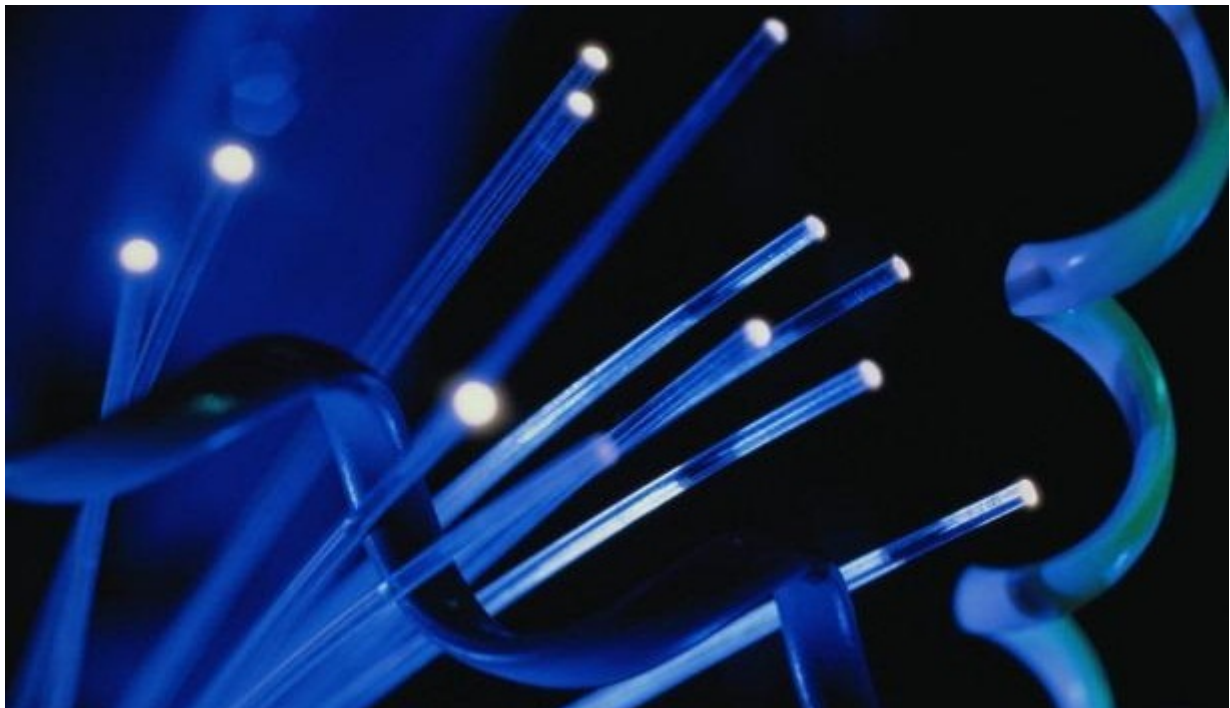


Report on the Status of

Competition in the Telecommunications Industry



AS OF DECEMBER 31, 2013



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List of Acronyms

Bus	Business
CDC	Centers for Disease Control
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
F.S.	Florida Statutes
ICA	Interconnection agreement
ILEC	Incumbent Local Exchange Company
IP	Internet Protocol
kbps	kilobits per second
LEC	Local Exchange Company
Mbps	Megabits per second
Res	Residential
USF	Universal Service Fund
USAC	Universal Service Administrative Company
VoIP	Voice over Internet Protocol

Executive Summary

This report fulfills the statutory obligations set forth in Section 364.386, Florida Statutes (F.S.), which requires the Florida Public Service Commission (the Commission or FPSC) to report on the status of competition in the telecommunications industry to the Legislature by August 1 of each year. The Commission is required to address specific topic areas within the realm of competition. On February 17, 2014, information requests were sent to the 10 incumbent local exchange companies (ILECs) and 290 competitive local exchange companies (CLECs) certificated by the Commission to operate in Florida, as of December 31, 2013.

In 2013, the competitive telecommunications market in Florida, as reported by the carriers, continued to show consumers migrating from traditional wireline service to wireless and cable/VoIP services, while business customers continued to resist the mass migration of the consumers, instead increasing their subscription to CLEC business-specific offerings. Carriers reported approximately 5.1 million total wireline access lines in Florida for 2013. While the mass migration in the residential market has had a drastic effect on the ILECs' residential access line counts, these customers are not all "lost" to the ILECs. Nationally, AT&T has over four times as many wireless handsets as it does wireline accounts.

There were also a few "firsts" this year. While residential lines have plummeted over the past decade, business wirelines have remained relatively stable. As a result, for the first time, AT&T reported as many business wirelines as residential lines. In addition, competition from CLECs continued to be fierce. ILEC wirelines decreased by 15 percent in 2013, while CLEC lines increased by 15 percent. CLEC-reported business access lines gave them a market share of 51 percent, making ILECs a minority in the wireline business market for the first time.

Analysis of the data produced the following conclusions:

- Many CLECs reported offering a variety of services and packages comparable to those offered by ILECs. Subscribers to cable, wireless, and competitive wireline 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 ILEC wireline access lines demonstrates customers are finding reasonable pricing packages and functionality with CLECs, cable providers, and wireless providers, as well as VoIP services from the ILEC.
- Based on the continued growth of interconnected Voice over Internet Protocol (VoIP) services and wireless-only households, network reliability of non-ILEC providers is sufficient to satisfy customers. The FCC-reported telephone penetration rate of 93.5 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.

Wireline Competition

The following data relates exclusively to the ILEC and CLEC wireline market and does not reflect the number of wireless and VoIP subscribers in Florida. For the third year in a row, total wireline business access lines exceeded total residential lines. This report addresses changes in the telecommunications market for the period January 1, 2013, through December 31, 2013. Significant findings relating to the wireline market as of December 2013 include:

CLEC Market Share

- CLECs' market share of all wireline access lines (residential and business) in Florida increased to 32 percent as of December 2013 from 26 percent in 2012.
- CLEC residential market share has remained about the same at 2 percent over the last three years.
- For the first time, the CLEC business market share exceeded that of ILECs at 51 percent in 2013.

CLEC Access Lines

- Total CLEC access lines increased by 15 percent from December 31, 2012, to December 31, 2013.
- CLEC residential access lines decreased by 17 percent.
- CLEC business access lines increased by 16 percent.
- CLEC business access lines were 98 percent of total CLEC access lines served in 2013, compared to 95 percent in 2012.

ILEC Access Lines

- Total ILEC access lines decreased by 15 percent from December 31, 2012, to December 31, 2013.
- ILEC residential and business lines each decreased by 18 percent.
- ILEC residential lines accounted for 56 percent of total ILEC access lines in 2013.
- ILEC business access lines were 44 percent of total ILEC lines served in 2013.
- AT&T and Verizon have about a 50 percent split between residential lines and business lines in 2013.

Intermodal Competition

Wireless and VoIP services compete with traditional wireline service and represent a significant portion of today's communications market in Florida. Broadband service also provides the basis for some VoIP services. These three services are not subject to FPSC jurisdiction, and the FPSC relies on information collected from other sources for this analysis. However, the number of wireless handsets in service and VoIP customers in Florida far exceeds the 1.6 million wireline access lines served by CLECs. Four ILECs and 59 CLECs furnished VoIP data. Highlights relating to wireless, VoIP, and broadband services include:

Wireless

- Approximately 18.5 million wireless handsets were in service in Florida as of June 2013, the most current data available.
- The Centers for Disease Control (CDC) estimate that 41 percent of U.S. households were wireless-only as of December 2013.

VoIP

- An estimated 2.8 million Florida residential VoIP subscribers were reported as of December 2013, an increase of approximately 5 percent from 2012.
- Fifty-nine CLECs and four ILECs voluntarily reported 1.2 million VoIP lines (residential and business) to the FPSC as of December 2013.
- The Florida Cable Telecommunications Association (FCTA) reported 2.1 million residential cable digital voice (VoIP) subscribers as of December 2013, about the same number reported for December 2012.

Broadband

- Fifty-eight percent of Florida households have a fixed broadband connection with download speeds of at least 3 Mbps, as of June 2013.
- Seventy-five percent of Florida households have fixed broadband connections of 200 kbps or greater, as of June 2013.

Chapter I. Introduction and Background

In 1995, the Florida Legislature amended Chapter 364, F.S., to allow for 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 will provide customers with freedom of choice, encourage the introduction of new telecommunications services, encourage technological innovation, and encourage investment in telecommunications infrastructure."

Chapter 364, F.S., requires the Commission 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, 2014, and responses were due April 15, 2014. Data requests were mailed to 10 ILECS and 290 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.

Chapter II. Wireline Market Overview

A. Economy

According to the U.S. Commerce Department, the national economy continued to recover, but at a slower pace in 2013 compared to 2012. Gross Domestic Product, the best measure of overall economic activity, grew by 1.9 percent in 2013, compared to an increase of 2.8 percent in 2012.¹ Corporate profits were up 4.6 percent, compared to a 7.0 percent increase the previous year.² Unemployment figures dropped slowly but steadily throughout 2013, starting at 7.9 percent in January and finishing the year at 6.7 percent.³ The Consumer Price Index rose 1.5 percent in 2013, compared to a 2.1 percent increase in 2012.⁴

In 2013, Florida's economic growth remained positive for the third year after declining for the previous two years. The state's gross domestic product ranked Florida eighteenth in the nation in real growth with a gain of 2.2 percent.⁵ Florida's personal income grew 2.9 percent in 2013 over 2012, ranking Florida thirteenth in the country with respect to state personal income growth. The national average was 2.6 percent.⁶

The unemployment rate in Florida started the year greater than the national average, but experienced a higher than average decrease and by August 2013 Florida's rate was below the then-current national average. Florida's unemployment rate continued to show consistent improvement during each month, falling from a high of 8.0 percent in January to a low of 6.3 percent in December.⁷

With the unemployment picture improving, but still above historical averages, along with moderate economic growth during 2013, it is likely that Florida consumers are still taking a hard look at their discretionary expenditures. While it is more attributable to increased competition from CLECs and the continued mass migration, at least in the residential market, from wireline to wireless and cable/VoIP services, the economy was also likely a contributing factor to Florida ILECs losing approximately 585,000 access lines. This represents about 15 percent of their

¹ U.S. Department of Commerce, Bureau of Economic Analysis, "National Income and Product Accounts: Gross Domestic Product, 4th quarter and annual 2013 (third estimate), Corporate Profits, 4th quarter and annual 2013," released March 27, 2014, http://www.bea.gov/newsreleases/national/gdp/2014/gdp4q13_3rd.htm, accessed May 8, 2014, Table 7.

² Ibid., Table 11.

³ U.S. Department of Labor, Bureau of Labor Statistics, "Labor Force Statistics for the Current Population Survey," <http://data.bls.gov/timeseries/LNS14000000>, accessed May 8, 2014.

⁴ U.S. Department of Labor, Bureau of Labor Statistics, "CPI Detailed Report," <http://www.bls.gov/cpi/cpid1404.pdf>, accessed June 10, 2014, Table 24.

⁵ U.S. Department of Commerce, Bureau of Economic Analysis, "News Release: Advance 2013 and Revised 1997–2012 Statistics of GDP by State," released June 11, 2014, http://www.bea.gov/newsreleases/regional/gdp_state/2014/pdf/gsp0614.pdf, accessed June 11, 2014, Table 1.

⁶ U.S. Department of Commerce, Bureau of Economic Analysis, "News Release: State Personal Income," released March 25, 2014, <http://www.bea.gov/newsreleases/regional/spi/2014/pdf/spi0314.pdf>, accessed May 8, 2014.

⁷ U.S. Department of Commerce, Bureau of Labor Statistics, "Local Area Unemployment Statistics," http://data.bls.gov/timeseries/LASST120000000000003?data_tool=XGtable, accessed May 8, 2014.

wireline market in 2013.⁸ By comparison, competitive wireline carriers (CLECs) gained approximately 217,000 access lines in 2013, an increase of 15 percent, from growth in business customers.

B. Incumbent Carriers

AT&T, CenturyLink, and Verizon are the three largest ILECs in Florida providing wireline services.⁹ These providers continued to face access line losses in the national wireline market in 2013. While their 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.

In 2013, AT&T reported losses of 4.6 million switched access lines nationwide (or 15.8 percent) from the prior year.¹⁰ This represents about the same number of wirelines lost in 2012. AT&T attributes the access line declines to economic pressures and increased competition. Customers have disconnected traditional landline services, or switched to alternative technologies, such as wireless and VoIP. AT&T's strategy continues to be to offset these line losses by continuing to market its wireless products as well as increasing non-access-line-related revenues from customer connections for data, video, and voice.¹¹ For 2013, AT&T's total operating revenues increased by \$1.3 billion (almost twice as much as the prior year) despite their wireline access line losses.¹² AT&T capitalized on its opportunity to increase its wireless segment revenues for customers that choose AT&T Mobility as an alternative provider. In Florida, AT&T's wireline residential access lines decreased by 23 percent and business access lines decreased 10 percent.¹³

Verizon also lost switched access lines nationally while experiencing an increase in operating revenue of \$4.7 billion.¹⁴ Verizon reported a decline of 1.4 million in total voice connections (or 6.3 percent) in 2013. Total voice connections include switched access lines as well as FiOS digital voice connections. This represents a slower rate of loss than in 2012 when Verizon lost 6.8 percent of its total voice connections. By comparison, Verizon reported growth of 11 and 12 percent in its FiOS Internet and video services from last year, respectively.¹⁵ In Florida, Verizon experienced wireline reductions of 27 percent in residential access lines and 11 percent in business access lines in 2013.¹⁶

⁸ Responses to FPSC Local Competition Data Request for 2013 and 2014.

⁹ AT&T and Verizon are also the largest wireless carriers nationwide and increased subscribership by 3.4 million and 4.6 million, respectively, according to their 2013 Form 10-K reports (exhibit 13).

¹⁰ AT&T, Form 10-K, for December 31, 2013, <http://www.sec.gov/Archives/edgar/data/73271720/000073271714000010/ex13.htm>, accessed April 24, 2014, Exhibit 13, p. 1.

¹¹ Ibid, p. 17.

¹² Ibid, p. 1.

¹³ Responses to Local Competition Data Request for 2013 and 2014.

¹⁴ Verizon, Form 10-K, for December 31, 2013, <http://www.sec.gov/Archives/edgar/data/732712/000119312514073266/d622994dex13.htm>, accessed April 25, 2014, Exhibit 13.

¹⁵ Ibid.

¹⁶ Responses to Local Competition Data Request for 2013 and 2014.

While currently the third largest wireline telecommunications company in the U.S., CenturyLink continued to experience declines in its switched access lines in 2013. Access lines decreased from 13.7 million in 2012 to 13.0 million in 2013.¹⁷ This represents an approximately 5 percent loss of CenturyLink's access lines nationwide. By comparison, CenturyLink experienced a 2.4 percent increase in broadband subscribers. By the end of 2013, CenturyLink's operating revenues decreased \$281 million, or 1.5 percent from 2012. CenturyLink's wireline access line loss in Florida was six and eight percent for the residential and business sectors, respectively, for 2013.¹⁸

The seven remaining smaller Florida carriers also experienced contraction in the number of switched access lines in their respective wireline service areas. Rural carriers in Florida saw their residential access lines fall by approximately seven percent in 2013.¹⁹ In Florida, Windstream is the largest of the "rural" ILECs and operates in northeast Florida. Windstream experienced an overall access line loss of only four percent, the lowest access line loss of any carrier in Florida. Nationally, Windstream has 1.7 million consumer voice lines in service.²⁰ Through an aggressive acquisition strategy, Windstream has shifted its revenue mix towards business and consumer broadband services. Windstream estimates that 72 percent of its 2013 revenues were generated from these areas.²¹

Even with the decline in wireline access lines, wireline telecommunications carriers continue to play a role with an evolving telecommunications ecosystem. 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

Approval of merger and acquisition petitions for telecommunications carriers peaked nationally in 2006 with more than 90 communications companies consolidating their operations.²² By comparison, 48 mergers and acquisitions occurred in 2013.²³ This figure represents an increase of 30 percent from the previous year. Recent transactions of interest to Florida are described below.

¹⁷ CenturyLink, Form 10-K, for December 31, 2013, <http://www.sec.gov/Archives/edgar/data/18926/000144530514000656/ctl-2013123110k.htm>, accessed April 25, 2014, p. 5.

¹⁸ Responses to FPSC Local Competition Data Request for 2013 and 2014.

¹⁹ Ibid.

²⁰ Windstream, 10-K, for December 31, 2013, <http://www.sec.gov/Archives/edgar/data/1282266/000128226614000008/a201310k.htm>, accessed April 25, 2014, p. F-5.

²¹ Ibid, p. 2.

²² FCC, "2006 Completed Domestic Section 214 Transfer of Control Transactions," <http://www.fcc.gov/wcb/cpd/214Transfer/214completed2006.html>, accessed April 17, 2014.

²³ FCC, "2013 Completed Domestic Section 214 Transfer of Control Transactions," <http://www.fcc.gov/encyclopedia/2013-completed-domestic-section-214-transfer-control-transactions>, accessed April 17, 2014.

