

STORAGE NAME: h0831s1z.uco
DATE: May 12, 1998

****FINAL ACTION****
****SEE FINAL ACTION STATUS SECTION****

**HOUSE OF REPRESENTATIVES
COMMITTEE ON
UTILITIES AND COMMUNICATIONS
FINAL BILL RESEARCH & ECONOMIC IMPACT STATEMENT**

BILL #: CS/HB 831
RELATING TO: Network Access Reduction
SPONSOR(S): Committee on Utilities and Communications and Reps. Clemons and Merchant
STATUTE(S) AFFECTED: s. 364.163
COMPANION BILL(S): Similar to SB 252

ORIGINATING COMMITTEE(S)/COMMITTEE(S) OF REFERENCE:

- (1) UTILITIES AND COMMUNICATIONS YEAS 15 NAYS 0
- (2) UTILITIES AND COMMUNICATIONS
- (3)
- (4)
- (5)

I. FINAL ACTION STATUS:

This bill was carried over from the 1997 Regular Session pending the consent calendar. It was referred to the House Committee on Utilities and Communications by the Economic Impact Council upon motion by Rep. Arnall. The bill died in the House Committee on Utilities and Communications.

II. SUMMARY:

Section 364.163, Florida Statutes, provides for network access. Under this section "network access" means any service provided by a local exchange telecommunications company to a telecommunications company certificated under chapter 364 or licensed by the Federal Communications Commission. Interexchange carrier (long distance) companies are charged rates to access the local exchange company's network. Any local exchange telecommunications company whose current intrastate switched access rates are higher than its interstate switched access rates in effect on December 31, 1994, is required to reduce its intrastate switched access rates by 5 percent each year beginning October 1, 1996.

This bill would require any local exchange company with a certain number of local access lines in service on January 1, 1997 to reduce its intrastate switched access rates by an additional 5 percent on February 1, 1998 and February 1, 1999. This would affect Sprint-Florida. It would require any local exchange company with a certain number of local access lines in service on January 1, 1997 to reduce its intrastate switched access rates by an additional 5 percent on February 1, 1998, June 1, 1998, and February 1, 1999. This would affect GTE-Florida.

This bill would require the long distance companies to decrease their rates and return the benefits to the customers and would require the PSC ensure the reductions benefit all customers. It would allow a local exchange company to petition the PSC for relief from rate reductions if it can show it can no longer afford to provide universal service. It would provide that any reductions are not considered changed circumstances so that the local exchange companies can raise their local rates.

This bill would cause a reduction in the amount charged to long distance companies for access to a local exchange company's network and revenue estimated at \$34.7 million over current law. It is estimated that the bill would also reduce the amount of taxes collected on the access charges for the sales and use tax, the gross receipts tax and the public service tax for a total of (\$1.8) million in FY 1997-98 and (\$1.1) million in FY 1998-99.

III. SUBSTANTIVE RESEARCH:

A. PRESENT SITUATION:

Section 364.163, Florida Statutes, provides for network access. Under this section "network access" means any service provided by a local exchange telecommunications company to a telecommunications company certificated under chapter 364 or licensed by the Federal Communications Commission. It does not include local interconnection arrangements, provided in section 364.16, Florida Statutes, or the resale arrangements provided in section 364.161, Florida Statutes. A local exchange telecommunications company is defined by section 364.02(6), Florida Statutes, as "any company certificated by the [Public Service Commission] to provide local exchange telecommunications service in this state before June 30, 1995."

Basic local telecommunications service is defined by section 364.02(2), Florida Statutes, as:

voice-grade, flat-rate residential, and flat-rate single-line business local exchange services which provide dial tone, local usage necessary to place unlimited calls within a local exchange area, dual tone multifrequency dialing, and access to the following: emergency services such as "911," all locally available interexchange companies, directory assistance, operator services, relay services, and an alphabetical directory listing. For a local exchange telecommunications company, such term shall include any extended area service routes, and extended calling service in existence or ordered by the commission on or before July 1, 1995.

