



**TESTIMONY OF
EARL GOLDHAMMER
ON BEHALF OF
AARP OHIO
REGARDING HB 276
BEFORE THE PUBLIC UTILITIES COMMITTEE
OF THE
OHIO HOUSE OF REPRESENTATIVES
NOVEMBER 10, 2009**

Good afternoon Chairman DeGeeter, Ranking Member Bacon and members of the Committee. My name is Earl Goldhammer, and I am an Advocacy Volunteer for AARP Ohio. AARP appreciates this opportunity to testify on House Bill 276, deregulating basic telephone service rates, terms and conditions in Ohio. AARP is a member of Ohioans Protecting Telephone Consumers, an alliance of consumer, legal and low-income advocates who are united in seeking changes to House Bill 276.

Advocacy Volunteers like myself help explain and promote issues that AARP supports. I have volunteered for AARP Ohio for nearly five years. The purpose of my testimony today is to ask you to preserve the current laws that protect consumers of basic telephone service, to prevent rate hikes without regulatory oversight, and to insure that customers of basic service will benefit from any further deregulation of telephone companies.

Seniors, who make up half of the 1.5 million AARP members in Ohio, often depend on land-line telephone service to communicate with the outside world. They need this service in case of emergency, to communicate with family and friends, and to call the doctor and other medical providers. Their telephone is a necessity, not a luxury.

HB 276 as it is presently written would eliminate some consumer protections that are now in the law, would allow the telephone companies to raise rates without PUCO approval, and would not require the companies to modernize service with additional revenue that they would get from proposed law changes in HB 276.

One good example of a change proposed in HB 276 that would adversely impact seniors is the change that would increase the time telephone companies have to fix a line that breaks down from 24 hours to 72 hours. This means that if HB 276 were the law, a consumer could wait for three days to get his or her telephone service back after an outage. For an older person who may need medical assistance or another type of help, this increase in outage time could be devastating. We shouldn't make life harder and riskier for older people.

Also under the bill telephone companies could increase basic rates by \$1.25 per month each year from now forward without any regulatory approval. An additional \$1.25 per month may not

seem much to some people, but literally every penny counts to seniors who are living on Social Security or other minimal fixed incomes. Remember, they must pay for increasingly expensive prescription drugs and medical costs as well as basic necessities such as rent and food.

Seniors have been used to using land-line telephone service all their lives, and it has been my experience that most of them continue to use land-line telephone service for most of their telephone communication. This is in contrast to the younger and more affluent crowd, which has become accustomed to relying on their Blackberrys, I-Phones, or similar devices for instant communication of all varieties.

On most Tuesday afternoons I attend a current events discussion group at the Upper Arlington Senior Center, the community where I live. During our two-hour sessions, I have yet to hear a cell phone ring interrupt the program or have yet to see anyone producing a cell phone from their pocket or purse. The seniors who are part of the discussion group may have a cell phone for occasional use or for an emergency outside of their homes, but basic land-line telephones are what they rely on most.

On behalf of AARP Ohio I am asking you not to pass HB 276 in its present form. Please make sure any deregulatory telephone legislation retains consumer protections that we now have in the law, prevents additional costs being placed on the consumer without regulatory approval, and provides benefits to consumers in proportion to the benefits given to the telephone companies.

Thank you for your attention, and I will try to answer any questions you may have.

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ATTACHMENTS

Regulatory Issues And Market Structure

Telephone communication is a basic necessity, allowing older people to maintain social contact, preserve health and safety, and gain assistance in an emergency. In fact people age 65 and older are more likely than any other age group to have traditional landline telephone service. This higher market penetration rate exists even though older households spend 4.1 percent of their income, or about twice as much as younger households (1.9 percent), just to use the average amount of telephone service. Nonetheless 10 percent of low-income older households and 12 percent of all households with annual incomes below \$10,000 do not have telephone service. Overall about 5 percent of US households do not have telephone service.

The lack of true competition—The Telecommunications Act of 1996 produced high expectations that the largest providers of local telephone service, the so-called incumbent local exchange carriers (ILECs), would move into each other's service territories and become major competitors. Instead the ILECs have chosen to merge rather than compete and now still serve more than 87 percent of all local residential phone lines. The remaining share of the market is served by competitive local exchange carriers (CLECs), among which traditional cable television providers have gained the dominant position, accounting for about 70 percent of CLEC-provided home telephone service. In short the marketplace reality has fallen short of expectations, as consumers often have only two options for home phone service: their incumbent phone company or their incumbent cable company. Two choices does not produce robust competition or create enough incentive for carriers to keep prices down.

Although some wireless or cell telephone service providers are marketing wireless service as a competitive local-service alternative, the service is not yet a viable substitute for traditional local telephone service for most users. It is more expensive, offers poorer service quality, charges for incoming as well as outgoing calls, and does not allow multiple connections to the same phone number. As a result fewer than 15 percent of all adults in the US live in households with only wireless telephones. The idea that wireless carriers will compete against the ILECs is further complicated by the fact that the majority of wireless subscribers in the US receive service from a carrier that is owned by an ILEC. In fact the two largest ILECs (Verizon and AT&T) control about 60 percent of the US cell phone market.

