

Telecommunications Subsidies in Nevada

Presented to the ACR 2 Committee
on Telecommunication Services in Nevada,
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By Ann Pongracz
General Counsel
Sprint of Nevada
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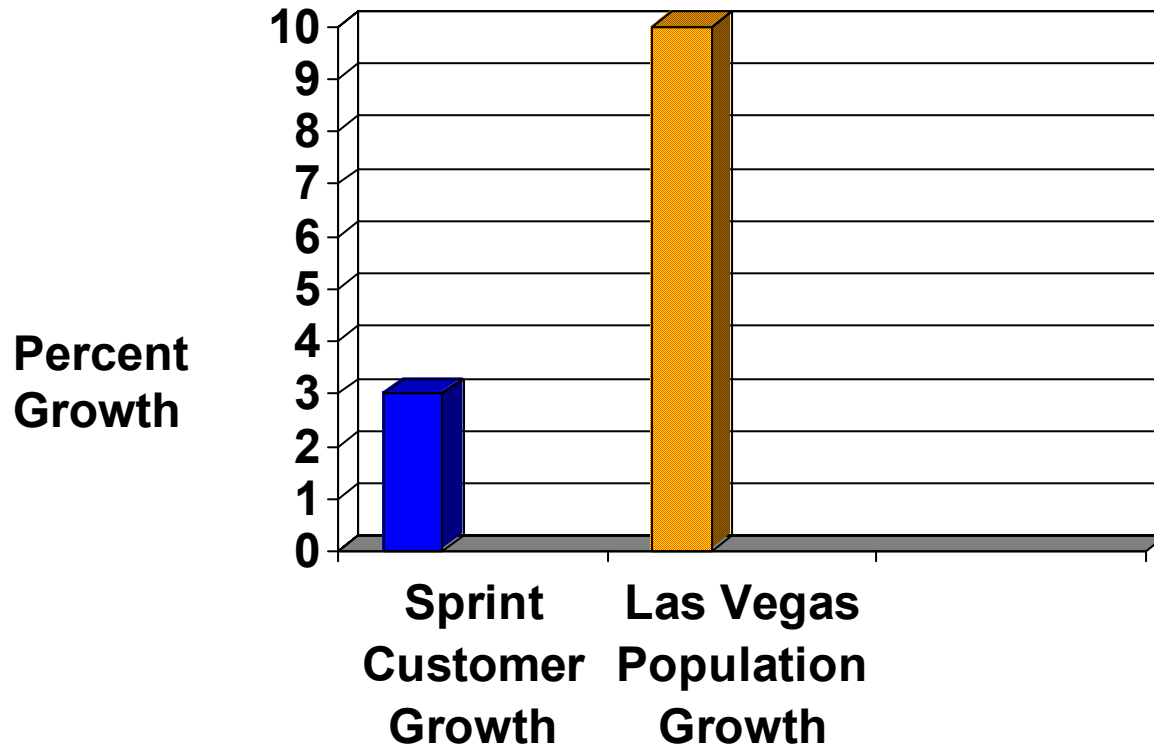
Existing Subsidies Developed in a World without Local Telecom Competition

- In the 20th century, before competition, state regulation required local telephone companies to keep basic local residential rates low.
- These low rates were possible due to cross subsidies from other higher margin services.

Existing subsidies structure must be re-examined because traditional funding sources are diminishing.

- Local telephone companies could tap higher margin services for subsidy funding, because these companies had exclusive local franchise.
- Since 1996, local telephone markets have grown increasingly competitive. Competition forces margins closer to costs. This reduces availability of funding for subsidies from previously higher margin services.

Las Vegas Population Growth – 2001 to 2003



What is a subsidy?

A subsidy occurs when the price of a service is less than the cost of that service.