1. Birch Communications/Lightyear Network/Ernest Communications/Cbeyond

In 2013, Birch Communications (Birch) announced two acquisitions affecting the Florida market. The latest completed transaction marks Birch's nineteenth acquisition since 2005.²⁴ Birch reported that its acquisition of Lightyear Network Solution and Ernest Communications would strengthen the breadth and scope of Birch's IP network and network footprint.²⁵ As a result of this acquisition, Birch saw its business lines increase by about 60% in Florida.²⁶ In 2014, Birch announced additional acquisitions subject to regulatory approval with Cbeyond,²⁷ Liberty-Bell,²⁸ and EveryCall.²⁹

2. Time Warner Cable/DukeNet

On December 31, 2013, Time Warner Cable completed its acquisition of DukeNet Communications, LLC ("DukeNet"), an 8,700-mile regional fiber optic network company that provides data and high-capacity bandwidth services to wireless carrier, data center, government and enterprise customers in Alabama, Florida, Georgia, North Carolina, South Carolina, Tennessee, and Virginia.³⁰ After this acquisition, Time Warner Cable will provide wireless backhaul to approximately 14,000 cell sites throughout its 29 state territory.³¹ National this represents an estimated 1.7 percent market share in 2013. Since this acquisition, Time Warner Cable has transferred DukeNet's Certificate of Authority to offer service in Florida.³²

3. Comcast/Time Warner Cable

In the first quarter of 2014, Comcast and Time Warner Cable announced their planned merger. The Federal Communications Commission and the Department of Justice have begun the formal regulatory approval process of this transaction. According to the their application before the Federal Communications Commission, "This transaction will enhance consumer welfare and competition and deliver substantial public interest benefits, including through

²⁴ Birch, "Birch Closes Acquisition of Ernest Communications Assets," <https://www.birch.com/Business/About/Newsroom/Birch-Closes-Acquisition-of-Ernest-Communications.aspx>, accessed April, 17, 2014.

²⁵ Birch, "Birch Closes Acquisition of Lightyear Network Solutions Assets," <https://www.birch.com/Business/About/Newsroom/Birch-Closes-Acquisition-of-Lightyear-Network-Solu.aspx>, accessed April 17, 2014.

²⁶ Base on pre-merger access lines reported as of December 31, 2012.

²⁷ Birch, "Birch Communications to Acquire Cbeyond," released April 21, 2014, <https://www.birch.com/Business/About/Newsroom/Birch-Communications-to-Acquire-Cbeyond.aspx>, accessed May 27, 2014.

²⁸ Birch, "Birch Signs Agreement to Acquire Liberty-Bell Assets," released April 22, 2014, <https://www.birch.com/Business/About/Newsroom/Birch-Signs-Agreement-to-Acquire-Liberty-Bell-Asse.aspx>, accessed May 27, 2014.

²⁹ Birch, "Birch Signs Sales Acquisition Agreement with EveryCall," released May 1, 2014, <https://www.birch.com/Business/About/Newsroom/Everycall.aspx>, accessed May 27, 2014.

³⁰ Time Warner Cable, 10-K, for December 31, 2013, <http://www.sec.gov/Archives/edgar/data/1377013/000119312514056642/d640670d10k.htm>, accessed April 21, 2014.

³¹ Comcast Corporation and Time Warner Cable Inc., "Application and Public Interest Statement before the Federal Communications Commission," released April 8, 2014, <http://apps.fcc.gov/ecfs/document/view?id=7521097357>, accessed April 21, 2014, pp. 97-98.

³² FPSC Order No. PSC-13-0660-PAA-TX, Docket No. 130264-TX, Issued December 18, 2013.

competitive entry in market segments neither company can meaningfully serve on its own today.”³³

If approved, Comcast would gain approximately 8 million subscribers from Time Warner Cable. While Time Warner Cable actually has 11 million subscribers, Comcast, the nation’s largest cable provider, has offered to divest 3 million subscribers to reduce competitive concerns.³⁴ Consumer groups have expressed opposition to the merger, noting that Comcast has raised its basic cable rates in some of its markets by nearly 70 percent.³⁵ In general, consumer groups argue that the cable and broadband markets will not be as competitive as they should be and this merger will continue to consolidate market power. In Florida, there is no overlap of service areas.

4. AT&T/Leap Wireless

AT&T Inc. and prepaid wireless provider Leap Wireless International Inc. (Leap) announced that it had entered into an agreement for AT&T to acquire Leap in July 2013.³⁶ Under the terms of agreement, AT&T will acquire all of Leap’s wireless properties, network assets (and spectrum), and approximately 5 million subscribers. Leap’s network covers approximately 96 million people in 35 states. Leap currently operates under the Cricket brand. AT&T will retain the Cricket brand name and provide Cricket customers with access to its 4G LTE mobile network. The combined company will have the financial resources, scale and spectrum to better compete with other major national providers for customers interested in low-cost prepaid service. The acquisition was completed in March 2014.³⁷

5. AT&T/DirecTV

On May 18, 2014, AT&T and DirecTV announced they entered into a definitive agreement under which AT&T will acquire DirecTV.³⁸ The merger is subject to approval by DirecTV shareholders and review by the FCC, the Department of Justice, a few states and some Latin American countries. The transaction is expected to close within approximately 12 months. AT&T already markets DirecTV’s satellite video service to customers where its own U-verse video offering is not available. It is expected that this merger would give the combined company greater leverage in negotiations with content providers.

³³ Comcast Corporation and Time Warner Cable Inc., “Application and Public Interest Statement before the Federal Communications Commission,” released April 8, 2014, <http://apps.fcc.gov/ecfs/document/view?id=7521097357>, accessed April 21, 2014, p. 1.

³⁴ Ibid, p. 25.

³⁵ Free Press, et al, Comments in Opposition, Letter to Attorney General Eric Holder and FCC Chairman Tom Wheeler, released April 8, 2014, <http://apps.fcc.gov/ecfs/document/view?id=7521097394>, accessed May 27, 2014.

³⁶ AT&T, “AT&T to Acquire Leap Wireless,” released July 15, 2013, http://about.att.com/newsroom/att_to_acquire_leap_wireless.html, accessed April 18, 2014.

³⁷ AT&T, “AT&T Completes Acquisition of Leap Wireless,” released March 13, 2014, http://about.att.com/story/att_completes_acquisition_of_leap_wireless.html, accessed April 18, 2014.

³⁸ AT&T, “AT&T to Acquire DIRECTV,” released May 18, 2014, http://about.att.com/story/att_to_acquire_directv.html, accessed May 27, 2014.

6. Sprint/SoftBank

SoftBank Corporation completed its acquisition of Sprint Nextel Corporation in July.³⁹ This differs from prior wireless mergers in which two domestic competitors with overlapping service areas or spectrum holdings have sought to merge, thereby eliminating an existing competitor. Rather, SoftBank, a Japanese telecommunications and Internet corporation, had no U.S. spectrum licenses, prior to its purchase of Sprint. In addition, SoftBank has stated that it plans to invest an additional \$5 billion in Sprint. With this investment, Sprint has indicated its intent to deploy TDD-LTE⁴⁰ services using its unpaired spectrum.⁴¹

7. Verizon/Vodafone

On September 2, 2013, Verizon entered into a stock purchase agreement with Vodafone to acquire Vodafone's indirect 45 percent interest in Verizon Wireless for approximately \$130 billion.⁴² Verizon completed the transaction on February 21, 2014 and acquired 100 percent ownership of Verizon Wireless.⁴³ This acquisition, according to Verizon will enhance its ability to deliver integrated wireless and wireline products and solutions across all networks and platforms.

³⁹ Sprint, "Sprint and SoftBank Announce Completion of Merger," released July 10, 2013, <http://newsroom.sprint.com/news-releases/sprint-and-softbank-announce-completion-of-merger.htm>, accessed April 18, 2014.

⁴⁰ TDD-LTE is a type of LTE that has not previously been offered in the U.S. TDD-LTE offers the flexibility to allocate bandwidth to downlink and uplink traffic and is well suited to unpaired spectrum.

⁴¹ Sprint, "The TDD-LTE Advantage," released February 24, 2014, <http://newsroom.sprint.com/blogs/sprint-perspectives/the-tdd-lte-advantage-1.htm>, accessed April 18, 2014.

⁴² Verizon, "News at a Glance: Verizon reaches agreement to acquire Vodafone's 45 percent interest in Verizon Wireless for \$130 billion," released September 2, 2013, http://www.verizon.com/investor/news_verizon_reached_agreement_to_acquire_vodafone_45_percent_interest_in_verizon_wireless_for_130_billions.htm, accessed April 25, 2014.

⁴³ Verizon, "News at a Glance: Verizon Projects Higher Margins and Sustained Revenue Growth in 2014," released September 2, 2013, http://www.verizon.com/investor/news_verizon_projects_higher_margins_and_sustained_revenue_growth_in_2014_02242014.htm, released February 24, 2014, accessed April 25, 2014.

Chapter III. Status of Wireline Competition in Florida

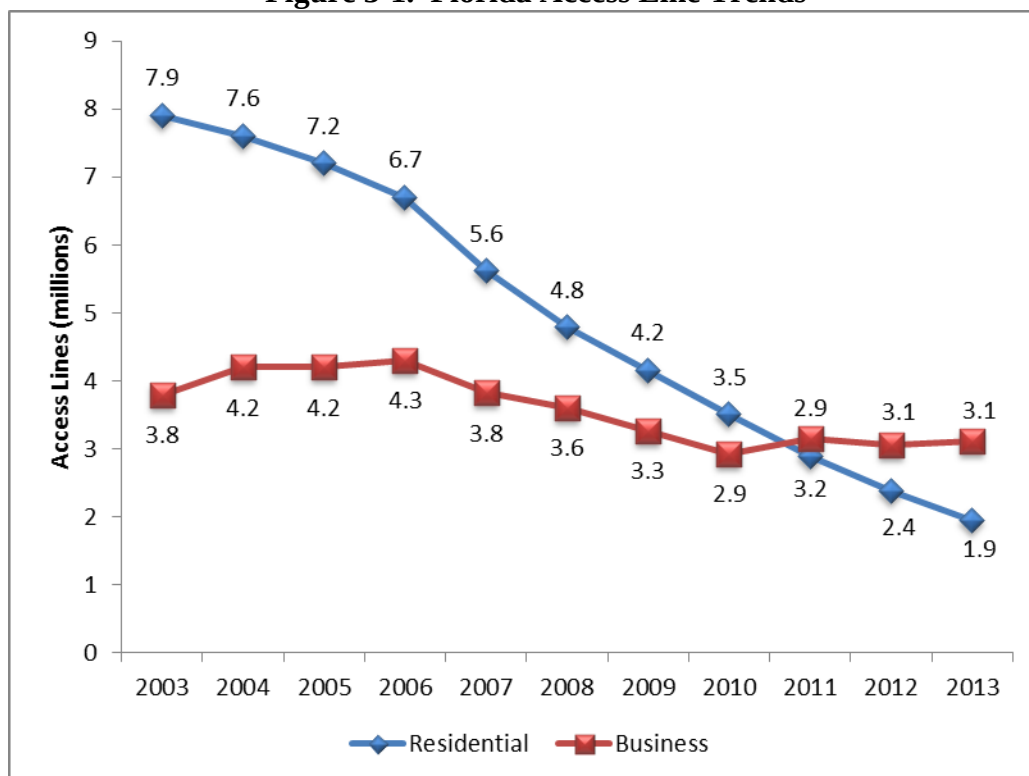
A. Wireline Trends in Florida

During 2013, total traditional wireline access lines for ILECs and CLECs combined declined 7 percent, to 5.0 million as of December 2013, from 5.4 million in December 2012.⁴⁴ Most of the lost access lines resulted from lower demand by residential customers.

Residential access lines, which totaled 1.9 million as of 2013, fell by 18 percent from the previous year. From 2003 through 2013, wireline residential access lines have declined by 75 percent, or about 6 million lines. By comparison, total wireline business access lines for ILECs and CLECs were 3.1 million, an increase of 2 percent from 2012 to 2013.

The net increase in business lines included a decrease of 159,000 ILEC lines and an increase of 225,000 CLEC lines. While fluctuating in response to the business cycle, Figure 3-1 illustrates the relative stability of business access lines from 2003 to 2013. The trend for residential lines, however, has consistently declined for all the individual ILECs and the CLECs over the same ten-year period.

Figure 3-1. Florida Access Line Trends



Source: Responses to FPSC data requests (2005-2014)

⁴⁴ VoIP lines reported by CLECs and cable companies are not included in wireline CLEC market share analyses.

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

1. Market Mix

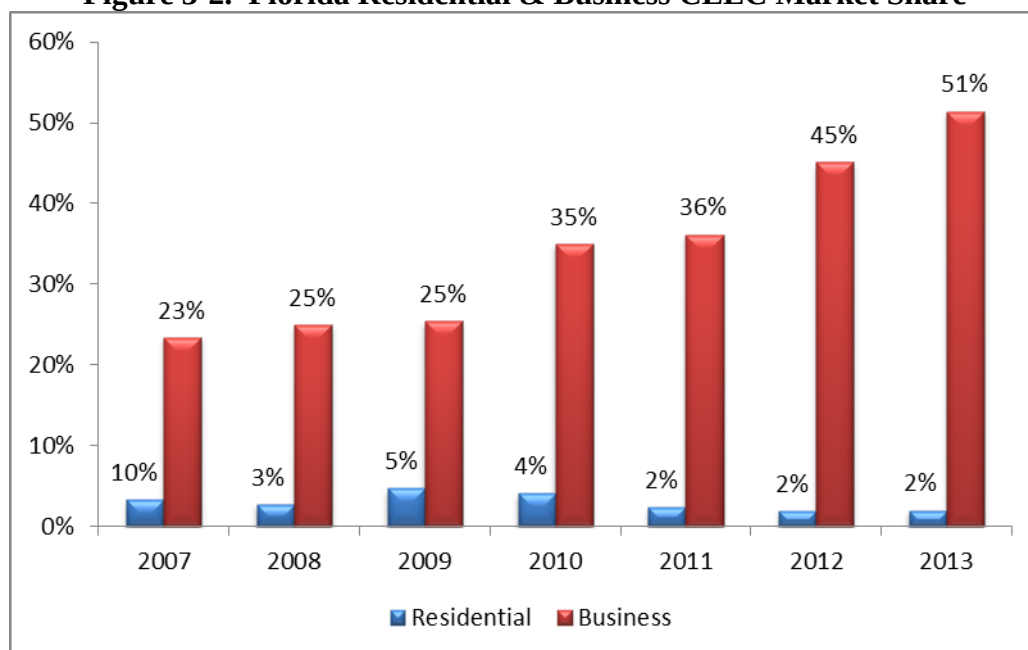
The composition of customers served by ILECs and CLECs has shifted over time. In general, both ILECs and CLECs have seen increased concentration of business customers as residential customers migrate to wireless and VoIP services. The business-to-residential customer mix for ILECs was about 27 percent business and 73 percent residential in 2003. By 2013, the mix for ILECs was 44 percent business and 56 percent residential.

By comparison, the business to residential customer mix for CLECs was about 61 percent business and 39 percent residential in 2003. The CLEC customer mix has seen significant changes since then. In 2013, the business-to-residential customer mix was 98 percent business and 2 percent residential.

2. Market Share

CLECs have traditionally focused on business customers. Figure 3-2 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 2 percent over the last three years, while ILECs retain 98 percent of the wireline market. This percentage excludes VoIP services, which cable companies have made significant inroads into over the past several years. The CLEC business market share however, has continued to grow over the last five years. This year's report marks the first time that CLECs market share of business lines was greater than that of ILECs. Specifically, CLECs have 51 percent of the wireline business market, while ILECs have 49 percent.

Figure 3-2. Florida Residential & Business CLEC Market Share



Source: Responses to FPSC data requests (2005-2014)

The FCC also reports CLEC market share by state and for residential and business lines. For June 2013, the FCC reported that CLECs have 47 percent of the total residential market share and 48 percent of the business market share; however, these percentages include VoIP subscriber lines.⁴⁵

The FCC started including VoIP subscriber lines in the market share calculations with its December 2008 Local Competition Report. The inclusion of VoIP subscriber lines accounts for the majority of the difference in market share totals calculated by the FPSC compared to those reported by the FCC for 2012.⁴⁶ Specifically, removing the associated VoIP lines from the FCC's calculates results in a CLEC residential and business market share of 1.8 percent and 42.7 percent, respectively. This compares favorably to the data based on the FPSC's data collection in Figure 3-2. The comparable data for June 2013 from the FCC reveals no change in the CLEC residential market share and a slight decline in the CLEC business market share to 41.8 percent.⁴⁷

3. Access Lines

Local exchange companies were serving approximately 5.1 million lines in Florida as of December 31, 2013, a decline of seven percent from 2012. The first time that total (ILEC and CLEC) business access lines exceed total ILEC and CLEC residential access lines was in 2011. The gap between the number of residential and business access lines continues to widen this year as illustrated in Table 3-1.

In 2013, residential access lines provided by ILECs decreased by 18 percent, while ILEC business lines declined by nine percent. Most of the business line losses were experienced by AT&T and Verizon with declines of 10 percent and 11 percent from last year, respectively. This compares to only a 2.2 percent decline among all of the rural ILECs. CLEC business access lines, however, saw an increase by approximately 225,000 from 2012 to 2013, a gain of 16 percent.

Table 3-1. Florida Access Line Comparison

	2011			2012 ⁴⁸			2013			Change from 2012
	Res	Bus	Total	Res	Bus	Total	Res	Bus	Total	
ILECs	2,809,826	2,013,846	4,823,672	2,334,184	1,675,328	4,009,512	1,908,357	1,516,305	3,424,662	<15%>
CLECs	70,259	1,140,816	1,211,075	46,667	1,378,547	1,425,214	38,711	1,604,629	1,643,340	15%
Total	2,880,085	3,154,662	6,034,747	2,380,851	3,053,875	5,434,726	1,947,068	3,120,934	5,068,002	<7%>

Source: Responses to FPSC data requests (2012-2014)

⁴⁵ FCC, "Local Telephone Competition: Status as of June 30, 2013," released June, 25 2014, https://apps.fcc.gov/edocs_public/attachmatch/DOC-327830A1.pdf, accessed on June 25, 2014, Tables 10 and 11.

⁴⁶ FCC, "Local Telephone Competition: Status as of December 31, 2012," released November 2013, https://apps.fcc.gov/edocs_public/attachmatch/DOC-324413A1.pdf, accessed on May 22, 2014, Tables 10 and 11.

⁴⁷ FCC, "Local Telephone Competition: Status as of June 30, 2013," released June 25, 2014, https://apps.fcc.gov/edocs_public/attachmatch/DOC-327830A1.pdf, accessed on June 25, 2014, Tables 10 and 11.

