



# 2010 Study of **Affordability of Basic Telephone Service**

A METHOD OF DETERMINATION AND CHALLENGE FOR POLICY MAKERS

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# A Simple Sounding Mandate

- ▶ Senate Bill 780, Chapter 342, Statutes 2008, required a telephone service **affordability survey of customers and noncustomers** who reside in rural High Cost Funded areas.
- ▶ Decision 08-09-042 ordered a **statewide affordability survey** to be completed to gather information on which to base its future telephone regulation policies.
- ▶ Concerns:
  - ▶ Landline access rates had been permitted to increase.
  - ▶ Landline Rate Caps were scheduled to be removed.
  - ▶ Landline subscriptions were declining.
  - ▶ **Was deregulation policy negatively affecting consumers?**

# We Evaluated the Consumer's Total Bill

- ▶ Individual price element changes do not show total impact.
- ▶ Affordability should evaluate cumulative effect of charges.
- ▶ Consumer Telephone Bill includes many charges:
  - ▶ Access Rate
  - ▶ Usage Rates
  - ▶ Optional Feature Rates
  - ▶ Surcharges and Taxes
    - ▶ City / County (0 – 10%)
    - ▶ State (8%)
    - ▶ Federal (12%)

# Survey Cross Tabulation Study Factors

- ▶ Telephone Bill Expenditures 2010 compared to prior 2004 study results
- ▶ Statewide and Rural (Rate Regulated) Areas
- ▶ Price Sensitivity
- ▶ Income
- ▶ Age
- ▶ Ethnicity
- ▶ Reasons why service is difficult to afford
- ▶ Features purchased
- ▶ Service Type (Landline and Wireless)

# Methodology and Responses

- ▶ Surveyor: San Francisco State University's Public Research Institute (PRI)
- ▶ Phone interviews lasting 11-12 minutes
  - ▶ 636 landline responses (not Lifeline)
  - ▶ 357 landline Lifeline responses (having subsidized access rates)
  - ▶ 384 wireless subscription responses
- ▶ Mail-survey of those without Landline service
  - ▶ 1,090 responses
- ▶ \$20 Visa check card incentives were offered to completed-survey responders

# Total Expenditures decreased; access rate increases offset by usage rate reductions

## Comparing 2010 Affordability Survey Data to 2004 Field Research Survey, Total Monthly Phone Bill

	Verizon	AT&T	Weighted Average, Verizon and AT&T	Weighted Average, All Carriers, 2010
2004 Mean	\$78.00	\$66.00	\$69.00	
2004 Mean, Adjusted for inflation; CPI index	89.70	75.90	79.35	
<b>2010 Mean</b>	<b>\$75.46</b>	<b>\$59.11</b>	<b>\$62.38</b>	<b>\$68.53</b>
<b>Mean % Change from 2004</b>	<b>-16%</b>	<b>-22%</b>	<b>-21%</b>	
2004 Median	\$50.00	\$44.00	\$46.00	
2004 Median, Adjusted for inflation; CPI index	\$57.50	\$50.60	\$52.90	
<b>2010 Median</b>	<b>\$58.02</b>	<b>\$47.00</b>	<b>\$49.20</b>	<b>\$50.00</b>
<b>Median % Change from 2004</b>	<b>1%</b>	<b>-7%</b>	<b>-7%</b>	

Total Bill Expenditure is Related to Income.  
No surprise. Data is Ripe for Statistical Analysis

### **Total Monthly Phone Bill by Annual Household Income Strata, 2010**

	<b>\$24,000 or Less</b>	<b>\$24,001- \$34,000</b>	<b>\$34,001- \$39,800</b>	<b>\$39,801- \$50,000</b>	<b>\$50,001- \$75,000</b>	<b>Over \$75,000</b>	<b>Overall</b>
<b>Mean</b>	\$41.85	\$67.00	\$66.66	\$68.61	\$92.35	\$91.88	\$68.53
<b>Median</b>	\$30.00	\$50.00	\$53.80	\$56.10	\$75.00	\$75.00	\$50.00