Three Major Groups Benefit from Subsidies

- **Lifeline Customers**
- **“Stand-Alone Residential (R-1)” Customers**
- **Rural Customers**

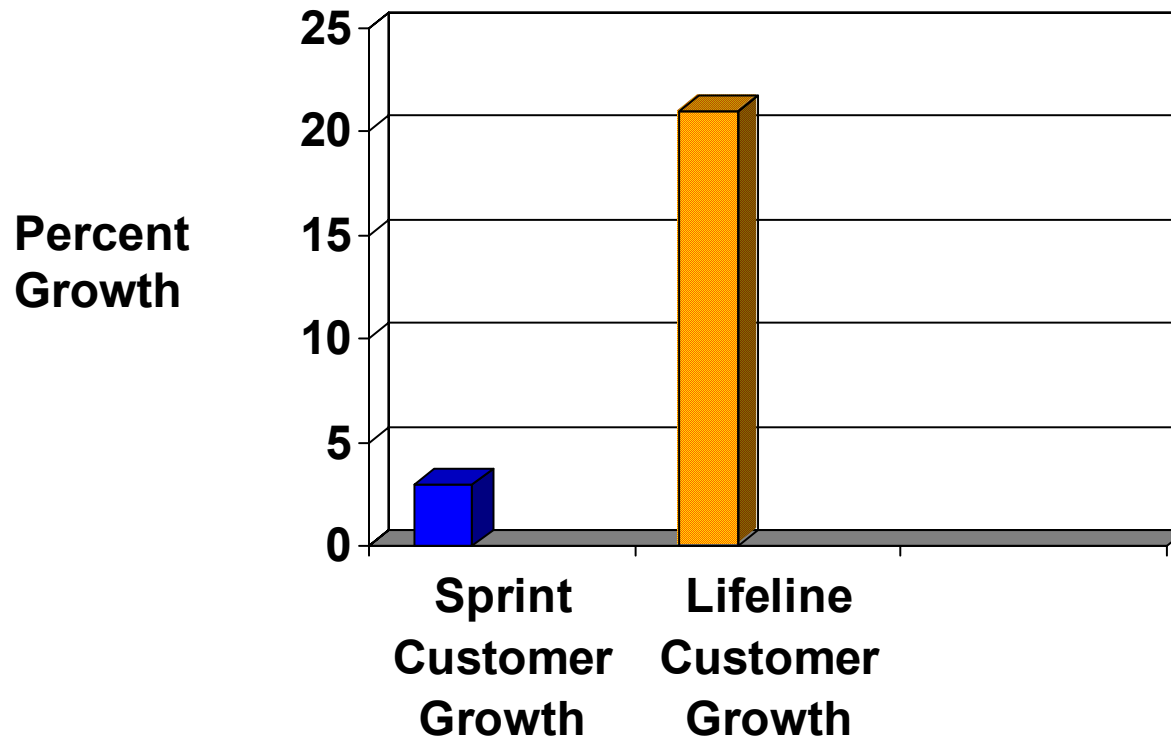
Who's Getting Help?

- **Group One:**
 - “Lifeline Customers” – those in financial need
 - **28,310** Sprint residential customers receive “Lifeline subsidies” reducing their monthly bill
 - Customers at or below **175** Percent of Federal Poverty Level receive a **61%** discount on each month’s bill, and pay only \$5.77/mo., as opposed to \$10.40 paid by other customers.
 - Customers earning up to \$32,200 annually for a family of four can receive this subsidy

How does a residential customer qualify to receive a Lifeline subsidy?

- **Automatically, if customer receives welfare benefits.**
- **Through self-certification if family income at or below 175 % of national poverty level.**

Lifeline Customer Growth – 2001 to 2003



Who Else Gets Subsidized Residential Service from Sprint?

Group Two: “Stand-Alone R-1”

“Stand-Alone R-1” – 1/3 of Sprint local residential customers purchase no network features

Where's the Gap?

- The Prices:
 - Residential basic service –
 - ($\$10.40$ price + $\$4.29$ federal surcharge = $\$14.69/\text{mo}$)
 - Business basic service –
 - ($\$20.75$ + 4.29 federal surcharge = $\$25.04/\text{mo}$)
- The Gap:
 - Stand-Alone R-1 is under priced $\$10-15$ per customer per month