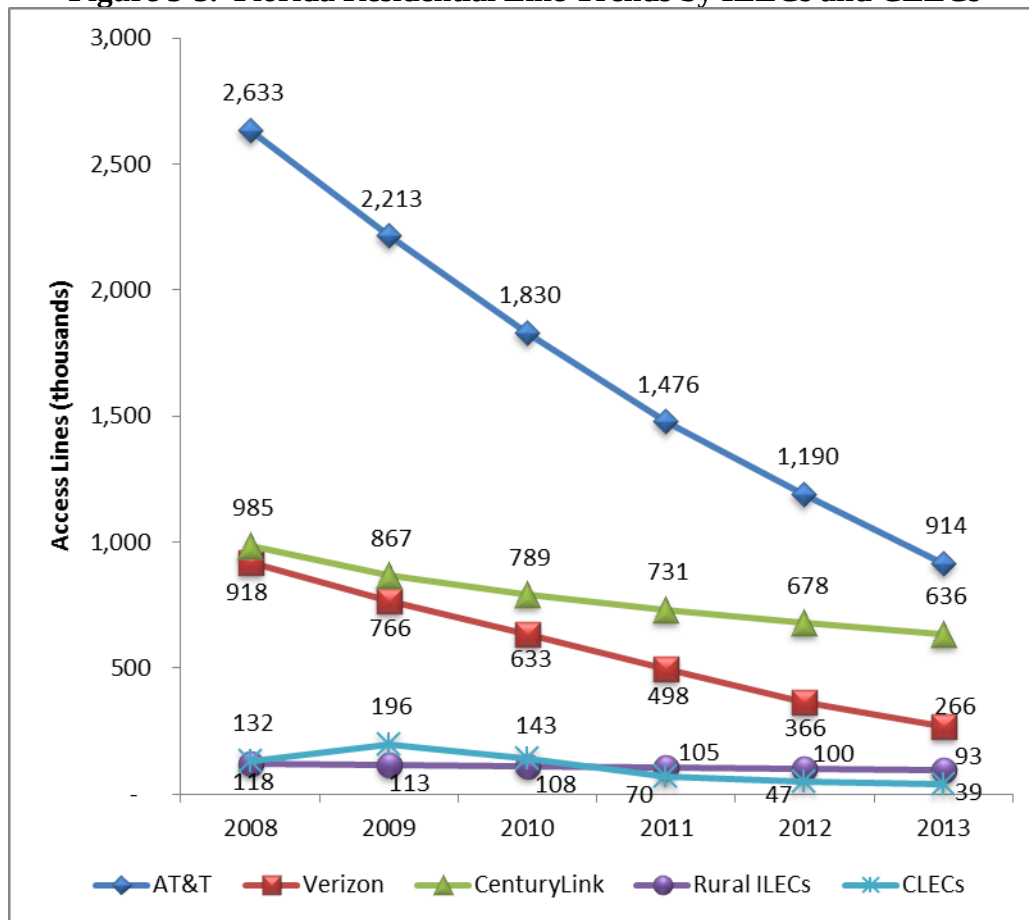
⁴⁸ Data for 2012 corrected for error in CLEC residential calculation.

C. Competitive Market Trends

1. Residential Access Line Trends

Figure 3-3 displays the residential access line trends separately for AT&T, Verizon, CenturyLink, the rural ILECs, and aggregate CLECs. Each individual ILEC and the CLECs in aggregate reported a decline in residential access lines from December 2012 to December 2013.

Figure 3-3. Florida Residential Line Trends by ILECs and CLECs



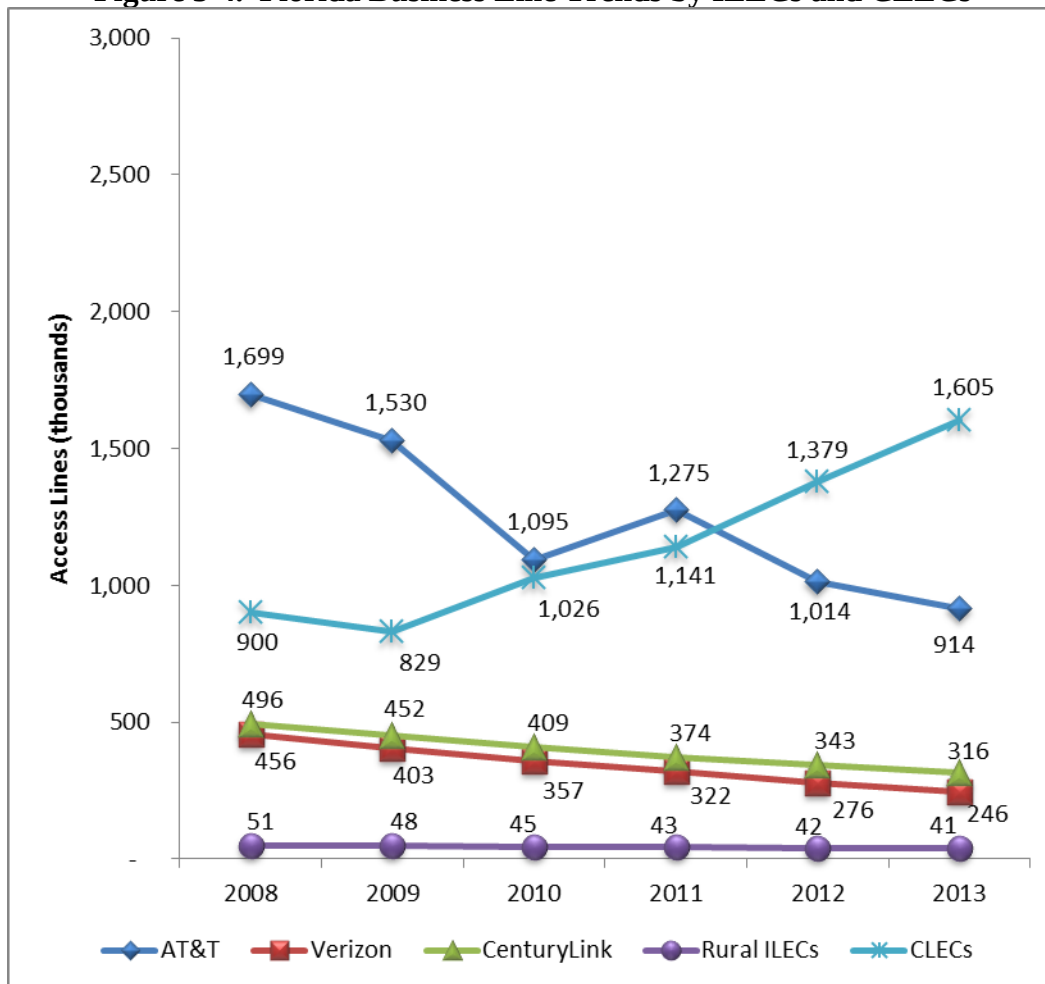
Source: Responses to FPSC data requests (2009-2014)

Residential access lines declined for Verizon at approximately the same rate in 2013 as in 2012. By comparison, AT&T experienced a slight increase in the rate of residential access line loss from last year. CenturyLink was the only large ILEC in Florida that saw residential line loss decrease slightly. CLECs also faced residential access lines decline in 2013, however the rate of line loss was less than in the last four years.

2. Business Access Line Trends

Figure 3-4 displays the business line trends for AT&T, Verizon, CenturyLink, the rural ILECs, and CLECs. ILEC business access lines generally trended downward in the last five years with the exception of AT&T in 2011. CLEC business access lines increased the last four years. It increased by 21 percent in 2012 and by 16 percent in 2013. AT&T and Verizon have about a 50 percent split between residential lines and business lines in 2013.

Figure 3-4. Florida Business Line Trends by ILECs and CLECs



Source: Responses to FPSC data requests (2009-2014)

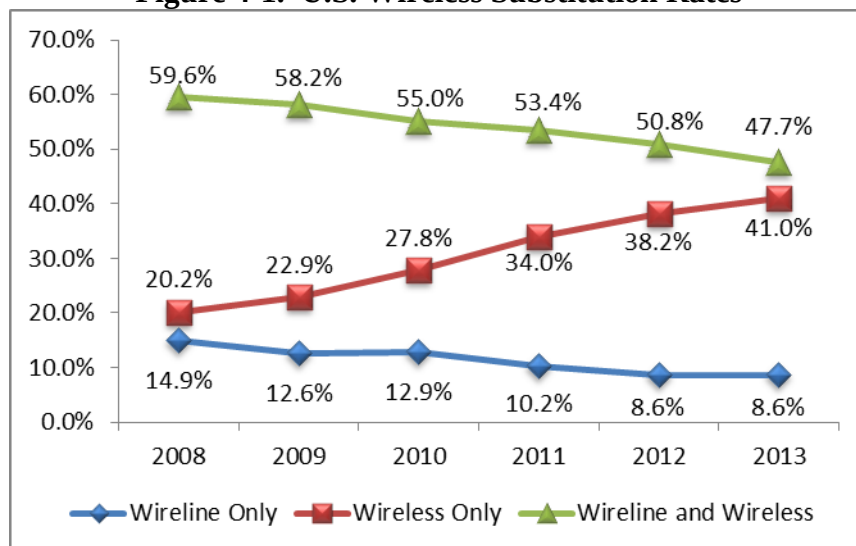
Chapter IV. Wireless, VoIP, and Broadband

A. Wireless

1. National Wireless Market

Wireless device usage continues to grow throughout the U.S. Figure 4-1 shows national trends in the percentage of households with wireless only, wireline only, and dual household usage. In 2013, 41 percent of Americans lived in wireless-only homes, up from 38.2 percent in 2012.⁴⁹ During the same period, the number of households with both landline and wireless service declined 3.1 percent, to 47.7 percent in 2013. In general, most demographic groups have seen a slight increase in wireless usage and subscribership.⁵⁰ Nationally, consumers aged 25 to 29 have the highest wireless substitution rate of any other age group at 65.7 percent in 2013.

Figure 4-1. U.S. Wireless Substitution Rates



Source: Centers for Disease Control

ComScore reports that ownership of smartphones in the U.S. has grown 24 percent in 2013 to 156 million.⁵¹ In its 2013 Cell Phone Activities report, Pew Research reported that 91 percent of American adults own a cell phone.⁵² Among Original Equipment Manufacturers, Apple and Samsung remain the leaders maintaining 42% and 26% of the market share,

⁴⁹ Stephen J. Blumberg, Ph.D., Julian V. Luke, “Wireless substitution: Early release of estimates from the National Health Interview Survey, June-December 2013,” National Center for Health Statistics, Centers for Disease Control and Prevention, released July 7, 2014, <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201407.pdf>, accessed July 8, 2014.

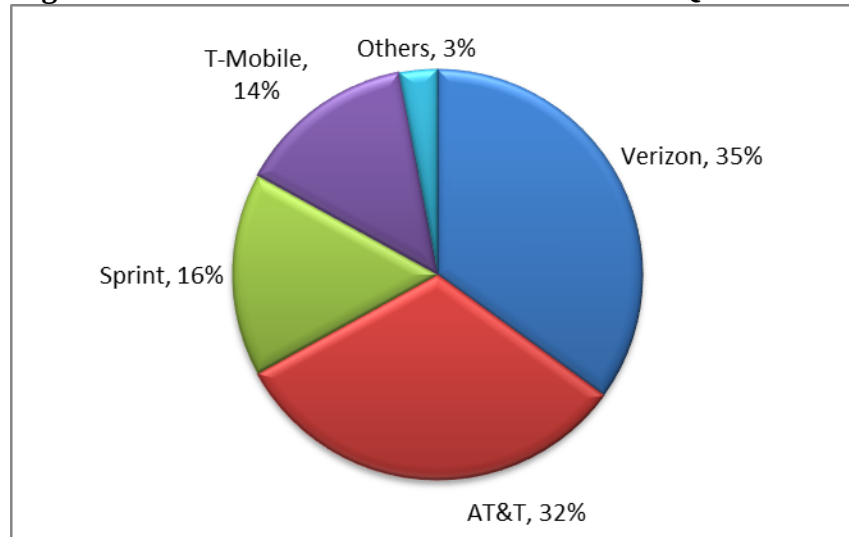
⁵⁰ Ibid; Key demographics include: Race/ethnicity, age, sex, educations, and employment status.

⁵¹ ComScore, “2014 U.S. Digital Future in Focus,” released February 2014, https://www.comscore.com/Insights/Presentations_and_Whitepapers/2014/2014_US_Digital_Future_in_Focus, accessed May 3, 2014, p. 11.

⁵² Maeve Duggan, “Cell Phone Activities 2013,” Pew Research Center’s Internet & American Life Project. released September 16, 2013, <http://www.pewinternet.org/2013/09/19/cell-phone-activities-2013/>, accessed May 3, 2014.

respectively.⁵³ Though Apple leads the market in smartphone hardware market share, the Android operating system software maintains the lead with a 51% market share over Apple's operating system at 42 percent. The remaining 7 percent is made up of Blackberry and Microsoft. Among wireless network providers, AT&T Mobility (110.4 million subscribers),⁵⁴ Verizon Wireless (102.8 million subscribers),⁵⁵ Sprint Corporation (53.9 million subscribers),⁵⁶ and T-Mobile US (46.8 million subscribers)⁵⁷ are the four largest wireless services in the U.S. Figure 4-2 shows the relative market share of the top providers.⁵⁸ AT&T and Verizon increased their dominance of the wireless market in 2013, each adding market share from the previous year.

Figure 4-2. U.S. Wireless Subscribers in Fourth Quarter 2014



Source: Statista: The Statistics Portal

For 2013, the Pew Research Internet Project reported on predominate wireless phone activities in the U.S.⁵⁹ According to its data, 81 percent of users reported using their wireless phone to send or receive text messages. By comparison, only 60 percent use their phone to access the Internet. Fifty-two percent of respondents also indicate that they use their phone to

⁵³ ComScore, "2014 U.S. Digital Future in Focus," released February 2014, [https://www.comscore.com/Insights/Presentations and Whitepapers/2014/2014 US Digital Future in Focus](https://www.comscore.com/Insights/Presentations%20and%20Whitepapers/2014/2014%20US%20Digital%20Future%20in%20Focus), accessed May 3, 2014, p. 13.

⁵⁴ AT&T, "2013 Annual Report," [http://www.att.com/Investor/ATT Annual/2013/downloads/ar2013 annual report .pdf](http://www.att.com/Investor/ATT%20Annual/2013/downloads/ar2013%20annual%20report.pdf), accessed May 6, 2014.

⁵⁵ Verizon, "2013 Annual Report," www.verizon.com/investor/DocServlet?doc=2013_vz_annual_report.pdf, accessed June 4, 2014.

⁵⁶ Sprint, "2013 Annual Report," <http://newsroom.sprint.com/news-releases/sprint-reports-fourth-quarter-and-full-year-2013-results.tekpdf>, accessed May 6, 2014.

⁵⁷ T-Mobile, "2013 Annual Report," <http://investor.t-mobile.com/Cache/1500059458.PDF?Y=&O=PDF&D=&fid=1500059458&T=&iid=4091145>, accessed May 6, 2014.

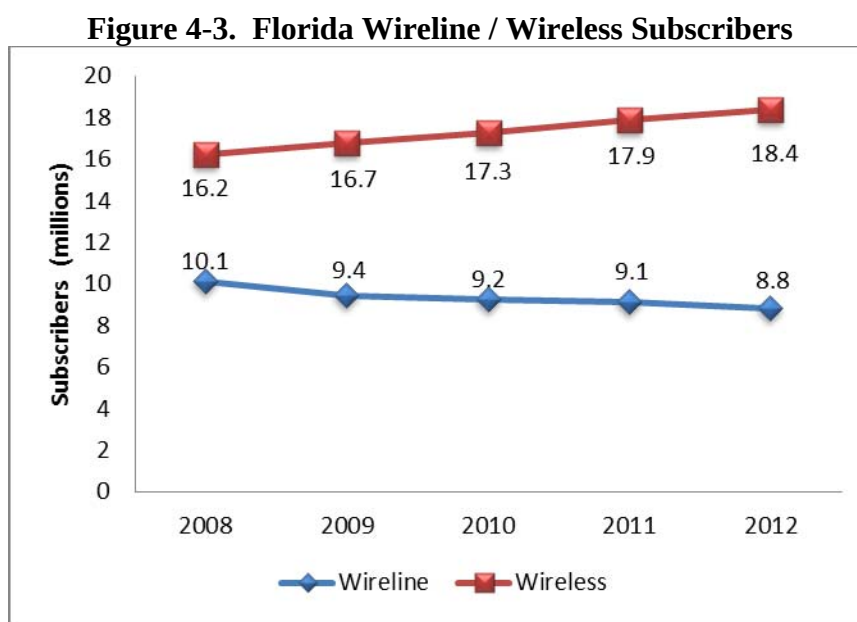
⁵⁸ Statista: The Statistics Portal, "Market share of wireless subscriptions held by carriers in the U.S. from 1st quarter 2011 to 4th quarter 2013," <http://www.statista.com/statistics/199359/market-share-of-wireless-carriers-in-the-us-by-subscriptions/>, accessed May 27, 2014.

⁵⁹ Maeve Duggan, "Cell Phone Activities 2013," Pew Research Center's Internet & American Life Project. released September 16, 2013, <http://www.pewinternet.org/2013/09/19/cell-phone-activities-2013/>, accessed May 3, 2014.

send or receive email. Approximately 50 percent of users also used their phone to download software applications, get directions, or listen to music.

2. Florida Wireless Market

Florida's total population grew from an estimated 19.3 million at the end of 2012 to 19.6 million by the end of 2013.⁶⁰ The number of wireless handsets in Florida reached a total of 18.5 million by June 2013.⁶¹ This means that there are nearly as many wireless handsets in Florida as there are people. Wireless-only households in Florida grew from 34.4 percent at the end of 2011 to 39.7 percent by the end of 2012.⁶² Florida's adoption rate of wireless handsets tracks the national trend. Figure 4-3 illustrates that as ILECs lose wireline subscribers to competitors and affiliated wireless companies, many of these subscribers are transitioning to wireless-only households.