There are currently 12 local exchange companies operating in Florida. They are: ALLTEL Florida, Inc., BellSouth Telecommunications, Inc., The Florida Telephone Company, Inc., Frontier Communications of the South, Inc., GTE Florida Incorporated, Gulf Telephone Company, Indiantown Telephone System, Inc., Northeast Florida Telephone Company, Inc., Quincy Telephone Company, St. Joseph Telephone & Telegraph Company, Sprint-Florida Incorporated, and Vista-United Telecommunications.

Basic local telecommunication service is subject to price regulation to the extent provided in section 364.051, Florida Statutes. Section 364.051(1)(c), Florida Statutes, allows local exchange companies to choose "price regulation" instead of "rate base/rate of return" regulation along with the requirements of several sections dealing with rates and revenues. The rates for basic local telecommunications service are capped for local exchange companies that choose price regulation under this section. The rates are capped at the rates in effect on July 1, 1995 and they cannot be increased before January 1, 1999. The rates for BellSouth cannot be increased before January 1, 2001.

Subsection (5) of section 364.051, Florida Statutes, allows any local exchange telecommunications company that believes circumstances have changed substantially enough to justify a rate increase to petition the PSC for an increase. The PSC can grant the petition only after an opportunity for a hearing and a compelling showing of changed circumstances.

Switched access rates refer to the charges for network access that are paid by providers of long distance telephone service to the local exchange companies for connection to

their network and facilities. The charges are for originating a call and terminating a call for both intrastate and interstate calls. The Federal Communications Commission has jurisdiction over interstate telecommunication services and the Florida Public Service Commission has jurisdiction over intrastate telecommunication services.

Access Lines

The following is the number of access lines for the Florida local exchange companies as of December 1995:

BellSouth	5,384,687	Quincy	12,464	Indiantown	3,265
GTE	2,016,976	Vista-United	11,846	Floral	2,079
Sprint	1,710,409	Gulf	8,654		
ALLTEL	68,638	NE Florida	7,144		
St. Joseph	27,024	Frontier	3,761		

Subsection (1) of section 364.163, Florida Statutes, provides that the rates for network access services for each local exchange company shall be capped at the rates in effect on July 1, 1995 and shall remain capped until January 1, 1999. Upon the date of filing its election under this section (for price regulation under section 364.051, Florida Statutes, rather than rate regulation), the access rates are capped at the rates in effect on that date and remain capped for three years. According to the Public Service Commission, all local exchange companies except Quincy, ALLTEL, Northeast Florida, and Floral have elected price regulation.

Subsection (6) of section 364.163, Florida Statutes, provides that any local exchange telecommunications company whose current intrastate switched access rates are higher than its interstate switched access rates in effect on December 31, 1994, shall reduce its intrastate switched access rates by 5 percent each year beginning October 1, 1996. A local exchange telecommunications company will be relieved of this requirement if it reduces its rates by a greater percentage by the relevant dates or earlier. The reductions are made pursuant to the Public Service Commission Order No. PSC 94-0172-FOF-TL. This order provided, among other things, that BellSouth reduce its access rates.

Subsection (7) of that section provides that the reductions for switched access rates shall become effective on October 1 of each relevant year. It also provides that any telecommunications company whose rates are reduced must decrease its customer long distance rates by the amount necessary to return the benefits of the reduction to its customers.

Access Charges

Seven local exchange telecommunications companies are at parity between their current intrastate access rates and the December 31, 1994 interstate rates. These rates are the combined rates for originating and terminating an intrastate telephone call. Those companies that are at parity are:

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BellSouth -- current rate=\$.0489: December 31, 1994 rate=\$.0583

Floralta -- current rate=\$.1522: December 31, 1994 rate=\$.1687

Gulf -- current rate=\$.1214: December 31, 1994 rate=\$.1681

Indiantown -- current rate=\$.1138: December 31, 1994 rate=\$.1328

Northeast Florida -- current rate=\$.1136: December 31, 1994 rate=\$.1268

Quincy -- current rate=\$.1341: December 31, 1994 rate=\$.1662

St. Joseph -- current rate=\$.1306: December 31, 1994 rate=\$.1728

The following companies are not at parity:

GTE -- current rate=\$.1208: December 31, 1994 rate=\$.0597

Sprint --

(Centel) current rate=\$.1436: December 31, 1994 rate=\$.0578

(United) current rate=\$.1214: December 31, 1994 rate=\$.0690

Vista-United -- current rate=\$.1594: December 31, 1994 rate=\$.1298

ALLTEL -- current rate=\$.1183: December 31, 1994 rate=\$.0902

Frontier -- current rate=\$.1076: December 31, 1994 rate=\$.1010

B. EFFECT OF PROPOSED CHANGES:

The bill would maintain current law for the reductions in access charges at 5% every October 1. However, it would require a local exchange company with more than 100,000 and less than 3 million access lines to reduce its access charges by an additional 5% on February 1, 1998 and February 1, 1999. (This would affect Sprint-Florida.) It would also require a local exchange company with more than 1.85 million and less than 3 million access lines to reduce its access charges by an additional 5% on February 1, 1998, June 1, 1998, and February 1, 1999. (This would affect GTE-Florida.)

It would provide that access fee reductions pursuant to this section shall not be deemed substantially changed circumstances for the purposes of section 364.051(5), Florida Statutes. This section allows a local exchange company to petition the PSC for a rate increase if it believes that circumstances have changed substantially to justify a rate increase.

It would require that the reductions in access charges be passed on to the customers to reduce the customer's long distance rates by the amount necessary to return the benefits of the reduction to the customers. It would require the Public Service Commission (PSC) to ensure the reductions benefit all customers who make intrastate

long distance calls unless the PSC determines it is not in the public interest. The PSC would have continuing regulatory oversight of customer long distance rate reductions.

Finally, the bill would provide that, if a local exchange company believes they can no longer afford to provide universal service they may petition the PSC for relief from rate reductions required by this subsection.

C. APPLICATION OF PRINCIPLES:

1. Less Government:

a. Does the bill create, increase or reduce, either directly or indirectly:

(1) any authority to make rules or adjudicate disputes?

No

(2) any new responsibilities, obligations or work for other governmental or private organizations or individuals?

No

(3) any entitlement to a government service or benefit?

No

b. If an agency or program is eliminated or reduced:

(1) what responsibilities, costs and powers are passed on to another program, agency, level of government, or private entity?

N/A

(2) what is the cost of such responsibility at the new level/agency?

N/A

(3) how is the new agency accountable to the people governed?

N/A

2. Lower Taxes:

- a. Does the bill increase anyone's taxes?

N/A

- b. Does the bill require or authorize an increase in any fees?

N/A

- c. Does the bill reduce total taxes, both rates and revenues?

This bill would reduce tax revenue collected levied against access charges.

- d. Does the bill reduce total fees, both rates and revenues?

N/A

- e. Does the bill authorize any fee or tax increase by any local government?

N/A

3. Personal Responsibility:

- a. Does the bill reduce or eliminate an entitlement to government services or subsidy?

N/A

- b. Do the beneficiaries of the legislation directly pay any portion of the cost of implementation and operation?

N/A

4. Individual Freedom:

- a. Does the bill increase the allowable options of individuals or private organizations/associations to conduct their own affairs?

N/A

- b. Does the bill prohibit, or create new government interference with, any presently lawful activity?

N/A

5. Family Empowerment:

a. If the bill purports to provide services to families or children:

(1) Who evaluates the family's needs?

N/A

(2) Who makes the decisions?

N/A

(3) Are private alternatives permitted?

N/A

(4) Are families required to participate in a program?

N/A

(5) Are families penalized for not participating in a program?

N/A

b. Does the bill directly affect the legal rights and obligations between family members?

N/A

c. If the bill creates or changes a program providing services to families or children, in which of the following does the bill vest control of the program, either through direct participation or appointment authority:

(1) parents and guardians?

N/A

(2) service providers?

N/A

(3) government employees/agencies?

N/A

D. SECTION-BY-SECTION RESEARCH:

Please see "Effect of Proposed Changes" section above.