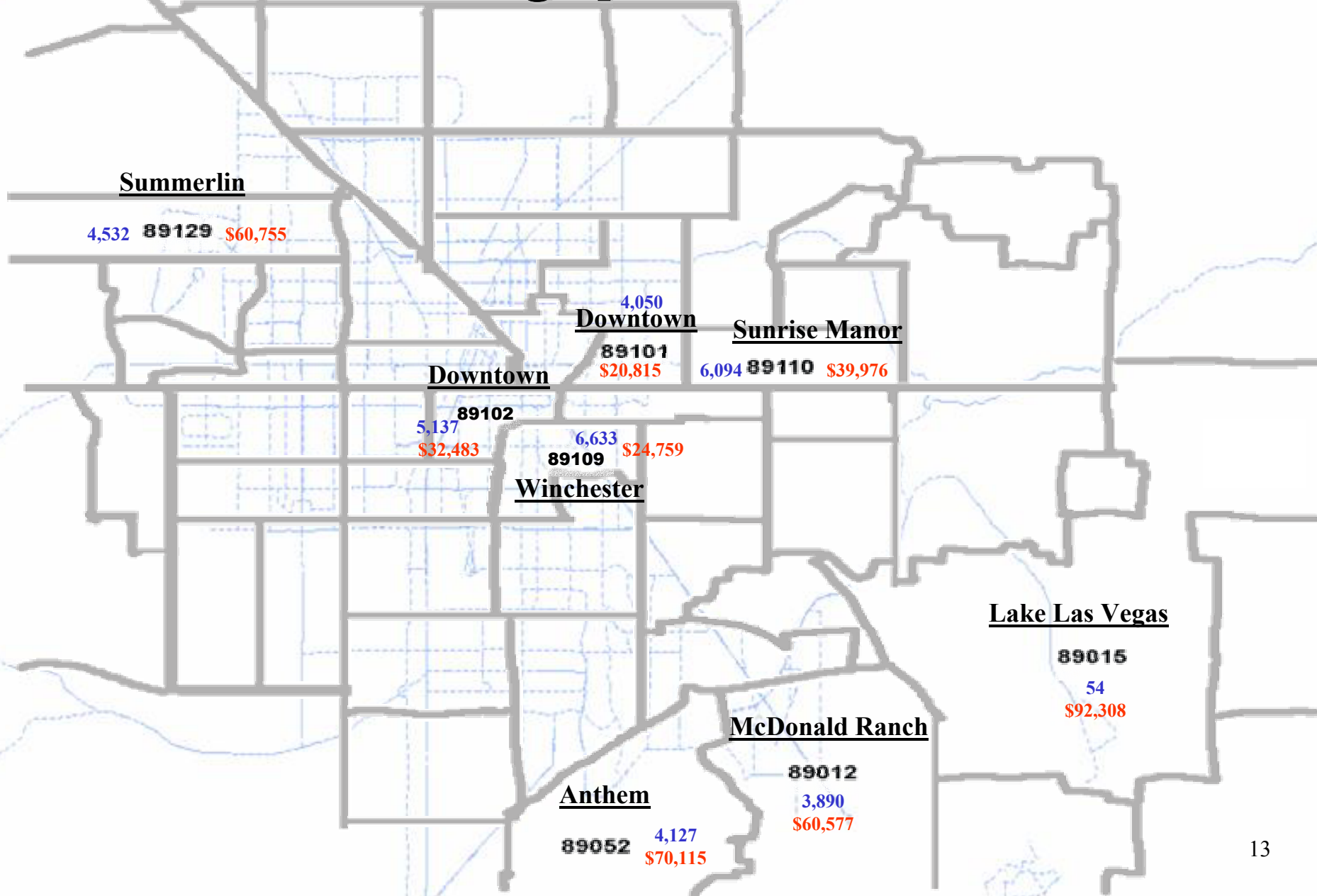
Who Else Gets Subsidized Residential Service?