Source: FCC, Local Telephone Competition Report

⁶⁰ Florida QuickFacts, U.S. Census Bureau, <http://quickfacts.census.gov/qfd/states/12000.html>, accessed May 4, 2014.

⁶¹ FCC, "Local Telephone Competition: Status as of June 30, 2013", released June 25, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0625/DOC-327830A1.pdf, accessed June 25, 2014, Table 18.

⁶² Stephen J. Blumberg, Ph.D., et al., "Wireless substitution: State-level estimates from the National Health Interview Survey, 2012," National Center for Health Statistics, Centers for Disease Control and Prevention, released December 18, 2013, <http://www.cdc.gov/nchs/data/nhsr/nhsr070.pdf>, accessed on May 4, 2014.

B. Voice over Internet Protocol (VoIP)

1. National VoIP Market

As in prior years, the number of residences and businesses subscribing to VoIP services increased.⁶³ Cable companies have continued to maintain their dominance in the residential VoIP market while traditional wireline carriers, such as AT&T and Verizon, make gains as more consumers take advantage of their fiber-based services. Other ILECs and CLECs have also experienced an increase in VoIP subscribership. The FCC's most recent data reports approximately 36.4 million interconnected residential VoIP subscribers and over 8.9 million business subscribers nationwide as of June 2013.⁶⁴ This represents a 16 percent increase of total interconnected VoIP subscribers nationwide since June 2012.⁶⁵

a. Facilities-Based VoIP Providers

ILECs, CLECs, and cable companies all provide interconnected VoIP services; however, cable companies dominate the facilities-based residential VoIP market. Comcast, the largest cable provider, had an estimated 10.7 million VoIP subscribers at the end of 2013.⁶⁶ This represents a seven percent increase since year-end 2012. By comparison, Time Warner Cable, the nation's second largest cable provider had an estimated 5.1 million subscribers.⁶⁷

While all of the large cable companies continue to experience growth in VoIP subscribership, the rate of growth has decreased. 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. This decrease can be partially attributed to consumers completely abandoning their home phones for wireless phone service.⁶⁸ Another contributing factor is the loss of market share concentration. For years, the largest cable VoIP providers dominated the market and earned the vast majority of the revenue within the industry.

⁶³ See *Glossary*. VoIP is not the same as "the Internet." It is a technology that allows you to make voice calls using a broadband Internet connection instead of a regular (or analog) phone line. Facilities-based VoIP services are generally provided over private managed networks and more closely emulate traditional telephone service reliability. Over-the-Top VoIP service is provided over the public Internet.

⁶⁴ FCC, "Local Telephone Competition: Status as of June 30, 2013," released June 25, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0625/DOC-327830A1.pdf, accessed June 25, 2014, Tables 10 and 11.

⁶⁵ FCC, "Local Telephone Competition: Status as of June 30, 2012," released June, 2013, https://apps.fcc.gov/edocs_public/attachmatch/DOC-321568A1.pdf, accessed June 25, 2014, Tables 10 and 11.

⁶⁶ Comcast Corporation, "Comcast Reports Fourth Quarter and Year End 2013 Results," released January 28, 2014, http://files.shareholder.com/downloads/CMCSA/3138493226x0x721201/edb5a694-8a2d-4bf1-b4b5-718461607f31/CMCSA_News_2014_1_28_General_Releases.pdf, accessed May 2, 2014.

⁶⁷ Time Warner, "Time Warner Cable Reports 2013 Fourth-Quarter and Full-Year Results," released January 30, 2014, <http://ir.timewarnercable.com/files/4Q13/Q4%202013%20TWC%20Earnings%20Release%20FINAL.pdf>, accessed on May 2, 2014.

⁶⁸ PRWeb.com, "VoIP in the US Industry Market Research Report from IBISWorld has Been Updated," released December 24, 2012, <http://www.prweb.com/pdfdownload/10267567.pdf>, accessed May 2, 2014.

However, for the past five years, their market share concentration has declined due to an increase in competition from the emergence of free and low cost VoIP providers.⁶⁹

Wireline telephone companies continue to deploy facilities-based VoIP services over fiber-based facilities. While AT&T and Verizon continue to show losses in traditional voice access lines, both companies reported gains with their other services offerings. AT&T reported approximately 3.8 million U-verse voice subscribers at year-end 2013.⁷⁰ This represents a 31 percent increase from the previous year. Verizon reported approximately 4.2 million FiOS Digital Voice subscribers as of December 2013, an increase of roughly 32 percent from the previous year.⁷¹

b. Over-the-Top VoIP Providers

Over-the-top providers offer low-priced stand-alone interconnected VoIP service.⁷² 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. Between 2008 and 2013 the U.S. VoIP (interconnected and over-the-top) market increased approximately 17 percent each year.⁷³ Vonage, 8x8, Inc., Skype, Google, and magicJack are a few of the leading over-the-top VoIP providers. Some of these companies have also introduced mobile VoIP services that take advantage of consumers' mobile broadband connections to offer service. The adoption of mobile VoIP services is rapidly increasing. It is anticipated that by 2015, the number of mobile VoIP subscribers will increase ten-fold from 2010.⁷⁴

Reliable information on subscribership is not widely available for over-the-top providers. Some available data suggest that certain market segments are performing better than others. The data also suggests that the market may be maturing due to slower growth rates. For instance, despite having a 17 percent increase in VoIP subscribers in 2011, 8x8, Inc., which almost exclusively focuses on the business market, reported a slightly lower growth rate at 14 percent for 2013.⁷⁵ Despite declines in subscribership in recent years, at year-end 2013 Vonage reported

⁶⁹ IBISWorld, "VoIP in the US: Market Research Report," released February 2014, <http://www.ibisworld.com/industry/default.aspx?indid=1269>, accessed May 6, 2014.

⁷⁰ AT&T, "2013 Annual Report," http://www.att.com/Investor/ATT_Annual/2013/downloads/ar2013_annual_report.pdf, accessed May 6, 2016.

⁷¹ Verizon, "Fourth Quarter 2013 Earnings Report," http://www.verizon.com/investor/DocServlet?doc=vz_fs_pdf_2013_4q_new.pdf, accessed May 6, 2014.

⁷² The phrase "over-the-top VoIP" refers to a VoIP service that requires a consumer to obtain broadband access from another company.

⁷³ Felice Physioc, World of Business Ideas, "The Top 5 Fastest Growing Industries of the Future," released March 13, 2013, <http://www.wobi.com/blog/future-industries/top-5-fastest-growing-industries-future>, accessed May 6, 2014.

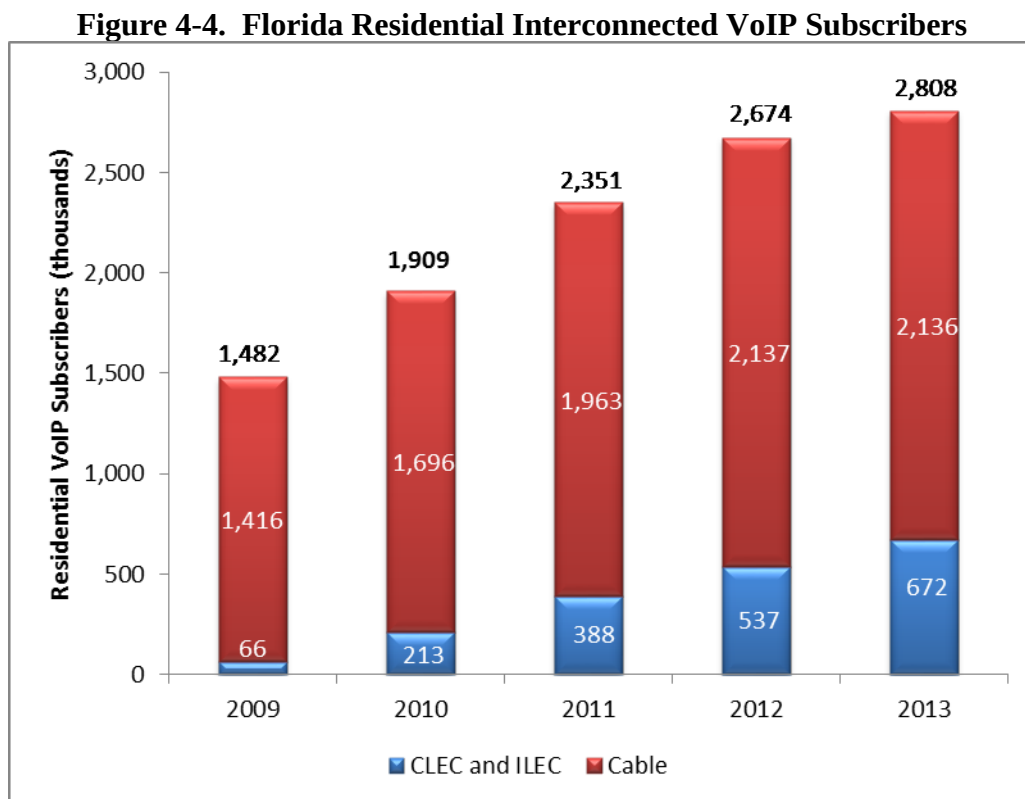
⁷⁴ Andrew Burger, "Report: Mobile VoIP Growing Exponentially, but Revenues Remain Small," Telecompetitor, released October 20, 2011, <http://www.telecompetitor.com/report-mobile-voip-growing-exponentially-but-revenues-remain-small/>, accessed May 6, 2014.

⁷⁵ 8x8, Form 10-K, <http://files.shareholder.com/downloads/EGHT/3151808256x0xS1136261-13-259/1023731/filing.pdf>, accessed May 7, 2013.

approximately 2.5 million subscribers, an increase of roughly eight percent from the previous year.⁷⁶

3. Florida VoIP Market

Limitations exist in determining an accurate estimate of VoIP subscribers in Florida because the Commission does not have jurisdiction over VoIP services. However, the Florida Cable Telecommunications Association reported residential VoIP line data for its six largest members⁷⁷ and a number of CLECs and ILECs voluntarily responded to the Commission's data request. Based on a review of available data, there are an estimated 2.8 million residential interconnected VoIP subscribers in Florida. Figure 4-4, shows the number of residential interconnected VoIP subscribers in Florida by provider type, as of year-end 2013. It appears that recent growth trends in residential VoIP by Cable companies in Florida may have plateaued in 2013. For Florida, growth in residential VoIP lines in 2013 was from ILEC and CLEC providers.



Source: Responses to FPSC data requests (2010-2014)

⁷⁶ Vonage, Form 10-K, http://files.shareholder.com/downloads/VAGE/3151879113x0x747676/246bd883-5c1a-4b26-8cda-f86d88a99a6f/2013FORM10K_SEC-VAGE-1272830-14-20.pdf, accessed May 7, 2014.

⁷⁷ Those members are: Advanced Cable, Atlantic Broadband, Bright House Networks, Comcast, Cox, and Mediacom.

C. Broadband

1. National Broadband Market

According to the latest survey report by the Pew Internet and American Life Project, 70 percent of adults had broadband connections in their homes in 2013.⁷⁸ This is a 4 percent increase from the previous year. Thirty-three percent of households with a broadband connection have set up a router for wireless access, 31 percent connect directly to their cable modem, 18 percent connect to a DSL-phone line, and 8 percent utilize a fiber optic connection to get on the Internet.⁷⁹

Having a broadband connection strongly affects how frequently an individual uses the Internet. Broadband users typically use the Internet more frequently than dial-up users. This difference can be attributed to the “always on” broadband connection. High-speed access to the Internet at home has risen steadily in recent years, while dial-up has steadily decreased. For instance, in 2000, only 3 percent of households had broadband connections, compared to 70 percent in 2013.⁸⁰ Thirty-four percent of households had dial-up in 2000, compared to about 2 percent in 2013.

According to the most recent FCC report, 54 percent of U.S. households have a fixed broadband connection with download speeds of at least 3 Mbps and 71 percent have fixed broadband connections of 200 kbps or greater.⁸¹ Demographic groups that are less likely to have broadband connections within their homes include minorities, those without a college education, and low income individuals.⁸²

Notable differences in broadband adoption in 2013 included:

- Men (70 percent) are just as likely as women (70 percent) to have home broadband.
- Hispanics survey participants subscribed to broadband services at a rate of 56 percent, compared to African Americans at 62 percent, and Whites at 74 percent.
- Households with an annual household income of over \$75,000 subscribe to broadband at a rate of 91 percent, compared to 85 percent with incomes of \$50,000 to \$74,999; 71

⁷⁸ Pew Research and Internet Project, “Broadband Technology Fact Sheet,” <http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/>, accessed May 7, 2014.

⁷⁹ Mike Flacy, Digital Trends, “30 Percent of Americans Don’t Have Broadband Access at Home,” released August 27, 2013, <http://www.digitaltrends.com/computing/30-percent-of-americans-no-broadband/#!KpvMR>, accessed May 7, 2014.

⁸⁰ Pew Research and Internet Project, “Broadband Technology Fact Sheet,” <http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/>, accessed May 7, 2014.

⁸¹ FCC, “Internet Access Services: Status as of June 30, 2013,” released June 25, 2014, https://apps.fcc.gov/edocs_public/attachmatch/DOC-327829A1.pdf, accessed June 25, 2014, Tables 13 and 14.

⁸² Pew Research and Internet Project, “Broadband Technology Fact Sheet,” <http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/>, accessed May 7, 2014.

percent with incomes of \$30,000 to \$49,999; and 52 percent for households with incomes that are less than \$30,000.

- Eighty-one percent of adults age 18 to 29 have broadband connection within their homes; compared to 77 percent age 30 to 49; 68 percent age 50 to 64; and 47 percent of adults 65 and older.
- Of the respondents with a college degree, 90 percent have access to broadband at home compared to 28 percent without a high school diploma.⁸³

The Pew Survey also indicated that 30 percent of adults did not have fixed broadband connections in their homes in 2013. Of those who do not have fixed broadband connections, 10 percent went without a fixed broadband connection at home in favor of wireless 3G and 4G LTE access on their smartphone.⁸⁴ Most of the people in this group are young, have never gone to college, and make less than \$30,000 a year.⁸⁵ The remaining 20 percent do not utilize high speed Internet access at their home in any form.⁸⁶ In addition, the survey results found that 15 percent of all adults do not use the Internet at all. Among those adults who do not use the Internet, almost half indicated that they do not use the Internet because it is not relevant to their lives.⁸⁷

4. Florida Broadband Market

According to the most recent FCC report, 58 percent of households in Florida have a fixed broadband connection with download speeds of at least 3 Mbps and 75 percent have fixed broadband connections of 200 kbps or greater.⁸⁸ The FCC also reported that cable modem services accounted for approximately 60 percent of non-mobile broadband connections in Florida with download speeds greater than 200 kbps. Mobile broadband connections accounted for 63 percent of all Florida broadband connections with download speeds in excess of 200 kbps.⁸⁹ By comparison, data from the Florida Department of Management Services provides information regarding the geographic area that has access to broadband in Florida. The areas in brown on Figure 4-5, below show the locations in Florida that have inadequate wireline (e.g.,

⁸³ Ibid.

⁸⁴ Mike Flacy, Digital Trends, “30 Percent of Americans Don’t Have Broadband Access at Home,” released August 27, 2013, <http://www.digitaltrends.com/computing/30-percent-of-americans-no-broadband/#!KpvMR>, accessed May 7, 2014.

⁸⁵ Brian Fung, Washington Post, “10 percent of Americans use smartphones for Internet. Are they better off than people with traditional Internet?” released August 26, 2013, <http://www.washingtonpost.com/blogs/the-switch/wp/2013/08/26/10-percent-of-americans-use-smartphones-for-internet-are-they-better-off-than-people-with-traditional-internet/>, accessed on May 7, 2014.

⁸⁶ Mike Flacy, Digital Trends, “30 Percent of Americans Don’t Have Broadband Access at Home,” released August 27, 2013, <http://www.digitaltrends.com/computing/30-percent-of-americans-no-broadband/#!KpvMR>, accessed May 7, 2014.

⁸⁷ Pew Research and Internet Project, “Broadband Technology Fact Sheet,” <http://www.pewinternet.org/fact-sheets/broadband-technology-fact-sheet/>, accessed May 7, 2014.

⁸⁸ FCC, “Internet Access Services: Status as of June 30, 2013,” released June 25, 2014, https://apps.fcc.gov/edocs_public/attachmatch/DOC-327829A1.pdf, accessed June 25, 2014, Tables 13 and 14.

⁸⁹ Ibid, Table 16.

FiOS, Cable Broadband, and DSL) broadband coverage with download speeds of less than 3 Mbps.⁹⁰

Figure 4-5. Inadequate Wireline Broadband Coverage in Florida



Source: Broadband Florida Initiative, Florida Department of Management Services

⁹⁰ Florida Department of Management Services, Broadband Florida Initiative, <http://map.broadbandfla.com/>, accessed May 28, 2014.

Chapter V. Competitive Market Analysis and Statutory Issues

Section 364.386, F.S., contains four specific issues the Commission is required to address 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

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.

In Florida, the total number of access lines decreased by 7 percent in 2013. CLEC lines increased 15 percent between December 2012 and December 2013 due to continued growth in business lines. Total CLEC wireline market share in Florida increased to 32 percent in 2013 from 26 percent in 2012. Wireless carriers also experienced growth in the number of wireless subscribers in Florida. In December 2012, the FCC reported that there were 18.4 million handsets in service.⁹¹

In addition, residential VoIP subscribership rose to nearly 2.8 million by December 2013.⁹² 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 the 87 CLECs that reported providing local service include:

- Bundles including services other than local voice (54 CLECs)
- VoIP (63 CLECs)
- Broadband Internet access (54 CLECs)
- Fiber to end users (11 CLECs)⁹³
- Video service (6 CLECs)

The majority of CLECs reported no barriers to competition or elected not to respond in the comment portion of the survey. A few carriers noted concern over the inability to charge rates that are competitive with ILEC rates, due to the cost of wholesale service. Other complaints relate to wholesale billing errors, application of promotional credits, delays in

⁹¹ FCC, "Local Telephone Competition: Status as of December 31, 2012," released November 2013, http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-324413A1.pdf, accessed on May 22, 2014, Table 18.

