsolete.

Summary of FPSC's Comments and FCC's Actions

On June 22, 2015, the FCC released a Notice of Proposed Rulemaking and Order seeking comments on restructuring the Lifeline program to include access to broadband.[8] The FPSC filed comments in that proceeding on August 31, 2015. Below is an outline of those points followed by a brief description (in italics) of what action the FCC took in the Lifeline Modernization Order:

- Recommend establishing a budget or cap for the Lifeline program

  The FCC established a flexible budget of $2.25 billion.

- Support limiting the number of qualifying Lifeline programs to SNAP, Medicaid, and Temporary Assistance for Needy Families (TANF)

  The FCC limited the number of qualifying programs including SNAP and Medicaid, but did not include TANF, and added Veterans Pension benefits.

- Recommend that prior to preemption of state authority to designate ETCs, the FCC should refer the matter to the Universal Service Joint Board

  The FCC did not refer the issue of ETC designation before preempting states from designating Lifeline Broadband Providers.

- Specify that ETCs, rather than their commissioned agents, should review and approve consumer's document of eligibility, until a third party verification is implemented

  The FCC will be transitioning to a national verifier program removing carriers from approving a customer's eligibility. The FCC took no additional action regarding commissioned agents in this Order; it did note that such ETCs are liable for the actions of such agents.

- Support the development of a process whereby Lifeline participants who are determined to be no longer eligible for the programs are automatically de-enrolled

  The FCC did not take action to specifically address this issue. However, if customers are determined to no longer be eligible for the Lifeline program, they will be de-enrolled within five-days.

[8] FCC 15-71, WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization, Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, released June 22, 2015, http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0622/FCC-15-71A1.pdf, accessed on June 24, 2015.

- Support changing the 60-day non-usage requirement to 30 days in order to eliminate any unnecessary reimbursement from the USF Fund

  The FCC shortened the non-usage period from 60 to 30 days as recommended.

- Recommend that the FCC should reassess the $9.25 reimbursement rate to ensure it is sufficient one year after implementing reforms to support broadband

  The FCC did not make a commitment to reassess the reimbursement rate after one year, but did direct the Bureau to complete a State of the Lifeline Marketplace report by 2021 which may address the need for any change in the reimbursement rate.

- Recommend referral of Lifeline issues that require state partnership at a minimum to the Universal Service Joint Board

  The FCC did not refer any issues to the Universal Service Joint Board from this Order.

Attachment 3

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-

DATE: June 28, 2016

TO: Braulio L. Baez, Executive Director

FROM: Office of Telecommunications (Fogleman, Bates, Curry, Long)

RE: Draft of the Report on the Status of Competition in the Telecommunications Industry

CRITICAL INFORMATION: Please place on the July 7, 2016 Internal Affairs. FPSC approval of draft report is sought. Report due to the Governor and Legislature by August 1, 2016.

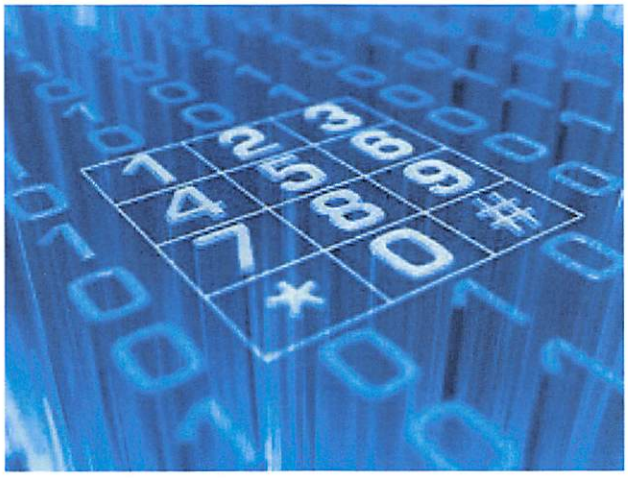
Section 364.386, Florida Statutes, requires that the Commission prepare an annual report on the status of competition in the telecommunications industry. The report is to be submitted to the Governor, the Speaker of the House of Representatives, the President of the Senate, and the majority and minority leaders of the Senate and the House of Representatives by August 1st of each year. The attached draft report on the "Status of Competition in the Telecommunications Industry" has been prepared to fulfill the legislative requirement. Staff is seeking approval of the draft report.

Attachment

cc: Mark Futrell, Deputy Executive Director, Technical
Apryl Lynn, Deputy Executive Director, Administrative
Keith Hetrick, General Counsel

Report on the Status of

Competition in the Telecommunications Industry

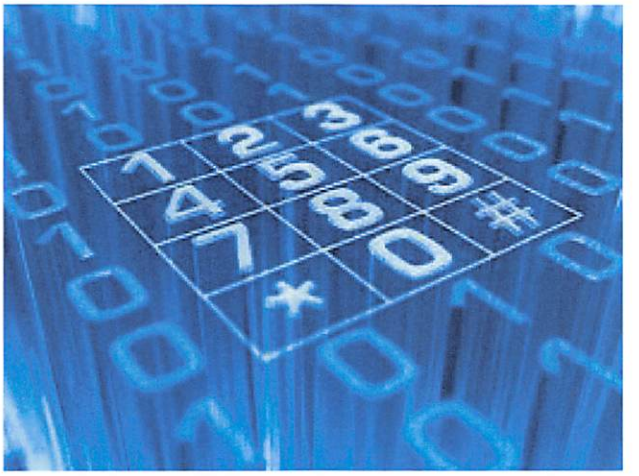


AS OF DECEMBER 31, 2015

FLORIDA PUBLIC SERVICE COMMISSION
STATE OF FLORIDA

Report on the Status of

Competition in the Telecommunications Industry



AS OF DECEMBER 31, 2015

Office of Telecommunications

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List of Acronyms

CDC	Centers for Disease Control and Prevention
CLEC	Competitive Local Exchange Company
FCC	Federal Communications Commission
FiOS	Verizon's trademark name for its fiber-to-the-home package of services
FPSC	Florida Public Service Commission, the Commission
FTRI	Florida Telecommunications Relay, Inc.
F.S.	Florida Statutes
ICA	Interconnection agreement
ILEC	Incumbent Local Exchange Company
IP	Internet Protocol
ISP	Internet Service Provider
kbps	kilobits per second
Mbps	Megabits per second
NLAD	National Lifeline Accountability Database
TASA	Telecommunications Access System Act of 1991
TDM	Time Division Multiplexing
USF	Universal Service Fund
USAC	Universal Service Administrative Company
VoIP	Voice over Internet Protocol

Executive Summary

Section 364.386, Florida Statutes, requires the Florida Public Service Commission (FPSC or Commission) to report on the status of competition in the telecommunications industry to the Legislature by August 1 of each year. On February 17, 2016, information requests were sent to the 10 incumbent local exchange companies and 248 competitive local exchange companies certificated by the Commission to operate in Florida, as of December 31, 2015.

In 2015, several national telecommunications issues remained at the forefront. AT&T continued its trial in West Delray Beach, converting a central office from traditional services to next-generation Internet Protocol technology. The Federal Communications Commission's Open Internet rules were appealed in federal court, as was its preemption of state authority in two significant cases. Also, several bills were introduced in Congress in attempts to address some of the issues brought about by the appeals.

The national economy continued to improve at about the same rate it did in the previous year, and Florida showed economic growth for the fifth consecutive year. AT&T, CenturyLink and Verizon continued their access line losses in the national wireline market.[1] The market continued to consolidate with several mergers and acquisitions. Several intrastate issues were resolved or initiated in 2015, including a major arbitration request and the implementation of an additional area code in the Keys. The Lifeline subscription rate in Florida decreased measurably, from 49.6 percent of eligible households in 2014 to 41.1 percent in 2015.

Consumers in Florida continue to migrate from traditional wireline service to wireless and cable/Voice over Internet Protocol services. The data indicates that residential migration may be slowing down slightly. Business customers continue to migrate to Internet Protocol technology in large numbers. Carriers reported approximately 3.3 million total wireline access lines in Florida for 2015, about 14 percent fewer than the previous year.

For the fifth year in a row, total wireline business access lines exceeded total residential lines. For the second year, wireline business access lines continued the drop that residential lines have been experiencing for the past several years. While residential lines declined an additional 14 percent in 2015, business line declines were 15 percent. Much of this decline can continue to be attributed to the transition to Voice over Internet Protocol and wireless-only services. For the first time, CenturyLink became Florida's largest wireline residential provider by surpassing AT&T in the number of residential wireline access lines provided. This may be a result of CenturyLink's ability to mitigate its decline in residential access lines or because it serves rural areas with less competition. Over the past four years, CenturyLink has experienced an average six percent decline per year in residential access lines, while AT&T and Verizon have both averaged a 22 percent decline per year for the same period. This difference may be attributed to increased competition in AT&T and Verizon's territories.

The wireline competitors experienced a decline in their market share in 2015, from 39 percent to 35 percent. Some of this decline may be attributed to intensified competition from the

[1] On April 1, 2016, Verizon Florida LLC's certificate and territory in Florida were transferred to Frontier Florida LLC. For the period covered in this report (calendar year 2015), Verizon remained the entity of record.

incumbents in this area, or may just be one result from the general shift to IP-based services. Competitors continued to largely ignore the wireline residential market, although their market share there did double to two percent. AT&T and Verizon's mix of residential and business lines continued their slow shift towards business lines, which now make up about 47 percent of their access lines. Competitors continue to have over 95 percent of their accounts in the business sector.

As reported for the past several years, intermodal competition from wireless, Voice over Internet Protocol, and broadband continued to drive the telecommunications markets in 2015. There are an estimated 19.9 million wireless handsets in Florida, and an additional 3.7 million cable Voice over Internet Protocol subscribers. Over 67 percent of Florida households have a broadband connection with download speeds of at least 3 megabits per second.

Analysis of the data produced the following conclusions:

- Many competitive local exchange companies reported offering a variety of services and packages comparable to those offered by incumbents. Subscribers to cable, wireless, and business VoIP services continued to increase. These factors contribute to the conclusion that competitive providers are able to offer functionally equivalent services to both business and residential customers.
- The continued decrease in both business and residential incumbent local exchange carrier wireline access lines demonstrates customers are finding reasonable pricing packages and functionality with competitive local exchange companies, cable providers, and wireless providers, as well as Voice over Internet Protocol services from the incumbent local exchange carriers.
- Based on the continued growth of interconnected Voice over Internet Protocol services and wireless-only households, network reliability of non-incumbent providers is sufficient to satisfy customers. The Federal Communications Commission-reported telephone penetration rate of 94.8 percent for Florida suggests that the overwhelming majority of Florida residents are able to afford telephone service. The number and variety of competitive choices among all types of service providers suggests that competition is having a positive impact on the telecommunications market in Florida.

Chapter I. Introduction and Background

In 2011, the Florida Legislature amended Chapter 364, Florida Statutes (F.S.), to accommodate the continuing development of competition in the state's local telecommunications markets. The Legislature found that "the competitive provision of telecommunications services, including local exchange telecommunications service, is in the public interest and has provided customers with freedom of choice, encouraged the introduction of new telecommunications services, encouraged technological innovation, and encouraged investment in telecommunications infrastructure."

Chapter 364, F.S., requires the Florida Public Service Commission (the Commission or FPSC) to prepare and deliver a report on the status of competition in the telecommunications industry to the President of the Senate, the Speaker of the House of Representatives, and the majority and minority leaders of the Senate and the House of Representatives on August 1 of each year. Section 364.386, F.S., requires that the report address the following four issues:

1. The ability of competitive providers to make functionally equivalent local exchange services available to both residential and business customers at competitive rates, terms, and conditions.
2. The ability of customers to obtain functionally equivalent services at comparable rates, terms, and conditions.
3. The overall impact of competition on the maintenance of reasonably affordable and reliable high-quality telecommunications services.
4. A list and short description of any carrier disputes filed under Section 364.16, F.S.

The Commission is required to make an annual request to local exchange telecommunications providers each year for the data required to complete the report. The data request was mailed on February 17, 2016, and responses were due April 15, 2016. Data requests were mailed to 10 incumbent local exchange companies (ILECs) and 248 competitive local exchange companies (CLECs). The Commission continues its efforts to increase efficiency while gathering the data and information to produce this report. Commission staff is confident that the data presented and the analyses that follow accurately reflect the information provided by the ILECs and the reporting CLECs.

The report also summarizes key events that may have a short term or long term effect on the Florida telecommunications market. National and state telecommunications issues, economic factors, mergers, universal service developments, Federal Communications Commission (FCC) enforcement actions, and state actions are presented to provide a more comprehensive picture of the market in 2015.

Chapter II. Industry Hot Topics

A. Introduction

External events affect how the Florida telecommunications markets react and develop. These effects can occur in a relatively short period of time or take years to filter through the market channels. The significant national issues for policymakers outlined in last year's report continued to shape the telecommunications market in 2015. Fundamental technology transitions, open Internet policies, and the beginnings of a complete overhaul of federal telecommunications regulation remained in the forefront in 2015.

B. Internet Protocol

The technology transition from Time Division Multiplexing (TDM) to Internet Protocol (IP) continues, as do the regulatory issues surrounding it. While the FCC contemplates the regulatory future of IP interconnection, action has begun to occur in the states.

As previously reported, AT&T is currently conducting a trial of IP-based services in a single exchange in Florida in West Delray Beach. This trial will introduce IP-based services to the area, and eventually replace all traditional TDM-based services with IP-based services by the end of the trial.

AT&T has filed four quarterly reports with the FCC regarding these trials, encompassing the fourth quarter of 2014 and the first three quarters of 2015.[2,3,4,5] While much of the data was filed confidentially, the reports show that customers are voluntarily migrating to IP-based services in the trial areas. However, the data also indicate that AT&T continues to lose more customers outright in the trial areas than it converts to IP-based offerings.[6]

AT&T also reported that it conducted significant outreach for both general consumers and special needs groups in the trial. Its work in the West Delray office concentrated on meetings and activities with customers and the general public as well as targeted engagement with seniors and the disability community. AT&T also focused on identifying and connecting with community-based organizations to gain an understanding of the disability community within the trial area. AT&T's reported outreach plans for 2015 included additional senior technology trainings, additional homeowners' association meetings, a vendor fair, and outreach to the public schools.

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[2] AT&T, "AT&T Wire Center Trials: Data Collection and Reporting for 4th Quarter, 2014 - Redacted," filed April 3, 2015, http://apps.fcc.gov/ecfs/document/view?id=60001045089, accessed on June 1, 2016.

[3] AT&T, "AT&T Wire Center Trials: Data Collection and Reporting for 1st Quarter, 2015 - Redacted," filed July 14, 2015, http://apps.fcc.gov/ecfs/document/view;NEWECFSSESSION=GzQhVvVY5JzDC7dwdMtt1sThdKbSgZGhBjYgRJbg51fYnTBQlvLw!1736751079!-973180750?id=60001116203, accessed on June 1, 2016.

[4] AT&T, "AT&T Wire Center Trials: Data Collection and Reporting for 2nd Quarter, 2015 - Redacted," filed September 30, 2015, http://apps.fcc.gov/ecfs/document/view?id=60001326676, accessed on June 1, 2016.

[5] AT&T, "AT&T Wire Center Trials: Data Collection and Reporting for 3nd (sic) Quarter, 2015 - Redacted," filed January 15, 2015, http://apps.fcc.gov/ecfs/document/view;ECFSSESSION=7R56XS2MyMMdXlKxJndgYpNcY1SQg6Ht2mnrhvhn2vysJbsFNq58!634993814!2129651121?id=60001408225, accessed on June 1, 2016.

[6] Ibid.

Additionally, AT&T reported that it is proactively working on the challenges presented by the trial and is tracking and responding to each concern.[7]

On November 15, 2015, AT&T filed a request with the FCC to phase out certain rarely-used services in the trial areas. AT&T indicated that its initial plans are to "grandfather" the affected services, continuing service to existing customers and the offer of only next generation wireless and wireline IP-based alternatives for new orders.

As a result from a request by Florida Senator Bill Nelson and New Jersey Congressman Frank Pallone, The Government Accountability Office (GAO) filed a report on December 16, 2015, regarding the FCC's data collection methods for AT&T's IP trial.[8] The GAO concluded that AT&T's trial:

- Lacks geographic dispersion and has a small number of experiments
- Lacks diversity and includes very limited population densities, demographics, and climates
- Does not include consumer services in any high-density urban areas or areas that have diverse populations

The GAO recommended that the FCC should strengthen its data collection efforts to assess the IP transition's effects. The FCC did not agree or disagree with the recommendation and stated it has a strategy in place to oversee the IP transition.

Regarding the technology transitions, the FCC released two orders on August 7, 2015. The first order established requirements for the retirement of copper facilities and services when deploying IP-based services.[9] The order includes the following:

- Requires that incumbent carriers must provide copper network retirement notifications directly to retail customers no less than three months, and to interconnecting carriers at least six months, prior to facility deactivations
- Clarifies that a carrier must obtain Commission approval before discontinuing, reducing or impairing a service when used as a wholesale input if affecting end user services

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[7] Ibid.

[8] GAO 16-167, Report to Congressional Requesters, Internet Protocol Transition: FCC Should Strengthen Its Data Collection Efforts to Assess the Transition's Effects, released December 16, 2015, http://www.gao.gov/assets/680/674231.pdf, accessed May 31, 2016.

[9] FCC 15-97, GN Docket No. 13-5, Technology Transitions, Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking, released August 7, 2015, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-97A1.pdf, accessed June 1, 2016.

- Requires that ILECs must commit to provide competitive carriers with wholesale access at rates, terms and conditions that are reasonably comparable to those of the legacy services no longer available in network retirement areas as an interim measure until final rules are adopted

The United States Telecom Association (USTelecom) appealed the ruling. Briefs are due by September 2016.

The second FCC order establishes carrier emergency backup power requirements to promote continued 911 access during commercial power outages.[10] This order requires providers to:

- Offer consumers of modern home voice services information on backup power so they can use their phone service during electrical outages and that consumers have the option to buy emergency power units

- Ensure a technical solution for fixed residential voice service to enable eight hours of standby backup power

- Offer an option for 24 hours of standby backup power within three years

C. Open Internet/Net Neutrality

As previously reported, the United States Court of Appeals for the District of Columbia (D.C. Circuit) struck down portions of the FCC's 2010 Open Internet Order. The D.C. Circuit upheld the FCC's authority to regulate broadband Internet access providers' network management under Section 706 (advanced telecommunications incentives) of the Communications Act. However, it found that the anti-discrimination and anti-blocking rules that the FCC adopted were too similar to the "common carrier" (Title II) obligations, and since the FCC did not classify the services as Title II services, vacated them. Under Title II of the Communications Act of 1934, as amended (the Act), traditional telecommunications carriers must treat all customers equally and cannot block, slow, or discriminate among services.

On February 26, 2015, the FCC adopted further rules addressing Open Internet (or Network Neutrality).[11] These new rules were in response to the court decision that struck down the FCC's previous Open Internet rules. The 2015 Open Internet Order (Order) established the FCC's legal authority by reclassification of broadband Internet access as a telecommunications service under Title II of the Act.

Subsequently, USTelecom appealed the order and requested that implementation of the rules be stayed. On June 11, 2015, the D.C. Circuit denied USTelecom's request for stay but agreed to

[10] FCC 15-98, PS Docket No. 14-174, Ensuring Continuity of 911 Communications, Report and Order, released August 7, 2015, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-98A1.pdf, accessed June 2, 2016.
[11] FCC 15-24, GN Docket No. 14-28, "Protecting and Promoting the Open Internet," Report and Order on Remand, Declaratory Ruling, and Order, released March 12, 2015, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-24A1.pdf, accessed on June 2, 2016.

expedite the proceeding.[12] The rules became effective on June 12, 2015. Parties filed briefs in July and August, 2015. Oral arguments were held December 4, 2015. On June 14, 2016, the D.C. Circuit upheld the FCC's order.

D. Federal Preemption

Two recent FCC cases have brought federal preemption and the balance of state vs. federal jurisdiction to the forefront. The FCC made clear its intent to limit states' ability to set the parameters for local municipal broadband networks and intrastate inmate calling rates.

1. Municipal Broadband

As previously reported, in February 2015, the FCC issued an order preempting state laws in Tennessee and North Carolina that prevented two community broadband providers from providing broadband service.[13] The FCC found that provisions of the laws in North Carolina and Tennessee are barriers to broadband deployment, investment, and competition, and conflict with the FCC's mandate to promote these goals.

Both North Carolina and Tennessee filed petitions for review challenging the FCC's authority to preempt their state restrictions. The petitions were consolidated in the U.S. Court of Appeals, 6th Circuit and oral arguments were held on March 17, 2016.

At the oral arguments, the central issue was whether the FCC had the authority to preempt state laws. The FCC argued that Section 706 of the Act gives the FCC statutory authority to preempt the state laws at issue in this matter because it directs the FCC to deploy broadband to all Americans by promoting competition and removing barriers to investment. Therefore, preemption is necessary to accomplish this mandate where states are interfering with broadband deployment.

Both North Carolina and Tennessee argued that the FCC's actions violate core tenets of state sovereignty, which "forbids the federal government from displacing a state's ability to structure its own subdivisions." The states further argued that Section 706 is not a congressional grant of authority to promote the expansion of broadband. Even if the FCC can rely on Section 706, the states contended that preemption is limited and should not apply in this instance.

North Carolina and Tennessee also argued that Supreme Court precedent allows preemption only where Congress' intention was "unmistakably clear in the language of the statute," and noted that Section 706 contains no express preemption. Furthermore, this is the first time that the FCC has used Section 706 to preempt state law. The FCC countered that the presumption against preemption does not apply to areas with a "history of significant federal presence," such as telecommunications.

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[12] Order, U.S. Telecom Ass'n v. FCC (D.C. Cir. Jun. 11, 2015), https://www.fcc.gov/document/court-order-denying-stay-usta-v-fcc-usa-dc-cir, accessed on June 2, 2016.

[13] FCC 15-25, WC Docket Nos. 14-115 and 14-116, City of Wilson, North Carolina Petition for Preemption of North Carolina General Statute Sections 160A-340 et seq., The Electric Power Board of Chattanooga, Tennessee Petition for Preemption of a Portion of Tennessee Code Annotated Section 7-52-601, Memorandum Opinion and Order, released March 12, 2015, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-25A1.pdf, accessed on June 1, 2016.

During this time, Congress introduced two bills to address municipal broadband. The Community Broadband Act of 2015 seeks to remove state barriers for constructing municipal broadband networks and encourages public-private partnerships.[14] The States' Rights Municipal Broadband Act of 2015 would prevent the FCC from preempting states with municipal broadband laws already in place, or any other states that subsequently adopt such municipal broadband laws.[15] This bill would essentially amend the Act to provide that Section 706 does not authorize the FCC to preempt the laws of certain states relating to the regulation of municipal broadband. Neither bill has yet passed.

2. Inmate Calling Services

On August 9, 2013, the FCC approved an order to reduce the cost of interstate long distance calls from inmate facilities.[16] The order concluded that some interstate inmate calling service rates are not just and fair. The order required interstate rates to be cost-based. The rates may include security costs and a reasonable return. While the FCC encouraged states to make similar changes to intrastate rates, the FCC also sought comments for legal bases to compel reform of intrastate inmate calling service rates. Other reforms implemented in the order included:

- Setting interim rate caps based on data submitted by providers
- Adopting a debit/pre-paid calling cap of $0.21 per minute
- Presumption of cost-based rates (rebuttable/challengeable) for debit/prepaid card calls at or below $0.12/min and for collect calls at or below $0.14/min

The D.C. Circuit issued an order on January 13, 2014 that stays portions of the FCC's inmate calling rule.[17] The rules that were stayed included rules that required cost-based rates, established an interim safe harbor, and required annual reporting and certification. This case is still pending.

On November 5, 2015, the FCC released the Second Report and Order and Third Further Notice of Proposed Rulemaking (FCC 15-136). The FCC's order establishes caps on all (interstate and intrastate) inmate calling service (ICS) rates, caps or bans on burdensome and needless ancillary service charges, and discourages site commission payments to institutions. In addition, the order bans flat-rate calling and ensures access for people with disabilities. The FCC will continue to monitor the provision of ICS to ensure compliance.

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[14] S. 240, 114th Congress, The Community Broadband Act of 2015, introduced January 22, 2015, https://www.congress.gov/bill/114th-congress/senate-bill/240, accessed May 25, 2015.

[15] S. 597 and H.R. 1106, 114th Congress, States' Rights Municipal Broadband Act of 2015, introduced February 26, 2015, https://www.congress.gov/bill/114th-congress/senate-bill/597 and https://www.congress.gov/bill/114th-congress/house-bill/1106, both accessed May 25, 2016.

[16] FCC 13-113, WC Docket No. 12-375, Rates for Interstate Inmate Calling Services, Report and Order and Further Notice of Proposed Rulemaking, released September 26, 2013, http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-13-113A1.pdf, accessed on June 2, 2016.

