



California Public Utilities Commission
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FOR IMMEDIATE RELEASE

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PRESS RELEASE

Docket #: R.06-06-028

**CPUC PROTECTS CONSUMERS BY ORDERING CONTINUED PRICE
CAPS FOR TWO YEARS WHILE PROMOTING
BASIC TELEPHONE SERVICE COMPETITION**

SAN FRANCISCO, September 18, 2008 - The California Public Utilities Commission (CPUC) today unanimously approved an extension to the rate caps on basic telephone service for two more years until December 31, 2010. In extending the rate cap, the CPUC will permit a phase-in of rate adjustments of a maximum of \$3.25 a year for basic telephone service beginning January 1, 2009, in order to encourage a viable competitive telephone industry while preserving affordability for consumers.

The rate adjustment authority approved today is directed to the four major incumbent local exchange carriers (ILECs) in California who have operated under existing rate restrictions for the past decade. The four ILECs are AT&T, Frontier, SureWest, and Verizon. Some of the ILEC basic rates have not been changed since 1995. California's basic rate is the lowest in the nation.

In 2006, after careful review of the changing telecommunications market, the CPUC determined that the market was highly competitive and that the price cap regime should be ended in favor of allowing market forces to set prices. In addition, the Legislature in the Digital Infrastructure and Video Competition Act of 2006 (DIVCA) restricted basic rate increases through the end of 2008. Current CPUC rate restrictions are scheduled to expire January 1, 2009, at which time basic rates would have been completely deregulated.

Today's decision continues a rate cap for two additional years and thus protects consumers from sudden high rate increases, while allowing flexibility for the four ILECs to meet current market



conditions. ILECs may not increase basic flat rate service more than \$3.25, effective January 1, 2009, and up to another \$3.25, effective January 1, 2010. Each yearly rate increase is at the discretion of the service provider as they evaluate the competitive marketplace, and may vary but may not exceed the revised rate caps established by the CPUC. The affected carriers are now free to raise or lower their rates as long as their rate remains below the cap.

Today's ruling also takes into account California LifeLine, a program that brings local telephone service at affordable rates to low income consumers. LifeLine customers will see no more than a \$0.81 increase per year from their carriers, while other providers of LifeLine will also be limited in their increases. The CPUC also asked for any additional input in its review of this program in the Universal Service, Public Purpose Programs (PPP) Rulemaking (R.) 06-05-028 by October 1, 2008. This LifeLine limited increase is an interim action until the CPUC acts on LifeLine issues in the currently pending Universal Service PPP Rulemaking docket by year's end.

Rates have remained relatively unchanged since the mid 1990s due to CPUC oversight. According to the Federal Communications Commission, monthly rates for AT&T customers in California are the lowest in the nation and more than \$8 per month lower than the nationwide average. Assuming that AT&T increased its basic rate up to the full amounts authorized in today's decision, their basic rate would still be lower than the national average and lower than the current rate of Verizon in California. The rate increase tracks inflation since 1995.

“This Commission struggled long and hard to find a fair balance between ending a decades long price freeze on one phone market player that hinders true competition, and ensuring that consumers do not experience ‘rate shock’ with a huge phone bill increase,” commented Commissioner Rachelle Chong, the assigned Commissioner. “With competition from cable companies, wireless phone companies, and Internet Protocol telephone providers, the phone companies face stiff competition. They need the flexibility to set their rates where their competitors do.”

Added Commissioner Dian M. Grueneich, “Today's Decision, continues to protect those California telephone consumers most vulnerable to monthly rate increases – those with limited or fixed incomes. This decision ensures that any increases to their monthly telephone rates are limited. Additionally, the CPUC has put a safety measure in place, a statewide affordability study, to monitor the effects of the increases to the basic rate cap as well as our anticipated LifeLine reforms.”



Commissioner John Bohn commented, “The nature of affordability needs to be carefully studied. I think our commitment to develop a study is a key part of today’s result.”

Commissioner Timothy Alan Simon said, “This is in the continuum of positive steps this Commission has taken in support of local market competition. I want to commend TURN for their healthy activism in this proceeding but firmly agree that the regulatory certainty provided in today’s Decision benefits California consumers, investors, and providers of telecommunication service.”

For more information on communications issues, please visit www.CalPhoneInfo.com.

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