⁹² Responses to FPSC data requests 2012 and 2013.

⁹³ Carriers that resell fiber loops provided by other carriers were not included.

number porting, access to dark fiber, and concerns regarding the future arbitration of IP-to-IP interconnection.

Conclusion: The majority of CLECs did not report any significant barriers to competition. Subscribers to CLEC, VoIP, and wireless services continued to increase in 2013, 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.

B. Statutory Issue – Consumers

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

Customers may obtain functionally equivalent services 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, 2013, 87 CLECs reported providing local voice service in contrast to 97 CLECs as of December 31, 2012, continuing the gradual decline in the number of CLECs providing service. CLECs 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. According to the FCC, 46 percent of the total Florida lines are provided by companies other than ILECs.⁹⁴

ILEC business lines fell 9 percent in 2013, while the rate of growth in CLEC business lines was 16 percent. This suggests that business customers have the ability to find reasonable pricing packages with CLECs and are taking advantage of these options. These options also include cable and in some cases, wireless providers. Residential ILEC lines decreased 18 percent in Florida in 2013, while nationally, wireless-only households continued to grow, reaching 39.4 percent through June 2013.⁹⁵ As reported in Chapter IV of this report, there are approximately 2.8 million interconnected residential VoIP subscribers in Florida.⁹⁶ These and other factors demonstrate that customers are able to find comparable services at reasonable prices through wireless, CLEC, and VoIP providers.

Conclusion: CLEC business lines increased offsetting ILEC business line losses in 2013. This suggests that business customers are finding comparably priced packages and functionally equivalent services with a variety of providers, which includes CLECs, cable

⁹⁴ FCC, “Local Telephone Competition: Status as of December 31, 2012,” released November 2013, http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-324413A1.pdf, accessed on May 22, 2014, Table 12.

Note: The referenced access lines consist of switched access lines as well as VoIP subscriber lines.

⁹⁵ Stephen J. Blumberg, Ph.D., Julian V. Luke, “Wireless substitution: Early release of estimates from the National Health Interview Survey, January–June 2013,” National Center for Health Statistics, Centers for Disease Control and Prevention, released December 2013, <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201312.pdf>, accessed May 3, 2014.

⁹⁶ Responses to FPSC Local Competition Data Request for 2013.

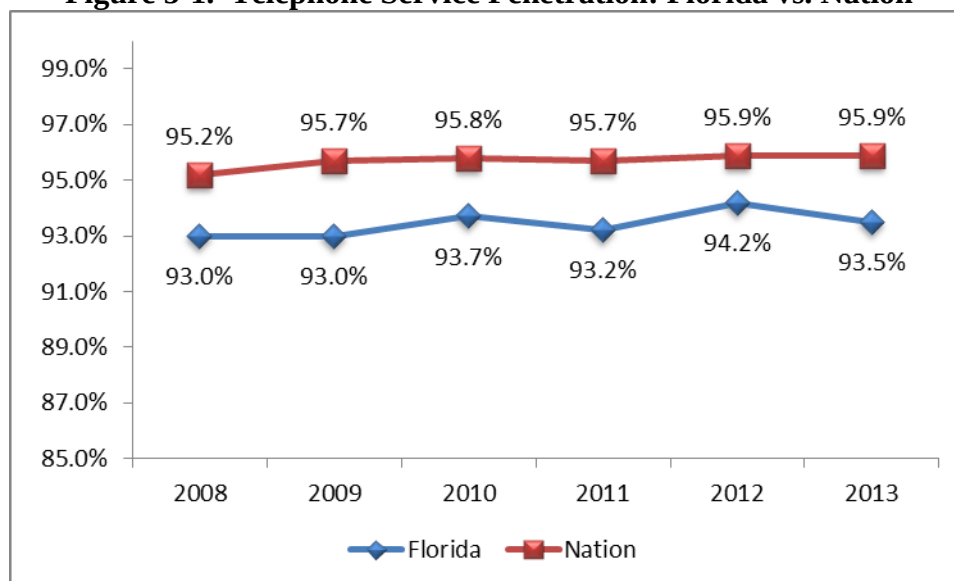
providers, and wireless providers. Residential lines have maintained a steady decline and wireless-only households continue to grow consistent with the trend over the past several years. Providers are coping with the changing market by modifying the way consumers pay for their services and bundling pricing among wireline, wireless, and television services, further increasing customers' ability to select the services, providers, and pricing plans they prefer.

C. Statutory Issue – Affordability & Service Quality

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

The FCC reported that 93.5 percent of Florida households had telephone service in 2013, lower than the national penetration rate of 95.9 percent.⁹⁷ As shown in Figure 5-1, the Florida telephone penetration rate has consistently been below the national penetration rate and the gap has varied little between 2008 and 2013. This gap persists despite successful efforts in recent years by Florida carriers and the FPSC to make Lifeline benefits more accessible to eligible low-income consumers. The majority of Florida residents have a choice among several non-ILEC providers, with 10 or more providers available in 87 percent of Florida zip codes.⁹⁸ According to the FCC, there are no zip codes in Florida without at least one CLEC or non-ILEC VoIP provider.

Figure 5-1. Telephone Service Penetration: Florida vs. Nation



Source: FCC, *Telephone Subscribership & USF Monitoring Report*,

⁹⁷ 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 May 19, 2013, Table 3; "Universal Service Monitoring Report," released December 2013, http://transition.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/Monitor/2013_Monitoring_Report.pdf, accessed on May 22, 2014, Table 3.8.

⁹⁸ FCC, "Local Telephone Competition: Status as of December 31, 2012," released November 2013, http://hraunfoss.fcc.gov/edocs_public/attachmatch/DOC-324413A1.pdf, accessed May 22, 2014, Table 21.

The Centers for Disease Control (CDC) released a report on wireless substitution for the period January-June 2013 and found that 39.4 percent of adults live in wireless-only households.⁹⁹ While state-specific data on wireless-only households was not provided in the most recent CDC report, a December 2013 report containing state-level data noted that Orange County had the highest wireless-only penetration rate in Florida at 46.5 percent.¹⁰⁰ The CDC report found 6.5 percent of Florida adults living in households with only a wireline phone. It also found that 2.5 percent of Florida adults living without any form of telephone service.¹⁰¹ This data suggests 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.

Historically, regulatory reliability standards have applied to landline telecommunications service making it the most reliable telecommunications service. Reliability in landline networks is no longer insured as many states, including Florida, eliminated service quality standards. Given the continued growth of interconnected VoIP and wireless-only households, and the continued erosion 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 erosion of wireline access lines, network reliability of non-ILEC providers appears to be sufficient. The telephone penetration rate of 93.5 percent supports the conclusion that the vast majority 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

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

Conclusion: This information can be found in Appendix B. The number of docketed and informal intercarrier complaints remained relatively stable in 2013.

⁹⁹ Stephen J. Blumberg, Ph.D., Julian V. Luke, “Wireless substitution: Early release of estimates from the National Health Interview Survey, January–June 2013,” National Center for Health Statistics, Centers for Disease Control and Prevention, released December 2013, <http://www.cdc.gov/nchs/data/nhis/earlyrelease/wireless201312.pdf>, accessed May 3, 2014.

¹⁰⁰ Stephen J. Blumberg, Ph.D., et al., “Wireless substitution: State-level estimates from the National Health Interview Survey, 2012,” National Center for Health Statistics, Centers for Disease Control and Prevention, released December 18, 2013, <http://www.cdc.gov/nchs/data/nhsr/nhsr070.pdf>, accessed on May 4, 2014.

¹⁰¹ Ibid.

Chapter VI. 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 2013 and early 2014.

A. Intercarrier Matters

1. AT&T v. Express Phone Adoption Dispute¹⁰²

This dispute relates to Express Phone's allegation that AT&T Florida failed to honor Express Phone's request to adopt the interconnection agreement (ICA) between AT&T and another CLEC. Express Phone contended that the alleged failure would violate the federal Telecommunications Act of 1996. An evidentiary hearing was held May 3, 2012. On July 17, 2012, the Commission adopted the staff's recommendation that Express Phone could not adopt an alternative ICA when it failed to materially comply with its existing ICA.

On August 28, 2012, Express Phone filed a complaint for declaratory and injunctive relief in the U.S. District Court, Northern District of Florida. Express Phone alleges that the Commission's decision was contrary to 47 U.S.C. §252(i) and 47 C.F.R. §51.809, and that the order is arbitrary and capricious. On December 12, 2013, the Court affirmed the Commission's July 17, 2012 decision. The case was closed January 2, 2014.

2. Qwest Discrimination Complaint¹⁰³

Qwest Communications Company, LLC (Qwest), filed a complaint against a large number of CLECs on December 11, 2009, regarding rate discrimination in connection with the provision of intrastate switched access services. Qwest sought relief from all parties for engaging in unlawful rate discrimination. Specifically, Qwest alleged that by extending contracts to other interexchange carriers for switched access, advantages were withheld from Qwest. The complaint further alleged that all parties failed to abide by their price lists, and charged Qwest more for switched access than other similarly situated interexchange companies. The Commission addressed several procedural filings in this docket and a hearing on the issues was held October 23-25, 2012. During the process, Qwest and a number of CLECs settled their

¹⁰² Docket No. 110087-TP – Notice of adoption of existing interconnection, unbundling, resale, and collocation agreement between BellSouth Telecommunications, Inc. d/b/a AT&T Florida d/b/a AT&T Southeast and Image Access, Inc. d/b/a NewPhone, Inc. by Express Phone Service, Inc.

¹⁰³ Docket No. 090538-TP – Amended Complaint of Qwest Communications Company, LLC against MCImetro Access Transmission Services (d/b/a Verizon Access Transmission Services); XO Communications Services, Inc.; tw telecom of florida, l.p.; Granite Telecommunications, LLC; Broadwing Communications, LLC; Access Point, Inc.; Birch Communications, Inc.; Budget Prepay, Inc.; Bullseye Telecom, Inc.; DeltaCom, Inc.; Ernest Communications, Inc.; Flatel, Inc.; Navigator Telecommunications, LLC; PaeTec Communications, Inc.; STS Telecom, LLC; US LEC of Florida, LLC; Windstream NuVox, Inc.; and John Does 1 through 50, for unlawful discrimination.

disputes on these issues; as a result only five CLECs remained as respondents to the complaint at the time of the hearing.

On May 1, 2013, the Commission issued Order No. PSC-13-0185-FOF-TP, finding that the Commission retained authority under Chapter 364.16, F.S., to hear the complaint. The Commission found that Qwest failed to demonstrate that it was similarly situated to AT&T and thus was not eligible for AT&T's contract terms. The Commission also found that the CLECs abided by their price lists and did not engage in any unlawful anticompetitive behavior against Qwest regarding these switched access contracts. On May 16, 2013, Qwest filed a Motion for Reconsideration of the Commission's decision. The Commission denied Qwest's Motion on August 28, 2013.

3. *AT&T v. Digital Express Adoption Dispute*¹⁰⁴

On June 5, 2012, Digital Express, Inc. (Digital) filed a Notice of Adoption of an existing interconnection, unbundling, resale, and collocation agreement between BellSouth Telecommunications, Inc. d/b/a AT&T Florida d/b/a AT&T Southeast (AT&T Florida) and New Talk, Inc. (New Talk ICA). On July 9, 2012, AT&T Florida filed a Response in Opposition to Digital's adoption of the New Talk ICA. Order No. PSC-12-0598-PCO-TP, on November 1, 2012, established procedural dates and set this docket for an administrative hearing on April 18, 2013.

On February 8, 2013, Digital and AT&T filed a Joint Motion for Abatement, stating that the parties reached an agreement to request an abatement of this docket until all appeals were resolved in the *Express Phone v. AT&T* adoption dispute discussed previously. In support of their Joint Motion, the parties argued that the issues in this docket were substantially similar to the issues in *Express Phone v. AT&T*. After the Court affirmed the Commission's decision in that case, Digital Express filed a Notice of Voluntary Dismissal, without prejudice, of its Notice of Adoption, on January 30, 2014, and this case was then closed.

4. *Nexus v. AT&T Promotional Credit Complaint*¹⁰⁵

On November 18, 2010, Nexus Communications, Inc. (Nexus) filed its Complaint and Petition for Relief seeking to recover cash back promotional credits from AT&T. AT&T filed its Answer and Affirmative Defenses on November 24, 2010. On February 28, 2011, the parties filed a Joint Status Report and Proposed Motion to Abate. A second status report was filed by Nexus on January 10, 2013, stating that the parties had agreed in principle to the terms of a final settlement. On May 29, 2013, Nexus filed its Motion to Dismiss, with prejudice, stating that all issues presented in the case had been resolved and this case was subsequently closed.

¹⁰⁴ Docket No. 120169-TP – Notice of adoption of existing interconnection, unbundling, resale and collocation agreement between BellSouth Telecommunications, Inc. d/b/a AT&T Florida d/b/a AT&T Southeast and Image Access, Inc. d/b/a NewPhone, Inc. by Digital Express, Inc.

¹⁰⁵ Docket No. 100434-TP – Complaint and petition for relief by Nexus Communications, Inc. against BellSouth Telecommunications, Inc. d/b/a AT&T Florida for dispute over interpretation of interconnection agreement regarding cash back promotions.

5. *CompSouth Petition for Rulemaking on Expedited Complaints*¹⁰⁶

On July 31, 2012, the Competitive Carriers of the South, Inc. (CompSouth) filed a Petition to Initiate Rulemaking to Revise and Amend Portions of Rule 25-22.0365, F.A.C., to revise portions of the Expedited Dispute Resolution Rule to “enable quicker resolution of cases where a consumer is without service or suffers impaired service as a result of a dispute between telecommunications carriers.”¹⁰⁷ Rule development workshops were held on November 15, 2012, and August 20, 2013. CompSouth requested additional time to work out compromise language with other carriers. The Commission approved rule language on May 9, 2014, adopting a combination of language from CompSouth, other carriers, and Commission staff.

6. *FLATEL v. AT&T Billing/Promotional Credit Complaint*¹⁰⁸

On December 10, 2013, FLATEL, Inc. initiated an informal request to renew billing and promotional credit disputes from a complaint the Commission previously dismissed without prejudice.¹⁰⁹ FLATEL filed a Motion to Amend its previous case on December 30, 2013. FLATEL claimed that it was unlawfully billed for promotional credits, claiming “AT&T offers immediate relief via Promotions to its End Users without parity to instantly offer the same exact relief to FLATEL’s End Users.”¹¹⁰ The Commission dismissed FLATEL’s complaint, with prejudice, on June 5, 2014, due to continuing rule violation infirmities.

7. *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 2013, AT&T paid approximately \$347,772 in remedies to CLECs, an increase of 32 percent from 2012. AT&T’s highest payments were for its Customer Trouble Report Rate.

¹⁰⁶ Docket No. 120208-TX – Petition of the Competitive Carriers of the South, Inc., to initiate rulemaking to revise and amend portions of Rule 25-22.0365, Florida Administrative Code.

¹⁰⁷ *Petition* at p. 1.

¹⁰⁸ Docket No. 140055-TP – Complaint of FLATEL, Inc. against BellSouth Telecommunications, Inc. d/b/a AT&T Florida.

¹⁰⁹ Docket No. 110306-TP – Request for emergency relief and complaint of FLATEL, Inc. against BellSouth Telecommunications, Inc. d/b/a AT&T Florida to resolve interconnection agreement dispute.

¹¹⁰ *Complaint* at p. 1.

On February 1, 2013, CenturyLink filed proposed revisions to its Performance Measurement Plan as a result of a negotiated settlement in Nevada. The revisions included eliminating three measures (leaving a net of 33 measures) and revising several others. The Commission approved these revisions on May 14, 2013, and they have gone into effect in July 2013 reporting month. For the 2013 calendar year, CenturyLink's monthly compliance with established standards ranged from 91.4 percent to 99.0 percent. CenturyLink's measure with the most noncompliant instances was its Average Firm Order Commitment Notice Interval.

Verizon's current Performance Measurement Plan contains 29 measures. For the calendar year 2013, Verizon's monthly compliance with approved standards ranged from 84.0 percent to 90.7 percent. The previous year, Verizon's compliance ranged from 81.1 percent to 92.2 percent. Verizon's Percent Due Dates Missed was its most troublesome measure.

8. Other Matters

In addition these proceedings, the Commission processed a number of other telecommunications-related items in 2013. The Commission processed 182 service schedule and tariff filings, 56 interconnection agreements and amendments, 16 carrier certifications, 34 certificate cancellations, and over 500 general inquiries/informal complaints.

B. Lifeline

In order to comply with FCC requirements and keep the Lifeline application process uncomplicated, the FPSC created an on-line Lifeline application for consumers participating in Supplemental Nutrition Assistance Program (SNAP), Medicaid, or Temporary Assistance for Needy Families (TANF). When the applicant completes the application making all the necessary attestations, certifications, and the electronic signature, the FPSC computer automatically makes a query to a Florida Department of Children and Families Web services interface to confirm current participation in SNAP, Medicaid, or TANF. The real-time response will verify participation in at least one of the programs, but does not identify the program. A positive response will generate an automatic e-mail to the appropriate Lifeline provider advising it 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 TANF could not be confirmed and offering staff assistance with any questions.

C. Telephone Relay Service

According to the Florida Coordinating Council for the Deaf and Hard of Hearing, nearly three million deaf, hard-of-hearing, deaf-blind, and speech-impaired citizens live in Florida.¹¹¹ Florida is the fourth largest state in the U.S. and has the second highest percentage of population who are deaf, hard of hearing, or deaf-blind.¹¹²

¹¹¹ 2013 Florida Coordinating Council for the Deaf and Hard of Hearing Report to the Governor and Legislature of the State of Florida.