[17] Order, Securus Technologies, Inc. v. FCC (D.C. Cir. Jan. 13, 2014), https://www.fcc.gov/document/securus-stay-order, accessed on June 2, 2016.

On December 18, 2015, Global Tel*Link petitioned the D.C. Circuit to vacate, enjoin, and set aside the FCC's order. Global Tel*Link sought review on the grounds that the order:

- Exceeds the FCC's jurisdiction or authority
- Violates the Communications Act of 1934 and the notice and comment requirements of the Administrative Procedure Act
- Is arbitrary, capricious, an abuse of discretion, or otherwise contrary to law

Global Tel*Link followed its petition on January 27, 2016, with a motion for partial stay of the FCC's order. Global Tel*Link argued that it will likely prevail on the merits because:

- The rate caps do not allow ICS providers to recover the cost of the site commissions they are required to pay
- The order's rate caps are unlawful because they set rates below the documented costs of many ICS providers
- The order is unlawful because the FCC lacks authority to set rate caps for intrastate ICS calls

On March 7, 2016, the D.C. Circuit ordered that the motion for stay be granted in part and denied in part. The court stayed the implementation of the lower rate caps and a rule limiting fees, but declined to stay the rules for caps and restrictions on ancillary fees.

On March 17, 2016, Global Tel*Link filed another motion with the D.C. Circuit, asking the D.C. Circuit "to enforce its prior order by clarifying that none of the FCC's rate caps may be applied to intrastate calls pending judicial review." Global Tel*Link argued that "(t)he apparent purpose of the court's order was to preserve, pending review, the status quo with respect to rate caps and thus to prevent the caps on intrastate rates from going into effect."

The D.C. Circuit agreed. On March 23, 2016, the D.C. Circuit clarified the stay also applied to intrastate calling rates. On March 29, 2016, the FCC issued a public notice reflecting the latest court ruling and setting forth the amended rates and effective dates, noting that the ICS rate caps were applicable to interstate calls.

These two decisions could have an impact on Florida policymakers. Florida has a municipal broadband statute which some may interpret as restrictive and possibly seek FCC preemption. Also, while Florida's current state-level contracts for inmate calling services include rates below the FCC's proposed caps, several local confinement facilities (such as some county jails) do not. FCC preemption in this area may affect confinement facilities' ability to set their own inmate calling rates.

E. Communications Act Rewrite

While all of these issues have been flowing through the states and the FCC at differing paces, there has been renewed interest in Congressional intervention. On December 3, 2013, House Energy and Commerce Committee Chairman Fred Upton (R-MI) and Communications and Technology Subcommittee Chairman Greg Walden (R-OR) announced plans for the Committee to examine and update the Act.[18] The plan was to begin the multi-year process through a series of white papers that would solicit public input. These papers would be followed with a bill sometime in 2015.

While the white papers have collectively generated nearly 600 responses from industry, academia, and other interested parties, no bill has yet been introduced. It is not anticipated that a comprehensive bill will be considered before the end of the current Congress. With the comprehensive rewrite at an impasse, many other bills have been introduced to address telecommunications issues and the structure of the FCC. The bills cover a number of topics such as taxation of the Internet and process reform. The bills show the significant activity currently surrounding the telecommunications market.

The proceedings described in this chapter will likely have a continuing impact on Florida. As predicted in our previous report, none of these issues have reached finality, and it is still expected to take several years to complete and litigate. However, the core issues discussed here will form the basis of the telecommunications markets for the next generation.

[18] "Upton and Walden Announce Plans to Update the Communications Act," United States House of Representatives, Energy & Commerce Committee Press Release, December 3, 2013, http://energycommerce.house.gov/press-release/upton-and-walden-announce-plans-update-communications-act, accessed on June 3, 2016.

Chapter III. Wireline Market Overview

A. Economy

According to the U.S. Commerce Department, the national economy continued to recover at roughly the same pace in 2015 compared to 2014. Gross Domestic Product, which many consider the best measure of overall economic activity, grew by 2.4 percent in 2015, equal to the increase of 2.4 percent in 2014.[19] Corporate profits were down 5.1 percent, compared to a 0.6 percent decrease the previous year. Profits of both domestic financial and nonfinancial corporations decreased in 2015.[20] Unemployment figures continued their slow and steady drop in 2015, starting at 5.7 percent in January and finishing the year at 5.0 percent.[21] The Consumer Price Index rose only 0.1 percent in 2015, compared to a 1.6 percent increase in 2014.[22]

In 2015, Florida's economic growth remained positive for the fifth consecutive year. The state's gross domestic product ranked Florida seventh in the nation in real growth with a gain of 3.1 percent.[23] Florida's personal income grew 5.2 percent in 2015 over 2014, ranking Florida sixth in the country with respect to state personal income growth. The national average was 4.4 percent.[24]

The unemployment rate in Florida closely tracked the national average throughout 2015. Florida's unemployment rate continued to show consistent improvement during each month, falling from a high of 5.7 percent in January to a low of 5.1 percent in December.[25]

With the unemployment picture continuing to improve, but still above the period immediately preceding 2008, along with continued moderate economic growth during 2015, it is likely that Florida consumers are easing slightly on their discretionary expenditures. Increased competition from competitive wireline carriers (CLECs) and the continued mass migration from wireline to wireless and cable/Voice over Internet Protocol (VoIP) services are likely the primary contributing factors to Florida incumbent local wireline companies (ILECs) losing approximately 369,000 access lines. This represents about a 12 percent decline of the ILEC wireline market in 2015.[26] By comparison, CLECs lost approximately 184,000 access lines in 2015, a decline of 21 percent.

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[19] U.S. Department of Commerce, Bureau of Economic Analysis, "Gross Domestic Product, Fourth Quarter and Annual 2015 (Third Estimate), Corporate Profits, Fourth Quarter and Annual 2015," released March 25, 2016, http://www.bea.gov/newsreleases/national/gdp/2016/pdf/gdp4q15_3rd.pdf, accessed on June 2, 2016, Table 7.

[20] Ibid., Table 11.

[21] U.S. Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics from the Current Population Survey," http://data.bls.gov/timeseries/LNS14000000, accessed on June 2, 2016.

[22] U.S. Department of Labor, Bureau of Labor Statistics, "CPI Detailed Report: Data for December 2015," http://www.bls.gov/cpi/cpid1512.pdf, accessed on June 1, 2016, Table 24.

[23] U.S. Department of Commerce, Bureau of Economic Analysis, "News Release: Gross Domestic Product by State, 4th quarter 2015," released June 14, 2015, https://www.bea.gov/newsreleases/regional/gdp_state/2016/pdf/qgsp0616.pdf, accessed on June 14, 2015, Table 1.

[24] U.S. Department of Commerce, Bureau of Economic Analysis, "News Release: State Personal Income," released March 25, 2016, http://www.bea.gov/newsreleases/regional/spi/2016/pdf/spi0316.pdf, accessed on June 3, 2016.

[25] U.S. Department of Commerce, Bureau of Labor Statistics, "Local Area Unemployment Statistics," http://data.bls.gov/timeseries/LASST120000000000003?data_tool=XGtable, accessed on June 3, 2016.

[26] Responses to FPSC Local Competition Data Request for 2015 and 2016.

B. Incumbent Carriers

Florida is served by 10 ILECs providing wireline services. Of these carriers, AT&T, CenturyLink, and Verizon are the three largest ILECs in Florida.[27] These providers continued to face access line losses in the national wireline market in 2015. While their traditional wireline access line counts fell, both AT&T and Verizon experienced increased wireless subscriptions as well as subscriptions to digital voice services provided over VoIP as consumers transitioned from traditional circuit switched services. This year marks the first time that CenturyLink has more traditional wireline customers than AT&T in Florida (as shown in Figure 4-3).

AT&T reported losses of 3.2 million switched access lines nationwide (or 16.2 percent) from 2015.[28] While AT&T's access lines continued to contract, the number of lines lost in 2015 was less than the number of lines lost in 2014 by about 1.5 million lines. These access line declines were attributed to economic pressures and increased competition. Traditional landline services have been disconnected by customers, or switched to alternative technologies, such as wireless and VoIP. AT&T's strategy continues to be to offset these line losses by marketing its wireless products as well as increasing revenues from customer connections for data and video.[29] For 2015, AT&T's total operating revenues increased by $14.3 billion despite their wireline access line losses.[30] The increase in operating revenue was primarily the result AT&T's acquisition of DirecTV, its new wireless operations in Mexico, fixed strategic business services and U-verse services. In Florida, AT&T's wireline residential access lines decreased by 22 percent and business access lines decreased 11 percent for 2015.[31]

Verizon also lost switched access lines nationally while experiencing an increase in operating revenue of $4.5 billion.[32] Verizon reported a decline of 1.4 million in total voice connections (or 7.1 percent) in 2015. Total voice connections include traditional wireline access lines as well as FiOS digital voice connections. This represents a faster rate of loss than in 2014 when Verizon lost 6.1 percent of its total voice connections. By comparison, Verizon reported growth of 6.3 percent and 3.2 percent in its FiOS Internet and video services from last year, respectively.[33] In Florida, Verizon experienced wireline reductions of 17 percent in residential access lines and 9 percent in business access lines in 2015.[34] On February 5, 2015, Verizon announced that it had entered into a definitive agreement with Frontier Communications Corporation (Frontier) to sell its local exchange business in California, Florida and Texas. The transaction does not involve any assets or liabilities of Verizon Wireless. While this acquisition was completed in 2016, this report will include Verizon's market status at the end of 2015.

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[27] AT&T and Verizon are also the largest wireless carriers nationwide and increased subscribership by 8.1 million and 8.3 million, respectively; according to their 2015 Form 10-K reports (Exhibit 13).

[28] AT&T, "Form 10-K," December 31, 2015, http://www.sec.gov/Archives/edgar/data/732717/000073271716000147/ex13.htm , accessed on May29, 2016, Exhibit 13, p. 1.

[29] Ibid., pp. 16-18.

[30] Ibid., p. 1.

[31] Responses to Local Competition Data Request for 2015 and 2016.

[32] Verizon, "Form 10-K," December 31, 2015, http://www.sec.gov/Archives/edgar/data/732712/000119312516473367/d35513dex13.htm, accessed on May 28, 2016, Exhibit 13.

[33] Ibid.

[34] Responses to Local Competition Data Request for 2015 and 2016.

CenturyLink, the third largest wireline telecommunications company in the U.S., continued to experience declines in its traditional wireline access lines from 2014 (from 12.4 million in 2014 to 11.7 million in 2015).[35] This represents an approximately 5.2 percent loss of CenturyLink's access lines nationwide. At the same time, CenturyLink experienced a less than 1 percent decrease in broadband subscribers. By the end of 2015, CenturyLink's operating revenues decreased $131 million, or 0.7 percent from 2014. CenturyLink's wireline access line loss in Florida was 4 percent and 8 percent for the residential and business sectors, respectively, for 2015.[36]

The seven remaining smaller Florida carriers also experienced contraction in the number of switched access lines in their respective wireline service areas. In 2015, rural carriers in Florida saw their total access lines fall by approximately eleven percent.[37] Windstream is the largest of the "rural" ILECs and operates in northeast Florida and has 1.6 million consumer voice lines in service nationally.[38] In the first quarter of 2015, Windstream completed the spin-off of copper and fiber network assets into a separate real estate investment trust.[39] The trust will lease use of the assets to Windstream through an exclusive long-term lease. The tax-free spin-off is intended to provide financial flexibility by lowering long-term debt and potentially allowing Windstream to accelerate broadband investments, transition faster to an IP network, or pursue additional growth opportunities. Windstream has committed to the FCC to make 10 Mbps Internet available to at least 80 percent of its customer base by 2018.[40]

Even with the decline in wireline access lines, wireline telecommunications carriers continue to play a role in an evolving telecommunications market. For example, wireless carriers continue to be dependent on the wireline network. The majority of wireless call transport occurs over the wireline network, not over wireless facilities, a function commonly referred to as "backhaul." While the economic sustainability of the wireline network appears to be tenuous as access lines continue to decline, it remains a crucial element in the mix of communications technologies.

C. Mergers/Acquisitions

Telecommunications carriers seeking to transfer assets or corporate control in mergers and acquisitions must first receive approval from the FCC, which examines the public interest impact of a proposed merger or acquisition. Peak activity for telecommunications mergers and acquisitions activity occurred in 2006 when more than 90 communications companies consolidated their operations.[41] By comparison, 41 mergers and acquisitions occurred in 2015.[42]

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[35] CenturyLink, "Form 10-K," December 31, 2015, http://www.sec.gov/Archives/edgar/data/18926/000001892616000047/ctl-2015123110k.htm, accessed on May 28, 2016, p. 4.

[36] Responses to FPSC Local Competition Data Request for 2015 and 2016.

[37] Ibid.

[38] Windstream, "10-K," December 31, 2015, http://www.sec.gov/Archives/edgar/data/1282266/000128226616000059/a201510k.htm, accessed on May 29, 2016, p. F-16.

[39] "Windstream Completes Tax-Free Spinoff of CS&L," Windstream News Release, April 24, 2015, http://abea-43pvyw.client.shareholder.com/investors/releasedetail.cfm?ReleaseID=908571 , accessed on May 29, 2016.

[40] Windstream, "8-K," July 29, 2014, http://investor.windstream.com/investors/secfiling.cfm?filingid=1282266-14-39&cik=1282266, accessed on May 29, 2016.

[41] FCC, "2006 Completed Domestic Section 214 Transfer of Control Transactions," http://www.fcc.gov/wcb/cpd/214Transfer/214completed2006.html, accessed on May 5, 2015.

[42] FCC, "2015 Completed Domestic Section 214 Transfer of Control Transactions," https://www.fcc.gov/general/2015-completed-domestic-section-214-transfer-control-transactions#block-menu-block-4, accessed on May 29, 2016.

This represents a decrease of 24 percent from the previous year. Recent transactions of interest to Florida are described below.

1. Frontier/Verizon

Frontier Communications and Verizon Communications filed a series of applications with the FCC seeking approval for the transfer of control of Verizon's landline licenses and authorizations in California, Florida, and Texas to Frontier.[43] Frontier provides telecommunications and broadband services to approximately 4 million customers in 28 states in predominantly rural areas and small and medium sized cities. Verizon, a nationwide telecommunications company, has approximately 3.7 million voice connections, 2.2 million broadband (DSL and FiOS) connections, and 1.2 million FiOS video connections in California, Florida, and Texas, which Frontier will acquire if the applications are approved. The transaction was completed on April 1, 2016.[44] Prior to its acquisition, Frontier's ILEC service territory in Florida was in the northwest panhandle serving part of Escambia County. In Florida, Frontier will continue to serve this area as Frontier Communications of the South, LLC. In the newly acquired service territory servicing the Tampa market area, Frontier will be known as Frontier Florida, LLC.

2. Verizon/XO Communications

Verizon Communications announced it has agreed to purchase XO Communications' fiber-optic network for approximately $1.8 billion.[45] The acquisition, according to Verizon, will help better service enterprise and wholesale customers. The transaction is subject to regulatory approvals and is expected to close in the first half of 2017. Separately, Verizon will lease available XO wireless spectrum, with an option to buy XO's entity that holds its spectrum by the end of 2018.

3. Charter Communications/Time Warner Cable/Bright House Networks

On May 26, 2015, Charter Communications and Time Warner Cable announced that they had entered into an agreement for Charter to merge with Time Warner Cable.[46] In addition, Charter and Bright House Networks announced that the two companies had amended the agreement which the parties announced on March 31, 2015. The amendment addressed that the New Charter will own approximately 86 to 87 percent of the consolidated companies. The combined companies will provide video, broadband, and voice services to 23.9 million customers in 41 states, including Florida.[47] The combined New Charter's size would continue to be less than that

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[43] "Application for Consent to Partially Assign and Transfer Control of Domestic and International Authorizations Pursuant to Section 214 of the Communications Act of 1934, As Amended by Verizon Communications and Frontier Communications," Frontier Communications Corporation, filed February 24, 2015, http://apps.fcc.gov/ecfs/document/view?id=60001034031, accessed on May 5, 2015.

[44] "Frontier Communications Completes Acquisition of Verizon Wireline Operations in California, Florida and Texas," Frontier Communications Press Release, released April 1, 2016, http://investor.frontier.com/releasedetail.cfm?ReleaseID=963141, accessed on May 30, 2016.

[45] "Verizon Continues focus on network superiority with agreement to purchase XO Communications' fiber business," Verizon News Release, released February 22, 2016, http://www.verizon.com/about/news/verizon-continues-focus-network-superiority-agreement-purchase-xo-communications-fiber, accessed on May 30, 2016.

[46] "Charter Communications to Merge with Time Warner Cable and Acquire Bright House Networks," Charter Communications Press Release, released May 26, 2015, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mjg4NDc2fENoaWxkSUQ9LTF8VHlwZT0z&t=1, accessed on June 16, 2015.

[47] Charter Communications, Charter Merger Presentation, released May 26, 2015, http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9Mjg4NDc3fENoaWxkSUQ9LTF8VHlwZT0z&t=1, accessed on June 16, 2015.

of Comcast. By way of comparison in 2014, Comcast had 22 million broadband consumers, while the New Charter would have approximately 19.4 million broadband customers. The three companies completed their transactions on May 18, 2016.[48] The FCC included conditions on the transaction.[49] Specifically, Charter will be prohibited from putting data caps in place or charging customers based on usage. Additionally, the company will not be allowed to charge internet content providers fees for connecting them to customers. The conditions will apply for seven years.

[48] "Charter Communications, Time Warner Cable and Bright House Networks Complete Transactions," Charter Press Release, released May 18, 2016, http://ir.charter.com/phoenix.zhtml?c=112298&p=irol-newsArticle&ID=2169294, accessed on May 30, 2016.

[49] FCC, Memorandum Opinion and Order, MB Docket No. 15-149, FCC 16-59, released May 10, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-59A1.pdf, accessed on May 30, 2016.

Chapter IV. Status of Wireline Competition in Florida

A. Wireline Trends in Florida

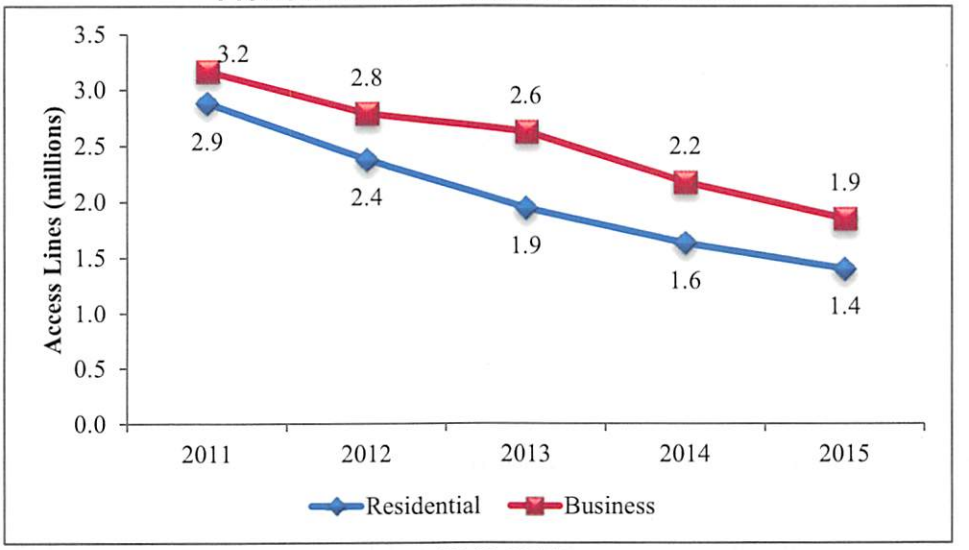
Total traditional wirelines for ILECs and CLECs combined declined 14 percent, to 3.3 million as of December 2015, from 3.8 million in December 2014. Most of the lost access lines resulted from lower demand by business customers. VoIP lines reported by CLECs and cable companies are not included in wireline CLEC market share analyses.

Residential access lines, which totaled 1.4 million as of 2015, also fell by 14 percent from the previous year. From 2005 through 2015, wireline residential access lines have declined by about 5.8 million access lines. However, the data indicate that the residential declines may be decelerating slightly. Florida CLECs, while representing relatively few residential access lines, reported an increase in the number of residential customers served of about six thousand lines, or 28 percent in 2015 over the prior year.

The number of wireline business connections declined by a similar amount. The total business access lines for ILECs and CLECs were 1.9 million, a decrease of 15 percent from 2014 to 2015. The decline consisted of a decrease of 135,000 ILEC business access lines and 190,000 CLEC business access lines. Of the incumbent carriers, AT&T and CenturyLink experienced the largest business access line losses of about 88,000 and 24,000 business lines from last year, respectively.

Historical data from 2014 were corrected for one rural ILEC's misreported access line data to the FCC and FPSC. Figure 4-1 illustrates the overall trend in Florida for both residential and business lines (and does not include VoIP connections). Based on the revised data, both residential and business lines appear to be declining at a similar rate.

Figure 4-1
Florida Wireline Access Line Trends



Source: Responses to FPSC data requests (2012-2016)

B. Wireline Market Mix, Market Share, and Access Lines

1. Market Mix

The composition of customers served by ILECs and CLECs has shifted over time. In general, both ILECs and CLECs have seen increased concentration of business customers as residential customers migrate to wireless and VoIP services. The business-to-residential customer mix for ILECs was about 30 percent business and 70 percent residential in 2004. By 2015, the mix for ILECs was 47 percent business and 53 percent residential.

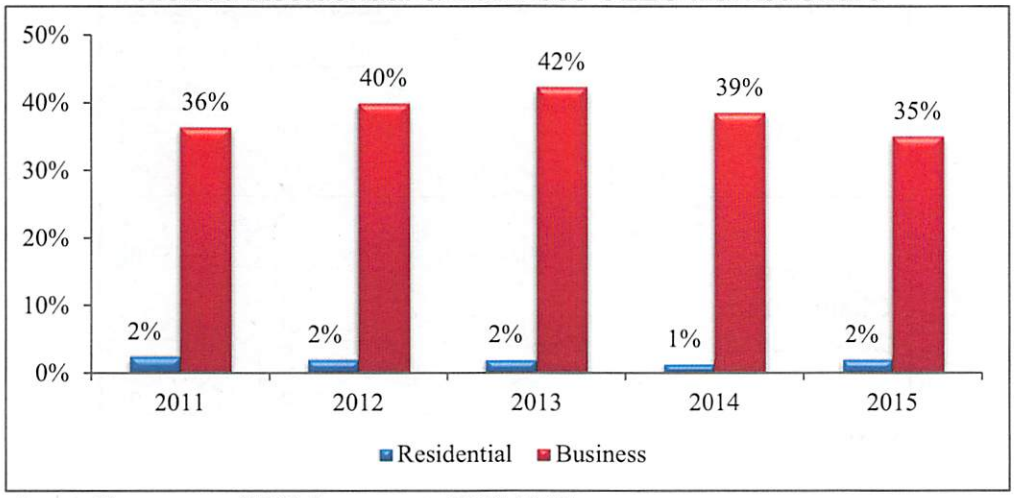
The shift in mix has been even more pronounced in the CLEC market. In 2004, the business to residential customer mix for CLECs was about 63 percent business and 37 percent residential. By 2015, the CLEC business-to-residential customer mix had shifted to 96 percent business and four percent residential. These changes, however, do not reflect gains or losses of residential or business customers served by VoIP technology.

2. Market Share

CLECs have traditionally focused on business customers. Figure 4-2 illustrates the CLEC market share by business and residential customer classes. The inverse of this percentage would be market share for the ILECs in Florida. Overall, the CLEC residential market share has remained at about two percent over the last five years, while ILECs retain about 98 percent of the residential wireline market.

The CLEC business market share has declined over the past two years from 42 percent to 35 percent. This percentage excludes VoIP services, which cable companies, and more recently ILECs and CLECs, have deployed. Some of this decline in market share may be attributed to intensified competition from the incumbents in this area, or may just be one result from the general shift to IP-based services.

Figure 4-2
Florida Residential & Business CLEC Market Share



Source: Responses to FPSC data requests (2012-2016)

The FCC also reports CLEC market share by state and for residential and business lines. For December 2014, the FCC reported Florida CLECs have one percent of the total residential market share and 33 percent of the business market share.[50] This compares favorably with the data based on the FPSC's data collection in Figure 4-2.

3. Access Lines

Local exchange companies were serving approximately 3.3 million lines in Florida as of December 31, 2015, a decline of 14 percent from 2014 as illustrated in Table 4-1. The first time that total (ILEC and CLEC) business access lines exceeded total ILEC and CLEC residential access lines was in 2011.

In 2015, residential access lines provided by ILECs decreased by 14 percent, while ILEC business lines declined by 10 percent. Most of the business line losses were experienced by AT&T with declines of 11 percent from last year, while the other ILECs experienced business line losses of around eight percent. CLEC business access lines, however, saw a decrease of approximately 23 percent from 2014 to 2015.

