

CD Advisory Notice to CAB
(November 2008)

AT&T Residence Monthly Basic Rates to Go Up on January 1, 2009:

AT&T	FR	MR	Lifeline FR	Lifeline MR
Present Rates	\$10.94	\$5.83	\$5.47	\$2.91
1/1/2009 Rates	\$13.50	\$7.28	\$6.11	\$3.27
\$ change	\$2.56	\$1.45	\$0.64	\$0.36
% change	23%	25%	12%	12%

Residence Basic Rates are Permitted to Increase Beginning January 1, 2009 Because the Commission Adopted A Transitional Pricing Plan for Basic Residence Telephone Service for the Years 2009 and 2010.

Two years ago, the Commission determined that the local telecommunications market in California is competitive and set January 1, 2009 as the date that the four large telephone companies (i.e. AT&T, Verizon, SureWest & Frontier) could begin pricing their basic residence telephone service rates based on the market conditions in their respective service areas in California.

The Commission notes that basic residence telephone rates have been frozen and were substantially subsidized for over a decade. However because of the current economic situation and its concerns for rate shock upon customers, the Commission took additional steps in September 2008 to ensure that basic residence telephone services continue to be affordable. Hence, the Commission capped the four major telephone companies' rate increases for the basic residence telephone services for two more years beginning January 1, 2009 through December 31, 2010.

The four telephone companies cannot increase the monthly basic residence rates by more than \$3.25 during years 2009 and 2010. In addition, for Flat and Measure Rate LifeLine services, the Commission capped the monthly rate increases for LifeLine customers to no more than 81 cents and 44 cents for 2009 and 2010, respectively. After the two-year transition period, the Commission expects that providers using wireless, VoIP and other technologies will be effective check to the four major telephone companies in keeping any subsequent basic residence rate adjustments after January 1, 2011 at affordable levels.

Key Features of the Transition Plan

1. Adopted Permissive Monthly Rate Increases in Basic Flat Rate Service Effective - January 1, 2009:

Revised Basic Flat Rate Caps (by carrier) ¹					
<u>1/1/2008</u>	<u>AT&T</u>	<u>Verizon</u>	<u>SureWest</u>	<u>Frontier</u>	
Present Basic Rate	\$10.94	\$17.66	\$18.90	\$17.85	
Permissible Rate Increase					
1/1/2009	3.25	3.25	3.25	3.25	3.25
1/1/2010	3.25	3.25	3.25	3.25	3.25
Basic Rate Cap 1/1/2009	\$14.19	\$20.91	\$22.15	\$21.10	
1/1/2010	\$17.44	\$24.16	\$25.40	\$24.35	

2. The Commission also authorized increases of the same percentage magnitude for basic service offered under the measured rate option.
3. Each of the four telephone companies is permitted to increase their monthly Flat and Measured Rate LifeLine rates for 2009 and 2010 by no more than 81 cents and 44 cents, respectively.
4. Effective on and after January 1, 2011, each the four telephone companies are permitted to adjust stand-alone prices for basic residence services in regions not subsidized by high cost fund program, without any regulatory restrictions, subject only to competitive market forces with each of the four major telephone companies' respective service areas.
5. Effective on and after January 1, 2011, the four telephone companies' stand-alone rates for basic residence service charged in high-cost areas subsidized by the high cost fund cannot exceed the lower of either (a) 150% of the highest basic residence rate charged in its California service territories that is not subsidized by high cost fund, or (b) \$36 high-cost benchmark minus the end user charge.²

¹ \$3.25 is the maximum price that these phone companies can increase for each of the years 2009 and 2010 but, they are **not** required to initiate the maximum increase

² The Federal End User Common Line charge for AT&T is currently \$4.39/line and for Verizon, SureWest, Frontier it is \$6.50/line.

What are Basic Measured and Flat Rate Services and What are the Current Monthly Basic Rate Levels?

Flat Rate (FR) Service: A rate plan by which customer pays a single monthly amount for unlimited “local” telephone calls.

Measured Rate (MR) Service: A rate plan by which customer pays for the number of calls or a call allowance amount and/or the duration of each “local” call.

Present Basic Rates (2008)				
	FR	MR	Lifeline FR	Lifeline MR
AT&T	\$10.94	\$ 5.83	\$5.47	\$2.91
Verizon	\$17.66	\$10.00	\$5.47	\$2.91
SureWest	\$18.90	\$12.95	\$5.47	\$2.91
Frontier	\$17.85	\$ 9.60	\$5.47	\$2.91