

## Rules for Flexible Pricing of Basic Local Telephone Service

### Why did the PUCO adopt rules regarding basic local telephone service?

House Bill 218 (HB 218) required the PUCO to adopt rules authorizing alternative regulation for basic local telephone service in areas where there is competition and no barriers to entry exist.

### Why did the legislature pass HB 218?

The telecommunications market is constantly evolving. No longer is the local telephone company the consumer's only option. In many parts of Ohio, the regulated local telephone company must compete with a wide variety of service providers whose rates are not regulated, including wireless and Voice over the Internet providers. Recognizing the challenges presented by this changing environment, the legislature passed HB 218 to allow alternative regulation for basic local telephone service in areas where competition exists.

### What do the rules allow?

The rules allow any local telephone company with a qualified alternative regulation plan to petition the PUCO to allow pricing flexibility for basic local telephone and basic caller ID rates. Under previously existing regulation, the rates for these two services could not be changed without PUCO approval, and for several companies have been frozen for many years.

Companies cannot apply for pricing flexibility for basic local telephone and basic caller ID rates until they have deployed advanced telecommunications services in their major central offices and offered enhanced Lifeline service to qualifying low-income customers. Applicants must then prove on an exchange-by-exchange basis, that residential competition exists and that no barriers stand in the way of competition.

#### What is an exchange?

A telephone exchange is a small geographic area within an area code, typically comprised of a municipality and surrounding area. There are 738 telephone exchanges in Ohio.

If a company proves that competition exists within an exchange, it will be granted pricing flexibility for basic local telephone service and basic caller ID rates. As a consumer safeguard, the rules limit the amount that these rates can increase in any one year. In exchanges where competition is

### Rules at a Glance

- Companies can petition the PUCO for pricing flexibility of basic local telephone service and basic caller ID.
- To apply, companies must first deploy advanced telecommunications services.
- Applicant companies must prove that competition exists on an exchange-by-exchange basis.
- In exchanges where competition is not proven to exist, rates for basic local telephone service and basic caller ID will not change.
- In telephone exchanges where competition exists and pricing flexibility is granted, increases to basic local telephone service and basic caller ID rates will be limited.
- No matter what, the PUCO retains regulatory oversight of service quality and consumer protections.
- Companies must provide customers advanced notice of any rate increases.
- Lifeline rates for low-income Ohioans will not change.

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Most local telephone companies already price bundled telecommunications service packages at market-based rates. These rules do not affect the pricing of those service packages.

**How will customers know if their rates are going to increase?**

Companies that qualify for pricing flexibility within an exchange must notify affected customers 30 days prior to any rate increase. The notice may be made by bill insert or message, direct mail, or, at the customer's request, electronic mail.

**Will the rules affect service quality or other consumer protections?**

No. Regardless of whether or not a local telephone company qualifies for pricing flexibility, there are rules and safeguards in place to ensure that customers are provided with quality telephone service and protected from unfair and unreasonable practices. The PUCO has minimum telephone service standards that all local telephone companies are required to follow, and these requirements will not change.

**What will happen to the rates of low-income customers?**

Low income customers' rates will not change if they qualify for Lifeline telephone service. Lifeline provides a discount on monthly bills and waives any deposit or up-front connection charges for establishing telephone service.

**How did the PUCO allow for public input?**

Proposed rules were issued for public comment in late 2005. More than 100 Ohioans testified at public hearings held in Athens, Cincinnati, Cleveland, Columbus, Dayton, Mansfield, and Toledo. In addition, the PUCO received hundreds of letters from residential consumers and small business organizations. The hearing transcripts and written comments became part of the official case docket that shaped the final rules adopted by the Commission.

What the PUCO heard from the public	What the PUCO did
The proposed 20 percent annual cap on basic local telephone service and basic caller ID rate increases exceeds typical cost-of-living increases and the rate of inflation.	Annual increases were capped at \$1.25 for basic local telephone service and 50 cents for basic caller ID.
Companies should not be permitted to "bank" the annual 20 percent increase from one year and apply it to subsequent years.	The "banking" provision was removed from the rules.
The 15-day customer notification period for rate increases is too short.	The customer notification period was extended to 30 days.

**If you would like to know more about the PUCO or have utility-related questions or concerns, contact the PUCO at (800) 686-PUCO (7826) or (800) 686-1570 (TDD/TTY).**

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