

Department of Legislative Services  
Maryland General Assembly  
2008 Session

FISCAL AND POLICY NOTE

House Bill 1336  
Economic Matters

(Delegate Davis)

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Public Service Commission - Telecommunications Services - Regulation

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This bill adds to the requirements for the Public Service Commission to adopt an alternative form of regulation of telephone companies by specifying that the alternative form of regulation encourages the development of competition for voice services and ensures that regulatory burdens decrease as market competition increases. The bill also provides that PSC only has jurisdiction over specified services provided by a telephone company, including telephone lifeline service. Starting January 1, 2011, PSC may not regulate any other telephone services, including bundles of local and long distance service. The bill provides for generally applicable rates and replaces specific tariff rates.

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Fiscal Summary

**State Effect:** None. PSC could handle any additional requirements with existing budgeted resources.

**Local Effect:** Local governments are not directly affected.

**Small Business Effect:** No impact for small businesses ordering single-line business services at a particular address. To the extent market forces provide lower overall prices for unregulated local and long distance telephone services, as well as other bundled products, small businesses may benefit. The extent prices for these services increase, small businesses will incur additional expenses.

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## Analysis

**Bill Summary:** For alternative forms of regulation, it is not a violation of *ex parte* notice provisions for PSC to engage in negotiations or mediation with a telephone company regarding the terms. All interested parties must be given notice and opportunity to participate in the negotiations or mediation and PSC follows the provisions by which PSC may regulate a telephone company through an alternative form of regulation.

Notwithstanding any other law, PSC has jurisdiction over the following services provided by a telephone company: • unbundled, single-line residential and business local exchange access lines and usage; • telephone lifeline service; • 9-1-1 services; and • switched access service. Beginning January 1, 2011, PSC may not regulate any other telephone services, including bundles of local and long distance service.

The bill provides for generally applicable rates, replacing specific tariff rates. Telephone companies have to provide notice of their generally available terms, conditions, and rates for unregulated services on their web sites and by paper copy on request. Telephone companies are not required to provide notice of the terms, conditions, and rates for proprietary, individually negotiated contracts.

**Current Law:** PSC may adopt an alternative form of regulation if PSC finds, after notice and hearing, that an alternative form of regulation • protects consumers by, at a minimum, producing affordable and reasonably priced basic exchange service and ensures the quality, availability, and reliability of telecommunications services throughout the State; • encourages the development of competition; and • is in the public interest. Alternative forms of regulation may include price regulation, revenue regulation, ranges of authorized return, rate of return, categories of services, or price indexing.

Telephone lifeline service is a local service provided to eligible subscribers that, at a discount, provides an individual residential local exchange dial access line plus the first 30 residential local untimed messages per billing month. The class of telephone subscribers eligible for telephone lifeline service includes individuals who have been certified by the Department of Human Resources as receiving assistance through the Electric Universal Service Program or the Maryland Energy Assistance Program. Rates for persons enrolled in the telephone lifeline service program are 50% of the current tariff rates and provide for repair of inside wiring rates of 50% of the tariff authorized for those repairs.

**Background:** PSC is responsible for regulating all local and intrastate long distance services. The dominant supplier of local wireline voice services in Maryland is

Verizon-Maryland. At the end of 2007, Maryland had 309 competitive local exchange carriers (CLECs) and 495 long distance providers that were licensed and in good standing. Neither category is mutually exclusive due to some carriers supplying both local and long distance services. Each of these companies has filed a local service tariff that has been reviewed and approved by PSC. PSC advises that the number of CLECs actively marketing services is unknown; nevertheless, in 2007, 10 new local carriers and 11 new long distance carriers filed, paid associated licensing fees, and were subsequently licensed to do business in the State. Legislative Services notes the advancement of telephonic switching systems allow a number of these CLECs to offer service to individual businesses (*e.g.*, full requirements service across multiple states) and specific office buildings.

PSC does not have jurisdiction in terms of economic regulations with respect to other carriers that have access to homes and businesses. These include the national wireless carriers (*e.g.*, Verizon, AT&T, Sprint, and T-Mobile); Comcast cable network; and Internet providers, such as Vonage, that offer Voice over Internet Protocols.

Bundled service is any combination of retail services offered as a package, either at a single price or with the availability of the price for one or more services contingent on the purchase of other services. Bundled service can include any telephone service combined with any other telephone service or with any nontelephone service including services offered by an affiliate of a telephone company or unrelated entity. An example of a bundled service offering is cable, telephone, and high-speed Internet services bundled together as a package and offered at a single price. Bundled prices may offer a set of goods or services at combined prices that reward customers with an aggregate price that is less than what would have been spent had all of the individual goods or services been purchased independently.

Via docketed cases, PSC is considering various issues associated with bundled services and rates. These include Case Number 9072, which considered a request by Verizon to reclassify certain bundled services as competitive and therefore be offered as a component within an unregulated basket of services. In August 2007, the PSC hearing examiner issued a proposed order denying Verizon's request to reclassify Maryland bundled services as competitive services. Verizon has appealed the ruling to PSC. Additionally, Case Number 9120 involves issues surrounding whether Verizon's bundling together affiliate services with regulated service circumvents PSC's Price Cap Plan for telecommunications pricing. In January 2008, the PSC hearing examiner issued a proposed order stating that bundling unregulated services with regulated services is not in conformance with the alternative form of regulation, known as the Price Cap Plan, which is in place for Verizon-Maryland. PSC staff, the Office of People's Counsel, and

Verizon filed appeals to PSC, and the matter is currently under consideration before the commission.

**Small Business Effect:** No impact for small businesses ordering single-line business services at a particular address. Bundled services would not be subject to price restriction; consequently, to the extent market forces provide lower overall prices for unregulated local and long distance telephone services, small businesses may benefit. The extent prices for unregulated local and long distance telephone services increase, small businesses will incur additional expenses.

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### **Additional Information**

**Prior Introductions:** None.

**Cross File:** None.

**Information Source(s):** Charles County, Frederick County, Prince George's County, Somerset County, Public Service Commission, Office of People's Counsel, Department of Legislative Services

**Fiscal Note History:** First Reader - February 29, 2008  
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