Table 4-1
Florida Wireline Access Line Comparison

		ILECs	CLECs	Both
2012	Res	2,334,184	46,667	2,380,851
	Bus	1,675,328	1,378,547	3,053,875
	Total	4,009,512	1,425,214	5,434,726
2013	Res	1,909,401	38,711	1,948,112
	Bus	1,515,261	1,113,762	2,629,023
	Total	3,424,662	1,152,473	4,577,135
2014	Res	1,614,926	21,651	1,636,577
	Bus	1,340,699	841,880	2,182,579
	Total	2,955,625	863,531	3,819,156
2015	Res	1,381,124	27,813	1,408,937
	Bus	1,205,777	652,214	1,857,991
	Total	2,586,901	680,027	3,266,928
Percent Change from 2014 to 2015	Res	-14percent	28percent	-14percent
	Bus	-10percent	-23percent	-15percent
	Total	-12percent	-21percent	-14percent

Source: Responses to FPSC data requests (2014-2016)

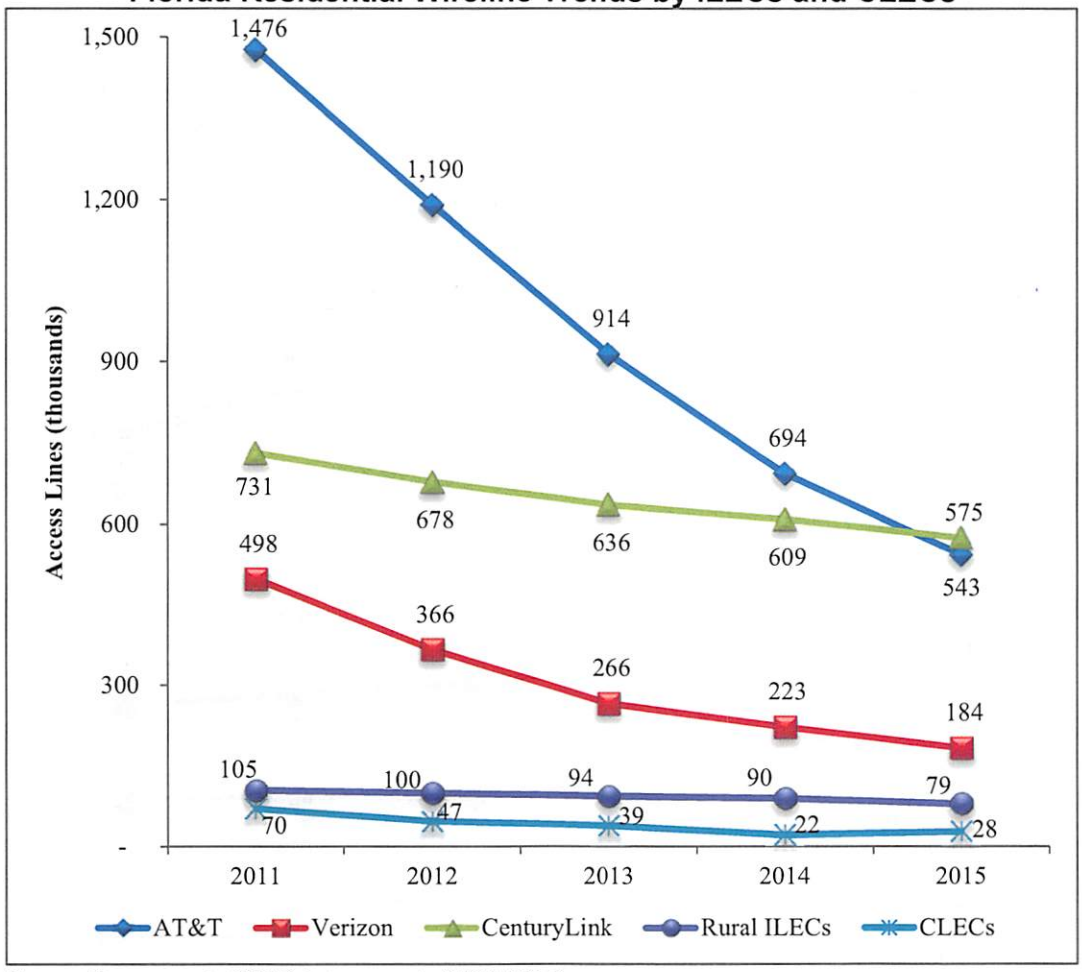
[50] FCC, "Voice Telephone Services Report as of December 31, 2014," released March 2016, https://www.fcc.gov/voice-telephone-services-report, accessed on May 29, 2016, State-Level Subscriptions (Excel).

C. Competitive Market Trends

1. Residential Wireline Access Line Trends

Figure 4-3 displays the wireline residential access line trends separately for AT&T, Verizon, CenturyLink, rural aggregate ILECs, and aggregate CLECs. All but one ILEC reported a decline in residential access lines from December 2014 to December 2015. The one rural ILEC that did report an actual residential access line gain experienced a gain of less than 1 percent. This reporting year was the first time that CenturyLink has more residential switched accesses lines than AT&T. CenturyLink has either been able to mitigate its decline in residential access lines or may be subject to less competition because it serves more rural areas. Over the past four years, CenturyLink has experienced an average six percent decline per year in residential access lines, while AT&T and Verizon have both averaged a 22 percent decline per year for the same period. This may be a result of less competition in CenturyLink's territory.

Figure 4-3
Florida Residential Wireline Trends by ILECs and CLECs



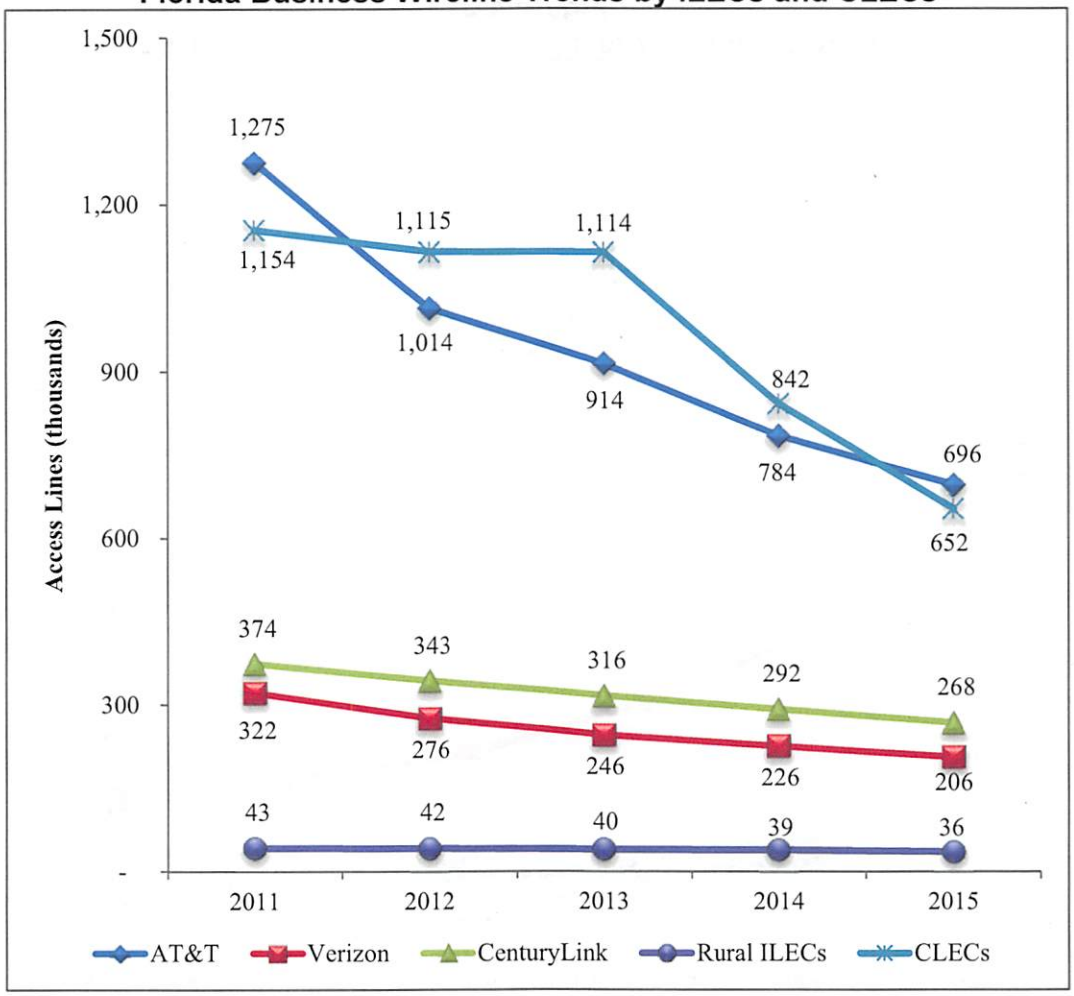
Source: Responses to FPSC data requests (2012-2016)

AT&T, Verizon, and CenturyLink each lost about the same percentage of residential wirelines between 2014 and 2015 as they did the previous year. By comparison, CLECs reported a 28 percent increase in residential access lines in 2015.

2. Business Wireline Access Line Trends

Figure 4-4 displays the business wireline trends for AT&T, Verizon, CenturyLink, aggregate rural ILECs, and aggregate CLECs. Both ILECs and CLECs business access lines continue to trend downward. Rural ILEC business access lines have been revised from last year's report for 2014 as a result of reporting errors from one rural ILEC. In 2013 and 2014, AT&T and Verizon each had about a 50 percent split between residential lines and business lines. For 2015, both companies began to have slightly more business customers than residential wireline customers.

Figure 4-4
Florida Business Wireline Trends by ILECs and CLECs



Source: Responses to FPSC data requests (2012-2016)

Chapter V. Wireless, VoIP, and Broadband

A. Wireless

Many wireless subscribers have embraced their devices as the preferred method of communications. Pew Research Center reported that twenty percent of Americans report going online "almost constantly" as a result of the widespread adoption of smart phones.[51]

A substantial number of Americans now use their mobile device for all of their communication needs: from making a "regular old telephone call" to accessing tools to complete schoolwork or access e-mail; plan and coordinate cultural or social events; communicate with friends and family through social media; or streaming music from any number of internet music sites. In ComScore's February 2016 report on smartphone subscribers, the top five smartphone applications are comprised of social media applications Facebook and Facebook Messenger, entertainment portals such as YouTube and Google Play, and an Internet mapping service, Google Maps.[52]

Wireless subscriptions have grown from 270.3 million in 2008, to an estimated 355.4 million subscribers by year-end 2014.[53] Pew Research Center reports that 92 percent of U.S. adults own mobile phones.[54] As consumers continue to migrate from wireline service to mobile devices, the reduction in wireline subscribership does not necessarily spell doom or the end for the need for the wireline industry. As fourth generation (4G) technology leads to the development of the next generation of technology, 5G, wireline infrastructure will continue to be a crucial element to provide transport or "backhaul" services.

1. Wireless Substitution

By the end of 2015, wireless-only households continued to increase while the number of households with both wireline and wireless service decreased.[55] The number of wireline-only households decreased 1.2 percent to 7.2 percent. Nationwide, 48.3 percent of Americans lived in wireless-only homes, up 2.9 percent from 45.4 percent in 2014.[56] At the same time, the percentage of households with both wireline and wireless service fell 1.5 percent, to 41.2 percent.[57]

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[51] Perrin, Andrew, One-fifth of Americans report going online 'almost constantly', December 8, 2015, http://www.pewresearch.org/fact-tank/2015/12/08/one-fifth-of-americans-report-going-online-almost-constantly/, accessed May 2, 2016.

[52] "February 2016 U.S. Smartphone Subscriber Market Share," ComScore, released April 6, 2016, http://www.comscore.com/Insights/Rankings/comScore-Reports-February-2016-US-Smartphone-Subscriber-Market-Share, accessed April 28, 2016.

[53] CTIA Annual Wireless Industry Survey, http://www.ctia.org/your-wireless-life/how-wireless-works/annual-wireless-industry-survey, accessed April 25, 2016.

[54] Monica Anderson. "Technology Device Ownership: 2015." Pew Research Center, October, 2015, http://www.pewinternet.org/2015/10/29/technology-device-ownership-2015, accessed April 26, 2016.

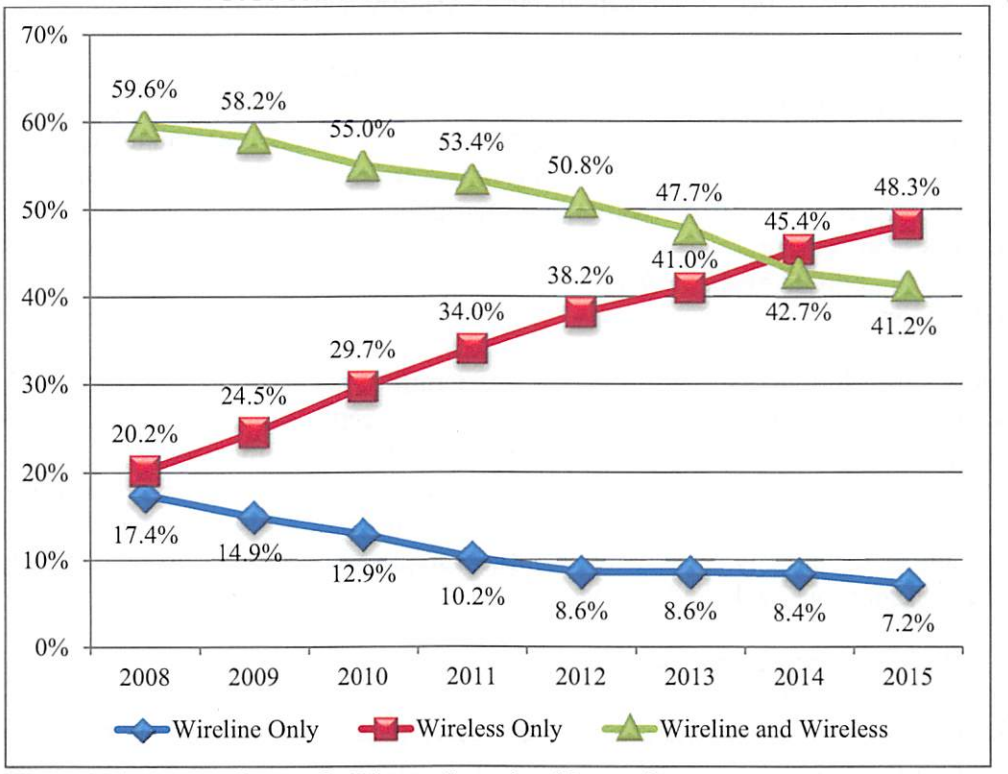
[55] Ibid.

[56] Stephen J. Blumberg, Ph.D., Julian V. Luke, "Wireless substitution: Early release of estimates from the National Health Interview Survey, July–December 2015," National Center for Health Statistics, Centers for Disease Control and Prevention, released May 11, 2016, http://www.cdc.gov/nchs/nhis/releases.htm, accessed on May 28, 2016.

[57] Ibid.

Figure 5-1 shows national trends in the percentage of households with wireless only, wireline only, and dual household usage. The wireless substitution trends seen nationwide are also occurring in Florida. Though recent data is scant, Florida's rate of wireless substitution has closely followed national trends.

Figure 5-1
U.S. Wireless Substitution Rates



Source: United States Centers for Disease Control and Prevention

In 2015, the Centers for Disease Control and Prevention reported an average increase of 2.9 percent in the number of American households with only wireless service. The most significant increase, 10.7 percent, was reported in households with unrelated adults. Also notable is the 3.4 percent increase in wireless subscribership for those 65 and over. The percentage of wireless-only households decreases as age increases.[58]

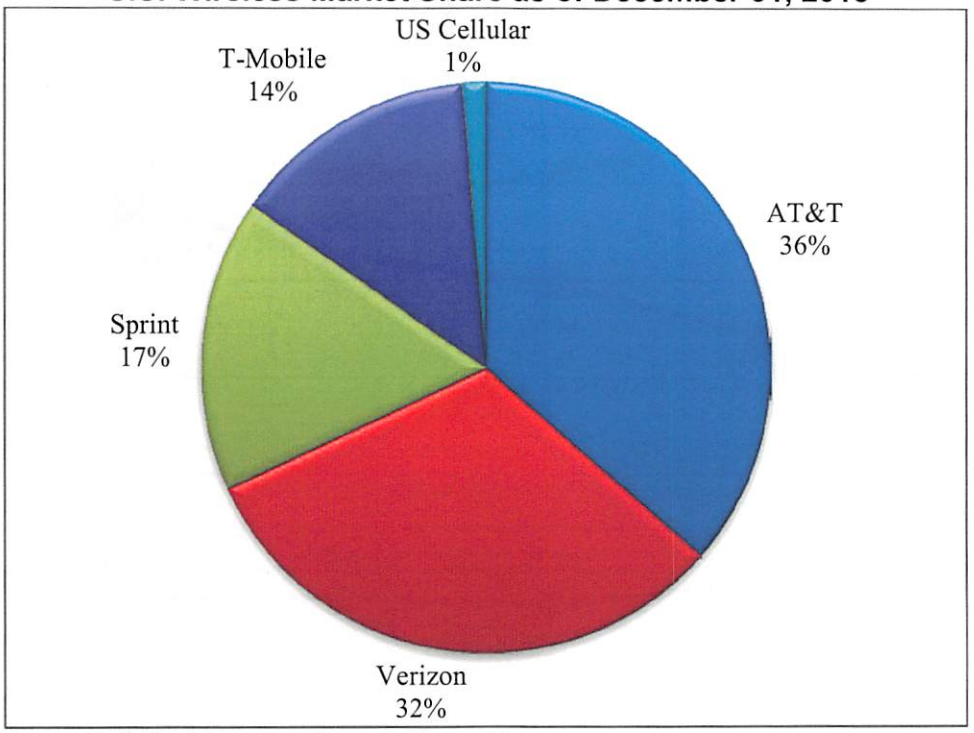
2. Devices, Networks, and Usage

Among equipment manufacturers, Apple and Samsung remain the leaders, maintaining 43.9 percent and 28.4 percent of the market share, respectively.[59] Of the operating systems tracked, Android and Apple significantly outpace the others at 52.7 percent and 43.9 percent of the

[58] Ibid.
[59] "February 2016 U.S. Smartphone Subscriber Market Share," ComScore, released April 6, 2016, http://www.comscore.com/Insights/Rankings/comScore-Reports-February-2016-US-Smartphone-Subscriber-Market-Share, accessed April 28, 2016.

market, respectively.[60] Figure 5-2 reflects current subscriber market share among U.S. wireless providers.

Figure 5-2
U.S. Wireless Market Share as of December 31, 2015



Source: Individual Company Quarterly/Annual Reports

3. Florida Trends

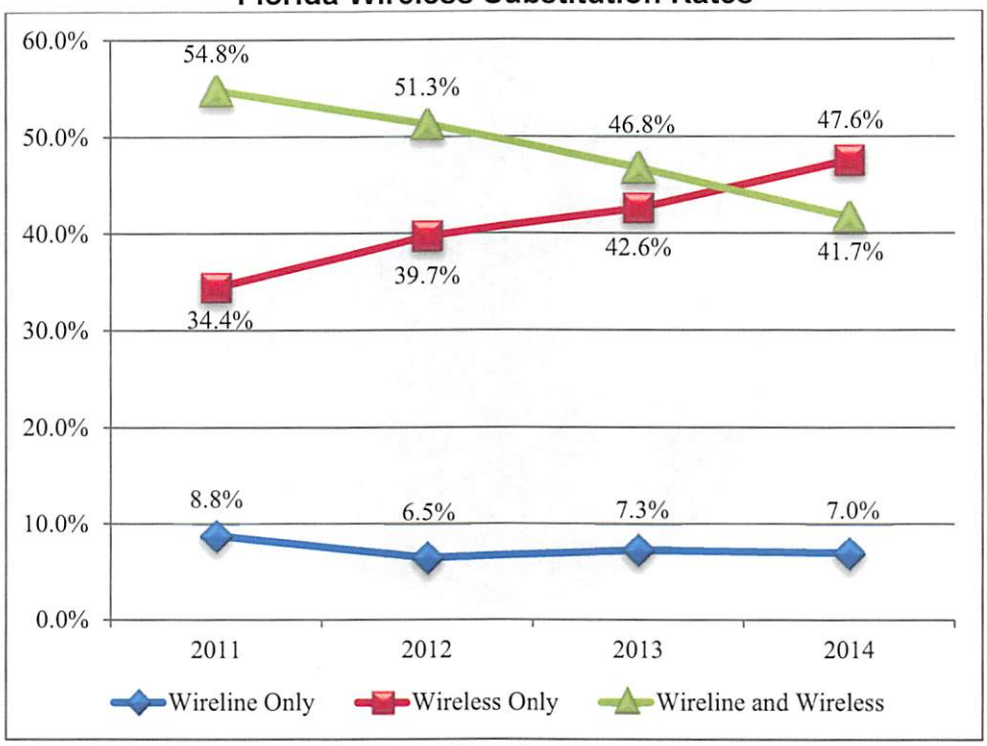
The United States Census Bureau estimated Florida's population to be 20,271,272 on July 1, 2015, up from 19,893,297 in 2014.[61] Between 2011 and 2014, Florida's wireless substitution rate grew an average of 4.4 percent per year.[62] During the same period, the national wireless substitution rate grew an average of 4.1 percent.

There is no reason to believe the substitution rate changed appreciably from 2014 to 2015. Figure 5-3 illustrates that Florida ILECs continued to lose wireline subscribers to competitors and affiliated wireless companies.[63] The wireline data below includes both traditional circuit switched access lines and interconnected VoIP lines. While 2015 wireless substitution data for Florida is not available, a comparison of Figure 5-3 (Florida wireless substitution) and Figure 5-1

[60] Ibid.
[61] United States Census Bureau, UNITED STATES QuickFacts from the US Census Bureau, Population estimates, July 1, 2015, https://www.census.gov/quickfacts/table/PST045215/12, accessed April 27, 2016.
[62] National Center for Health Statistics, Centers for Disease Control and Prevention, "Wireless Substitution State-Level Estimates from then National Health Interview Survey," released February 2016, http://www.cdc.gov/nchs/nhis/new_nhis.htm, accessed June 2, 2016.
[63] Ibid.

(national wireless substitution), shows that consumers in Florida are moving to wireless-only households at a slightly faster rate than the national average.

Figure 5-3
Florida Wireless Substitution Rates



Source: United States Centers for Disease Control and Prevention

4. New Technology

The next generation of mobile technology is expected to be rolled out after 2020, and it is envisioned to be faster and it will carry more data than 4G. In AT&T's roadmap to 5G, the company envisions delivering speeds "10-100 times faster than today's average 4G LTE connections … speeds measured in gigabits per second, not megabits."[64] Verizon and its partners "are committed to beginning technology field trials 2016.[65] As with AT&T's roadmap, Verizon expects one of the benefits of 5G to include "about 50 times the throughput of current 4G LTE."

Residential wireline loss due to wireless substitution will help facilitate the transition to 5G technology. The backhaul facilities necessary for 5G adoption are partially in place as a result of wireless substitution. Combined with the commitments made by industry leaders, the roll-out of 5G technology and networks by 2020 appears possible.

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[64] AT&T Unveils 5G Roadmap Including Trials In 2016, April 12, 2016, http://about.att.com/story/unveils_5g_roadmap_including_trials.html, accessed May 3, 2016.

[65] Verizon sets roadmap to 5G technology in U.S.; Field trials to start in 2016, September 8, 2015, http://www.verizon.com/about/news/verizon-sets-roadmap-5g-technology-us-field-trials-start-2016, accessed May 3, 2016.

The most logical place for 5G technology, at least initially, is for fixed wireless situations. If fixed wireless 5G turns out to be an adequate replacement for home or business broadband, which alone may justify its deployment.[66]

B. Voice over Internet Protocol (VoIP)

Interconnected VoIP services continue to be a rapidly growing sector of the voice services market. Nationally, the number of customers who subscribe to interconnected VoIP services increases each year while subscribership rates to traditional wired telephone services continue to decline.[67] Florida has also experienced increases in VoIP subscribership rates similar to the national trend. Increases in the VoIP services market are expected to continue in the coming years due to cost effectiveness and improving network infrastructure.[68]

According the FCC's latest data, between 2011 and 2014 interconnected VoIP subscriptions increased at a compound annual growth rate of 14 percent while subscribership to traditional wired lines decreased by 12 percent each year.[69] As of December 2014, the FCC reported that there are approximately 54 million interconnected VoIP subscribers in the U.S. This total includes roughly 5.2 million "over-the-top" or "bring your own broadband" VoIP subscribers.[70]

Residential VoIP subscribers account for 38 million of the total subscribers nationwide while business subscribers account for about 16 million.[71] The FCC has not released any data regarding subscribership of interconnected VoIP services for 2015. However, data collected by the FPSC shows an estimated 2.8 million interconnected residential subscribers in Florida as of December 2015.[72]

1. National Market Analysis

Over half of all residential wireline customers in the U.S. use VoIP services.[73] However, 75 percent of residential VoIP subscribers do not purchase VoIP services from an ILEC.[74] Instead, most VoIP customers typically purchase services through their cable provider as part of a bundled service package. As a result, cable companies are the largest providers of residential

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[66] Arnason, Bernie, Will 5G Enable Wireless Replacement of Home Broadband and disrupt FTTH?, Telecompetitor, May 26, 2016, http://www.telecompetitor.com/will-5g-enable-wireless-replacement-home-broadband-disrupt-ftth/, accessed June 10, 2016.