- **Group Three – Rural Customers**
 - **Not a significant issue in Southern Nevada.**
 - **Other Nevada local telephone companies have major rural customer issues.**

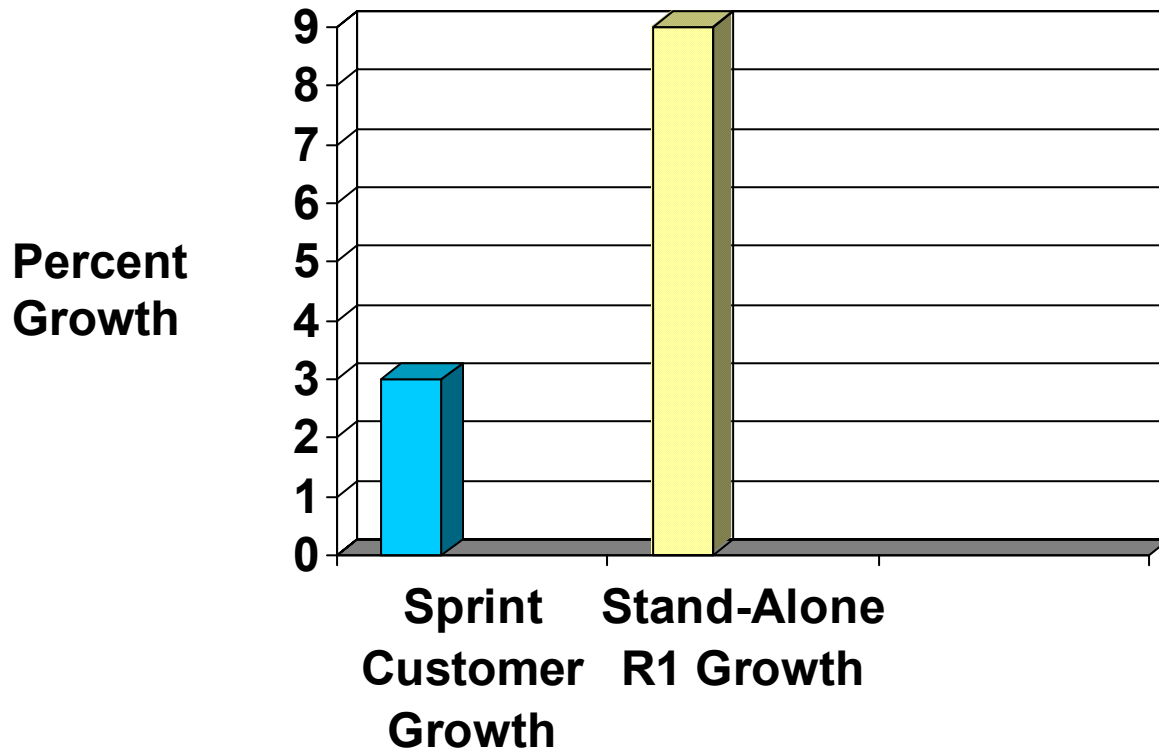
How does a residential customer receive Subsidized R-1?

- **Any Sprint customer can get subsidized “Stand-Alone R-1” residential service, including**
 - Wealthy customers
 - Snowbirds
 - Vacation homeowners
 - Part time residents
 - Wireless customers
 - Digital cable/High speed data customers

Who's Using Sprint's Stand-Alone R-1's?



Stand Alone R-1 Growth – 2001 to 2003



Who Offers Subsidized Prices for Local Telecom?

- **Only ILECs – e.g. Sprint & SBC/Nevada Bell –
Are required to provide these
subsidies**

What's Next?

Competition Changes Everything!

- ***Competition Comes to Southern Nevada***
 - ***140 Nevada-certificated CLECs***
 - ***Today Southern Nevada CLECs serve***
 - ***Over 9.3% residential customers***
 - ***Over 33.5% business customers***

So What?

- Competitors are **not required** to offer “Stand-Alone R-1’s” or Lifeline rates.
- Competitors can and will discount Sprint rates, sell **only profitable bundles** of basic and features – and **Shrink** the \$\$\$ margins Sprint uses to fund subsidies.
- It’s the nature of a competitive market place.

Fact

Continuing to provide subsidized pricing to the entire customer base is not sustainable in a competitive marketplace.

What Needs to Be Done?

- End the subsidy gap
- Subsidies for local telephone service to *those truly needing* financial assistance should continue.
 - But . . .
- Across the board subsidies to those not needing assistance should end!

RECOMMENDATIONS

- **Set new policy goals for implementation by Nevada PUC:**
 - ***Eliminate* Stand-Alone R-1 Subsidies to customers who don't need financial aid.**
 - ***Maintain* lifeline programs that take care of those who need the help.**
 - ***Ensure* we have the resources to help current customers who need our help.**