¹¹² 2007 Florida Coordinating Council for the Deaf and Hard of Hearing Report to the Governor and Legislature of the State of Florida.

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 current surcharge billed per month per landline access line is \$0.11.

Pursuant to TASA, the Florida Public Service Commission (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, 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. FTRI is responsible for paying the providers' bills, outreach, and the distribution of equipment.

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 AT&T, effective June 1, 2012, for a period of three years ending May 31, 2015. 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 January 16, 2014, AT&T provided written notice to the FPSC that it does not intend to extend the relay provider contract into the option periods when the existing contract expires. On June 9, 2014, the FPSC approved the release of a Request for Proposals to seek a new relay provider to begin providing service by June 1, 2015.

On May 9, 2014, the FPSC approved FTRI's 2014-2015 budget maintaining the \$.11 monthly surcharge per access line. Specifically, the FPSC approved FTRI's proposed operating revenue of \$8,528,177, and proposed expenses, of \$8,263,702, for fiscal year 2014-2015, effective July 1, 2014.

D. Florida Broadband Grant Projects

The Florida Department of Management Services received federal grant funding in January 2010 for \$2.5 million to develop a broadband map for Florida and broadband planning for the state. In September 2010, the Department was awarded an additional \$6.3 million, for a total amount of \$8.8 million, to extend the mapping project through 2014 and initiate four additional broadband projects. The four projects are library technology assessments, E-rate assistance, broadband grants assistance, and regional broadband planning.

1. *Broadband Mapping*

Efforts to maintain the map are ongoing, focusing on building Florida's database for household broadband availability and broadband use by anchor institutions. The most recently compiled data will be submitted for the national broadband map in October 2014.¹¹³ Data will be updated bi-annually through the end of 2014. The Broadband Mapping team also assisted the Department of Education with analysis of the broadband coverage and availability for all the public schools in Florida to assist with digital learning capability.

2. *Library Technology Assessment*

This project inventoried and reported on Florida's 180 public libraries and was completed by the end of the 2nd quarter of 2012. The assessment helped to identify libraries whose broadband needs are the greatest.

3. *E-rate Assistance*

In 2011 and 2012, comparably populated states such as California, New York, and Texas received more E-rate funding than Florida.¹¹⁴ In an effort to improve Florida's benefit from the program, the E-rate assistance team, which now also serves as the State E-rate Coordinators, provided technical training seminars throughout the state to assist potential applicants and served as a technical resource on multiple school and library E-rate applications, including follow-up assistance and application monitoring. Per a Universal Service Administrative Company (USAC) directive, the Department of Management Services must be the applicant for all funding requests that utilize the state master contracts. The team certified all of the applications and is in the process of handling any USAC review inquiries. The project is funded through 2014.

4. *Grants Assistance and Resource Development*

In fiscal year 2010, Florida ranked 48th in federal program grant funds per capita.¹¹⁵ The grant assistance team is focusing on matching up eligible community anchor institutions with federal programs that will support and fund broadband related technology. The current program focus is the new HealthCare Connect Fund, which falls under the Universal Service Fund umbrella and funds broadband capacity and infrastructure. The team will assist with the application process for all eligible applicants.

¹¹³ The Florida broadband map can be accessed online at <http://map.broadbandfla.com/>.

¹¹⁴ FCC, "Universal Service Monitoring Report," released March 2013, <http://www.fcc.gov/document/fcc-releases-2012-universal-service-monitoring-report>, accessed May 24, 2013, and "Universal Service Monitoring Report," released December 2013, http://transition.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/Monitor/2013_Monitoring_Report.pdf, accessed May 22, 2014.

¹¹⁵ U.S. Census Bureau, Economics and Statistics Administration, U.S. Department of Commerce, "Federal Aid to States for Fiscal Year 2010," released September 2011, <http://www.census.gov/prod/2011pubs/fas-10.pdf>, accessed June 20, 2012, Figure 5, (2010 was the last year this report was published).

5. *Regional Broadband Planning*

This project will develop and provide Florida communities with a broadband planning process, tool kits, and training to local communities and regions who wish to develop broadband plans as part of their economic development efforts.

Chapter VII. Federal Activities

A. TDM-to-IP Transition

On November 7, 2012, AT&T filed a petition asking the FCC to launch a proceeding to eliminate what AT&T perceived as regulatory barriers affecting investment in Internet Protocol (IP)-based networks.¹¹⁶ It asked the FCC to approve trials that would allow ILECs to retire their existing Time-Division Multiplexing (TDM) services in select exchanges and introduce all-IP services in their place. On January 31, 2014, the FCC invited interested providers to submit detailed proposals to test real-world applications of planned changes in technology likely to have tangible effects on consumers.¹¹⁷ AT&T submitted its proposal to the FCC on February 27, 2014 to conduct the trials in a rural wire center in Carbon Hill, AL, and in a suburban wire center in Palm Beach County, FL (Kings Point¹¹⁸).¹¹⁹ Figures 7-1 and 7-2 identify the location and boundaries of the areas in the proposed trial in Florida.

Figure 7-1. Location of Kings Point Wire Center¹²⁰



¹¹⁶ AT&T, "Petition to Launch a Proceeding Concerning the TDM-to-IP Transition," filed with the FCC on November 7, 2012, http://www.att.com/Common/about_us/files/pdf/fcc_filing.pdf, accessed May 16, 2014.

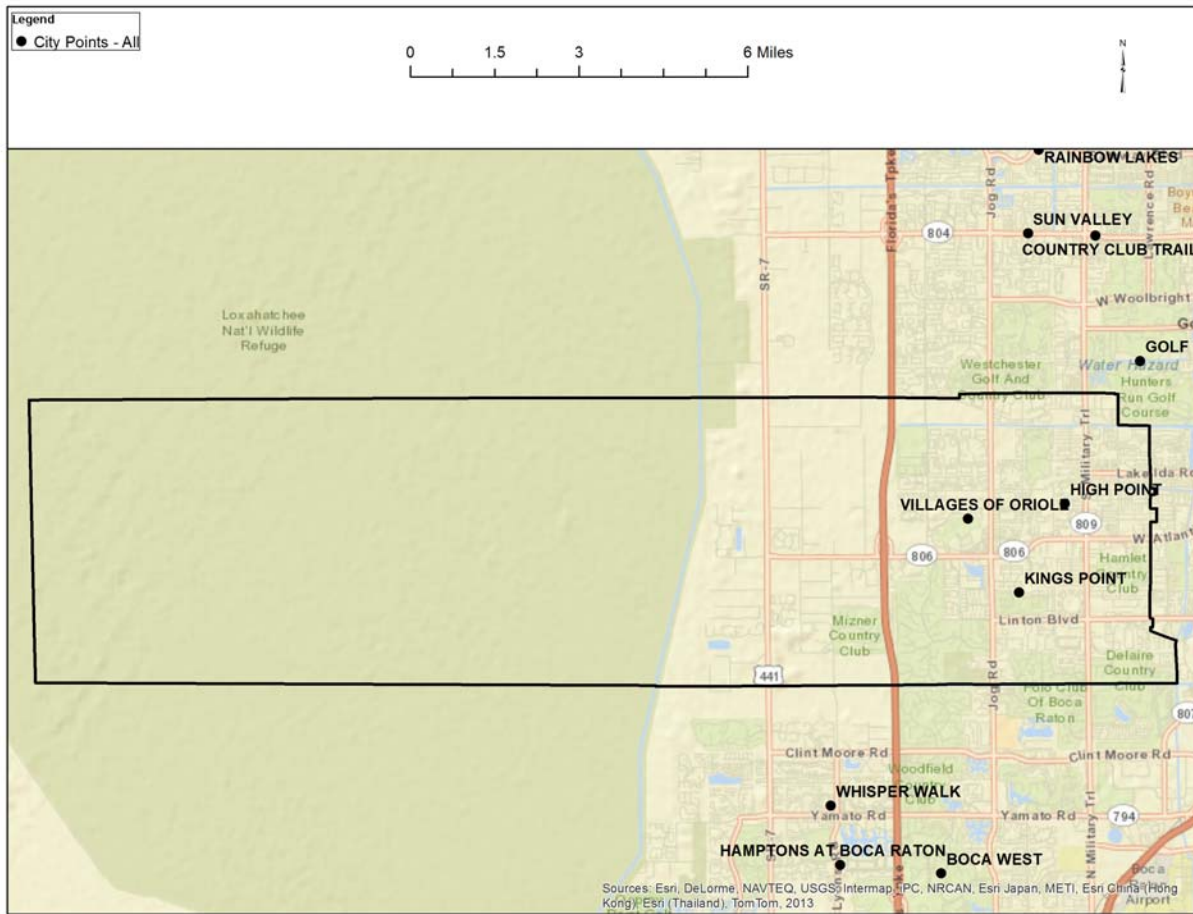
¹¹⁷ FCC, "Report and Order and Further Notice of Proposed Rulemaking, and Proposal for Ongoing Data Initiative," GN Docket No. 13-5, FCC 14-5, released January 31, 2014, http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-14-5A1.pdf, accessed May 16, 2014.

¹¹⁸ Kings Point is part of the West Palm Beach metropolitan area and includes approximately 50 thousand living units. Residential consumers in the Kings Point exchange are predominately (about 70 percent) over 50 years old and about 9 percent of households have income below poverty level.

¹¹⁹ AT&T, "Proposal for Wire Center Trials - Redacted," GN Docket No. 13-5, February 27, 2014, <http://apps.fcc.gov/ecfs/document/view?id=7521084110>, access May 16, 2014.

¹²⁰ Geology.com, Florida Physical Relief Map, <http://geology.com/topographic-physical-map/florida.shtml>, accessed May 16, 2014.

Figure 7-2. Kings Point Wire Center Boundaries



AT&T proposes to conduct the trials in three phases: phase one will have customers opt for new services voluntarily, phase two will grandfather TDM-based services, and phase three will sunset all TDM-based services in these exchanges and require customers to migrate to IP-based products. Within AT&T's wireline and wireless footprints, it will offer consumers and businesses wireline and wireless products as substitutions for traditional TDM services. In areas within AT&T's wireless footprint but outside its wireline footprint, only wireless services plan will be offered. AT&T's proposal plans for extensive customer outreach, advertising, and personnel in the area to answer questions. AT&T plans to complete all three phases within three years. However, before it can grandfather or sunset any services, it will first seek permission to do so from the FCC. The timelines for grandfathering and sunseting services will vary based on the development of IP-based alternatives as well as FCC approval. The FCC has not made a decision on AT&T's proposal.

Currently, some services will not be compatible with existing equipment. AT&T has committed to develop services that will be compatible with most existing equipment. For example, its wireless products will comply with the FCC's existing 911 requirements for Commercial Mobile Radio Services, but does not provide E-911 with street address. They also do not currently support alarm monitoring, medical alert and credit card validation applications. However, AT&T states it is currently developing enhancements that will provide all of these

applications before AT&T requests any action to grandfather or discontinue its TDM-based voice services. AT&T has indicated that its IP-based services may not ultimately be compatible with equipment customers may still have, such as 10-15 year old analog fax machines. Furthermore, there are a few applications that AT&T does not plan to support due to rapidly declining market demand such as digital video recorder services, elevator phones, third party pay per call, dial around calls, and operator services functions (live operators and collect calling).

AT&T proposes that because the first phase of the trial will only require voluntary participation, no retail or wholesale customer will be required to transition to all-IP during that phase. This includes wholesale customers such as CLECs, who may opt for IP interconnection when the trials begin but may also choose to retain their existing TDM-based services. AT&T admits that it has not developed all of the necessary IP-based products in either the retail or wholesale markets, so it will not require migration for customers until it has completed its product development and introduced IP-based substitutes for existing services. However, AT&T does plan to require the migration of all CLEC TDM-based service to IP counterparts at some point during this trial.

B. Network Neutrality and Internet Network Management

In January 2014, the D.C. Circuit held the FCC has authority to impose network neutrality requirements on regulated telecommunications companies via section 706 of the Telecommunications Act of 1996, but that most of the FCC's 2010 Open Internet Order¹²¹ exceeds that authority. The court concluded that because the FCC has not classified broadband providers as a "common carriers," it cannot impose network neutrality rules on them.¹²² The decision reviews three FCC Network Neutrality rules: (1) A "transparency" rule that requires broadband providers to disclose to consumers the way in which their facilities are managed and what type of service performance can be expected; (2) An "anti-blocking" rule that prevents providers from blocking consumer access to lawful Internet content absent some need to protect the network; and (3) An "anti-discrimination" rule to prevent providers from favoring their own content, or content that they somehow prefer, over the content that consumers attempt to access from third parties, again absent some need to protect the network.

The court's decision struck down the FCC's rules relating to "anti-blocking" and "anti-discrimination." The following month, the FCC established a new docket within which it will consider how it should proceed in light of the court's decision and what actions the FCC should take consistent with its authority under section 706.¹²³ The FCC tentatively concluded that it should enhance the transparency rule that was upheld by the court by differentiating the level of details provided to consumers and application developers. The FCC also tentatively concluded to adopt the text of the no-blocking rule with revised legal rational.

¹²¹ FCC, "Report and Order," GN Docket No. 09-191, FCC 10-201, released December 23, 2010, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-10-201A1.pdf, accessed May 19, 2011.

¹²² U.S. Court of Appeals, *Verizon v. Federal Communications Commission*, argued September 9, 2013, decided January 14, 2014, <https://prodnet.www.neca.org/publicationsdocs/wwwpdf/11414net.pdf>, accessed May 14, 2014.

¹²³ FCC, "Public Notice," GN Docket No. 14-28, DA 14-211, released February 19, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0219/DA-14-211A1.pdf, accessed May 14, 2014.

C. Inmate Calling

On August 9, 2013, the FCC approved an order to reduce the cost on interstate long distance calls from inmate facilities.¹²⁴ The order concludes that some interstate inmate calling service rates are not just and fair. The order requires 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 include:

- setting an interim rate-caps based on data submitted by providers
- adopting a debit/pre-paid calling cap of \$0.21 per minute
- presumption that rates that will to be cost based (rebuttable/challengeable) for debit/prepaid cards calls - at or below \$0.12/min and for collect - at or below \$0.14/min

The D.C. Circuit Court of Appeals however issued an Order on January 13, 2014 that stays portions of the FCC's inmate calling rule.¹²⁵ The rules that were stayed included rules that required cost-based rates, established an interim safe harbor, and required annual reporting and certification.

D. Next Generation 911

Congress enacted the Next Generation 911 Advancement Act as part of the Middle Class Tax Relief and Job Creation Act of 2012.¹²⁶ Next Generation 911 systems have the potential to increase public safety for consumers, especially for people with disabilities. These technologies will enable the public to send emergency communications via text, photos, and videos, and will provide Public Safety Answering Points and other first responders with access to enhanced information to respond to emergencies.

On January 30, 2014, the FCC adopted a Policy Statement stating the goal that all wireless telephone companies and providers of interconnected text messaging services should enable consumers to send text messages to 911.¹²⁷ The FCC encouraged industry-developed

¹²⁴ FCC, "Report and Order and Further Notice of Proposed Rulemaking," WC Docket No. 12-375, FCC 13-113, released September 26, 2013, http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-13-113A1.pdf, accessed May 14, 2014.

¹²⁵ United States Court of Appeals for the District of Columbia Circuit, No. 13-1280, *Securus Technologies, Inc., v. Federal Communications Commission and United States of America*, filed on January 13, 2014, <https://prodnet.www.neca.org/publicationsdocs/wwwpdf/11314dcct.pdf>, accessed May 14, 2014.

¹²⁶ Committee Reports, 112th Congress, House Report 112-399, Middle Class Tax Relief and Job Creation Act of 2012, [http://thomas.loc.gov/cgi-bin/cpquery/R?cp112:FLD010:@1\(hr399\)](http://thomas.loc.gov/cgi-bin/cpquery/R?cp112:FLD010:@1(hr399)), accessed May 14, 2014.

¹²⁷ FCC, "Policy Statement and Second Further Notice of Proposed Rulemaking," PS Docket No. 11-153, FCC 14-6, released January 31, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0131/FCC-14-6A1.pdf, accessed May 14, 2014.

solutions to achieve this goal, and proposed rules that would require all covered text providers to support text-to-911 by December 31, 2014.

AT&T, Sprint Nextel, T-Mobile, and Verizon entered into a voluntary agreement with the National Emergency Number Association in which these carriers agreed to provide text-to-911 service by May 15, 2014, to Public Safety Answering Points that are capable of and request to receive text-to-911 service.¹²⁸ These wireless carriers provide quarterly progress reports to the FCC regarding the status of their national text-to-911 service capability. While AT&T, T-Mobile, and Verizon are providing Text-to-911 service in select cities, none of these locations are in Florida at this time.¹²⁹

During the transition to text-to-911, the FCC has established rules to help keep consumers safe. Specifically, all wireless telephone companies are required by the FCC to send an automatic “bounce-back” message to any consumer who tries to send a text message to 911 where this service is not yet available beginning September 30, 2013.¹³⁰ Consumers who receive this “bounce-back” message will be advised to call 911 as opposed to sending a text.

E. Rural Call Completion

On October 28, 2013, the FCC adopted an order to address problems associated with completion of long distance calls to rural areas.¹³¹ The order requires certain providers to record, retain, and report rural call completion data to the FCC for investigation. The data was also intended to allow state regulators to better monitor performance and identify problem areas.

Four months following this order, Windstream Corporation (Windstream) agreed to pay \$2.5 million to the U.S. Treasury to resolve an investigation by the FCC’s Enforcement Bureau into the company’s rural call completion practices.¹³² The company also agreed to implement a three-year plan to ensure compliance with FCC requirements designed to combat the problem of long-distance calls failing to complete in rural areas. Windstream agreed to cease using intermediate providers that fail to improve their performance.