[67] FCC, Voice Telephone Services: Status as of December 31, 2014, released March 2016, http://transition.fcc.gov/Daily_Releases/Daily_Business/2016/db0330/DOC-338629A1.pdf, accessed on April 22, 2016.

[68] Reportlinker, "VoIP Services Market (Corporate Consumers and Individual Consumers) - Global Industry Analysis, Size, Share, Growth, Trends and Forecast, 2014 – 2020, PR Newswire, December 15, 2014, http://www.prnewswire.com/news-releases/voip-services-market-corporate-consumers-and-individual-consumers---global-industry-analysis-size-share-growth-trends-and-forecast-2014---2020-300009809.html, accessed on April 29, 2016.

[69] Ibid.

[70] In 2014, the FCC modified Form 477 to distinguish over-the-top interconnected VoIP subscriptions from other interconnected VoIP subscriptions. The phrase "over-the-top VoIP" refers to a VoIP service that requires a consumer to obtain broadband access from another company.

[71] Ibid, Table 1 and Figure 3.

[72] Responses to the FPSC Local Competition Data Request 2016.

[73] FCC, Voice Telephone Services: Status as of December 31, 2014, released March 2016, http://transition.fcc.gov/Daily_Releases/Daily_Business/2016/db0330/DOC-338629A1.pdf, accessed on April 22, 2016.

[74] Ibid, Table 1.

VoIP services. Over the years traditional wireline carriers who offer fiber-based services, such as AT&T and Verizon, have been able to increase their VoIP subscribership as consumers take advantage of their services. Other ILECs and CLECs have also experienced increased VoIP subscribership. However, despite the others' gains, cable companies have continued to maintain a dominant presence in the market.

a. Facilities-Based VoIP Providers

ILECs, CLECs, and cable companies all provide interconnected VoIP services. However, in the facilities-based residential interconnected VoIP market, cable companies accounted for 28.7 million VoIP subscribers as of December 2014, compared to roughly 9.5 million ILEC VoIP subscribers.[75] More recent data is available from publicly traded carriers.

Comcast, the country's largest cable provider, had an estimated 11.5 million VoIP subscribers at year-end in 2015.[76] This presents a 2.5 percent increase from year-end 2014. Time Warner Cable, the nation's second largest cable provider reported an estimated 6.7 million subscribers for 2015, an increase of roughly 20 percent from the previous year.[77]

Although, the cable companies have continued to experience growth in VoIP subscribership, it appears that the rate of growth is declining. For instance, between 2007 and 2009 the number of residential VoIP subscribers more than doubled. However, in 2010 cable VoIP providers began reporting slower yearly subscriber growth rates.[78] These slower subscribership growth rates can be partially attributed to the cable companies' loss of market share concentration.

For years the largest cable VoIP providers led the market and earned the vast majority of the revenues within the industry. However, in recent years their market share concentration has weakened due to increased competition from low cost and free VoIP providers entering the market. The rising demand for mobility has also prompted many users to abandon their interconnected residential VoIP services for wireless phone services.[79] As a result, residential VoIP services have experienced a slight decrease in subscribership. However, this decrease has mostly been offset by an increase in business VoIP subscribers.[80]

Although, telephone companies continue to show losses in traditional voice access lines, many of these companies have been able to offset some of their losses by deploying facilities-based VoIP services over fiber-based facilities. For instance, despite reporting losses in traditional voice

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[75] Ibid, Table 1.

[76] Comcast Corporation, Comcast Reports 4th Quarter and Year End 2014 Results, February 3, 2016, http://files.shareholder.com/downloads/CMCSA/1994147526x0x873083/0A00FF97-8AAC-4118-83FF-4B32BF77DD84/CMCSA_News_2016_2_3_General_Releases.pdf, accessed on May 2, 2016.

[77] Time Warner Cable Reports 2014 Fourth-Quarter and Full-Year Results, January 28, 2016, http://s1.q4cdn.com/730563363/files/2015/4Q15/Q4-2015-TWC-Earnings-Release-FINAL.pdf, accessed May 2, 2016.

[78] PRWeb.com, "VoIP in the US Industry Market Research Report from IBISWorld," December 24, 2012, http://www.prweb.com/pdfdownload/10267567.pdf, accessed, May 2, 2016.

[79] Tracy Watson, 2015: The Year of VoIP, Business 2 Community, January 13, 2015, http://www.business2community.com/tech-gadgets/2015-year-voip-01122398#BY2WcEbEuK3Eh8MU.97, accessed on May 2, 2016.

[80] Infonetics Research, "In VoIP Services Market, Business Segment Offsets Residential Slowdown," May 8, 2015, http://www.infonetics.com/pr/2015/VoIP-UC-Services-Subs-Market-Highlights.asp, accessed on May 3, 2016.

services both AT&T and Verizon have reported gains with their other service offerings. AT&T reported approximately 5.2 million U-verse voice subscribers at year-end 2015. This represents a 9.5 percent increase from the previous year. Verizon reported roughly 4.8 FiOS Digital Voice subscribers as of December 2015, an increase of approximately 3.3 percent from year-end 2014.

b. Over-the-Top VoIP Providers

According to the FCC, there were roughly 5.2 million over-the-top interconnected VoIP subscribers in the U.S. as of December 2014. This total includes 2.9 million residential subscribers and approximately 2.3 million business subscribers nationwide.[81] Over-the-top providers offer low-priced stand-alone interconnected VoIP service. The service quality of these VoIP Providers varies because calls are transmitted over the public Internet rather than private managed IP-based networks.

The price advantage over the bundled services offered by facilities-based VoIP providers has allowed the over-the-top VoIP providers to attract customers. As a result, consumer use of over-the-top VoIP is expected to grow at a compound rate of 20 percent between 2012 and 2018.[82] The expected increase in demand for over-the-top VoIP is driven by improvements in the availability of and speed of broadband networks, the growing capability and affordability of wireless devices such as smartphones and tablets, and the continued dominance of social media.[83]

Vonage, 8x8, Inc., MagicJack, Skype, and Google are a few of the leading over-the-top VoIP providers. Since many customers have mobile broadband connections, some of these companies have even begun offering mobile VoIP services. Reliable data on subscribership is not widely available for over-the-top providers. The available data suggests that certain market segments, such as mobile VoIP, may be doing better than others. Mobile VoIP is expected to grow 14.7 percent between 2014 and 2020.[84]

It appears that the over-the-top market is experiencing slower growth rates which may be an indication that the market is maturing. For instance, prior to 2008 Vonage reported yearly increases in subscriber lines. However, each year between 2008 and 2012 Vonage reported a decline in subscribership. The company had a slight increase in subscribers in 2013. However, subscriber lines decreased roughly 3 percent in 2014.[85] Vonage reported 2.5 million subscriber lines at year-end for 2014 and 2015.[86] 8X8, Inc., which almost exclusively caters to the business

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[81] Ibid, Table 1.

[82] Erik Heinrich, "Telecom Companies Count $386 Billion in Lost Revenue to Skype, WhatsApp, Others," Fortune.com, June 23, 2014, http://fortune.com/2014/06/23/telecom-companies-count-386-billion-in-lost-revenue-to-skype-whatsapp-others/, accessed on April 26, 2016.

[83] Ibid.

[84] PRNewswire, VoIP Services Market to Expand at 9.7percent CAGR Till 2020, Thanks to Increasing Adoption in Residential and Corporate Sectors: Transparency Market Research, August 18, 2015, http://www.prnewswire.com/news-releases/voip-services-market-to-expand-at-97-cagr-till-2020-thanks-to-increasing-adoption-in-residential-and-corporate-sectors-transparency-market-research-522169791.html, accessed on May 3, 2016.

[85] Vonage Holdings Corp. Form 10-K Annual Report 2014, http://files.shareholder.com/downloads/VAGE/206468775x0xS1272830-15-25/1272830/filing.pdf, accessed on May 3, 2016.

[86] While Vonage reported 2.5 million subscriber lines in 2015, this represents a 2.3 percent decrease in residential lines and a 1.2 percent increase in business lines from the previous year. Vonage Holdings Corp. Form 10-K Annual

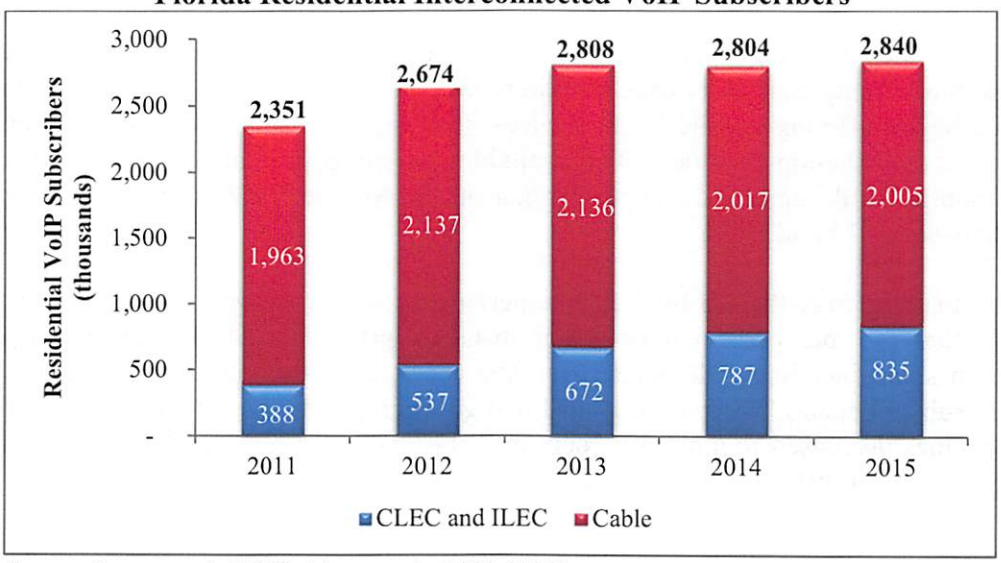
markets, reported an increase of roughly 10 percent from the previous year in 2015 compared to an 18 percent increase in 2014 and a 14 percent increase in 2013.[87]

2. Florida Market

The FPSC does not have jurisdiction over VoIP services. As a result, the ability to determine an accurate estimate of the total number of VoIP subscribers in Florida is limited. However, several ILECs and CLECs in Florida voluntarily responded to the Commission's data request and provided information on the number of residential VoIP subscribers. The Florida Cable Telecommunications Association also reported residential VoIP line data for its six largest member providers.

Based on the analysis of the available data, there are an estimated 2.8 million residential interconnected VoIP subscribers in Florida. Figure 5-4 shows the number of residential interconnected VoIP subscribers in Florida by provider type. While data for the last three years indicates very modest growth in the residential VoIP market, additional growth may occur as network facilities transitions to an IP-centric infrastructure.

Figure 5-4
Florida Residential Interconnected VoIP Subscribers



Source: Responses to FPSC data requests (2012-2016)

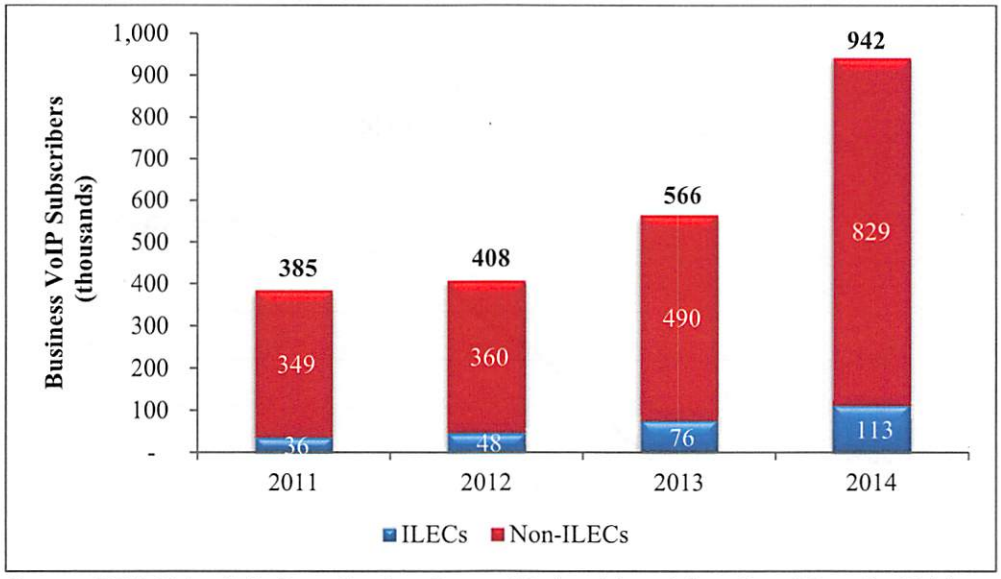
While the Commission received business VoIP data from telecommunications carriers, corresponding data was not made available from most cable companies as requested. Data is, however, available from the FCC that provides VoIP business lines through 2014. Figure 5-5 identifies the number of interconnected VoIP business by ILEC and non-ILEC carriers. Such

Report 2015, http://files.shareholder.com/downloads/VAGE/1999128012x0x887583/A7D23138-8CC3-4ACE-A66E-D9B25BD92285/VG_10-K.pdf, accessed on May 3, 2016.

[87] 8X8, Inc. /DE/ Form 10-K Annual Report 2015, https://www.sec.gov/Archives/edgar/data/1005699/000117891316004718/zk1618191.htm, accessed on May 3, 2016.

non-ILEC carriers would include cable companies. From 2013 to 2014, non-ILECs experienced a 69 percent increase in their number of interconnected business VoIP subscribers. By comparison, ILECs experienced a 49 percent increase in the number of interconnected business VoIP subscribers for the same time period. Based on the general trend of such interconnected business VoIP lines and the reduction in traditional switched access lines, it is likely that there will be further growth in this market segment.

Figure 5-5
Florida Business Interconnected VoIP Subscribers



Source: FCC, Voice Telephone Services Report, Nationwide and State-Level Data for 2014

C. Broadband

1. National Broadband Trends

Having access to a high-speed Internet connection has become an essential part of our daily lives. According to the latest report from the Pew Research Center, 67 percent of Americans had broadband connections in their homes in 2015.[88] Overall, broadband adoption rates are steadily increasing each year. However, it appears that in-home high-speed connections are declining as more people begin to rely solely on their smartphones for online access.[89]

Despite 67 percent of Americans having in-home broadband connections in 2015, this percentage is down slightly from 70 percent in 2013 and mirrors the 2012 in home broadband connection rate. This downturn suggests that the number of households with a broadband

[88] Pew Research Center, "Home Broadband 2015," December 21, 2015, http://www.pewinternet org/files/2015/12/Broadband-adoption-full.pdf, accessed on May 4, 2016.
[89] Ibid.

connection in their home has plateaued.[90] Figure 5-6 indicates the percentage of adults who were home broadband users between 2000 and 2015.[91]

As in-home, high-speed Internet adoption rates decrease, the number of Americans who solely rely on their smartphones to access the Internet has simultaneously increased.[92] According to the Pew Report, smartphone adoption has reached parity with home broadband adoption as 68 percent of Americans reported that they owned a smartphone in 2015, an increase from 55 percent in 2013. Thirteen percent of Americans are "smartphone only" meaning they exclusively rely on their smartphones for their broadband connection. This is an eight percent increase since 2013.[93]

Figure 5-6
Percentage of Broadband Households

Source: Pew Research Center Surveys

Table 5-1 shows the demographic groups who have shifted their home internet connectivity away from home broadband connections to smartphones.[94] It appears that low income households and those living in rural areas are among the major demographic groups who have made the most significant changes in their broadband adoption patterns.

[90] Ibid.
[91] Ibid.
[92] Ibid.
[93] Ibid.
[94] Ibid.

Table 5-1
Percentage of Households that Switched from Home Broadband Connections to Smartphones

	Broadband at Home			Smartphone, But No Broadband at Home		
	2013	2015	Percent Change	2013	2015	Percent Change
All adults	70 percent	67 percent	-3	8 percent	13 percent	+5
Rural residents	60 percent	55 percent	-5	9 percent	15 percent	+6
Household income < $20K	46 percent	41 percent	-5	13 percent	21 percent	+8
$20K-$50K	67 percent	63 percent	-4	10 percent	16 percent	+6
$50K-$75K	85 percent	80 percent	-5	5 percent	10 percent	+5
Parents	77 percent	73 percent	-4	10 percent	17 percent	+7
High school grad or less	50 percent	47 percent	-3	11 percent	18 percent	+7

Source: Pew Research Center

In addition, the number of households that have both an in-home broadband connection and a smartphone broadband connection has also increased. As of July 2015, fifty-five percent of all households reported having both a smartphone and a home high-speed Internet connection. This is an eight percent increase since 2013. Among non-home broadband adopters, 33 percent indicated that the monthly subscription cost is the primary reason they do not have a broadband connection at home.[95] Twelve percent of non-home broadband adopters indicated that they did not have a home high-speed Internet connection because their smartphones provided a sufficient broadband connection, while five percent indicated that home broadband service in their area was either not available or had insufficient speeds.

The most recent report published by the FCC indicated that 66 percent of U.S. households had fixed broadband connections with download speeds of at least 3 Mbps in 2014. By comparison, 54 percent had fixed broadband connections with download speed of at least 10 Mbps and 35 percent with at least 25 Mbps.[96] Demographic groups that are most likely to have broadband connections within their homes include households with relatively young members, Asian and White households, and households that are affluent and highly educated. Households located within suburban and urban areas are also more likely to have broadband connections than those located in rural areas. Minority households, low income individuals, and those without a college education are less likely to have high-speed internet connections within their homes.[97]

[95] Pew Research Center, "Home Broadband 2015," December 21, 2015, http://www.pewinternet org/files/2015/12/Broadband-adoption-full.pdf, accessed on May 4, 2016.
[96] FCC, Internet Access Services: Status as of December 31, 2014, released March 2016, https://apps.fcc.gov/edocs_public/attachmatch/DOC-338630A1.pdf, Figure 32, accessed May 4, 2016.
[97] Pew Research Center, "Home Broadband 2015," December 21, 2015, http://www.pewinternet org/files/2015/12/Broadband-adoption-full.pdf, accessed on May 4, 2016, and U.S. Census Bureau, "Computer and Internet Use in the

Efforts continue to extract more bandwidth from copper loops. Telecommunications companies have begun to deploy a new DSL technology called G.fast. G.fast is a DSL standard for local copper loops shorter than 500 meters. Currently, G.fast performance allows for aggregate upstream and downstream speeds of 150 Mbps over 500 meters over traditional phone wiring. The aggregate speed increases to roughly 300 Mbps when the distance is decreased to 300 meters.

Using coaxial cable in place of traditional phone wiring can provide a further boost to G.fast bandwidth. When AT&T acquired DirecTV, it also acquired the coaxial connections in the homes of DirecTV's customers. As a result, AT&T is considering leveraging these connections to support G.fast. AT&T expects be able to offer up to 750 Mbps in both downstream and upstream performance over coaxial cable with current G.fast technology. The company also expects to double its performance with the next generation of G.fast chipsets. [98]

Efforts also continue to increase the bandwidth of broadband delivered via satellite. High-speed satellite broadband provider ViaSat expects to deliver satellite broadband services at speeds of 100 Mbps or higher to its residential customers by 2019. ViaSat also plans to support 4K ultra-high definition video streaming.[99] Currently, the company delivers speeds of up to 25 Mbps. ViaSat's name for the planned 100 Mbps satellite broadband platform is ViaSat-3. The platform will consist of three satellites, with two focused on the Americas and Europe, Middle East and Africa. The third satellite will target the Asia Pacific region.[100]

2. *Florida Broadband Trends*

According to the FCC, 78 percent of households in Florida had fixed broadband connections with download speeds of at least 3 Mbps in 2014. Sixty-six percent of households had broadband speeds of at least 10 Mbps and 37 percent had speeds of at least 25 Mbps.[101] Cable modem services account for roughly 63 percent of the non-mobile broadband connections in Florida with download speeds greater than 200 kilobits per second (kbps). Mobile broadband connections accounted for 65 percent of all broadband connections in Florida with download speeds greater than 200 kbps.[102]

Reflecting advances in technology, market offerings by broadband providers, and consumer demand, the FCC updated its broadband benchmark speeds to 25 Mbps for downloads and 3 Mbps for uploads. The FCC found that its 4 Mbps standard set in 2010 was dated and inadequate for evaluating whether advanced broadband is being deployed to all Americans in a timely way. Figure 5-7 illustrates the FCC's fixed broadband deployment results described in the 2016

United States: 2013," issued November 2014, http://www.census.gov/content/dam/Census/library/publications/2014/acs/acs-28.pdf, accessed on May 4, 2016.

[98] Joan Engebretson, "G.fast Bandwidth Improvement Better Positions Copper Broadband Against Cable, DOCSIS," Telecompetitor, May 16, 2016, http://www.telecompetitor.com/g-fast-bandwidth-improvement-better-positions-copper-broadband-against-cable-docsis/, accessed on June 6, 2016.

[99] Joan Engebretson, ViaSat-3 100 Mbps Satellite Broadband Planned for 2019 Delivery, Telecompetitor, February 10, 2016, http://www.telecompetitor.com/viasat-3-100-mbps-satellite-broadband-planned-for-2019-delivery/, accessed on June 6, 2016.

[100] Ibid.

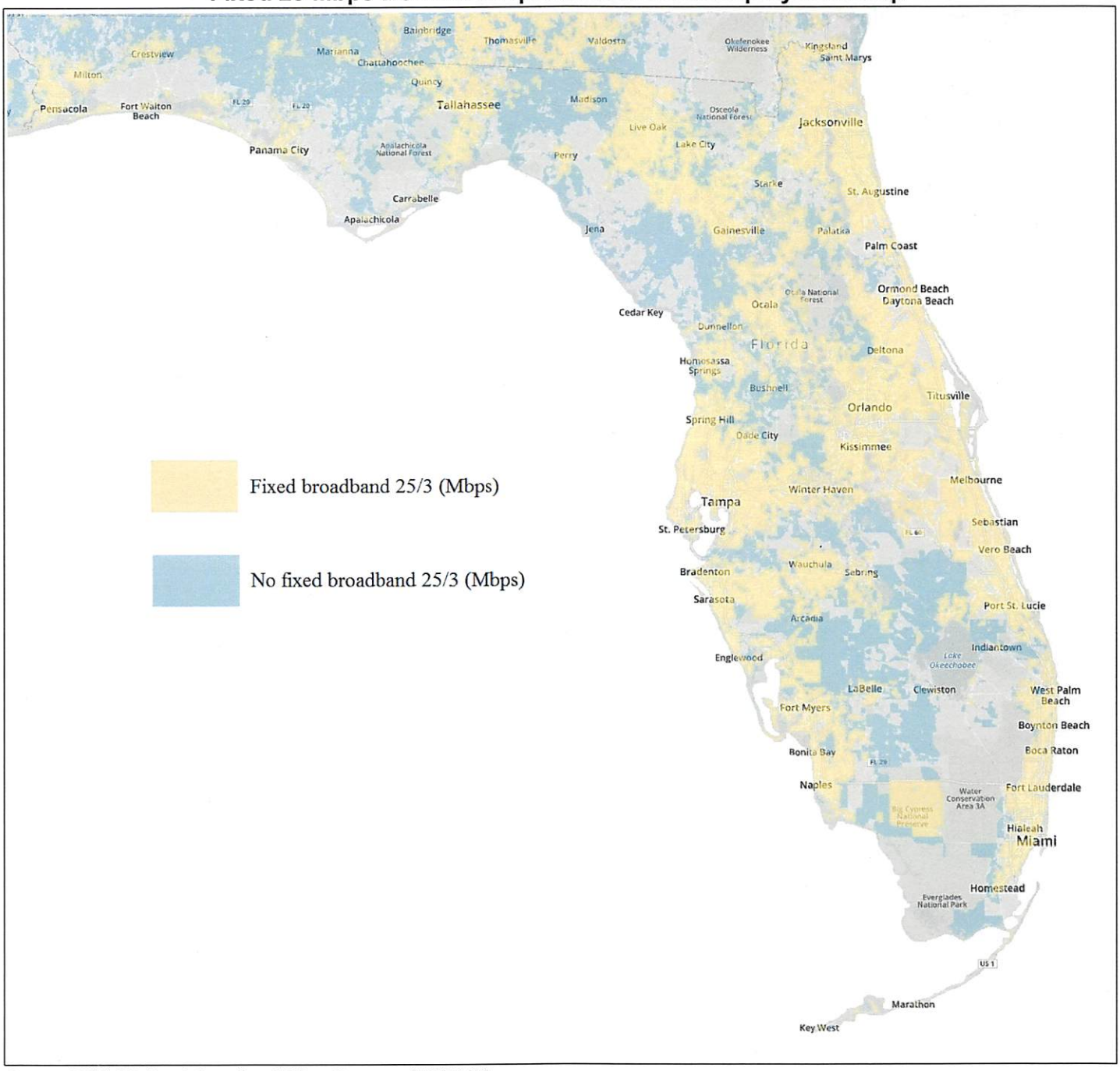
[101] FCC, Internet Access Services: Status as of December 31, 2014, released March 2016, https://apps.fcc.gov/edocs_public/attachmatch/DOC-338630A1.pdf, accessed May 4, 2016, Figure 34.

