

REPORT TO THE LEGISLATURE
ON
UNIVERSAL TELEPHONE SERVICE TO RESIDENTIAL
CUSTOMERS

In Accordance with California Public Utilities Code Section 873

Submitted to the California State Legislature

CALIFORNIA PUBLIC UTILITIES COMMISSION

Respectfully submitted

May 2, 2003

I INTRODUCTION

A. PURPOSE OF REPORT

The California Public Utilities Commission (CPUC) has prepared this report for the California Legislature regarding universal telephone service to residential customers in response to Public Utilities Code Section 873. This report, which was prepared by the CPUC's Telecommunication Division (TD) staff, assesses the degree of achievement of universal service, including telephone penetration rates by income, ethnicity, and geography pursuant to the requirements in this statute.

B. UNIVERSAL TELEPHONE SERVICE: OVERVIEW

As discussed in Public Utilities Code Section 871.5, universal telephone service is a concept that high quality basic telephone service be affordable and ubiquitously available to all members of society. It is a longstanding cornerstone of the California Legislature and the California Public Utilities Commission telecommunications policy. In response to this policy commitment and in compliance with this statute, the CPUC in 1985 created the Universal Lifeline Telephone Service Program (ULTS).

The ULTS Program provides discounted basic residential telephone services to low-income households and operates a competitively neutral marketing program. For eligibility purposes, low-income households are defined as the members of the customer's household collectively earning no more than the following amount of annual income:

Household Size	ULTS Annual Income Limits (6/1/02 through 5/31/03)	ULTS Annual Income Limits (6/1/03 through 5/31/04)
1-2 members	\$19,300	\$19,600
3 members	\$22,800	\$23,200
4 members	\$27,400	\$27,800

Each additional member	\$4,600	\$4,600
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Discounted residential telephone services available to ULTS customers include but are not limited to the following:

Service	Description	Rate
Flat-Rate Local Telephone Service	Unlimited local calls and 3 directory assistance calls.	Monthly recurring: The lower of \$5.34 or 1/2 of utility's residential flat-rate local telephone service.
Subscriber Line Charge	A monthly charge to phone customers created by the FCC & paid to the local phone company	SBC's charge is \$4.48/mo. Verizon's charge is \$6.00/mo. ULTS customers' line charges are 100% subsidized by federal or state programs. ¹
Measured Local Telephone Service	60 local calls per month and \$0.08 per call after 60, and 3 directory assistance calls.	Monthly recurring: The lower of \$2.85 or 1/2 of utility's residential measured local telephone service.
Service Connection and Service Conversion	For initiation of telephone service, or change of class/type/grade of service.	Non-recurring: The lower of \$10 or 1/2 of utility's connection/conversion charge for residential telephone service.

The ULTS Program is funded by an all-end-user surcharge assessed on consumers' bills for intrastate telecommunications services. For the calendar year 2002, the collected surcharge revenues totaled approximately \$285.2 million. The number of residential customers participating in the ULTS program remained fairly constant at about 3.3 million. Thirty carriers provide ULTS service to California customers.

¹ SBC and Verizon and other incumbent local exchange carriers' fees are paid through a federal program. Competitive local exchange carriers' fees are paid through the California ULTS program.

In addition to the ULTS program, one other universal service related program merits mention. Under a federally sponsored program, eligible Native Americans residing on tribal lands receive basic telephone service for \$1.00 per month.

II TELEPHONE SUBSCRIBERSHIP IN CALIFORNIA

A. CALIFORNIA HAS RELATIVELY STRONG TELEPHONE PENETRATION RATES

The most widely used measure of telephone subscribership is the percentage of households with telephone service, which provides a measure of telephone usage or penetration. The Federal Communications Commission (FCC), using data from the Current Population Survey conducted by the Census Bureau, has maintained quarterly data on subscribership rates since 1983. This FCC data is useful as it can be used to compare penetration rates over time, judge the effectiveness of our Lifeline Program, and determine how California is progressing in relation to other states.