IV. FISCAL RESEARCH & ECONOMIC IMPACT STATEMENT:

A. FISCAL IMPACT ON STATE AGENCIES/STATE FUNDS:

1. Non-recurring Effects:

None.

2. Recurring Effects:

This bill would require additional reduction in access charges over the next two years. This would reduce the amount of tax collected and remitted to the state for sales tax and gross receipts tax. Business telecommunication services, which include access charges, are subject to the sales and use tax under section 212.05(1)(e), Florida Statutes, and are taxed at 7%. Both residential and business telecommunication services are subject to the state gross receipts tax under section 203.01(1)(b), Florida Statutes, and are taxed at 2.5% of the gross revenues.

<u>Revenues</u>	<u>1997-98</u>	<u>1998-99</u>
Sales Tax		(\$0.8)M
Gross Receipts Tax		(\$0.5)M

3. Long Run Effects Other Than Normal Growth:

None.

4. Total Revenues and Expenditures:

<u>Revenues</u>	<u>1997-98</u>	<u>1998-99</u>
Total		(\$1.3)M

B. FISCAL IMPACT ON LOCAL GOVERNMENTS AS A WHOLE:

1. Non-recurring Effects:

None.

2. Recurring Effects:

This bill would reduce the amount of tax received by local governments under the local option sales and use tax under chapter 212, Florida Statutes, and the public service tax under section 166.231, Florida Statutes.

<u>Revenues</u>	<u>1997-98</u>	<u>1998-99</u>
Public Service Tax (MUT)		(\$0.5)M

3. Long Run Effects Other Than Normal Growth:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

1. Direct Private Sector Costs:

The Public Service Commission estimates that the impact on the three largest local exchange companies for a 1 percent reduction in switched access charges would be:

BellSouth	\$2,072,800
GTE	\$1,463,062
Sprint	\$1,802,450

It is estimated that the access charge reductions for GTE would be an additional \$13.5 million in FY 1997-98 and \$5.4 million in FY 1998-99 over the current required reductions. It is estimated that the access charge reductions for Sprint would be an additional \$8.6 million in FY 1997-98 and \$7.2 million in FY 1998-99. BellSouth would not be required to reduce its access charges further under this bill.

2. Direct Private Sector Benefits:

This bill would require that interexchange (long distance) companies that have a reduction in their switched access rate "shall decrease its customer long distance rates by the amount necessary to return the benefits of such reduction to its customers." It would also provide that the PSC shall ensure that the reductions benefit all customers who make intrastate long distance calls.

3. Effects on Competition, Private Enterprise and Employment Markets:

Indeterminate at this time.

D. FISCAL COMMENTS:

The sales tax estimates assumes that the fifty percent business calls and fifty percent residential calls. Residential calls are exempt from sales tax. The public service tax assumes that 36 percent of the calls were generated from municipalities and charter counties levying the tax. The total reduction in tax is (\$1.8) million in FY 1997-98 and (\$1.1) million in FY 1998-99.

V. CONSEQUENCES OF ARTICLE VII, SECTION 18 OF THE FLORIDA CONSTITUTION:

A. APPLICABILITY OF THE MANDATES PROVISION:

This bill does not require counties or municipalities to spend funds or to take an action requiring the expenditure of funds.

B. REDUCTION OF REVENUE RAISING AUTHORITY:

This bill does not reduce the authority that municipalities or counties have to raise revenues in the aggregate.

C. REDUCTION OF STATE TAX SHARED WITH COUNTIES AND MUNICIPALITIES:

This bill does not reduce the percentage of a state tax shared with counties or municipalities.

VI. COMMENTS:

None.

VII. AMENDMENTS OR COMMITTEE SUBSTITUTE CHANGES:

N/A.

VIII. SIGNATURES:

COMMITTEE ON UTILITIES AND COMMUNICATIONS:

Prepared by:

Legislative Research Director:

Patrick L. "Booter" Imhof

Patrick L "Booter" Imhof

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**FINAL RESEARCH PREPARED BY COMMITTEE ON UTILITIES AND
COMMUNICATIONS:**

Prepared by:

Legislative Research Director:

Patrick L. "Booter" Imhof

Patrick L "Booter" Imhof