[102] Ibid, Figure 34.

Broadband Progress Report. It relies on data from the National Broadband Map, as of December 31, 2014.[103] It shows which areas in Florida have access to fixed broadband services of at least 25 Mbps download and 3 Mbps upload.

[103] FCC, Residential Fixed Broadband by Speed (2016 Broadband Progress Report), https://www.fcc.gov/reports-research/maps/bpr-2016-fixed-speed, accessed June 6, 2016

Figure 5-7
Fixed 25 Mbps Download Speed Broadband Deployment Map



Source: FCC, National Broadband Map, Data as of 12/31/14

Chapter VI. Competitive Market Analysis & Statutory Issues

Section 364.386, F.S. requires the Commission to address four issues in its annual report on telecommunications competition. These issues emphasize analysis of the impact of competition and regulatory changes on the telecommunications market.

A. Statutory Issue - Competitive Providers

The ability of competitive providers to make functionally equivalent local exchange services available to both residential and business customers at competitive rates, terms, and conditions.

In general, the wireline residential and business markets are declining for both ILECs and CLECs. The total number of access lines decreased by 14 percent in 2015 in Florida. CLEC lines decreased 21 percent between December 2014 and December 2015 driven by declines in business lines. As a result, total CLEC wireline market share in Florida decreased to 23 percent in 2015 from 24 percent in 2014.

By comparison, residential VoIP subscribership accounted for 2.8 million connections by December 2015 representing about a 1 percent increase from the prior year.[104] Comparable 2015 end of year data was not available for wireless and business VoIP segments of the market. However, recently released data for 2014 from the FCC indicates that the number of business VoIP lines grew 66 percent from 2013 through 2014.[105] Continued growth in 2015 is likely.

Wireless carriers in Florida also experienced growth in 2014. The FCC reported that there were 19.9 million handsets in service as of December 2014, up 1 million from the prior year.[106] Figure 6-1 uses the FCC's data regarding the number of voice subscribers by technology for 2014 to illustrate the competitive nature of the industry in Florida. While the data does not reflect the market for the reporting period of this report, it does provide insight regarding how carriers are meeting the market demand for service.

This data suggests that CLECs, VoIP, and wireless carriers are able to provide functionally equivalent services to residential and business customers at rates, terms and conditions acceptable to consumers. The number of CLECs offering a variety of services also indicates the availability of functionally equivalent services at comparable terms. Other services offered by CLECs that reported providing local service include:

- Bundles including services (54 CLECs)
- VoIP (61 CLECs)
- Broadband Internet access (54 CLECs)
- Video service (7 CLECs)

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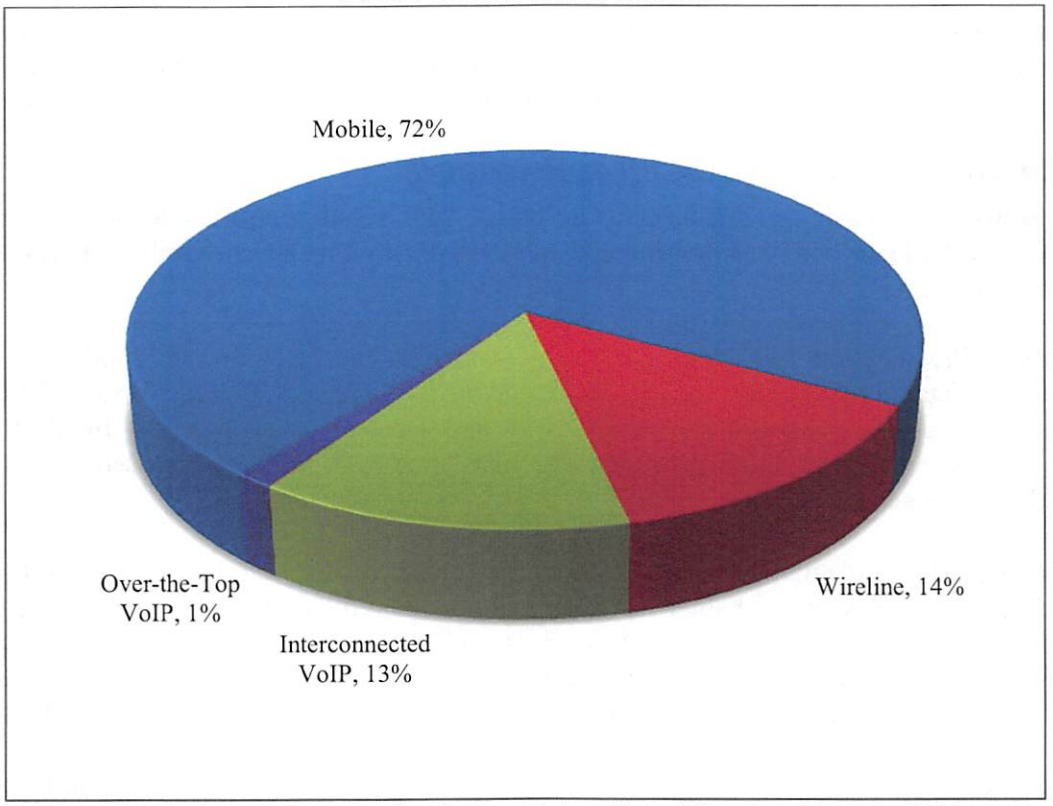
[104] Responses to FPSC data requests 2015-2016.
[105] FCC, "Voice Telephone Services as of 12/31/14," State-Level Subscriptions spreadsheets, released March 30, 2016, https://www.fcc.gov/file/3657/download, accessed June 3, 2016.
[106] Ibid.

Figure 6-1
2014 Florida Voice Market



Source: FCC, Voice Telephone Services Report, Nationwide and State-Level Data for 2014

The majority of CLECs reported no barriers to competition or elected not to respond in the comment portion of the survey. Those carriers that did provide comments to the Commission regarding barriers, however, represent approximately 38 percent of the CLEC business market in Florida. Those companies expressed concern regarding:

- The actions of some ILECs to unilaterally decide that a contract is not an interconnection agreement and, thus forecloses the opportunity for CLECs to either opt into such agreements or for the Commission to review them for discriminatory terms.
- The potential of the transition to an all IP network to be used as a means to eliminate or significantly limit the availability of last mile facilities.
- Actions by AT&T to use the IP transition as an excuse to construct new barriers to competition in Florida's local exchange markets and thereby increase prices for non-residential customers.[107]

[107] Several CLECs asserted that AT&T charges 8 times more for a basic connection in IP versus TDM in its Kings Point, Florida Trial site ($1,075 for 2 Mbps in IP vs. $126 for 1.5 Mbps in TDM). Competitors often must employ ILEC infrastructure to reach customers in the last mile preceding individual locations.

- Impairments a CLEC faces in a market do not "magically" change when the mode of transmission changes to IP.
- The need for concurrent jurisdiction and cooperation between the Commission and the FCC to maintain an industry structure that prohibits anticompetitive behavior and the detrimental use of market power.
- The identification of replacement services, which the FCC has said must be comparable in price and quality to the services being discontinued, during an IP transition.
- The preferential treatment by an ILEC of its CLEC affiliates with regarding interconnection terms and conditions than those offered to non-affiliated competitors.[108]

Conclusion: Subscribers to VoIP and wireless services continued to show signs of growth, reflecting the opportunity for customers to seek out services from providers other than traditional ILECs. Many CLECs reported offering a variety of services and packages comparable to those offered by ILECs. All of these factors contribute to the conclusion that competitive providers are able to offer functionally equivalent services to both business and residential customers. We note that the CLECs have not filed a petition with the FPSC to address the issues above. Some of these issues may be addressed by the FCC.

B. Statutory Issue – Consumers

The ability of consumers to obtain functionally equivalent services at comparable rates, terms, and conditions.

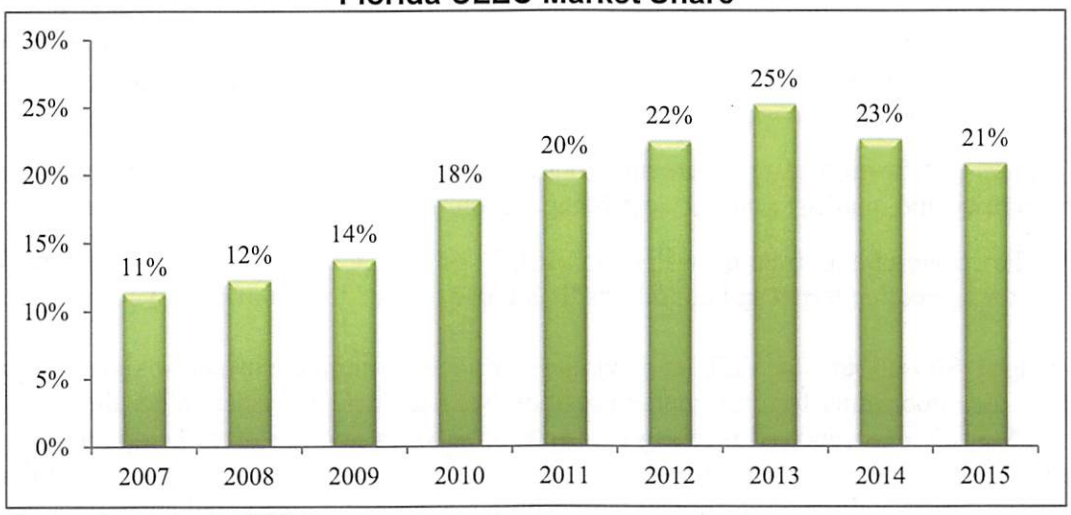
Functionally equivalent services are available to customers via wireline telephony, wireless telephony, or VoIP. The primary focus of this report is the provision of wireline telecommunications by ILECs and CLECs, which submit responses to the FPSC's annual data request.

As of December 31, 2015, 63 CLECs provided data indicating that they provide local voice service in Florida. In contrast, last year 72 CLECs responded, continuing the gradual decline in the number of CLECs providing service. Between 2011 and 2015, the number of CLECs providing voice service declined 46 percent, averaging a reduction of about 13 per year.

Competitive carriers can offer service through resale of an ILEC's or a CLEC's wholesale services, by using its own facilities, by leasing portions of its network from an ILEC, or a combination of any of these methods. Figure 6-2 provides a historical view of CLEC market share in Florida for the traditional wireline access line market. As of December 2015, 21 percent of total traditional wireline access lines in Florida are provided by companies other than ILECs.

[108] Such preferential treatment includes freely providing unbundled facilities to its affiliate at off-book terms and prices which it denies to CLECs, including for use by non-telecommunications services such as Internet access and television.

Figure 6-2
Florida CLEC Market Share



Source: Responses to FPSC data requests

Business lines from incumbent carriers fell 10 percent in 2015, while business lines from competitive carriers fell 23 percent. While business VoIP data was not provided by all segments of the industry for 2015, non-ILEC VoIP business lines grew 69 percent from 2013 to 2014 according to data from the FCC. This suggests that business customers have the ability to find reasonable pricing packages with CLECs and are taking advantage of these options. These options include CLEC cable companies and, in some cases, wireless providers. Residential ILEC lines decreased 14 percent in Florida in 2015, while nationally, wireless-only households continued to grow, reaching 48.3 percent through December 2015.[109]

As stated in Chapter V of this report, there are 2.8 million interconnected residential VoIP subscribers in Florida.[110] These and other factors demonstrate that customers are able to find comparable services at reasonable prices through wireless, CLEC, and VoIP providers.

Conclusion: Access lines for both residential and business customers have maintained a steady decline over the past several years (see Figure 4-1). This contrasts with the continued growth in wireless-only households. While declines have occurred in the business market, they are partially offset by significant growth in business VoIP lines. Carriers are managing the shifts in market conditions by bundling services and providing a variety of pricing plans in an attempt to meet consumer demand and expectations.

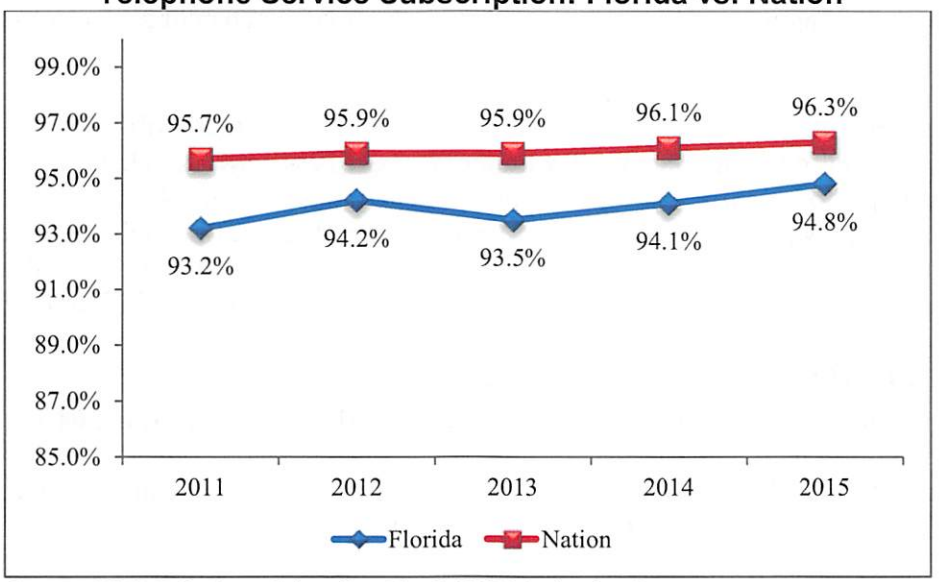
[109] Stephen J. Blumberg, Ph.D., Julian V. Luke, "Wireless substitution: Early release of estimates from the National Health Interview Survey, July–December 2015," National Center for Health Statistics, Centers for Disease Control and Prevention, released May 11, 2016, http://www.cdc.gov/nchs/nhis/releases.htm, accessed on May 28, 2016.
[110] Responses to FPSC Local Competition Data Request for 2016.

C. Statutory Issue – Affordability & Service Quality

The overall impact of competition on the maintenance of reasonably affordable and reliable high-quality telecommunications services.

The telephone subscription rate in Florida for 2015 was 94.8 percent according to the FCC. This is slightly lower than the national subscription rate of 96.3 percent.[111] The Florida telephone penetration rate has consistently been below the national penetration rate and the variance has varied little between 2011 and 2015, as shown in Figure 6-3.

Figure 6-3
Telephone Service Subscription: Florida vs. Nation



Source: FCC, Telephone Subscribership & USF Monitoring Report

Nationally, about 48 percent of adults live in wireless-only households according to a report on wireless substitution by the Centers for Disease Control and Prevention (CDC) for the period July-December 2015.[112] State-specific data on wireless-only households was not provided in the most recent CDC report; however, a February 2016 report containing state-level data noted that 47.6 percent of Florida's households were wireless-only in 2014.[113] That report found 7 percent

[111] FCC, "Telephone Subscribership in the United States as of July 2011," released December 2011, http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-311523A1.pdf, accessed on May 19, 2013, Table 3; "Universal Service Monitoring Report," released December 22, 2015, https://apps.fcc.gov/edocs_public/attachmatch/DOC-337019A1.pdf, accessed on June 4, 2016, Table 6.7.

[112] Stephen J. Blumberg, Ph.D., Julian V. Luke, "Wireless substitution: Early release of estimates from the National Health Interview Survey, July–December 2015," National Center for Health Statistics, Centers for Disease Control and Prevention, released May 11, 2016, http://www.cdc.gov/nchs/nhis/releases.htm#wireless, accessed on May 28, 2016.

[113] National Center for Health Statistics, Centers for Disease Control and Prevention, "Wireless Substitution State-Level Estimates from then National Health Interview Survey," released February 2016, http://www.cdc.gov/nchs/nhis/new_nhis.htm, accessed June 2, 2016.

of Florida adults live in households with only a wireline phone. It also found that 3.7 percent of Florida adults living without any form of telephone service.[114] Based on the data from both the FCC and the CDC, it appears that most Florida households are able to afford telephone service and have access to a variety of service providers, including ILECs, CLECs, VoIP, and wireless. This data also supports the fact that many consumers choose to subscribe to more than one type of telephone service.

While regulatory reliability standards have applied historically to landline telecommunications service, such reliability standards are no longer insured as many states, including Florida, eliminated these standards. Given the continued growth of interconnected VoIP and wireless-only households, and the continued decline of landline access lines, it appears that the reliability of these alternatives is acceptable to consumers. Moreover, mobility, pricing, and the demand for data-based services are consumer preference factors that may be changing how consumers view reliability.

Conclusion: Based on the continued growth of interconnected VoIP and wireless-only households and the ongoing decline of wireline access lines, network reliability of non-ILEC providers appears to be sufficient. The telephone penetration rate of 94.8 percent supports the conclusion that the vast majority of Florida residents are able to afford telephone service. The number and variety of competitive choices among all types of service providers suggest that competition is having a positive impact on the telecommunications market in Florida.

D. Statutory Issue – Carrier Disputes

A listing and short description of any carrier disputes filed under Section 364.16, F.S.

Conclusion: The number of docketed and informal intercarrier complaints remained relatively stable in 2015. This information can be found in Appendix B.

[114] Ibid.

Chapter VII. State Activities

The Commission dealt with several intercarrier and compliance issues during the past year. The following is a summary of activities affecting local telecommunications competition in 2015.

A. Intercarrier Matters

1. Communications Authority v. AT&T

On August 20, 2014, Communications Authority, Inc. (CA) filed an arbitration petition between it and AT&T Florida.[115] CA sought resolution of certain issues arising with AT&T Florida in the negotiation of an interconnection agreement pursuant to Section 252(b) of the Communications Act. The Commission held a two-day hearing beginning on May 6, 2015. On October 13, 2015, the FPSC resolved the remaining 74 open issues, including subparts. Neither party asked for reconsideration of the FPSC's decision or appealed it.

2. Wholesale Performance Measurement Plans

Wholesale performance measurement plans provide a standard against which the Commission can monitor performance over time to detect and correct any degradation in the quality of service ILECs provide to CLECs. The Commission adopted performance measurements for AT&T in August 2001 (revised in 2010), for CenturyLink in January 2003 (revised in 2013), and for Verizon in June 2003 (revised in 2007). Trending analysis is applied to monthly performance measurement data provided by each ILEC.

AT&T is the only ILEC that is required to make payments to CLECs when certain performance measures do not comply with established standards and benchmarks. AT&T's approved Performance Assessment Plan consists of 47 measurements, of which 24 measurements have remedies applied to them. For the calendar year 2015, AT&T paid approximately $363,401 in remedies to CLECs, a decrease of 35 percent from 2014.

On October 15, 2015, CenturyLink filed proposed revisions to its Performance Measurement Plan as a result of a negotiated settlement in Nevada. The revisions included revising reporting requirements from monthly to quarterly, eliminating several performance measures from the PMP measures, and amending two measures. The proposal was pending at the end of 2015 and so did not affect CenturyLink's OSS reporting for that year. For the 2015 calendar year, CenturyLink's monthly compliance with established standards ranged from 97 percent to 100 percent. CenturyLink's measure with the most non-compliant instances was its average time to restore service.

Verizon's current Performance Measurement Plan contains 29 measures. For the calendar year 2015, Verizon's monthly compliance with approved standards ranged from 86.3 percent to 96.6 percent. The previous year, Verizon's compliance ranged from 85.0 percent to 91.9 percent. Verizon's customer trouble report rate was its most non-compliant measure.

[115] Docket No. 140156-TP – Petition by Communications Authority, Inc. for arbitration of Section 252(b) interconnection agreement with BellSouth Telecommunications, LLC d/b/a AT&T Florida.

3. Other Matters

In addition to these proceedings, the Commission processed a number of other telecommunications-related items in 2015. The Commission processed 85 service schedule and tariff filings, 59 interconnection agreements and amendments, 15 carrier certifications, 19 certificate cancellations, 2 Eligible Telecommunications Carrier certificate relinquishments, and over 380 general inquiries/informal complaints.

B. Lifeline

The FPSC created an online Lifeline application for consumers participating in Supplemental Nutrition Assistance Program (SNAP), Medicaid, or Temporary Cash Assistance (TCA) in order to comply with FCC requirements and keep the applications process uncomplicated.[116] When an application is completed, a FPSC computer automatically makes a query to a Florida Department of Children and Families (DCF) Web services interface to confirm current participation in SNAP, Medicaid, or TCA. The real-time response verifies participation in at least one of the programs, but does not identify the program. A positive response will generate an automatic email to the appropriate Lifeline provider advising that an approved Lifeline application is available for retrieval on the FPSC Web site. A negative response will cause a letter to be sent to the applicant stating his/her participation in SNAP, Medicaid, or TCA could not be confirmed and offering Commission staff assistance with any questions. Based upon June 2015 SNAP participants, the Lifeline eligible households decreased by 8.2 percent compared to 2014 data.[117] Table 7-1 shows the Lifeline eligibility and participation rate in Florida for the last five years.[118]

Table 7-1
Florida Lifeline Eligibility and Participation Rate

Year	Lifeline Enrollment	Eligible Households	Participation Rate
June 2011	943,854	1,690,512	55.8 percent
June 2012	1,035,858	1,864,183	55.6 percent
June 2013	918,245	1,952,890	47.0 percent
June 2014	957,792	1,930,106	49.6 percent
June 2015	831,612	2,011,166	41.4 percent

Sources: U.S. Department of Agriculture data figures are as of June 2015

If a program other than Medicaid, SNAP, or TCA, is used for certification, the customer must provide documentation of participation from the administering agency, which could be the Florida Department of Education (free school lunch program), the Social Security Administration (Supplemental Security Income), a county-level agency (Low-Income Home Energy Assistance Plan or Section Eight Housing), or the Bureau of Indian Affairs for documentation. As of June 2015, over 98 percent of Florida applicants using the Lifeline

[116] Nationally known as Temporary Assistance for Needy Families (TANF).
[117] According to the US Department of Agriculture Report, "Supplemental Nutrition Assistance Program: Number of Households Participating, ending June 30, 2014," over 1,930,106 Florida households participated SNAP.
[118] FPSC, "2015 Florida Lifeline Report," released December 2015, http://www.floridapsc.com/Publications/Reports#, Table 7-1, accessed June 6, 2016.

Coordinated Enrollment Process use Medicaid, SNAP, or TCA for eligibility. If a Lifeline applicant chooses to apply for Lifeline directly with an eligible telecommunications carrier, the carrier can access the DCF web services to confirm program participation for Medicaid, SNAP, and TCA. In Florida, certification and verification can be accomplished using this process if the applicant or existing Lifeline customer participates in the Medicaid, SNAP, or TCA programs which are administered by the DCF.

On April 27, 2016, the FCC released its Lifeline Modernization Order.[119] In this Order, the FCC took steps to both expand services supported and also limit the qualifying criteria consumers can use to sign up for Lifeline services. The FCC anticipates that its new rules will be in effect by December 2016.[120] Once this new rule is in effect, the only qualifying programs for the Lifeline enrollment will be: SNAP, Medicaid, Supplemental Security Income (SSI), Federal Public Housing Assistance (FPHA), or the Veterans Pension benefit. Other previously qualifying programs will no longer be accepted. Consumers that are already enrolled in the Lifeline program will continue to be eligible for up to one year from their initial application or recertification. In addition, state-specific eligibility criteria will no longer be qualifying consumers in the federal program. The FCC has maintained its income qualification criteria. Additional information regarding the FCC's Lifeline Modernization Order can be found in Chapter VIII.

C. Telephone Relay Service

It is estimated that approximately 2.5 to 3 million[121] of the estimated 20 million persons living in Florida have been diagnosed as having a hearing loss. Relay service in Florida provides telecommunications service for deaf, hard of hearing, deaf-blind, or speech impaired persons functionally equivalent to the service provided to hearing persons.

Chapter 427, Part II of the Florida Statutes, established the Telecommunications Access System Act of 1991 (TASA). TASA provides funding for the distribution of specialized telecommunications devices and intrastate relay service through the imposition of a surcharge of up to $0.25 per landline access line per month, for up to 25 access lines per account. The surcharge billed per month per landline access line was $0.12 in the 2015-2016 budget year.

Pursuant to TASA, the FPSC is responsible for establishing, implementing, promoting, and overseeing the administration of a statewide telecommunications access system to provide access to telecommunications relay services by people who are deaf, hard of hearing, deaf-blind or speech impaired. In accordance with TASA, the FPSC directed the local exchange companies (LECs) to form a not-for-profit corporation, known as Florida Telecommunications Relay, Inc. (FTRI) to directly administer basic relay service in Florida.