As of November 2001², the telephone subscribership penetration rate for all households in the United States was 94.9%. By state, the penetration rates ranged from a low of 90.9% in Arkansas to a high of 98.8% in New Hampshire. Among all states, California ranked eighth with a penetration rate of 96.6% as of November 2001. The following Table lists the top ten states with the highest penetration rates.

² November 2001 is the most recent data available from the FCC.

Table 1.

Top Ten States with Highest Penetration Rates

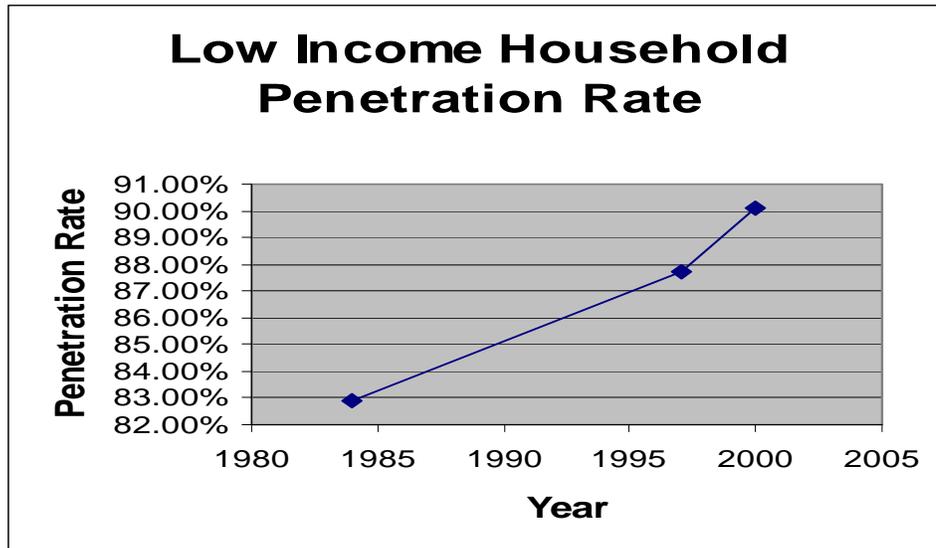
STATE	PENETRATION RATE FOR ALL HOUSEHOLDS
1. New Hampshire	98.3%
2. Maine	97.8%
3. Minnesota	97.5%
4. Vermont	97.2%
5. Iowa	97.1%
6. Pennsylvania	97.0%
7. Colorado	96.7%
8. California	96.6%
9. Nebraska	96.6%
10. Utah	96.6%

B. PENETRATION RATES FOR LOW-INCOME HOUSEHOLDS HIGHER SINCE LIFELINE ASSISTANCE PROGRAM INTRODUCED

California's penetration rate for low-income households is also faring well In March 1984, prior to the implementation of lifeline assistance, California's penetration³ rate for *Low-Income Households*³ was 82.9%. In March 1997 the penetration rate for low-income households had increased to 87.7%, and by March 2000 stood at 90.1%. While there is still a disparity between low-income

³ Households with income under \$10,000 expressed in March 1984 dollars. The equivalent amount in 2001 dollars is \$17,183. All data in this section are from FCC statistics compiled by the Current Population Survey by the Census Bureau.

households and all households, the gap is lessening. By comparison, the 2000 national average for low-income households stood at 87%, so again California with a 90.1% subscribership rate ranked higher.



III TELEPHONE PENETRATION DATA BY INCOME, ETHNICITY, AND GEOGRAPHY

A. DOMINANT ILECs HAVE OVERALL PENETRATION RATES OF 96.4%

As of June 2000, twenty-two incumbent local exchange carriers (ILECs)⁴ were providing 95% of the access lines⁵ to California residential customers.

Competitive local exchange carriers were holding the remaining 5% of the residential market. The two dominant ILECs, SBC (formerly Pacific Bell) and Verizon California, held about 90% of all residential access lines.

⁴ Incumbent Local Exchange Carrier. The traditional wireline telephone service providers within defined geographical areas. Prior to 1996, ILECs operated as monopolies having the exclusive right and responsibility for providing local and local toll telephone service within LATAs. ILECs include regional Bell operating companies such as Pacific Bell/SBC and non-Bell affiliated companies such as Roseville Telephone Company, both in California.