¹²⁸Commitment Letter from AT&T, Sprint, T-Mobile USA, Verizon, APCO International, & NENA – The 9-1-1 Association to the FCC, filed December 6, 2012, <http://apps.fcc.gov/ecfs/document/view?id=7022074960>, accessed May 14, 2014.

¹²⁹ FCC, Text-to-911 Deployments as of May 9, 2014, <http://transition.fcc.gov/cgb/text-to-911-deployments.pdf>, accessed May 14, 2014.

¹³⁰ FCC, “Report and Order,” PS Docket No 11-153, FCC 13-64, released May 17, 2013, http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-13-64A1.pdf, accessed May 14, 2014.

¹³¹ FCC, “Report and Order and Further Notice of Proposed Rulemaking,” WC Docket No. 13-39, FCC 13-135, released November 8, 2013, http://transition.fcc.gov/Daily_Releases/Daily_Business/2013/db1108/FCC-13-135A1.pdf, accessed May 14, 2014.

¹³² FCC, “Order,” File No. EB-IHB-13-00011781, Acct. No. 201432080020, DA 14-152, released February 20, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0220/DA-14-152A1.pdf, accessed May 14, 2014.

F. Universal Service

The FPSC monitors and participates in ongoing proceedings at the FCC and with the Federal-State Joint Board on Universal Service (Joint Board). Florida consumers pay significantly more into the federal Universal Service Fund (USF) than what is returned to eligible service providers in Florida.¹³³ While Florida was a net recipient of low income support programs in 2010, this trend was reversed in 2011 when contributions exceeded receipts. Table 7.1 shows Florida's estimated contribution and receipts for 2012.

Table 7-1. 2012 Federal Universal Service Programs in Florida
(Annual Payments and Contributions in Thousands of Dollars)

	2010	2011	2012		
	Estimated Net	Estimated Net	Payments to Service Providers	Estimated Consumers Contributions	Estimated Net
High-Cost	(\$211,439)	(\$206,311)	\$59,281	\$268,520	(\$209,239)
Low Income	2,146	(1,007)	118,154	141,767	(23,613)
Schools & Libraries	(41,568)	(67,626)	80,450	143,625	(63,175)
Rural Health Care	(5,395)	(8,558)	457	10,064	(9,607)
Total ¹³⁴	(\$263,152)	(\$290,437)	\$258,342	\$571,148	(\$312,806)

Source: FCC Universal Service Monitoring Report, Tables 1.12 and 1.13.

1. Contribution System Reform

Funding for USF is collected from telecommunications service providers. The amount they contribute is 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 also required to contribute.¹³⁵ In 2013 the assessment factor, ranged from a high of 16.1 percent in the first quarter to a low of 15.1 percent in the third quarter.¹³⁶ Figure 7.3 below illustrates the general increase of the assessment factor over the last five years.

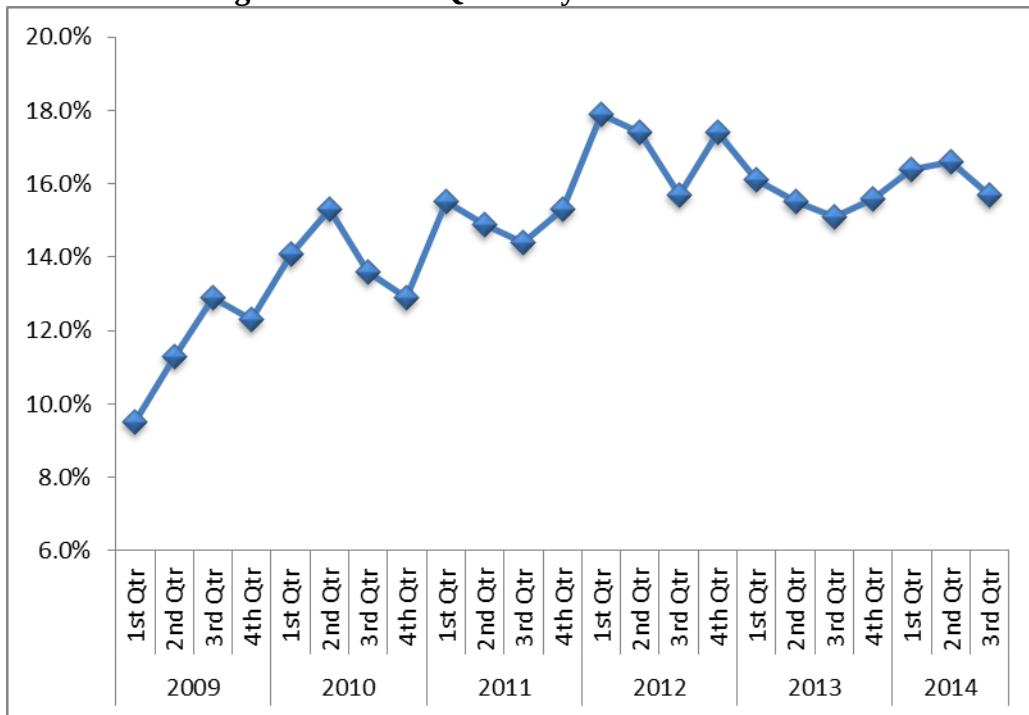
¹³³ FCC, "Universal Service Monitoring Report," CC Docket No. 98-202, released December 13, 2013, http://transition.fcc.gov/Bureaus/Common_Carrier/Reports/FCC-State_Link/Monitor/2013_Monitoring_Report.pdf, accessed May 9, 2014, Table 1.13.

¹³⁴ The total contribution for 2012 includes approximately \$111 million in administrative expenses for the Universal Service Administrative Company.

¹³⁵ Wireless carriers and interconnected VoIP providers may use the interim safe harbor percentages to estimate the interstate portion of their revenues.

¹³⁶ FCC, Contribution Factor and Quarterly Filings – USF Management Support, <http://www.fcc.gov/encyclopedia/contribution-factor-quarterly-filings-universal-service-fund-usf-management-support>, accessed on May 9, 2014.

Figure 7-3. USF Quarterly Assessment Factor



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

Last year, the FCC initiated a proceeding to consider modernizing how Universal Service fund contributions are assessed and recovered. 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. Among the options the FCC is considering is a change to assess contributions based on either total revenues (i.e., interstate and intrastate), connections, numbers, or a hybrid approach (of connections and revenues).

2. High-Cost

In 2011, the FCC modernized its existing high-cost fund to explicitly support deployment of broadband to unserved areas.¹³⁷ While the order implementing these reforms was appealed, the Tenth District Court of Appeals in Denver recently rejected almost all the arguments made by the 31 petitioners.¹³⁸ The arguments that were not rejected were found to be not yet “ripe” for judicial review. As part of this reform, the FCC began to phase out the existing high-cost support programs and began funding through the two new high-cost programs, the Connect America Fund and the Mobility Fund. The Connect America Fund focuses on supporting and expanding fixed broadband availability and voice service. The Mobility Fund that will provide

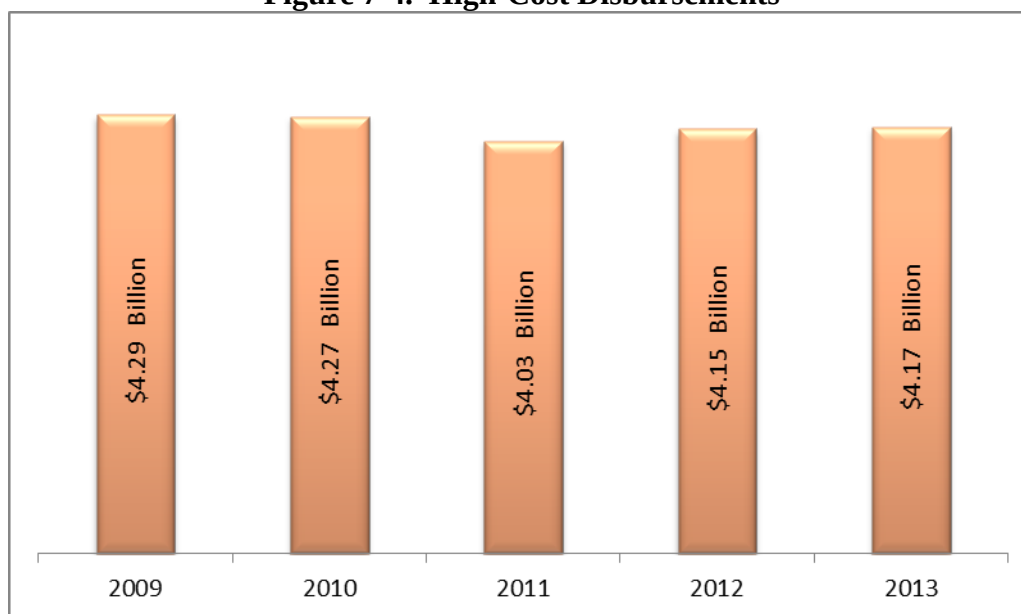
¹³⁷ FCC, “Report and Order and Further Notice of Proposed Rulemaking,” WC Docket No. 10-90, et al, FCC 11-161, released November 18, 2011, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf, accessed May 9, 2014.

¹³⁸ United States Court of Appeals, Tenth Circuit, Petitions for Review of Orders of the Federal Communications Commission (FCC Nos. 11-161, 12-47), Case No. 11-9900, released May 23, 2014, <http://www.ca10.uscourts.gov/opinions/11/11-9900.pdf>, accessed May 29, 2014.

up to \$300 million in one-time support to accelerate deployment of networks for mobile voice and broadband services in unserved areas.

In conjunction with other reforms, the FCC adopted a retail rate floor to limit high-cost universal service support where there are artificially low retail rates. Specifically, high-cost support will be reduced to the extent that a carrier's rates for local voice service fall below an urban local rate floor. An initial rate floor of \$10 was established for the period July 1, 2012 through June 30, 2013.¹³⁹ The following year, the rate floor was increased to \$14. On March 20, 2014, the results of the new urban rate survey for voice services were announced. Based on the survey results, the average local end-user rates, plus state regulated fees, of the surveyed ILECs in urban areas was \$20.46.¹⁴⁰ Under the FCC's rules, by July 1, 2014, all ILEC recipients of high-cost support must report the number of residential service lines for which the sum of the rate and state fees are below \$20.46 as of June 1, 2014. The FCC has also sought comment on a petition requesting that the deadline for compliance with the local service rate floor be extended by six months. Figure 7.4 illustrates the national program size over the last five years.

Figure 7-4. High-Cost Disbursements



Source: USAC 2013 Annual Report

3. Low Income

On February 6, 2012, the FCC released an Order to protect against waste, fraud, and abuse of the Federal Lifeline program which tightened requirements on Lifeline recipients and

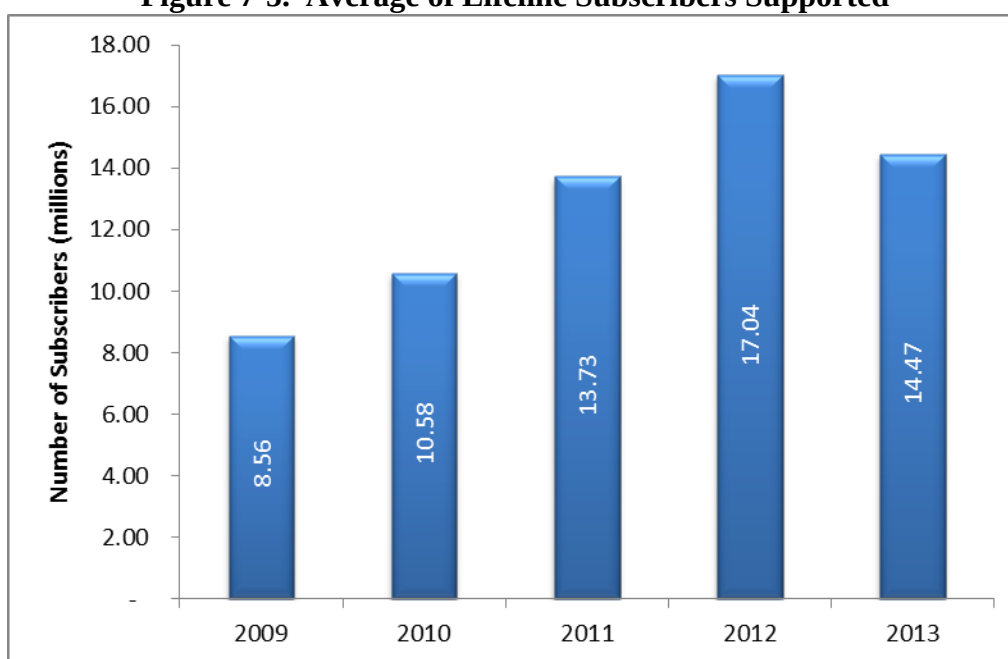
¹³⁹ FCC, "Report and Order and Further Notice of Proposed Rulemaking," WC Docket No. 10-90, et al, FCC 11-161, released November 18, 2011, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-11-161A1.pdf, accessed May 9, 2014.

¹⁴⁰ FCC, "Public Notice," WC Docket No. 10-90, DA 14-384, released March 20, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0320/DA-14-384A1.pdf, accessed May 13, 2014.

eligible telecommunications carriers.¹⁴¹ The reforms include: (1) requiring consumers to provide proof of eligibility at enrollment; (2) requiring consumers to certify that they understand key program rules and to recertify annually their continued eligibility for support; (3) limiting the Lifeline benefit to one per household; (4) eliminating Link Up support for all providers except those that receive high-cost universal service support on Tribal lands; (5) establishing a uniform, nationwide floor for consumers' eligibility to participate in the program, which states may supplement; (6) enhancing requirements concerning marketing and advertising practices of supported carriers; and (7) putting in place a robust audit requirement for providers entering the Lifeline program and an ongoing independent audit requirement for providers drawing more than \$5 million from the Fund.

Low-Income Disbursements from the Federal Universal Service Fund have declined from a high of \$194 million in March 2012, to \$128 million in March 2014, the lowest it has been in the last three years.¹⁴² The reforms resulted in hundreds of millions of dollars in savings to the Universal Service Fund and in the decline in Lifeline subscribers (see Figure 7-5). Overall, the changes are expected to lead to \$2 billion in savings through the end of 2014.

Figure 7-5. Average of Lifeline Subscribers Supported



Source: USAC Annual Reports, (2013-2011)

In May 2013, the Universal Service Administrative Company began building the National Lifeline Accountability Database to help eligible telecommunications carriers identify and resolve duplicate claims for Lifeline Program-supported service and prevent future

¹⁴¹ FCC, "Report and Order and Further Notice of Proposed Rulemaking," FCC 12-11, WC Docket Nos. 11-42, 03-109, 12-23, CC Docket No. 96-45, released February 6, 2012, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-11A1_Rcd.pdf, accessed May 16, 2013

¹⁴² USAC, "2014 Third Quarter Filings to the FCC," <http://www.usac.org/about/tools/fcc/filings/2014/q3.aspx>, accessed May 9, 2014, Table LI06.

duplicates.¹⁴³ The database will detect and prevent duplicative support before it occurs by providing a means for eligible telecommunications carriers to check on a real-time and nationwide basis if the consumer is already receiving a Lifeline Program-supported service. By March 2014, eligible telecommunications carriers in all states were participating in the National Lifeline Accountability Database.¹⁴⁴ These reforms are in place and appear to be working as intended, cutting waste, fraud, and abuse from the program, while ensuring that low-income consumers have access to basic communications.

4. Schools and Libraries

The schools and libraries support program, commonly known as the E-rate program, provides financial assistance to make telecommunications services, broadband Internet access and internal network connections affordable for eligible schools and libraries. 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.

Eligible schools, school districts and libraries may apply individually or as part of a consortium. E-rate program funding is based on demand up to an annual Commission-established cap, which is inflation adjusted annual. For 2013, the E-rate cap was \$2.38 billion, and was increased by 1.4 percent for 2014.¹⁴⁵ Figure 7.6 illustrates total committed E-rate funding for 2013 by geographic area.

In July 2013, the FCC released a Public Notice seeking comment to modernize the E-rate program.¹⁴⁶ In general, the FCC sought broad comment on and proposed three goals for the program: (1) ensuring that schools and libraries have affordable access to 21st Century broadband that supports digital learning; (2) maximizing the cost-effectiveness of E-rate funds; and (3) streamlining the administration of the program.

The FCC followed up on this proceeding in March 2014, inviting further comment on the following three issues that the FCC believed merited further focus: (1) how best to focus E-rate funds on high-capacity broadband, (especially high-speed Wi-Fi and internal connections); (2) whether and how the FCC should begin to phase down or phase out support for traditional voice services and (3) whether there are demonstration projects that the FCC should authorize that would help the it test new ways to maximize effective purchasing in the program. Also of interest, the FCC noted that an internal review by FCC staff found that the FCC could free up an additional \$2 billion over the next two years to help support broadband networks for schools and libraries significantly increasing the size of the program.¹⁴⁷

¹⁴³ USAC, “2013 Annual Report,” <http://www.usac.org/res/documents/about/pdf/annual-reports/2014/Lifeline-Spread.pdf>, accessed May 9, 2014. p.8.