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[119] FCC 16-38, WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization, Third Report and Order, Further Report and Order, and Order on Reconsideration, released April 27, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-38A1.pdf, access on June 5, 2016.

[120] Beginning on the later of December 1, 2016 or 60 days following Paperwork Reduction Act approval.

[121] 2015 Florida Coordinating Council for the Deaf and Hard of Hearing Biennial Report to Governor Rick Scott, the Florida Legislature & the Supreme Court and "Demographics and Statistics," Florida Telecommunications Relay, Inc., http://ftri.org/index.cfm/go/public.view/page/12, accessed on April 21, 2016.

Basic relay service is provisioned in Florida under contract by a single service provider. Through a competitive bid evaluation process, the FPSC awarded the current relay provider contract to Sprint, effective March 1, 2015, for a period of three years. The contract contains options to extend the contract for four additional one-year periods, and requires mutual consent by both parties to extend the contract.

On May 18, 2015, the FPSC approved FTRI's 2015-2016 budget, directing FTRI to reduce its proposed budget by $164,284. Specifically, the FPSC approved FTRI's proposed operating revenue of $8,752,580 and proposed expenses of $8,751,932. The TASA surcharge increased $0.01 to $0.12 beginning July 1, 2015. The FPSC will be addressing FTRI's 2016-2017 budget at the July 7, 2016, Commission Conference.

Chapter VIII. Federal Activities

A. Consumer Complaint Data Center

In an effort to provide greater transparency into consumer complaints, the FCC launched a new online Consumer Complaint Data Center on May 18, 2016.[122] The online platform is intended to provide consumers with more information about complaints and tools to customize how they view the data. Informal complaints submitted to the FCC are added to the database, which is updated on a daily basis. The FCC has indicated that this is intended to be part of a broader initiative to streamline its consumer complaint processing and make more detailed, real-time data available to the public.

B. Data Breach

AT&T agreed to pay a $25 million fine as a result of an FCC investigation into whether AT&T failed to properly protect the confidentiality of almost 280,000 customers' proprietary information in April 2015.[123] The information included sensitive personal data such as customers' names, partial Social Security numbers, and account-related data known as customer propriety network information. As part of the Consent Decree, AT&T will hire a compliance officer, create a compliance plan that will be submitted to the FCC and then file compliance reports.

In an unrelated data breach involving Cox Communications, the FCC entered into a $595,000 settlement to resolve an investigation into whether the company failed to properly protect its customers' personal information when the company's electronic data systems were breached in 2014.[124] The settlement adopted in November 2015 also requires Cox to identify all affecting customers, notify them of the breach, and provide them one year of free credit monitoring. These actions represent the FCC's first privacy and data security enforcement action with a cable operator.

C. Robocall Protections

The FCC approved an order to protect consumers against unwanted robocalls and spam texts on June 18, 2015.[125] This order was the result of a request initiated by the National Association of Attorneys General and thirty-nine state Attorneys General (including Florida's Attorney General) asking the FCC for an opinion on what actions telephone providers could legally take to block

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[122] FCC, News Release, "FCC Launches Consumer Complaint Data Center," released May 18, 2016, http://transition.fcc.gov/Daily_Releases/Daily_Business/2016/db0518/DOC-339434A1.pdf, accessed on June 13, 2016.

[123] FCC DA 15-399, File No. EB-TCD-14-00016243, In the Matter of AT&T Services, Inc., Order and Consent Decree, released April 8, 2015, http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0408/DA-15-399A1.pdf, accessed on June 13, 2016.

[124] FCC DA 15-1241, File No. EB-IHD-14-00017829, In the Matter of Cox Communications, Inc., Order, released November 5, 2015, https://apps.fcc.gov/edocs_public/attachmatch/DA-15-1241A1.pdf, accessed on June 13, 2016.

[125] "FCC Strengthens Consumer Protections Against Unwanted Calls and Texts," FCC News Release, released June 18, 2015, http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0619/DOC-333993A1.pdf, accessed on June 24, 2015.

unwanted telemarketing calls.[126] Complaints related to unwanted calls are the largest category of complaints received by the FCC, numbering more than 215,000 in 2014.

Two months after the adopting of its new rules, the FCC announced a $2.96 million fine against Travel Club Marketing, Inc. and its related companies, based in Tampa, Florida, for violation of the FCC's rules.[127] The FCC noted that this company had initiated at least 185 robocalls, all of which were unsolicited, prerecording advertising calls to over 142 consumers who had not consented to the robocalls and the majority of whom had placed their telephone number on the National No-Not-Call registry.

D. Wi-Fi Blocking

The FCC received an informal complaint in June 2014 that consumers could not connect to the Internet at several venues where Smart City provided Wi-Fi service. In providing services at convention centers, Smart City charged exhibitors and visitors a fee of $80 per day to access the company's Wi-Fi service. The FCC's investigation concluded that Smart City blocked consumers from using their own Wi-Fi networks at several conventions centers in cities including Orlando, Florida. As part of its settlement, Smart City will pay a $750,000 civil penalty and cease its Wi-Fi blocking activities.[128] This is the FCC's second major enforcement action regarding Wi-Fi blocking. In October 2014, the FCC fined Marriott International and Marriott Hotel Services, Inc. $600,000 for similar Wi-Fi blocking.[129] More recently, the FCC's Enforcement Bureau proposed a $25,000 fine against Hilton Worldwide Holdings, Inc. for apparent obstruction of an investigation regarding ongoing Wi-Fi blocking investigation.[130]

E. Prepaid Calling Cards

Six companies were fined for deceptively marketing prepaid calling cards by the FCC in October 2015. The companies, each receiving a fine of $5 million, were: Locus Telecommunications, Inc.; Lyca Tel, LLC; NobelTel, LLC; Simple Network, Inc.; STi Telecom Inc.; and Touch-Tel USC LLC. The FCC concluded that the companies' disclosures did not clearly and conspicuously disclose or explain the actual charges that would be incurred for a call and that those charges were subject to change by the companies, often without any notice to customers. The FCC's Enforcement Bureau initially released apparent liability notices to these companies in 2011 and 2012.

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[126] FCC DA 14-1700, CG Docket No. 02-278, Consumer and Governmental Affairs Bureau Seeks Comment on Robocalls and Call-Blocking Issues Raised by the National Association of Attorneys General on Behalf of Thirty-Nine Attorneys Genera, Public Notice, released November 24, 2014, https://apps.fcc.gov/edocs_public/attachmatch/DA-14-1700A1.pdf, accessed on June 26, 2015.

[127] FCC 15-102, File No. EB-TCD012-00000265, In the Mater of Travel Club Marketing, Inc., et al., released August 11, 2015, https://apps.fcc.gov/edocs_public/attachmatch/FCC-15-102A1.pdf, accessed on June 13, 2016.

[128] FCC 15-917, Order, File No. EB-SED-15-00018248, In Matter of Smart City Holdings, LLC, and its Wholly-Owned Subsidiaries, Smart City Networks, LP, and Smart City Solutions LLC, released August 18, 2015, https://apps.fcc.gov/edocs_public/attachmatch/DA-15-917A1_Rcd.pdf, accessed June 13, 2016.

[129] FCC 14-1444, Order, File No. EB-IHD-13-00011303, In the Matter of Marriott International , Inc., released October 3, 2014, https://apps.fcc.gov/edocs_public/attachmatch/DA-14-1444A1_Rcd.pdf, accessed June 13, 2016.

[130] FCC, DA 15-1227, Notice of Apparent Liablity for Forfeiture and Order, File No. EB-SED-15-00019993, In the Matter of Hilton Worldwide Holdings, Inc., released November 2, 2015, https://apps.fcc.gov/edocs_public/attachmatch/DA-15-1227A1_Rcd.pdf, accessed June 13, 2016.

F. Universal Service

Universal service is the principle that all Americans should have access to communications services. While Florida consumers benefit from being able to make and receive calls from all parts of the nation, there is a cost associated for this policy.

In general, Florida consumers pay more into the federal Universal Service Fund (USF) than what is returned to eligible service providers in Florida.[131] For 2014, California and New York continue to be larger net contributors than Florida. The FPSC monitors and participates in ongoing proceedings at the FCC and with the Federal-State Joint Board on Universal Service (Joint Board). Table 8-1 shows Florida's estimated contribution and receipts for 2014 and provides a comparison of net contributions for 2012 and 2013.

Table 8-1
2014 Federal Universal Service Programs in Florida
(Annual Payments and Contributions in Thousands of Dollars)

	2012	2013	2014		
	Estimated Net	Estimated Net	Payments to Service Providers	Estimated Consumer Contributions	Estimated Net
High-Cost	($209,239)	($200,627)	$65,601	$232,510	($168,908)
Low Income	(23,613)	(13,418)	106,617	103,379	3,238
Schools & Libraries	(63,175)	(51,483)	81,541	141,342	(59,801)
Rural Health Care	(9,607)	(9,869)	185	12,019	(11,834)
Total	($312,806)	($282,278)	$251,944	$496,657	($244,712)

Source: FCC Universal Service Monitoring Report, various years, Tables 1.13 and 1.9.

1. Contribution System Reform

Telecommunication service providers fund the USF based on a quarterly FCC assessment factor and the amount of telecommunications revenues service providers collect from end-users. Specifically, the assessment factor is applied to interstate and international telecommunications revenues.

Mobile wireless carriers and interconnected VoIP providers are also required to contribute.[132] In 2015 the assessment factor, ranged from a high of 17.4 percent in the second quarter to a low of 16.7 percent in the fourth quarter.[133] Figure 8-1 illustrates changes to the assessment factor over the last four years.

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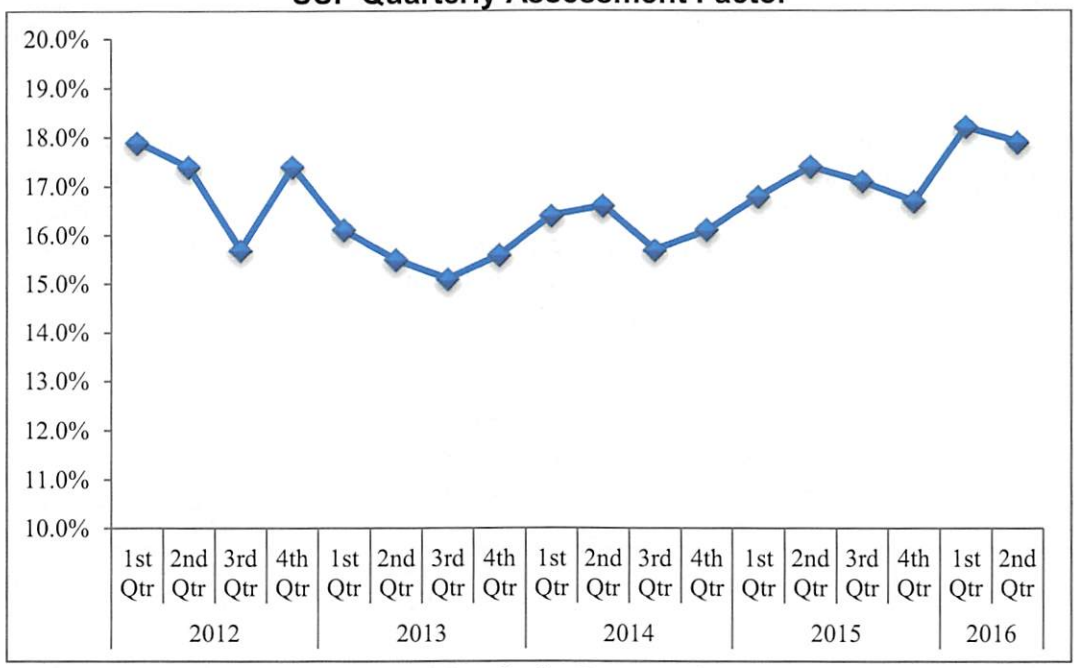
[131] FCC, "Universal Service Monitoring Report - 2015," released December 22, 2015, https://apps.fcc.gov/edocs_public/attachmatch/DOC-337019A1.pdf, accessed on June 4, 2016, Table 1.9.

[132] Wireless carriers and interconnected VoIP providers may use the interim safe harbor percentages to estimate the interstate portion of their revenues.

[133] FCC, "Contribution Factor & Quarterly Filings - Universal Service Fund (USF) - Management Support," http://www.fcc.gov/encyclopedia/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support, accessed on June 4, 2016.

Figure 8-1
USF Quarterly Assessment Factor



Source: FCC, Public Notices on Proposed Contribution Factors, various quarters

The FCC initiated a proceeding to consider modernizing how Universal Service Fund contributions are assessed and recovered in 2012.[134] The FCC has acknowledged that the current contribution system has given rise to uncertainty, inefficiency, and market distortions. Outdated rules and loopholes mean that services that compete directly against each other may face different treatment.

The FCC is considering a number of options including assessing contributions based on either total revenues (i.e., interstate and intrastate), connections, numbers, or a hybrid approach (of connections and revenues). The FCC sought comment on expanding the types of providers that should be required to contribute. Such providers include enterprise communications service providers, text messaging providers, and broadband Internet service providers. On August 7, 2014, the FCC referred these issues to the Federal-State Joint Board on Universal Service.[135] While the Joint Board was asked to file its recommendation with the FCC by April 7, 2015, that deadline has been extended by the FCC.

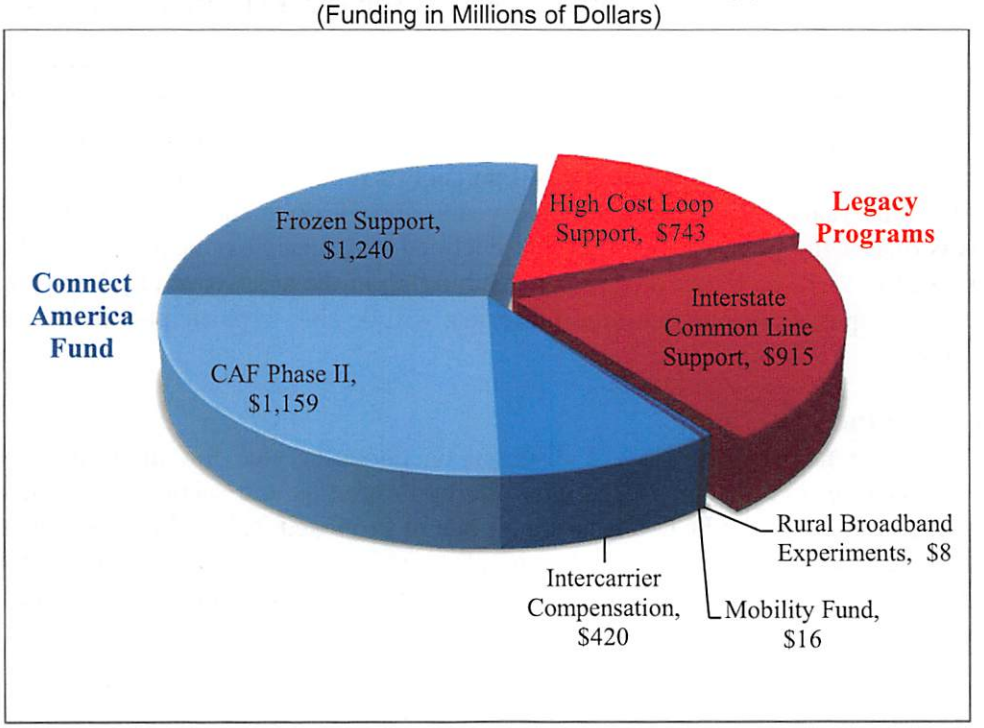
[134] FCC 12-46, WC Docket No. 06-122, Universal Service Contribution Methodology, Further Notice of Proposed Rulemaking, released April 30, 2012, https://apps.fcc.gov/edocs_public/attachmatch/FCC-12-46A1.pdf, accessed on June 4, 2016.

[135] Florida Public Service Commissioner Ronald Brisé serves on the Federal-State Universal Service Joint Board.

2. High-Cost

In 2011, the FCC reformed and modernized its existing high-cost fund to maintain voice services and extend broadband capable infrastructure.[136] As part of this reform, the FCC began to phase out the existing high-cost support programs and began funding through the Connect America Fund (CAF). The CAF focuses on supporting and expanding fixed broadband availability and voice service. Figure 8-2 identifies 2015 authorized national support by high-cost program and represents an increase of 20 percent from 2014.

Figure 8-2
2015 Authorized Federal High-Cost Support
(Funding in Millions of Dollars)



Source: USAC 2015 Annual Report

In 2015, support increased due to implementation of the CAF Phase II support for interstate priced capped carriers.[137] This fund provides support that is based on a model, or when model based support is declined, competitive bidding. The model estimates the cost to provide voice and broadband services in high-cost areas where unsubsidized carriers are not providing comparable services. Carriers accepting Phase II model-based support must provide at least 10/1

[136] FCC 11-161, WC Docket No. 10-90, Connect America Fund, Report and Order and Further Notice of Proposed Rulemaking, released November 18, 2011, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf, accessed on May 22, 2015.

[137] Interstate priced capped carriers are: AT&T, CenturyLink, Frontier, GTC, Verizon, and Windstream.

Mbps broadband throughout their accepted areas by 2020.[138] Of the carriers that were offered model based support in Florida, only Verizon declined.

On March 30, 2016, the FCC released an Order reforming high-cost support for interstate rate-of-return carriers.[139] The focus of the reforms implemented in this Order were to provide an option under which rate-of-return carriers may elect model-based support for a term of 10 years in exchange for meeting defined build-out obligations. The Order also modernizes one of the existing support mechanisms to allow for support for facilities that provide broadband services, but where the consumer has elected not to also subscribe to voice service.[140] Under previous rules, carriers would only be able to receive support if a customer subscribed to a voice service, either by itself or as part of a bundle of services. There are only four interstate rate-of-return carriers in Florida, representing less than 2 percent of traditional switched access lines.[141]

Finally, the FCC released an Order establishing its competitive bidding rules in those areas where CAF Phase II support was not accepted by the incumbent carrier in May.[142] In general, the FCC established minimum broadband standards within an annual budget of $215 million. It requires network build-out requirements of 40 percent of funded locations within three years, 60 percent after four years, 80 percent after five years, and 100 percent by six years. Verizon (in Florida) was one of the price cap carriers that declined last year's Connect America Fund offer. As a result, support will be based on competitive bidding in the area served by Verizon. Frontier, which recently acquired Verizon's assets in Florida, will be able to participate in the competitive bid for support.

3. Low Income

The Lifeline program provides a $9.25 discount on phone service for qualifying low-income consumers to ensure that all Americans have the opportunities and security that phone service brings. On June 22, 2015, the FCC released a Notice of Proposed Rulemaking and Order seeking comments on restructuring the program to include access to broadband.[143] The FCC has found that broadband has become essential to participation in modern society, offering access to jobs, education, health care, government services and opportunity.

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[138] FCC 14-190, WC Docket No. 10-90, Connect America Fund, Report and Order, released December 18, 2014, https://apps.fcc.gov/edocs_public/attachmatch/FCC-14-190A1.pdf, accessed on June 5, 2016.

[139] FCC 16-33, WC Docket No. 10-90, Connect America Fund, Report and Order, Order on Reconsideration, and Further Notice of Proposed Rulemaking, released March 30, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-33A1.pdf, accessed on June 5, 2016.

[140] Going forward Interstate Common Line Support (ICLS) will be known as Connect America Fund Broadband Loop Support (CAF BLS).

[141] Interstate rate-of-return carriers are: NEFCOM, Quincy, Smart City, and ITS.

[142] FCC 16-64, WC Docket NO. 10-90, Connect America Fund, Report and Order, and Further Notice of Proposed Rulemaking, released May 26, 2016, http://transition.fcc.gov/Daily_Releases/Daily_Business/2016/db0526/FCC-16-64A1.pdf, accessed June 13, 2016.

[143] FCC 15-71, WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization, Second Further Notice of Proposed Rulemaking, Order on Reconsideration, Second Report and Order, and Memorandum Opinion and Order, released June 22, 2015, http://transition.fcc.gov/Daily_Releases/Daily_Business/2015/db0622/FCC-15-71A1.pdf, accessed on June 24, 2015.

Based on comments in this proceeding, the FCC released its Lifeline Modernization Order on April 27, 2016.[144] The FCC's Order takes a variety of actions to encourage more Lifeline providers to deliver newly supported broadband services as the FCC transitions from primarily supporting voice services to targeting support at providing broadband services. To further incentivize investment in Lifeline service offerings, the FCC will implement Lifeline benefit port freezes, which limit how frequently Lifeline consumers can switch from one Lifeline carrier to another. For voice services, the customers will have to stay with their selected Lifeline carrier for 60 days. For customers receiving Lifeline support for broadband services, the length of time they are locked in to that provider is 12 months.

At the same time, the FCC will also establish a budget for the expanded Lifeline program of $2.25 billion, indexed to inflation. By way of comparison, the authorized support for the Lifeline program in 2015 was $1.49 billion.[145] The new rules would require FCC staff to notify the FCC when spending reaches 90 percent of the budget and prepare an analysis of the causes of spending growth, with recommended actions for the FCC to consider. The current rate of support would be maintained at $9.25 per household.

The FCC states that to be sustainable and achieve its goals of providing low-income consumers with robust, affordable, and modern service offerings, a forward-looking Lifeline program must focus on broadband services. Therefore, the FCC concludes that it is necessary that going forward the Lifeline discount will no longer apply to voice-only offerings following an extended transition period, except in Census blocks with only one Lifeline provider.

After this transition, the federal Lifeline program will continue to support voice service when bundled with a broadband service which meets the FCC's minimum service standards.[146] The table below outlines the FCC's phase down schedule.

Table 8-2
Lifeline Support Phase Down Schedule

Effective Dates	Fixed Voice	Mobile Voice	Fixed Broadband	Mobile Broadband
Through 11/30/19	$9.25	$9.25	$9.25	$9.25
From 12/1/19 to 11/30/20	$7.25	$7.25	$9.25	$9.25
From 12/1/20 to 11/20/21	$5.25	$5.25	$9.25	$9.25
After 11/30/21	$0	$0	$9.25	$9.25

Source: FCC, Lifeline Modernization Order

[144] FCC 16-38, WC Docket No. 11-42, Lifeline and Link Up Reform and Modernization, Third Report and Order, Further Report and Order, and Order on Reconsideration, released April 27, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-38A1.pdf, access on June 5, 2016.

[145] Universal Service Administrative Company, 2015 Annual Report, http://www.usac.org/_res/documents/about/pdf/annual-reports/usac-annual-report-2015.pdf, accessed on June 5, 2016, p. 41.

[146] The fixed broadband speed standard is based on what a substantial majority of consumers receive (currently 10 Mbps downloads / 1 Mbps uploads). The FCC also sets minimum monthly fixed broadband usage allowances, starting at 150 GB, and updated thereafter. Mobile broadband services standards are phased in starting at 500 MB per month of 3G data by December 1, 2016, 1 GB by December 1, 2017, and increasing to 2 GB per month by the end of 2018.

As part of this Order, the FCC will create the National Verifier, which will transfer the responsibility of eligibility determination away from Lifeline providers. The FCC hopes that by lowering providers' costs of conducting verification and reducing the risks of facing a verification-related enforcement action. The FCC has stated that it believes that the National Verifier will make the Lifeline program more attractive to providers. The FCC's Order provides little guidance on how the National Verifier will coordinate with those states, like Florida, that use their own automated eligibility system. As noted in Chapter VII, the FCC has also limited the criteria for Lifeline program qualification.

Federal rules regarding income-based eligibility were maintained as an avenue to access Lifeline support. The FCC's income eligibility is at or below 135 percent of the Federal Poverty Guideline. However, the FCC amended its rules to remove state-specific eligibility criteria, thus creating a conflict between the FCC's income eligibility threshold of 135 percent and that found in Florida Statutes at 150 percent.[147]

4. Schools and Libraries

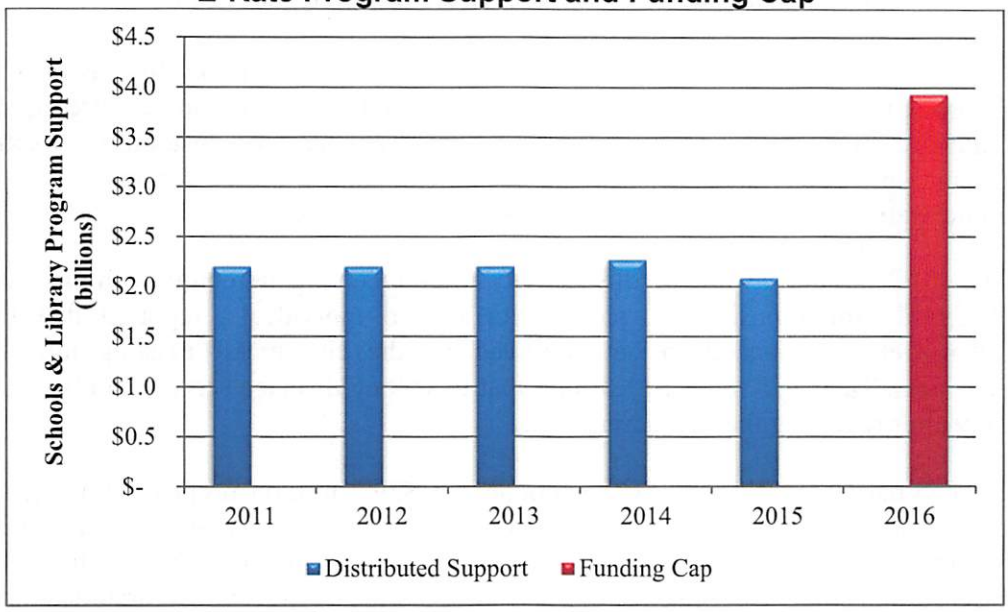
The schools and libraries support program, commonly known as the E-rate Program, provides financial assistance for eligible schools and libraries. The program provides support to reduce the cost associated with telecommunications services, Internet access, and eligible equipment, along with repair and upkeep of eligible equipment. The discounts range from 20 percent to 90 percent of the costs of eligible services depending on the level of poverty and whether the school or library is located in an urban or rural area.