⁵ An access line is a telephone line reaching from the telephone company central office to a customer's premises, which in this case is a residential dwelling unit.

In October 2002, the CPUC's TD staff sent data requests to all twenty-two ILECs requesting specific information regarding telephone penetration rates for their service territories, including penetration rates by income, ethnicity, and geography. Nineteen ILECs responded to the data request. SBC and Verizon California, representing about 90% of the residential market for access lines, were able to provide significant data. Since 1994, they have been required by the CPUC to track such data (per Decision 94-09-065). The remaining seventeen carriers reported that they do not track customer information by income, ethnicity, and geography.

The overall penetration rate in SBC Pacific Bell's California service territory is 96.4% for 2001. For Verizon California, the overall penetration rate is also 96.4%.

Tables 2, 3, and 4 below show the carriers' estimated⁶ penetration rates assessed by Household Income Level, Ethnicity/Race, and Geographical Area.

B. HOUSEHOLD INCOME LEVELS INFLUENCE PENETRATION RATES

Table 2.

Estimated 2000 Penetration rates of SBC and Verizon by Household Income Level

HOUSEHOLD INCOME LEVEL	SBC PENETRATION RATE	VERIZON PENETRATION RATE
\$ 0 - \$9,999	87.6 %	84.7%
\$10,000 - \$19,999	95.7%	95.5%
\$20,000 - \$29,999	97.4%	97.0%
\$30,000 - \$39,999	97.9%	98.5%
\$40,000 – over	98.7%	98.8%

In reviewing Table 2, it becomes clear that for both SBC and Verizon, the very low-income households, those earning less than \$10,000 annually, are well below the state average. SBC's estimated penetration rate for households under \$10,000 is 87.6%; Verizon's estimated penetration rate is 84.7%. Both SBC and Verizon estimate their statewide penetration rate at 96.4%. The statewide average, as reported by the FCC, is 96.6%. For households with income in the \$10,000-\$19,999 range, SBC estimates a penetration rate of 95.7%; Verizon estimates a penetration rate of 95.5%. This is about one percentage point below the statewide average. Households with incomes over \$20,000 exceed the statewide averages. A comparison of the penetration rates for both carriers shows over a 10% difference between the lowest and highest household income level.

C. SOME VARIANCES NOTED IN PENETRATION RATES BY ETHNICITY/RACE

Table 3.

Estimated 2000 Penetration rates of SBC and Verizon by Ethnicity/Race

ETHNICITY/RACE	SBC PENETRATION RATE	VERIZON PENETRATION RATE
African-American	93.7%	92.7%
Asian-American	97.4%	97.1%
Hispanic	93.7%	96.1%
White / Other	96.5%	96.7%

In reviewing Table 3, both SBC's and Verizon's estimated penetration rates for African-Americans rank below their statewide average of 96.4%. Although SBC's estimated penetration rate of 93.7% for Hispanics also falls below their statewide average, Verizon's estimated penetration rate of 96.1% for Hispanics is only

⁶ This data is derived from *Affordability of Telephone Service: 2000 Customer Survey*, conducted for Verizon (GTE) and Pacific Bell by Field Research Corporation. It is a statistically valid *estimate*, as the entire customer base was not surveyed.

slightly below their statewide average of 96.4%. Both carriers' estimated penetration rates for Asian-Americans and White/Other are at or above their statewide averages. While there is a variance noted, the penetration rates differ by no more than 4% among the above four ethnicity/race categories.

Comparing California penetration rates with the national data reported by the FCC yields some interesting comparisons. Nationally, households headed by Whites had a penetration rate of 95.3%, while those headed by Blacks had a rate of 89.5% and those headed by Hispanics had a rate of 91.7%. These trends echo the California findings, although again California exhibits somewhat higher rates than the national averages. The FCC does not track demographic information about Asian Americans.

D. PENETRATION RATES ARE NEAR OR ABOVE 95% REGARDLESS OF GEOGRAPHIC AREA

Table 4.