# Majority of Low-income Consumers Reported that Unsubsidized Rate was Affordable

## Total Monthly Phone Bill for Landline Service Reported by LifeLine Status, 2010

	All Households	Qualify for LifeLine	Qualify and Subscribe	Qualify and Do Not Subscribe
Mean	\$68.53	\$45.57	\$38.25	\$58.44
Median	\$50.00	\$31.85	\$29.10	\$40.00

LifeLine subscribers. When asked to report the increase threshold that customers might tolerate while still retaining landline service, LifeLine customers report tolerable increases of around \$10 to \$15 dollars. LifeLine customers generally report tolerable increases for all service features anywhere from 50% to 60% of what non-LifeLine customers report (Vol. 1, 5.1b, 5.1d, 5.1f, and 5.1h); 73% of LifeLine subscribers and 64% of qualified non-subscribers feel their landline service is affordable (Vol. 1, 4.1).

# Consumers Reported Ability to Tolerate Bill Increases

## Mean Tolerable Change in Statewide Median Monthly Bill by Household Income

	\$24,000 or less	\$24,001- \$34,000	\$34,001- \$39,800	\$39,801- \$50,000	\$50,001- \$75,000	Over \$75,000
Tolerable % Change	37%	24%	21%	24%	20%	28%
Median Bill	\$30	\$50	\$53.80	\$56.10	\$75.00	\$75.00
Tolerable Increase Amount	\$11.10	\$12.00	\$11.30	\$13.46	\$15	\$21

# Demographic data interesting, but difficult to implement into policy

## CHCF-B Customer Risk of Discontinuing Landline Service Measured by Various Demographics

Demographic Category	Demographic Subcategory and Associated Risk %						
By Race/Ethnicity		White	African-American	Latino	Asian or Pacific Islander	American Indian	Overall
%		1.3%	0.2%	3.0%	0.2%	1.3%	1.6%
By Age Group			18-29 years	30-39 years	40-59 years	60 years and older	Overall
%			2.4%	1.3%	2.0%	1.0%	1.6%
By Income	\$24,000 or Less	\$24,001-\$34,000	\$34,001-\$39,800	\$39,801-\$50,000	\$50,001-\$75,000	Over \$75,000	Overall
%	1.1%	4.4%	0.8%	1.2%	1.6%	0.3%	1.6%

Rural consumers said fees and taxes are most relevant to affordability

### **CHCF-B Customer Reasons why Landline Service is Difficult to Afford**

<b>Contributing Factor</b>	<b>Fees, Taxes, and Surcharges</b>	<b>Cost of Long Distance</b>	<b>Local Phone Service</b>	<b>Extra Services</b>	<b>Talk Too Long/Too Many Calls</b>	<b>Other People</b>
<b>% Response</b>	<b>54%</b>	<b>33%</b>	<b>27%</b>	<b>26%</b>	<b>15%</b>	<b>12%</b>

# Why Survey Consumer Total Bill, Perceptions and Purchasing Behavior?

- ▶ Consumers are not a monolith of conformity and value products differently:
  - ▶ Consumers were engaging in product substitution.
  - ▶ Use of features and calling habits varied.
- ▶ Consideration solely of individual changes in rates, charges or surcharges/taxes hides the cumulative impact on consumers.
- ▶ Affordability needs assessment of willingness and ability to pay:
  - ▶ Is the purpose of a subsidy to encourage subscriptions to those who wouldn't otherwise? Or to transfer wealth.
- ▶ Segmentation / Stratification can be achieved in survey design.

# 2010 Study Policy Impact

- ▶ Data was not used by the Commission to effect policy change:
  - ▶ Despite the 2010 data, the 2014 Lifeline decision cited results as “stale” for making policy.
    - ▶ “Speaker after speaker..., asked for continuance of the existing \$6.84 rate paid by LifeLine participants.”
    - ▶ “Joint Consumers emphasized the importance of maintaining that rate to affordability”.
  - ▶ IMO, consumer advocates did not like the total bill analysis results as it did not support their argument that de-regulation and its permitted Landline service rates increases were harming consumers.

# Communications Affordability Study is Available

- ▶ <http://www.cpuc.ca.gov/General.aspx?id=4185>

Thank You

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