Figure 8-3 reflects the new cap relative to the amount of support distributed in prior years.[148] On an annual basis, Florida consumers can expect to pay about $60 million more per year into the federal program based on 2014 estimated contribution data. Because the cap is almost twice the amount as what was distributed, there is the potential for increased net contributions into the program in the future.

[147] Section 364.10(2)(a) F.S.

[148] FCC Public Notice, DA 16-505, Wireline Competition Bureau Announces E-Rate Inflation-Based Cap for Funding Year 2016, released May 6, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-6A1.pdf, accessed June 5, 2016.

Figure 8-3
E-Rate Program Support and Funding Cap



Source: USAC 2015 Annual Report

G. Lifeline Program Fine

On April 7, 2016, the FCC announced that it plans to fine Total Call Mobile $51 million for enrolling tens of thousands of duplicate and ineligible consumers into the Lifeline program.[149] The FCC alleges that since 2014, Total Call has received an estimated $9.7 million in improper payments for duplicate or ineligible consumers, despite repeated and explicit warnings from its own employees and compliance specialists, that the company's sales agents were engaged in widespread enrollment fraud. Total Call was not approved to offer Lifeline services in Florida.

H. Slamming and Cramming

"Slamming" is the illegal practice of switching a consumer's traditional wireline telephone company for local, local toll, or long distance service without permission. The slamming rules also prohibit unreasonable delays in the execution of an authorized switch by your local telephone company. "Cramming," by comparison, is the illegal act of placing unauthorized charges on your wireline, wireless, or bundled services telephone bill. Crammers often rely on confusing telephone bills to trick consumers into paying for services they did not authorize or receive, or that cost more than the consumer was led to believe. Below is a list of slamming and cramming enforcement actions taken by the FCC.

- On July 30, 2015, the FCC announced its plans for a $2.4 million fine against Long Distance Consolidated Billing Company (LDCB). This telephone company, based in Waterford, Michigan, allegedly switched consumers' regional toll service providers

[149] FCC 16-44, File No. EB-IHD-14-00017650, In the Matter of Total Call Mobile, Inc., released on April 7, 2016, https://apps.fcc.gov/edocs_public/attachmatch/FCC-16-44A1.pdf, accessed on June 13, 2016.

without their authorization, misrepresented the company's identity during telemarketing calls, and placed unauthorized charges on consumers' telephone bills.

- On November 18, 2015, the FCC announced a $1.44 million fine against Encino, California-based long distance carrier Preferred Long Distance (Preferred). The company's telemarketers pretended to be representatives of customers' existing long distance providers, and switched the customers' long distance carriers without proper authorization, verified in accordance with the FCC's rules.

  The FCC became aware of this activity after receiving numerous complaints against Preferred. Small businesses, along with several individuals, reported that Preferred telemarketers pretended to be employed by the customers' existing long distance providers. They also reported learning that their long distance service had been switched only after receiving their telephone bills.

- On February 12, 2016, the FCC announced a $29.6 million proposed fine against four related long distance carriers for a variety of apparent fraudulent, deceptive, and manipulative practices targeting consumers with Hispanic surnames. In the action, the FCC found that OneLink Communications, Inc., TeleDias Communications, Inc., TeleUno, Inc., and Cytel, Inc., slammed and crammed consumers. In addition, it is alleged the companies, which operate as a single enterprise, fabricated audio recordings that they then submitted to the FCC as "proof" the consumers authorized these changes and charges.

  Some consumers alleged that the companies' telemarketers pretended to be from the post office calling about a nonexistent package delivery to obtain information to create fake consumer authorization recordings. In other cases, it appears the companies impersonated individuals in the authorization recordings. The companies then allegedly provided the fake authorizations to the FCC in response to its investigation into the consumer complaints. OneLink, TeleDias, TeleUno, and Cytel are resellers of domestic and international long distance telecommunications services. OneLink operates the companies as a single enterprise out of Alpharetta, Georgia. OneLink is headquartered in Florida. The companies purportedly refused to provide refunds until consumers filed complaints with the FCC, Better Business Bureau, or other agencies.

- On February 18, 2016, the FCC fined Florida-based related companies Telseven and Calling 10, as well as their owner, Patrick Hines, $1.68 million for billing consumers for unauthorized charges and fees and for deceptive marketing. The agency also fined Telseven and Mr. Hines over $1.75 million for failing to pay regulatory fees. The companies deceived consumers who mistakenly called their toll-free numbers about their services and then subsequently billed those consumers for services that were neither provided nor requested. Telseven and Mr. Hines are jointly and severally liable for both fines, totaling over $3.4 million.

  At the direction of Mr. Hines, the companies, based in Jacksonville, acquired approximately one million toll-free numbers, some of which were similar to existing working numbers or formerly used by well-known entities such as Chase Bank and other

financial institutions. These acquisitions served no apparent purpose other than to increase the likelihood that consumers would dial one of these numbers and reach Telseven or Calling 10 by mistake.

The companies failed to notify consumers that they tried to reach an inactive or incorrect number and falsely implied that their service was related to the party the caller tried to reach. In addition, the companies charged consumers approximately seven dollars for service that the consumers never authorized and the companies never provided.

I. Business Data Services

On May 24, 2016, the FCC released an Order and Notice addressing Business Data Services (BDS), traditionally known as special access services.[150] The FCC defines BDS as "the dedicated point-to-point transmission of data at guaranteed speeds and service levels using high-capacity connections." BDS is different from broadband Internet access service provided to residential end users. BDS costs substantially more than broadband Internet and is offered to support mission critical applications and have greater demands for symmetrical bandwidth, increased reliability, security, and service to multiple locations.[151]

The ILECs' provision of BDS has historically been subject to rate regulation and tariffing requirements. The focus of this proceeding is on geographic areas where the ILEC is subject to price cap regulation that sets ceilings on the rates ILECs can charge for BDS services through price caps.

The FCC proposes to replace the existing regulatory BDS structure with a technology-neutral framework that classifies markets as either competitive or non-competitive, with rules designed for each. The FCC proposes to identify competitive markets as those in which material competitive effects are present and proposes a set of deregulatory rules to govern them.

The FCC proposes tariffs should not be used as part of the regulation of any BDS but does not identify a path to detariff BDS. As a result of the FCC's investigation, it directed the ILECs to remove designated shortfall penalties from their respective tariffs.

The FCC proposes rules that safeguard customers in non-competitive markets, including price regulation, and prohibiting certain tying arrangements that harm competition. The FCC declared tying arrangements such as "all or nothing" provisions unjust and unreasonable, and concluded shortfall and early termination penalties in some pricing plans are unjust and unreasonable to the extent the penalties exceed expectation damages. The FCC did not take action on percentage or term commitments.

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[150] FCC 16-54, WC Docket No. 16-143, Tariff Investigation Order and Further Notice of Proposed Rulemaking, released May 2, 2016, http://transition.fcc.gov/Daily_Releases/Daily_Business/2016/db0602/FCC-16-54A1.pdf, accessed May 31, 2016.

[151] Ibid, page 6.

While the FCC did not appear to address detariffing at the state level, ILEC access tariffs on file with the states may contain the tying arrangements the FCC prohibited in the order. The FCC order noted that its list of services or plans was not intended to include all the tariffs that may be related to the plans under investigation

The FCC proposes periodic data collection that will allow it to update its identification of competitive and non-competitive markets. It also proposes to eliminate the current exemption from the basic provisions of the Act for Verizon services governing just and reasonable offerings of telecommunications services.

Appendix A. List of Certificated CLECs as of 12/31/2015

** Indicates the company did not respond to the Commission's data request.

365 Wireless, LLC
382 Networks, Inc.
Access One, Inc.
Access Point, Inc.
ACN Communication Services, LLC
** Advanced Communications Southeast, Inc.
Aero Communications, LLC
Airespring, Inc.
Airus, Inc.
ALEC, LLC
Alternative Phone, Inc.
American Telephone Company LLC
** Americatel Corporation
ANEW Broadband, Inc.
ANPI Business, LLC
AT&T Corp.
AT&T Florida
AT&T Florida
ATC Outdoor DAS, LLC
Atlantic Broadband (Miami), LLC
Atlantis Communications LLC
ATN, Inc.
Backbone Communications Inc.
** Baldwin County Internet/DSSI Service, L.L.C.
Bandwidth.com CLEC, LLC
Barr Tell USA, Inc.
BCM One, Inc.
BCN Telecom, Inc.
Benchmark Communications, LLC
BetterWorld Telecom
Birch Communications, Inc.
Birch Telecom of the South, Inc.
Bright House Networks Information Services (Florida), LLC
Broadband Dynamics, L.L.C.
** BroadRiver Communication Corporation
Broadview Networks, Inc.
Broadvox-CLEC, LLC
Broadwing Communications, LLC
BT Communications Sales LLC
Budget Phone
BudgeTel Systems, Inc.
BullsEye Telecom, Inc.
C3
Callis Communications, Inc.
Campus Communications Group, Inc.
Cbeyond Communications, LLC
CenturyLink
Cincinnati Bell Any Distance Inc.
Citrix Communications LLC
City of Daytona Beach
City of Lakeland
City of Ocala
Clear Rate Communications, Inc.
Cogent Communications of Florida LHC, Inc.
Comcast Long Distance
Comcast Phone of Florida, LLC
d/b/a Comcast Digital Phone
Comity Communications, LLC
Communications Authority, Inc
ComNet (USA) LLC
Comtech21, LLC
Conterra Ultra Broadband, LLC
Convergia, Inc.
CoreTel Florida, Inc.
Cox Florida Telcom, L.P.
Crexendo Business Solutions, Inc.
Crosstel Tandem, Inc.
Crown Castle NG East LLC
Custom Network Solutions, Inc.
Custom Tel, LLC
Dais Communications
Dedicated Fiber Systems, Inc.
Dialtone Telecom, LLC
DIGITALIPVOICE, INC.
Discount CLEC Services Corporation
dishNET Wireline L.L.C.

** DRS Training & Control Systems, LLC.
DSCI Corporation
EarthLink Business
EarthLink Business
EarthLink Business, LLC
Easy Telephone Services Company
Electronet Broadband Communications, Inc.
Embarq Communications
ENA Services, LLC
ENGAGE COMMUNICATIONS
Enhanced Communications Network, Inc.
Entelegent Solutions, Inc.
ExteNet Systems, Inc.
FairPoint Communications
FiberLight, LLC
First Choice Technology, Inc.
First Communications, LLC
FLATEL, Inc.
** Florida Hearing and Telephone
Florida Phone Systems, Inc.
Florida Telephone Services, LLC
FPL FiberNet, LLC
FPUAnet Communications
France Telecom Corporate Solutions L.L.C.
Frontier Communications of America, Inc.
Frontier Communications of the South, LLC
Georgia Public Web, Inc.
Global Capacity
Global Connection Inc. of America (of Georgia)
Global Crossing Local Services, Inc.
Granite Telecommunications, LLC
Great America Networks, Inc.
GRUCom
** GTC Communications, Inc.
Harbor Communications, LLC
Hayes E-Government Resources, Inc.
HD Carrier, LLC
Home Town Telephone, LLC
Hotwire Communications, Ltd.
IDT America, Corp.
inContact, Inc.
iNetworks Group, Inc.
INNOVATIVE TECH PROS
Integrated Path Communications, LLC
IntelaCloud, LLC
Intelletrace, Inc.
Intellicall Operator Services, Inc.
Intellifiber Networks, LLC
InterGlobe Communications, Inc.
InterMetro Fiber, LLC
Internet & Telephone, LLC
Intrado Communications Inc.
IPFone
ITS Fiber
ITS Telecommunications Systems, Inc.
ITS Telecommunications Systems, Inc.
J C Telecommunication Co., LLC
Joytel Wireless Communications, Inc.
** Keys Energy Services
Level 3 Communications, LLC
Lightspeed CLEC, Inc.
Litestream Holdings, LLC
LMK Communications, LLC d/b/a Clarity Communications Group
Local Access LLC
Local Telecommunications Services - FL, LLC
Maryland TeleCommunication Systems, Inc.
Mass Communications
Matrix Telecom, Inc.
** MCC Telephony of Florida, LLC
McLeodUSA Telecommunications Services, L.L.C.
MetTel
Miami-Dade Broadband Coalition I LLC
Micro-Comm, Inc.
Mitel Cloud Services, Inc.
Mobilitie, LLC

Momentum Telecom, Inc.
MOSAIC NETWORX LLC
MULTIPHONE LATIN AMERICA, INC.
Nebula Telecommunications of Florida LLC
NEFCOM
** NET TALK.COM, INC.
** Network Billing Systems, L.L.C.
Network Innovations, Inc.
Network Telephone LLC
Neutral Tandem-Florida, LLC
New Horizons Communications Corp.
Norstar Telecommunications, LLC
North American Telecommunications Corporation
North County Communications Corporation
NOS Communications, Inc.
O1 Communications East, LLC
Offramp, LLC
One Voice Communications, Inc.
** OneStar Long Distance, Inc.
OneTone Telecom, Inc.
Onvoy, LLC
Opextel LLC d/b/a Alodiga
Optical Communications, Inc.
** Pac-West Telecomm, Inc.
PAETEC Business Services
PaeTec Communications, LLC
Peerless Network of Florida, LLC
Phone Club Corporation
Pioneer Telephone
PowerNet Global Communications, Inc.
Preferred Long Distance, Inc.
** Primus Telecommunications, Inc.
Pro-Net, Inc.
** Public Wireless, Inc.
QuantumShift Communications, Inc.
** Quo Call LLC
RCLEC, Inc.
Reliance Globalcom Services, Inc.
Rosebud Telephone, LLC
Sage Telecom Communications, LLC
** Sago Broadband, LLC
** SanTel Communications
Seminole Telecom of Florida, LLC
** Semnac Technologies, LLC
SH Services LLC
Shands Teaching Hospital and Clinics, Inc.
** SKYNET360, LLC
Smart City Communications
Smart City Networks, Limited Partnership
Smart City Telecom
SNC Communications, LLC
Southeastern Services, Inc.
Southern Light, LLC
Southern Light, LLC
Southern Telecom
Sprint Communications Company Limited Partnership
Stratus Networks, Inc.
Summit Broadband
Sunesys, LLC
T3 Communications, Inc.
Talk America Inc.
Talk America Services, LLC
TCG South Florida
TDS Telecom/Quincy Telephone
** TelCentris Communications, LLC
Telco Experts, LLC
TelCove Operations, LLC
Tele Circuit Network Corporation
TeleDias Communications, Inc.
Telepak Networks, Inc.
Telrite Corporation
Telscape Communications, Inc.
Terra Nova Telecom, Inc.
TerraNovaNet, Inc.
The Other Phone Company, LLC
Time Warner Cable Business LLC
TNCI Operating Company LLC
Total Marketing Concepts, LLC
Touch Base Communications
Touchtone Communications Inc. of Delaware

** TQC Communications, Corp.
** Trans National Communications International, Inc.
Tristar Communications Corp.
tw telecom of florida l.p.
US Signal Company, L.L.C.
Vanco US, LLC
Velocity The Greatest Phone Company Ever, Inc.
Verizon Access Transmission Services
Verizon Florida LLC
** Verizon Florida LLC
Verizon Select Services Inc.
Vitcom, LLC
VoDa Networks, Inc.
Vodafone US Inc.
** Voice Stream Network, Inc.
** VOX3COM
Voxbeam Telecommunications Inc.
West Telecom Services, LLC
Wholesale Carrier Services, Inc.
Wide Voice, LLC
WiMacTel, Inc.
Windstream Florida, LLC
Windstream KDL, LLC
Windstream Norlight, LLC
Windstream NTI, LLC
Windstream NuVox, LLC
** WonderLink Communications, LLC
WOW! Internet, Cable and Phone
WTI Communications, Inc.
XO Communications Services, LLC
YMax Communications Corp.
Zayo Group, LLC

Appendix B. Summary of Complaints by Carriers

Carrier		Docket Number	Description
Terra Nova Telecom	AT&T	N/A	Late payment charges
Terra Nova Telecom	AT&T	N/A	911 fees
Terra Nova Telecom	AT&T	N/A	Relay surcharge
Terra Nova Telecom	AT&T	N/A	LNP charges
Terra Nova Telecom	AT&T	N/A	Trunk cutover
Terra Nova Telecom	AT&T	N/A	Trunk outage
Terra Nova Telecom	AT&T	N/A	Local interconnection
Communications Authority	AT&T	140156-TP	Arbitration
Terra Nova Telecom	AT&T	N/A	Number portability

Glossary

4G	The short name for fourth-generation wireless, the stage of broadband mobile communications that will supercede the third generation (3G). A 4G network requires a mobile device to be able to exchange data at 100 Mbit/sec.
5G	5G is the coming fifth-generation wireless broadband technology. 5G will provide better speeds and coverage than the current 4G. 5G is set to offer speeds of up to 1 Gb/s for tens of connections or tens of Mb/s for tens of thousands of connections. 5G is not scheduled for launch until 2020.
Access Line	The circuit or channel between the demarcation point at the customer's premises and the serving end or class 5 central office.
Backhaul	In wireless networks, the connection from an individual base station (tower) to the central network (backbone). Typical backhaul connections are wired high-speed data connections (T1 line, etc.), but they can be wireless as well (using point-to-point microwave or WiMax, etc.).
Broadband	A term describing evolving digital technologies offering consumers integrated access to voice, high-speed data services, video on demand services, and interactive information delivery services.
Circuit	A fully operational two-way communications path.
CLEC	*Competitive Local Exchange Company.* Any company certificated by the Florida Public Service Commission to provide local exchange telecommunications service in Florida on or after July 1, 1995.
Communications Act	The federal Communications Act of 1934, as amended by the Telecommunications Act of 1996, established a national framework to enable CLECs to enter the local telecommunications marketplace.
DSL	Digital Subscriber Line, a technology that connects the user to broadband connections across a telephone network. It uses the same copper loops as wireline telephone service.
Facilities-based VoIP service	This term refers to VoIP service provided by the same company that provides the customer's broadband connection. Facilities-based VoIP services are generally provided over private managed networks and are capable of being provided according to most telephone standards. While this service uses Internet Protocol for its transmission, it is not generally provided over the public Internet.
FiOS	FiOS is Verizon's suite of voice, video, and broadband services provisioned over fiber optic cable directly to the customer premises. FiOS can currently provide Internet access with maximum download speed of 500 Mbps and upload speed of 500 Mbps.

ICA	*Interconnection Agreement.* An interconnection agreement is a contract that establishes the rates, terms and conditions that govern the business relationship between telecommunications companies.
ILEC	*Incumbent Local Exchange Company.* Any company certificated by the FPSC to provide local exchange telecommunications service in Florida on or before June 30, 1995.
Interconnected VoIP service	According to the FCC, it is a VoIP service that (1) enables real-time, two-way voice communications; (2) requires a broadband connection from the user's location; (3) requires Internet protocol-compatible customer premises equipment; and (4) permits users generally to receive calls that originate and terminate on the public switched telephone network.
Intermodal	The use of more than one type of technology or carrier to transport telecommunications services from origination to termination. When referring to local competition, intermodal refers to non-wireline voice communications such as wireless or VoIP.
Internet Protocol (IP)	The term refers to all the standards that keep the Internet functioning. It describes software that tracks the Internet address of nodes, routes outgoing messages, and recognizes incoming messages.
Over-the-Top VoIP service	This term refers to VoIP service that is provided independently from a particular broadband connection and is transmitted via the public Internet. Examples of this service include Vonage and Skype.
Switched Access	Local exchange telecommunications company-provided exchange access services that offer switched interconnections between local telephone subscribers and long distance or other companies. Long distance companies use switched access for origination and termination of user-dialed calls.
TDM	Time Division Multiplexing is a method of transmitting and receiving independent signals over a common signal path by means of synchronized switches at each end of the transmission line so that each signal appears on the line only a fraction of the time in an alternating pattern. TDM circuit switched lines represent the traditional wireline access line data within this report and do not include VoIP connections.
U-verse	U-verse is the brand name of AT&T for a group of services provided via Internet Protocol (IP), including television service, Internet access, and voice telephone service. Similar to Verizon's FiOS service, AT&T's U-verse is deployed using fiber optic cable.
Universal Service	This term describes the financial support mechanisms that constitute the national universal service fund. This fund provides compensation to telephone companies or other communications entities for providing access to telecommunications services at reasonable and affordable rates throughout the country, including rural, insular, high-cost areas, and public institutions.

Universal Service Administrative Company (USAC)	USAC is an independent American nonprofit corporation designated as the administrator of the federal Universal Service Fund by the Federal Communications Commission. USAC is a subsidiary of the National Exchange Carrier Association.
VoIP	*Voice over Internet Protocol.* The technology used to transmit voice conversations over a data network using Internet Protocol.
Wireline	A term used to describe the technology used by a company to provide telecommunications services. Wireline is synonymous with "landline" or land-based technology.

II. Outside Persons Who Wish to Address the Commission at Internal Affairs

OUTSIDE PERSONS WHO WISH
TO ADDRESS THE COMMISSION AT

INTERNAL AFFAIRS
July 7, 2016

Speaker	**Representing**	**Item #**
Grace Soderberg	National Association of Water Companies	1

III. Supplemental Materials for Internal Affairs

Note: The records reflect that there were no supplemental materials provided to the Commission during this Internal Affairs meeting.

IV. Transcript

BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

PROCEEDINGS:	INTERNAL AFFAIRS
COMMISSIONERS PARTICIPATING:	CHAIRMAN JULIE BROWN COMMISSIONER LISA POLAK EDGAR COMMISSIONER ART GRAHAM COMMISSIONER RONALD BRISÉ COMMISSIONER JIMMY PATRONIS
DATE:	Thursday, July 7, 2016
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REPORTED BY:	LINDA BOLES, CRR, RPR Official FPSC Reporter (850) 413-6734

P R O C E E D I N G S

CHAIRMAN BROWN: All right. Hello, everybody. Welcome again. And this is the Internal Affairs. The time is 11:30, about, on July 7th. And today -- with us today we have Grace Soderberg with NAWC. She's here -- we're very delighted to have you here -- presenting a brief presentation on the water industry. And so I'd like to welcome you to the Florida Commission. Great to have you. Thank our staff for coordinating with you to get you down here. It's a pleasure, and looking forward to your presentation.

MS. SODERBERG: Thank you, Chair.

Good morning, everyone, to Chair Brown and the Commissioners. And thank you for staff also with the help in getting here. Glad to be here. Thanks for having me.

So I'll get right into our presentation.

CHAIRMAN BROWN: Great.

MS. SODERBERG: So the focus of the presentation is about the water industry and our challenges and opportunities. And I'll do a brief introduction about NAWC, the National Association of Water Companies, who I represent, as well as briefly on water industry fundamentals. But really the meat of the presentation is that we'll get into the challenges

facing the water industry as well as opportunities and the path forward.

So NAWC represents the private water industry, and nearly 73 million Americans receive service from a private water utility or through what we call a PPP, public-private partnership, with a municipal utility. And our members own and operate 17 percent of the nation's community water system.

In terms of our history, we were founded in 1895, and our main core members are investor-owned utilities. However, in 2009, we started forming these PPPs with non-private companies, and so we have members in all regions of the country, large publicly traded companies in multi states as well as very small utilities with only a few hundred customers, and this map gives us an overview of where we're located around the country.

And then here are the key elements about water, how it's a necessity for life and it's the only that's physically ingested. So not only are we in the public utility business but also in the public health business. In essence, the key elements from here is that we play a key role in society in your home, your businesses, in your schools, in the communities. And in terms of water compared to utilities, there is no

substitute under -- unlike the other utilities like electric, gas, and telecom.

And then the key point that I'll get into more detail are the last three about the water industry's high capital needs and also our low rate of capital recovery, how we're also the least expensive on average in terms of utilities to our customers, and then also the fragmented nature of our industry and what that means in terms of economies of scale.