Estimated 2000 Penetration rates of SBC and Verizon by Geographical Area

GEOGRAPHICAL AREA	SBC PENETRATION RATE	VERIZON PENETRATION RATE
Northern California ⁷	95.3%	94.8%
Southern Central Valley, Central Coast, and Rural Areas ^{8 9}	96.2%	96.4%
Greater Los Angeles Metro Area ¹⁰	96.4%	N/A
Greater San Francisco Bay Area^{11 12}	96.5%	94.9%

⁷

For SBC, Northern California is defined as Butte, El Dorado, Placer, Sacramento, San Joaquin, Stanislaus, Sutter, Yolo, and Yuba Counties.

⁸ For SBC, this category represents Fresno, Kern, Monterey, and Tulare Counties, plus a selected sample from all other rural counties.

⁹ For Verizon, the Central Valley includes primarily Bakersfield and small communities along the Eastern Sierras.

¹⁰ For SBC, this category encompasses Los Angeles, Orange, Riverside, San Bernardino, and Ventura Counties

Greater San Diego Area ¹³	98.3%	N/A
Southern California ¹⁴	N/A	95.7%
Inland Empire ¹⁵	N/A	99.9%

Table 4 shows some variances in penetration rates by geographic areas, but does not present any glaring anomalies in terms of geographic disparity among different regions throughout the state. Each geographic area shows a penetration rate near or above 95%. It is noteworthy that in SBC's territory, the Greater San Diego Area has a significantly higher penetration rate than the statewide average. Similarly, in Verizon's territory, The Inland Empire has a significantly higher penetration rate of 99.9%.

IV CONCLUSION

California has made significant strides in achieving its universal telephone service goals since implementation of its Lifeline Program in 1985. We currently have a statewide penetration rate of 96.4%, which compares favorably to the national average of 94.9%. Prior to the implementation of lifeline assistance, California's penetration rate for *low-income households* stood at 82.9%. By March 2000 it had reached 90.1%, as compared to the national average of 87%. While the increases are impressive, more remains to be done. The very low-income households in the state are still woefully below the statewide averages. Both African-American and Hispanic households are below statewide averages, revealing a racial/ethnic disparity requiring further efforts.

¹¹ In the Bay Area Verizon serves some customers in the Novato and Los Gatos areas.

¹² For SBC, this includes San Francisco, Marin, San Mateo, Santa Clara, Santa Cruz, Alameda, Contra Costa, Napa, Sonoma, and Solano Counties.

¹³ For SBC, this represents San Diego County.

¹⁴ For Verizon, their service territory is primarily located in Southern California in coastal communities and the inland valleys. This includes several communities in the county of Los Angeles such as the San Gabriel Valley, and in counties that surround Los Angeles such as Ventura County, Orange and Kern County.

¹⁵ For Verizon, the Inland Empire includes communities extending from San Bernardino out through Palm Springs to the Arizona border as well as the communities of Hemet and Tumecula.

The two major residential service providers in the state, SBC Pacific Bell and Verizon California, have established 98% as their goal for penetration rates throughout their service territories. The CPUC is working to achieve that level of penetration throughout the state.

REFERENCES USED IN REPORT PREPARATION

References used to compile this information include the following sources:

- *Trends in Telephone Service*, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission. August 2001.
- *Telephone Subscribership in the United States (Data Through March 2001)*, by Alexander Belinfante, Industry Analysis Division, Common Carrier Bureau, Federal Communications Commission. November 2001.
- *Telephone Subscribership in the United States (Data Through November 2001)*, by Alexander Belinfante, Industry Analysis and Technology Division, Wireline Competition Bureau, Federal Communications Commission. May 2002.
- *Affordability of Telephone Service Volumes 1 and 2*, conducted for Verizon (GTE) and Pacific Bell by Field Research Corporation, 2000-2001.
- Responses to “Data Request Regarding Universal Service in Your Service Territory” sent to 22 Telephone Carriers in California by the CPUC Telecommunications Division On October 22, 2002.

Each of the above references addresses some aspect of telephone penetration information related to income, ethnicity, or geography. When viewed individually, they represent a patchwork of information but when viewed together, they form a telling picture of telephone subscribership in California and the nation.