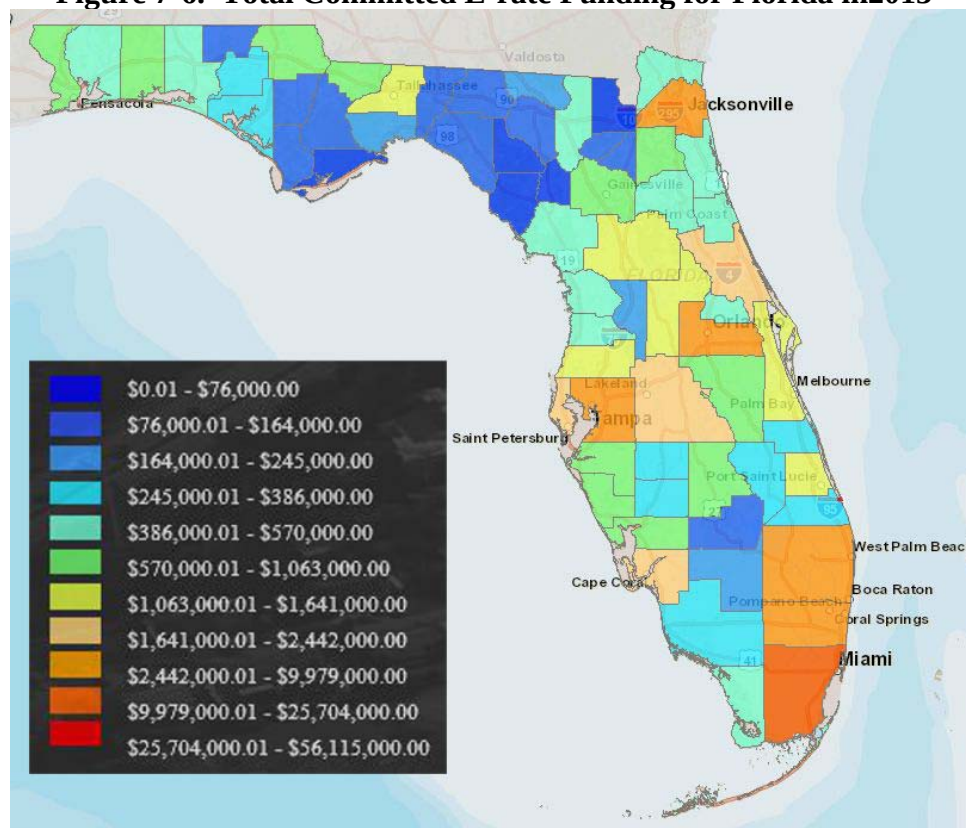
¹⁴⁴ USAC, “National Lifeline Accountability Database Migration,” <http://www.usac.org/li/tools/nlad/nlad-migration.aspx>, accessed May 9, 2014.

¹⁴⁵ FCC, “Public Notice,” CC Docket No. 02-6, DA 14-426, released March 24 2014, http://transitionfcc.gov/Daily_Releases/Daily_Business/2014/db0328/DA-14-426A1.pdf, accessed May 9, 2014.

¹⁴⁶ FCC, “Notice of Proposed Rulemaking,” EC Docket No. 13-184, FCC 13-100, released July 23, 2013, http://fjallfoss.fcc.gov/edocs_public/attachmatch/FCC-13-100A1.pdf, accessed May 9, 2014.

¹⁴⁷ FCC, “Public Notice,” WC Docket No. 13-184, DA 14-308, released March 6, 2014, http://transition.fcc.gov/Daily_Releases/Daily_Business/2014/db0306/DA-14-308A1.pdf, accessed May 9, 2014.

Figure 7-6. Total Committed E-rate Funding for Florida in 2013



Source: Broadband Florida Initiative, Florida Department of Management Services

5. Rural Health Care

The USF Rural Health Care Program is made up of four components: the Telecommunications Program, the Internet Access Program, the Pilot Program, and the new Healthcare Connect Fund. The Telecommunications Program ensures that eligible rural health care providers pay no more than their urban health care providers for telecommunications services. The Internet Access Program provides a 25 percent discount off the cost of monthly Internet access for eligible health care providers. This program will sunset after June 30, 2014.¹⁴⁸ Current recipients will have to seek support from the new Healthcare Connect Fund to continue to receive support. The Pilot Program provides support for 85 percent of the eligible costs of broadband for telehealth networks that connect rural and urban health care providers in a state or region. The Pilot Program is closed to new applicants, and the last funding commitments under that program were issued in 2012.

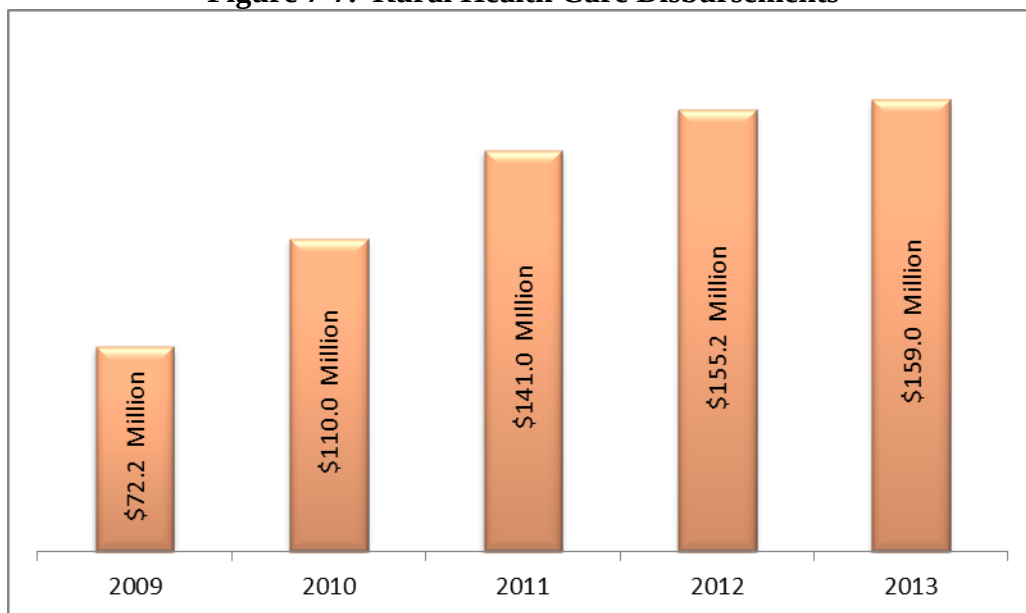
In December 2012, the FCC expanded its existing Rural Health Care programs by creating the Healthcare Connect Fund.¹⁴⁹ The Healthcare Connect Fund provides support for high-capacity

¹⁴⁸ FCC, "Report and Order," WC Docket No. 02-60, FCC 12-150, released December 21, 2012, http://hraunfoss.fcc.gov/edocs_public/attachmatch/FCC-12-150A1.pdf, accessed May 8, 2014.

¹⁴⁹ Ibid.

broadband connectivity to eligible health care providers and encourages the formation of state and regional broadband health care provider networks. Under the program, eligible health care providers applying individually or as part of a consortium can receive a 65 percent discount on all eligible expenses. All eligible applicants may request multi-year funding commitments under the program. In addition, consortium applicants may seek support for upfront charges, which may include support for service provider deployment of new or upgraded facilities or for health care provider-constructed and owned network facilities. Healthcare Connect Fund support was available to applicants starting on July 1, 2013.¹⁵⁰ Figure 7-7 illustrates the national program size over the last five years.

Figure 7-7. Rural Health Care Disbursements



Source: USAC 2013 Annual Report

¹⁵⁰ Ibid, ¶¶ 353-355. Pilot projects were able to start the competitive bidding process on April 1, 2013, and will be eligible to receive funding starting on July 1, 2013. For new applicants -- either current Telecommunications or Internet Access Program participants or health care providers new to the Rural Health Care programs -- the competitive bidding process will start in late summer 2013. New applicants will be eligible to receive funding starting on January 1, 2014.

Appendix A. List of Certificated CLECs as of 12/31/13

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

365 Wireless, LLC	BudgeTel Systems, Inc.
382 Networks, Inc.	BullsEye Telecom, Inc.
Access Communications, LLC.	Cable & Wireless Americas Operations, Inc.
Access Media 3, Inc.	Callis Communications, Inc.
Access One, Inc.	Cbeyond Communications, LLC
Access Point, Inc.	Centennial Florida Switch Corp.
ACN Communication Services, Inc.	CenturyLink Communications
Advanced Communications Southeast, Inc.	CenturyLink QCC
Aero Communications, LLC	Cincinnati Bell Any Distance Inc.
Affordable Phone Services, Inc.	Citrix Communications LLC
Airespring, Inc.	City of Bartow
ALEC, LLC	City of Daytona Beach
Alternative Phone, Inc.	City of Lakeland
American Telephone Company LLC	City of Leesburg
Americatel Corporation	City of Ocala
**AmTel	Clear Choice Communications
ANew Broadband, Inc.	Clear Rate Communications, Inc.
ANPI Business, LLC	Cogent Communications of Florida LHC, Inc.
**AstroTel, Inc.	Comcast Long Distance
A.SUR Net, Inc.	Comcast Phone of Florida, LLC d/b/a Comcast
AT&T Corp.	Digital Phone
AT&T Florida	Comity Communications, LLC
ATC Outdoor DAS, LLC	Communications Authority, Inc
Atlantic Broadband Enterprise (Miami), LLC	ComNet (USA) LLC
ATN, Inc.	Comtech21, LLC
Backbone Communications Inc.	Conterra Ultra Broadband, LLC
**BAIX Corporation	Convergia, Inc.
**Baldwin County Internet/DSSI Service,	CoreTel Florida, Inc.
L.L.C.	Cox Florida Telcom, L.P.
Bandwidth.com CLEC, LLC	Crexendo Business Solutions, Inc.
Barr Tell USA, Inc.	Crosstel Tandem, Inc.
BCN Telecom, Inc.	Crown Castle NG East Inc.
BeCruising Telecom	Custom Network Solutions, Inc.
BellSouth	Custom Tel, LLC
Benchmark Communications, LLC	Dais Communications
BetterWorld Telecom	Dedicated Fiber Systems, Inc.
Birch Communications, Inc.	Dialtone Telecom, LLC
Birch Telecom of the South, Inc.	Digital Express, Inc.
Bright House Networks Information Services	DIGITALIPVOICE, INC.
(Florida), LLC	dishNET Wireline L.L.C.
Broadband Dynamics, L.L.C.	DRS Training & Control Systems, LLC.
BroadRiver Communication Corporation	DSCI Corporation
Broadview Networks, Inc.	EarthLink Business
Broadvox-CLEC, LLC	EarthLink Business
Broadwing Communications, LLC	EarthLink Business
BT Communications Sales LLC	Easy Telephone Services Company
Budget Phone	Electronet Broadband Communications, Inc.

ENA Services, LLC	J C Telecommunication Co., LLC
ENGAGE COMMUNICATIONS	Keys Energy Services
Enhanced Communications Network, Inc.	Lake Wellington Professional Centre
Entelegent Solutions, Inc.	Latin American Nautilus U.S.A. Inc.
Ernest Communications, Inc.	Level 3 Communications, LLC
EveryCall Communications, Inc.	LightCore, a CenturyLink limited liability company
Excelacom Light, LLC.	Lightspeed CLEC, Inc.
Express Phone Service, Inc.	Lightyear Network Solutions, LLC
ExteNet Systems, Inc.	Linkup Telecom, Inc.
Fast Phones, Inc. of Alabama	Litestream Holdings, LLC
FiberLight, LLC	Local Access LLC
First Choice Technology, Inc.	Local Telecommunications Services - FL, LLC
First Communications, LLC	LTS of Rocky Mount, LLC
FLATEL, Inc.	Marco Island Cable, Inc.
Florida Hearing and Telephone	Maryland TeleCommunication Systems, Inc.
Florida Phone Systems, Inc.	Mass Communications
Florida Telephone Services, LLC	MCC Telephony of Florida, LLC
FPL Fibernet, LLC	McGraw Communications, Inc.
FPUAnet Communications	McLeodUSA Telecommunications Services, L.L.C.
France Telecom Corporate Solutions L.L.C.	MegaPath Corporation
**Freedom Communications USA LLC	MetTel
Frontier Communications of America, Inc.	Miami-Dade Broadband Coalition I LLC
Georgia Public Web, Inc.	**Micro-Comm, Inc.
Global Connection Inc. of America (of Georgia)	Mitel NetSolutions, Inc.
Global Crossing Local Services, Inc.	Mobilitie, LLC
Granite Telecommunications, LLC	Momentum Telecom, Inc.
Great America Networks, Inc.	MOSAIC NETWORKX LLC
GRU Communication Services/GRUCom/GRU	MULTIPHONE LATIN AMERICA, INC.
GRUCom	Nebula Telecommunications of Florida LLC
GTC Communications, Inc.	NET TALK.COM, INC.
Harbor Communications, LLC	Network Billing Systems, L.L.C.
Hayes E-Government Resources, Inc.	Network Innovations, Inc.
Home Town Telephone, LLC	Network Operator Services, Inc.
Hotwire Communications, Ltd.	Network Telephone Corporation
Hypercube Telecom, LLC	Neutral Tandem-Florida, LLC
IBC Telecom Corp.	New Horizons Communications Corp.
IDT America, Corp.	**NewPhone, Inc.
inContact, Inc.	Nexus Communications TSI, Inc.
iNetworks Group, Inc.	NMG Telecom, LLC
**Infotelecom, LLC	Norstar Telecommunications, LLC
IntelePeer, Inc.	North American Telecommunications Corporation
Inteltrace, Inc.	North County Communications Corporation
Intellicall Operator Services, Inc.	NOS Communications, Inc.
Intellifiber Networks, Inc.	O1 Communications East, LLC
InterGlobe Communications, Inc.	One Voice Communications, Inc.
InterMetro Fiber, LLC	**OneStar Long Distance, Inc.
Internet & Telephone, LLC	OneTone Telecom, Inc.
Intrado Communications Inc.	Onvoy Voice Services
IPC Network Services, Inc.	
ISN Telcom	
ITS Telecommunications Systems, Inc.	

Opextel LLC d/b/a Alodiga
 **Pac-West Telecomm, Inc.
 PAETEC Business Services
 PaeTec Communications, Inc.
 Peerless Network of Florida, LLC
 PeerTel Communication, LLC
 Phone Club Corporation
 Pioneer Telephone
 PowerNet Global Communications, Inc.
 Preferred Long Distance, Inc.
 **PrimeCast
 Primus Telecommunications, Inc.
 Public Wireless, Inc.
 QuantumShift Communications, Inc.
 RCLEC, Inc.
 Reliance Globalcom Services, Inc.
 ReTel Communications, Inc.
 Rightlink USA, Inc.
 Ring Connection, Inc.
 Rosebud Telephone, LLC
 Sage Telecom Communications, LLC
 Sago Broadband, LLC
 SanTel Communications
 **Semnac Technologies, LLC
 SH Services LLC
 Shands Teaching Hospital and Clinics, Inc.
 Signal Point Corp.
 **SKYNET360, LLC
 SmallCells Tower Company, LLC
 Smart City Communications
 Smart City Networks, Limited Partnership
 **SNC Communications, LLC
 Southeastern Services, Inc.
 Southern Light, LLC
 Southern Light, LLC
 Southern Telecom
 Sprint Communications Company Limited Partnership
 **StarVox Communications, Inc.
 Stratus Networks, Inc.
 Summit Broadband
 Sunesys, LLC
 Sun-Tel USA, Inc.
 T3 Communications, Inc.
 Talk America Inc.
 TCG South Florida
 TelCentris Communications, LLC
 Telco Experts, LLC
 TelCove Operations, LLC
 Tele Circuit Network Corporation
 TeleDias Communications, Inc.
 Telefonica Express
 Telepak Networks, Inc.
 Telovations Inc.
 Telrite Corporation
 Telscape Communications, Inc.
 Terra Nova Telecom, Inc.
 **Terra Telecommunications Corp.
 TerraNovaNet, Inc.
 The Other Phone Company, Inc.
 Time Warner Cable Business LLC
 TNCI Operating Company LLC
 Touch Base Communications
 Touchtone Communications Inc. of Delaware
 TQC Communications, Corp.
 **Trans National Communications International, Inc.
 Transparent Technology Services Corp.
 Tristar Communications Corp.
 tw telecom of florida l.p.
 U.S. Metropolitan Telecom, LLC
 **Unity III
 Unity Telecom, LLC
 Universal Local Exchange Carrier of Florida
 US Signal Company, L.L.C.
 US Telesis, Inc.
 Vanco US, LLC
 Velocity The Greatest Phone Company Ever
 Verizon Access Transmission Services
 Verizon Florida LLC
 Verizon Select Services Inc.
 Vitcom, LLC
 VoDa Networks, Inc.
 Voice Stream Network, Inc.
 VOX3COM
 Voxbeam Telecommunications Inc.
 Wholesale Carrier Services, Inc.
 Wide Voice, LLC
 WiMacTel, Inc.
 Windstream KDL, Inc.
 Windstream Norlight, Inc.
 Windstream NTI, Inc.
 Windstream NuVox, Inc.
 WonderLink Communications, LLC
 WOW! Internet, Cable and Phone
 WTI Communications, Inc.
 **www.netquincy.com
 XO Communications Services, LLC
 XYN Communications of Florida, LLC
 YMax Communications Corp.
 Zayo Group, LLC

Appendix B. Summary of Complaints Filed By Carriers (calendar year 2013)						
Carrier		Date Opened	Complaint or Docket Number	Description	Date Closed	Resolution
Qwest	CLECs	12/11/09	090538	Rate discrimination	9/30/13	No unlawful discrimination found
Nexus	AT&T	11/18/10	100434	Promotional credits	6/12/13	Resolved by parties
Terra Nova Telecom	AT&T	1/4/13	informal	Number porting problem	1/28/13	AT&T lifted PLC freeze
Terra Nova Telecom	AT&T	6/12/13	informal	Trunk group disconnection	6/26/13	AT&T reconnected the trunks
FLATEL	AT&T	12/10/13	140055	UNE line disconnection/promotional credits	open	Dismissed for lack of rule compliance by Commission

Glossary

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	<i>Competitive Local Exchange Company</i> . Any company certificated by the Florida Public Service Commission to provide local exchange telecommunications service in Florida on or after July 1, 1995.
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 300 Mbps and upload speed of 65 Mbps.
ICA	<i>Interconnection Agreement</i> . An interconnection agreement is a contract that establishes the rates, terms and conditions that govern the business relationship between telecommunications companies.
ILEC	<i>Incumbent Local Exchange Company</i> . 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 nonwireline 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.
Telecommunications Act of 1996 (the 1996 Act)	The federal Telecommunications Act of 1996 established a national framework to enable CLECs to enter the local telecommunications marketplace.
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	<i>Voice over Internet Protocol</i> . 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.