So in terms of being a fragmented industry, when you look at how many there are of us, there's 52,000 community water systems. Compare that to natural gas, about 1,200, and electric, 3,000. And also in terms of size, 83 percent of water systems serve less than 3,000 people, and less than 1 percent of the water systems serve more than 100,000 people. So what does that mean? So this contributes in terms of the inability to use economies of scale in terms of our businesses.

In terms of the cost comparison, if you look at an average household, we have here from 2014 data, is if they spend close to $5,000 on utility services, you see how we compare in terms of the other utilities. We're on average the most affordable utility expense. At the same time, we require significant investment. If

you look at this graph, this came from a 2013 EPA report to Congress, and this is the summary about what they see in terms of our infrastructure needs. So EPA says we would need about $384.2 billion by 2013, and this is how it's broken down in terms of investment. Most of it is in transmission and distribution and then moving on to treatment.

CHAIRMAN BROWN: What's the other?

MS. SODERBERG: The others, going back to the slide, the others are storage, source, and then other types of infrastructure investments. And also what's key about this report from Congress is that it just deals with drinking water utilities. It doesn't get into what's needed for waste, wastewater type of infrastructure investment.

So the water industry is the most capital intensive. In this graph, you can see how we compare again to the other utilities. So we need more capital per revenue than all other utilities.

And in terms of depreciation rates, we have the lowest as compared to other utilities. So, in essence, what happens is that we have high capital needs and then we have a long recovery period. So that really affects our cash flow and how we're looked at by Wall Street and the capital markets.

So getting into the water industry challenges, here are the key challenges: Infrastructure, we need to replace them; growing EPA mandates; tight credit markets, when we have to compete out there for capital with the other industries; scarce supply; declining consumption; increasing expenses; limited opportunities for growth; security concerns, cyber, physical and cyber security is now becoming a larger concern not only for our industry but the other utility industries as well; and also working with the regulatory process, so we try and avoid and mitigate regulatory lag.

So another challenge is that these mechanisms, we call them alternative regulatory mechanisms, that helps us get adequate and timely recovery so that we can replace our infrastructure.

So in 2013, the National Association of Water Companies, NAWC, hired The Brattle Group to put together a report. And I have copies here. It's available on our website. And then what that study summarized was that while there has been significant progress in terms of regulatory mechanisms in terms of the water industry compared to electric and gas industries, we still lag, we're behind. And these are the results from the Brattle report.

In terms of regulatory mechanisms, the Brattle

report broke it down into these three main categories. And if you compare water to electricity and natural gas, not only do we lag in terms of the numbers, it's also in the types of mechanisms.

CHAIRMAN BROWN: Can I just ask you, Grace -- sorry for interrupting.

MS. SODERBERG: That's fine.

CHAIRMAN BROWN: But the numbers that you have -- 5, 4, 15 -- under water category, is that in states? What does that signify?

MR. BAEZ: Jurisdictions.

MS. SODERBERG: Exactly.

MR. BAEZ: Yeah. Those are states.

CHAIRMAN BROWN: Those are states.

MR. BAEZ: Right.

CHAIRMAN BROWN: Okay. Thanks, Braulio.

MS. SODERBERG: It looks like Braulio has read our Brattle report in detail.

CHAIRMAN BROWN: He's helping you out.

MS. SODERBERG: And then also this was a snapshot in time in 2013. But since then there's been movement, and that's when we get to opportunities.

So since the Brattle report, there has been movement. There are many more states that have implemented these regulatory mechanisms and many more

types of mechanisms. And also I wanted to commend NARUC, the National Association of Water Companies, your trade association, I know a former president at NARUC, they've taken the leadership role in this area. Just back in 2005, even before the Brattle report, there was an air of resolution on best practices about these mechanisms that are being implemented by the members, and they identified a number of these innovative policies. But later on in 2013, they confirmed these mechanisms, recognizing their value, and there's three key resolutions. You know, I have copies as well. I know NARUC has them on their website, they're available. But what's key was that there's a recognition of their continuing value and confirmation of these practices.

And we can look at these practices in action. An example is in Pennsylvania with the DSIC. It's called -- that's a shorthand. You hear us talk about it in the water space, but it's the Distribution System Investment -- Improvement Charge. And this graph shows that from its implementation in 1997, you see the infrastructure improvements since then, and also the average time between rate cases has increased 66 percent.

Another example we have is from Missouri -- we could talk about it more, I mean, but that -- you know,

I -- before I came to NAWC, I was at a multistate electric and gas utility. It was a good thing on our side to have more time to take a rate case, but it also -- we also were hearing from state commission staff as well. There's regulatory fatigue on their end too with dealing with, you know, rate cases on top of rate cases.

And then another example is Missouri. They have their DSIC; it's called ISRS. And since it was passed, there's been more lines replaced, additional infrastructure improvements, and also average time between rate cases has also doubled now.

So there were other improvements, other type of developments in the other states in terms of best practices. But certainly Florida, here, you are a best practice state. You lead the way, you're a leader, so you know more than I do about your best practices. But some of them are, you know, staff-assisted rate cases, single tariff pricing, rate case deadlines and the like. And so, you know, thank you for your leadership in that regard.

And I just wanted to close out in terms of small systems, the unique challenges, and also there are some unique opportunities for them. What's key with small systems is that because they are small and they

have the small number of customers but they still have to go through the same process, you know, rate cases, but divided with the impacts. As you know, rate cases are expensive and time-consuming. The impacts on the actual customers, because they're a small system, is so much more expensive.

So what happens? Here's, like, a cycle of that underinvestment. Right? First, you know, rate cases are expensive and time-consuming, so they may not file rate cases. So what happens? They have limited access to capital. They need capital to invest. So they can't invest -- if they have a revenue shortfall, they can't make repairs and the like. So it's an endless cycle for small systems. It's hard. And, you know, we have small systems as part of our membership. We work with them too in addressing their concerns.

CHAIRMAN BROWN: Do you provide resources to these small members? Is there advantages for a small utility to join?

MS. SODERBERG: Yes, yes, there are. Well, in terms of our membership, certainly the fees are not the same for the large companies. We have a small companies subcommittee, its own committee that deals with their unique issues and certainly resources. We've worked with NARUC in the past working with resources, also with

NRRI, your resource organization, and it's just a good place for us to collaborate with NARUC and the other entities in terms of helping our small systems.

CHAIRMAN BROWN: Commissioner Graham is vice chair of NARUC's water committee, and one of the issues that we hear a lot, obviously, from these small companies is access to capital.

MS. SODERBERG: Yes.

CHAIRMAN BROWN: And is their impact -- we have new legislation that got passed in Florida this past year by Senator Simpson, which, among other things, focuses really on the challenges with these small utilities. Is there something that NAWC is doing to address the access to capital for the smaller utilities?

MS. SODERBERG: Well, part of what we work on is actually education and working with the other associations like NARUC and other stakeholders. And with that, I wanted to highlight again the NARUC resolution from 2013 talking about small systems, because small systems, as you said, need access to capital the same as the large systems, but they're competing with these, you know, large companies. So in terms of mechanisms, there are specific mechanisms that are useful for small systems that can help with their getting adequate rate recovery, and that way Wall Street

capital markets looks at that and that helps them get access to capital. So this NARUC resolution gets into some of the key practices.

And, again, I'm in a state -- it's a best practice state for a state with small systems. You took the lead in terms of best practices, and here are some of them that we noted here. And also some other states are best practice states for small systems. We have California, Virginia is an example, Indiana, Nevada is an example as well.

So in the end, when there are best practices and small systems, regulatory rigor isn't sacrificed. It's still there, it's just that the process changes. Whether it's a staff-assisted process or, you know, other electronic means or other -- it's more of the process, but the actual substance remains the same. So it does help the parties in the end.

So looking forward, so where are we? So underlying all this is the regulatory compact. It still holds. It has application certainly going forward. And the key takeaway here, you know, I know there's a lot of points on this slide, is that utilities -- all utilities, even small systems certainly, should be able to rely on consistent, effective ratemaking to achieve adequate capital, and that capital, as you know, as I

mentioned, that's how they get the money to invest in infrastructure. And consumers are protected by regulators who ensure utilities provide essential service at just, fair, and reasonable rates.

And at the end, that fair return which we are allowed to have and authorized to earn, that makes this an attractive case for capital markets as per your question that you had asked. Wall Street and the capital markets look at that in terms of when utilities borrow, and at the end we need that. We need to attract capital so we can make these infrastructure improvements.

CHAIRMAN BROWN: Grace, not to -- I know you're wrapping it up, but a question about the other states, some of the best practices. That legislation that passed in Florida I just mentioned also includes a provision for a reserve fund really to address aging infrastructure on these small companies that have not planned adequately, haven't come, like you said before, haven't come in for a rate case and something breaks. And so there is now legislation and we're going to rulemaking on that very soon. Have you seen anything like that in other states?

MS. SODERBERG: Something -- it sounds very familiar. I feel like I've seen that in other states.

And what I could do is get the information and get it over, I guess, maybe to Braulio.

CHAIRMAN BROWN: Yeah.

MS. SODERBERG: So a reserve fund.

CHAIRMAN BROWN: That would be great. Thank you.

MS. SODERBERG: Wonderful. Are there any other questions before wrapping up?

CHAIRMAN BROWN: Commissioner Brisé has one.

COMMISSIONER BRISÉ: I want to follow up on a question that Commissioner -- or Chairman Brown asked in terms of the benefits to the smaller companies in particular. So we recognize that many of the small companies do not have the technological resources to run the entity the way they would like to run it because of the capital that it takes to do that. What is NAWC doing to help in those circumstances? I mean, I used to be in telecom, and for smaller companies, part of the large association that we were part of provided, as part of our membership, ability to buy certain things at discounted rates as a result of a benefit of membership. It also allowed us to trade on the market of minutes internationally versus going out and setting contracts with all of these individual carriers. So are there things like that that NAWC is doing to help out the

smaller carriers -- I mean, the smaller providers of the service?

MS. SODERBERG: Okay. Thank you, Commissioner, for that question. Actually in terms of areas like that, like a trading platform or technology or certain elements that they can buy a discount, we actually don't provide that service for our small systems. NAWC is a very small trade association.

COMMISSIONER BRISÉ: Sure.

MS. SODERBERG: Our focus is more policy and also getting our members together. How we help them more is information exchange, getting them together, listening to them also, what their needs are, so we could take it back and maybe work on something like the Brattle report and also -- we also work with our other partners like NARUC and educating NARUC and other entities.

COMMISSIONER BRISÉ: Sure.

MS. SODERBERG: So, I mean, but those are great points. We just don't have the resources to get into that area.

COMMISSIONER BRISÉ: Thank you.

CHAIRMAN BROWN: Just another question similarly on what NAWC is doing. Benchmarking is always an issue in state commissions, and to see what is going

on, whether it's rate case expense or O&M benchmarking, does NAWC do any type of report on benchmarking or is there -- I know the AWWA produces a lot of reports, but does NAWC do anything like that?

MS. SODERBERG: We don't. We focus more on information gathering and kind of, like I said, getting our members together and talking about their issues and helping them find solutions. But we -- again, it's part of us being really small, so it's more getting our members together and exchange of issues.

CHAIRMAN BROWN: Thank you.

Commissioners, any other questions of Grace?

COMMISSIONER PATRONIS: No. This is great.

CHAIRMAN BROWN: Commissioner Edgar.

COMMISSIONER EDGAR: Thank you.

Grace, how many employees does NAWC have at your facility?

MS. SODERBERG: Okay. Yes, yes.

COMMISSIONER EDGAR: It's such a small -- just a quantitative kind of --

MS. SODERBERG: Yeah. We have seven. We have --

COMMISSIONER BRISÉ: Wow.

COMMISSIONER EDGAR: Based in D.C.?

MS. SODERBERG: Based in D.C. And we're only

in D.C., unlike -- I know NARUC, when I was there, was 20 to 25, expanded to over -- international departments.

COMMISSIONER EDGAR: It's more than that now.

MS. SODERBERG: Yeah. So we have an executive director; his assistant; me, which gets into regulatory; and then government affairs; chief financial officer; IT; and then a staff assistant. So that's really it. We have seven.

COMMISSIONER EDGAR: Y'all do great, great work.

MS. SODERBERG: Yes. Thank you.

COMMISSIONER EDGAR: Absolutely. And then I had been going to ask, but you were moving very fast, which was great, but the numbers that you gave us which are on page 8 of what I have, are those national numbers as far as the number of water systems and the average size and that type of thing across the country?

MS. SODERBERG: Correct. Yes. Yes, ma'am, those are our national numbers.

COMMISSIONER EDGAR: Wow. Thank you.

CHAIRMAN BROWN: Thank you. Thank you so much for your presentation. And let's -- I appreciate our staff and let's keep the dialogue going. And please feel free to reach out to us. If you need information, numbers, facts, we'd be happy to provide that to you.

MS. SODERBERG: We appreciate that. Thank you for the opportunity and thank you for the dialogue. Thank you.

CHAIRMAN BROWN: Thank you. Thank you for coming down here. Thank you. We appreciate it.

MS. SODERBERG: Thank you.

CHAIRMAN BROWN: It's very hot here. It's going to reach 100 in your car.

MS. SODERBERG: Wow. It's hot and humid in D.C., but not as hot as this, though.

CHAIRMAN BROWN: That's true. Thanks again. Travel safely.

MS. SODERBERG: Thank you.

CHAIRMAN BROWN: All right. Okay. Moving to the overview of the FCC Lifeline reform and modernization with our telecom staff, who's worked so diligently on this.

MR. FOGLEMAN: Good afternoon, Commissioners. Greg Fogleman for Commission staff.

The FCC has made significant reforms to the Lifeline program as we know it today, and has made clear that it intends to refocus the program to support broadband services. To that end, the FCC order outlines the transition by -- support will be phased out for voice-only services. The FCC will evaluate the final

phase out for voice-only services in five years. During this transition, states will continue to be able to designate ETCs for high-cost and low-income programs or for voice Lifeline-only ETCs. The FCC preempts states, however, from designating carriers as ETCs for its new Lifeline broadband service.

The FCC also streamlined the eligibility programs that qualify consumers for Lifeline. While a number of programs have been eliminated, participation in the Veteran's Pension benefit was added.

The last major revision of the program is the establishment of a National Lifeline Eligibility Verifier. The National Verifier will be tasked with verifying the eligibility and enrolling subscribers for Lifeline services nationwide. USAC is directed to submit a draft National Verifier plan before the end of this year.

Attachment A is a more detailed summary of the order, while Attachment B outlines the issues that the FPSC filed comments on and any action taken by the FCC in this order.

The FCC has also announced petitions for reconsideration and clarification of this order. In addition, 12 states and NARUC have filed for a petition for review with the D.C. Circuit Court of the FCC's

order on the grounds that the FCC has exceeded its authority regarding preempting the state role for the designation of Lifeline Broadband Providers. Staff is available for your questions at this time.

CHAIRMAN BROWN: Thank you, Greg. And you guys, all of you have been -- you guys have been on top of this and keeping us informed on these -- of all the issues. So thank you so much for your report and your detailed analysis.

Commissioners, do you guys have questions?

Commissioner Brisé.

COMMISSIONER BRISÉ: Sure. Real quick. If you could go through the phase down schedule a little bit on the voice.

MR. FOGLEMAN: Sure. So on page 4, Table 2, November 2019, voice will continue to receive 9.25, the same for connection support. By 2020 -- or actually by December 2019, it goes down by $2. By December 2020, it goes down another $2. And then the plan, as it's outlined in the order, is that it will actually go to zero in 2021.

Now, again, there is a report that the FCC is planning to draft and reevaluate to see if there's -- if they still want to go this direction, but this is the direction that they've outlined in this order.

COMMISSIONER BRISÉ: And so this is for companies that are only providing voice.

MR. FOGLEMAN: That is correct.

COMMISSIONER BRISÉ: And not those who are providing a combination.

MR. FOGLEMAN: Right. So if you -- so, right, so if they're providing broadband and voice, they will continue to get support. If they're just providing broadband, they will be able to continue to get support. But voice only, no.

COMMISSIONER BRISÉ: Okay. Is there any nexus between this order or the implementation of this order and the reclassification order from your perspective?

MR. FOGLEMAN: I hadn't really thought about that. I mean, certainly the fact that there's been -- they've argued and the court has upheld that telecommunications -- or broadband is a telecommunications service under Title II gives it some strength. I mean, I still have some hesitations about the complete phase out of voice because I still view voice as a telecommunications service too, and the act speaks to that as well as advanced services, advanced telecommunications services.

CHAIRMAN BROWN: Thank you.

Commissioners? Commissioner Edgar.

COMMISSIONER EDGAR: From this implementation is there any expected or projected impact on Florida's contribution to the program?

MR. FOGLEMAN: So they did establish a cap. That's the good news. The bad news is the amount of the cap --

CHAIRMAN BROWN: That's important.

MR. FOGLEMAN: -- is twice the size of what they're currently spending, so that's a concern. Having said that, the amount of per line support or the per connection support is still one per household and it's still nine and a quarter. So, you know, that's, you know, that's the bright side. But that is a concern certainly that the size of the cap is significantly higher.

CHAIRMAN BROWN: Thank you.

Commissioners, any other questions or comments?

COMMISSIONER PATRONIS: I'm good. Thank you.

CHAIRMAN BROWN: Okay. All right. Go ahead.

COMMISSIONER BRISÉ: In terms of the verifier, has USAC been in contact with us in terms of the verification? I know they contacted us about NLAD but not --

MR. FOGLEMAN: No, not that I'm aware of.

COMMISSIONER BRISÉ: Okay.

MR. FOGLEMAN: We've reached out to DCF, and I think we have a meeting planned with them next week, and we've let them know about some of the changes that were coming as a result of this order.

COMMISSIONER BRISÉ: Because that's going to be an interesting dynamic.

MR. FOGLEMAN: Yeah.

CHAIRMAN BROWN: Thank you. Thank you, and thank you for your work.

Is there anybody in the audience that would like to comment on this matter or address the Commission?

Thank you again for your work on it. No formal action needs to occur.

Can we -- are you staying for the next one? Telecom day.

MR. LONG: Commissioners, I'm Mark Long with staff, and Item 3 is a draft of the status of competition in the telecom market. You provide this report for the Legislature every August 1st.

This year's report shows the migration of business customers and providers continues to move to IP and other services at an accelerated rate. The residential migration might be slowing a bit.

Competition appears to continue to benefit customers of Florida.

Of note, this year marks the first year that AT&T does not have the most residential wireline access lines. That distinction now belongs to CenturyLink. Staff requests approval of the draft report and editorial privileges for any information that might update the report if we go to press.

CHAIRMAN BROWN: There's a lot of facts and information in here.

COMMISSIONER PATRONIS: Yeah, it's fascinating.

CHAIRMAN BROWN: It is. It is.

MR. LONG: It's dense.

CHAIRMAN BROWN: Thank you for your work on it. You really captured everything going on. So thank you for that.

Commissioners, do you have any comments or questions? Commissioner Brisé.

COMMISSIONER BRISÉ: I just want to commend the staff on this report and then the work on the prior report that we just got.

A quick question on municipal broadband. How many municipal broadband entities do we have, and how many municipalities in Florida do we have that are

providing broadband, if any?

MR. LONG: I don't know that off the top of my head. I can find out.

COMMISSIONER BRISÉ: Okay. Just curious because I wanted to know, the way our statute is laid out, how many of them have had to reverse themselves based upon the vote by the community, just out of curiosity.

MR. LONG: I have not heard of any, but I'll check.

COMMISSIONER BRISÉ: All right. Thank you.

CHAIRMAN BROWN: Commissioners, any other questions or comments? Can I get a motion?

COMMISSIONER EDGAR: Move approval, with direction to staff to make whatever minor changes may be necessary.

CHAIRMAN BROWN: Is there a second?

COMMISSIONER BRISÉ: Second.

CHAIRMAN BROWN: All those in favor, say aye.

(Vote taken.)

Thank you. Thank you again for your work on this. It's great.

MR. LONG: Thank you.

CHAIRMAN BROWN: It's a good product.

All right. Moving on to General Counsel's

report, Mr. Hetrick.

MR. HETRICK: Madam Chair, I'd just like to have -- it's the microphone, I guess -- anyway, we just hired two new young attorneys which will come in on August 1st. We're really excited about those two young lawyers. They're outstanding. They have great work experience, and I think you're going to enjoy working with them and meeting with them. They have the ability to jump in right away, and just completely outstanding, talented individuals.

CHAIRMAN BROWN: What are their backgrounds?

MR. HETRICK: They've got quite a versatile background in having worked, both of them, for district courts of appeal. They've got law clerking experience. Each has worked for an energy -- different energy company along the way. They're team oriented. And by working, I mean clerked, interned while they were in law school, so --

CHAIRMAN BROWN: Yeah. What law schools?

MR. HETRICK: Stetson and Florida State.

CHAIRMAN BROWN: Oh. (Laughter.) Thank you. Thanks for the report.

And Lee Eng did just a fabulous job again.

MR. HETRICK: Lee Eng did an outstanding job, just absolutely fantastic. We set a new bar. I feel

sorry for Oregon.

CHAIRMAN BROWN: Thank you for your support and your whole staff's report of her and her endeavor. So thank you.

MR. HETRICK: Absolutely.

CHAIRMAN BROWN: All right. Executive Director.

MR. BAEZ: I have to remind the Commission, no wagering on the law schools.

Commissioners, you remember last month I teased you a bit about the -- I teased the Class C workshops that were upcoming. I just wanted to update you on the progress, and we now have some more meat on the bone, as it were.

You recall, consistent with the recommendations of the study committee on investor-owned water and wastewater utilities, the emphasis of the staff workshops is to assist the Class C utilities by providing access to educational resources and communicating the availability of funding and offering information and staff contacts for other regulatory issues. The topics to be covered by the workshops include understanding the relationship between the PSC and the utility; the filing of the price index request to address costs outside the utility's control; one of

my personal favorites, avoiding unintentional rule violations; and describing legislative changes. We're going to have four staff that's conducting the workshops, along with Gary Williams, as I had mentioned before, from the Florida Rural Waterworks Association. We're going to be offering assistance, helping the utilities fill out things like applications for the indexes and pass throughs, as I had mentioned before, as well as to answer any other utility questions.

We had sent letters to the Class C water utilities on June 23rd, and a brochure was also sent to each utility the following day. We've had pretty good response up to now. I think 25 percent of the utilities have responded. So that's about 25 out of 100 Class C utilities had responded as of July 6th.

We've got ten workshops, as I had mentioned. They're running July 12th through August 18th. Tallahassee, St. Augustine, Eustis, Ocala, New Port Richey, Fort Myers, Lakeland, Melbourne, Boca Raton, and Sebring are the locations specifically, again, August -- July 12th through August 18th in order.

To your previous question, Commissioner Graham, the workshop audio is going to be recorded and a video is going to be prepared following the workshops, and it is going to be placed on the Commission website

to make it available in perpetuity.

We began reaching out, the staff began reaching out by phone to the rest of the utilities that hadn't responded, so we are following up to beef up the participation. And on July 8th, that's tomorrow, the staff is holding a practice workshop in this very room. So if you are available and present, come on down and watch the show.

CHAIRMAN BROWN: Sounds like fun.

MR. BAEZ: That's it. If you have any questions, let us know.

CHAIRMAN BROWN: Thank you, Mr. Baez.

Commissioners, any questions? Thank you very much for your work on this.

MR. BAEZ: Thank you, Commissioners.

CHAIRMAN BROWN: Keep us apprised of how they go, please.

MR. BAEZ: I shall.

CHAIRMAN BROWN: Thank you. Other matters.

I'd like to introduce to you all Hong Wang. She is the "Employee of the Month" from the Clerk's Office. Come on up here, please. I want to congratulate her. (Applause.) Congratulations. Thank you so much.

MS. WANG: Thank you.

CHAIRMAN BROWN: Hong has been with the Commission since 1998. She's the Chief Deputy Commission Clerk, and apparently makes the best cookies in this building. So you have to -- please make some, make some for us. But congratulations on behalf of the entire Commission. Thank you.

And Commissioner Edgar has a birthday, so please be sure to remember her on July 14th, everyone.

And if there are no other matters, this Internal Affairs is adjourned.

(Internal Affairs adjourned at 12:02 p.m.)

STATE OF FLORIDA)
: CERTIFICATE OF REPORTER
COUNTY OF LEON)

I, LINDA BOLES, CRR, RPR, Official Commission Reporter, do hereby certify that the foregoing proceeding was heard at the time and place herein stated.

IT IS FURTHER CERTIFIED that I stenographically reported the said proceedings; that the same has been transcribed under my direct supervision; and that this transcript constitutes a true transcription of my notes of said proceedings.

I FURTHER CERTIFY that I am not a relative, employee, attorney or counsel of any of the parties, nor am I a relative or employee of any of the parties' attorney or counsel connected with the action, nor am I financially interested in the action.

DATED THIS 21st day of July, 2016.

Linda Boles

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