To the extent that competitive offerings are available to residential customers, they mostly exist only for high-end consumers who are interested in purchasing a package or bundle of services. Competition for customers who want only basic service, which many people on fixed incomes rely on, is virtually nonexistent. In this regard bundled offerings and basic service are not equivalent. For example, a \$50 bundle that includes basic local telephone service cannot be considered a reasonable substitute for \$10 stand-alone service. Moreover, basic services offer providers the lowest profit margins. As such, bundled offerings, rather than constraining the rates for basic service, create an incentive for the ILECs to raise rates for stand-alone services and thus encourage migration to multiple service packages.

Changes in utility regulation may hold much promise, but only strong safeguards—such as maintaining provisions for universal service, assistance to low-income households, and affordable and high-quality services for all residential consumers—will ensure that all consumers benefit from these changes. Policy reforms that relinquish at least some public oversight of utilities in the name of competition may be insufficient to produce long-term consumer benefits if large service providers possess significant market power. Moreover, deregulation or industry self-regulation efforts may improve the welfare of only certain customer classes and even harm others. The act of eliminating, reducing, or preventing regulation by itself does not necessarily lead to sufficiently competitive markets or produce competitive benefits, including lower rates and better products and services for residential consumers. This same principle also applies to the development and deployment of several increasingly important information and communications technologies and services.

Regulatory Issues And Market Structure: AARP Policy

Accessibility to telecommunications services for all consumers – AARP believes policymakers should ensure that all consumers have affordable access to a telecommunications provider that has an obligation to serve.

Safeguarding minimum service and consumer choice in telecommunications -- AARP believes state policymakers should ensure that consumers maintain the option to purchase only the services they want or need by preventing telecommunications service providers from requiring subscribers to purchase one service—such as local telephone service—in order to obtain another service—such as digital subscriber line (DSL) or long-distance service.

Ensuring effective competition among telecommunications service providers -- Where laws or regulations rely on competition to protect or advance consumer welfare in communications markets, policymakers should ensure:

- true and effective competition to the fullest extent possible, with benefits to residential consumers in the form of lower prices and better-quality service;
- appropriate consumer protections to address ineffective or insufficient competition; and
- continuing regulatory authority and oversight to make certain markets remain competitive.

State policymakers should first establish clear standards for effective competition that include, at a minimum:

- a range of accessible, comparable, and useful consumer options at just, reasonable, and affordable rates;
- just and reasonable distribution of the benefits of competition across all residential consumer groups, including low-income and rural consumers;
- low switching barriers, to ensure consumers are unimpeded in their ability to change service providers; and
- clear, reliable, and meaningful price and service-quality information that is easily accessible and comparable across providers.

Policymakers should monitor service-provider performance and vigorously enforce promised sanctions if performance falls short of the standards for effective competition.

Policymakers should monitor the development of competition and introduce strict regulatory controls—or reconsider any regulatory flexibility they granted on the premise that competition was emerging—if promises or predictions regarding effective competition, prices, service quality, reliability, and overall consumer protections are not realized.

State policymakers should require telecommunications carriers to maintain and provide the data that regulators and other interested parties need to evaluate the effect of the Telecommunications Act of 1996 or any effort that reduces or eliminates regulation of telecommunications services or rates.

AARP PRINCIPLES

All consumers must be able to rely on the availability of safe, affordable and high-quality utility and communications services. In order to uphold this principle, the following standards must underlie the development, evaluation, and comparison of utility policies and proposals at the federal, state, and local levels.

Universal service—essential utility services that are affordable and available to all households

Quality of service—reliable, safe, and high-quality utility services

Customer information—clearly stated and understandable terms and conditions on all bills, marketing literature, and other relevant communications to enable consumers to make informed decisions about utility providers and products

Consumer representation—independent, fully funded, and adequately staffed consumer advocacy organizations empowered to initiate investigations and authorized to represent residential ratepayers before state and federal regulators and in the courts

Consumer education—adequately funded education programs to help consumers select utility services wisely and protect themselves against fraud

Service termination—established rights and protections for consumers facing service termination

Regulatory authority—independent, fully funded, and adequately staffed commissions that are focused on protecting residential ratepayers and empowered to initiate investigations and enforce laws and regulations

Public participation—broadly publicized hearings on proposed changes in public-utility services, policies, and rates that are conducted in the service area to be affected and allow consumers and their advocates to express their views

Low-income discounts—fully funded and well-promoted low-income assistance programs, that include self certification and automatic enrollment provisions, for all low-income consumers with residential utility burdens that exceed the median percentage of household income spent on utility services statewide

Privacy—strong protections against the unauthorized use or disclosure of personal information and records

Regulation and rate structures—utility rate structures that fairly distribute costs among customer classes and are easy to understand and nondiscriminatory, periodic review of alternative forms of regulation, and mandatory and rigorous audits of unregulated affiliates, parent holding companies, and regulated utilities to ensure the fair allocation of costs and profits

Terms and conditions for competitive markets—true and effective competition in markets for residential users before residential utility service is deregulated, with appropriate consumer protections to address ineffective or insufficient competition and continuing regulatory authority and oversight to ensure markets remain competitive

Mergers—strong prohibitions against company mergers that would compromise regulatory protections for residential ratepayers, hinder competition, or fail to increase economic efficiency, and specific safeguards to ensure that residential ratepayers receive at least 50 percent of the short-term and long-term forecasted economic benefits, as determined by regulators, of any proposed merger or acquisition

Anticompetitive safeguards—measures that regulate and penalize harmful, anticompetitive activity

Prudent investment—rates that include compensation only for prudent costs