

# **TELEPHONE CONSUMER ALERT**

**Vermont Department of Public Service  
Division of Consumer Affairs & Public Information**

September 1999

## **ANSWERS TO QUESTIONS ABOUT LOCAL MEASURED SERVICE.**

The Department of Public Service has received many comments and questions about Local Measured Service. This alert answers some frequently asked questions about the topic.

### **What is Local Measured Service?**

Local Measured Service (LMS) means that the local telephone company charges by the minute for calls made within the local calling area. The per-minute rates vary among companies, but are lower than the amount paid for an in-state toll call.

### **How is Local Measured Service different from the basic monthly service charge?**

The basic monthly service charge is the same every month, no matter how much you use the phone. Charges for Local Measured Service are in addition to the basic monthly service charge and depend on use.

### **Why do we have Local Measured Service charges?**

There are three main factors that led to the creation of LMS.

**Capacity Costs:** With the development and increased use of the internet, local phone companies are needing to look towards addressing problems of service capacity. Since local networks were not designed to accommodate the high levels of local usage that is demanded by many internet users, some local switches periodically are near or reach capacity. Consequently, companies are being forced to make significant capital investments to increase the capacity of their networks. Without a rate structure that proportionally charges the users for these costs, all consumers must pick-up the tab. Since equity is a rate design goal, The Public Service Board and Public Service Department structure rates in a way that does not require non-users to pay the costs associated with usage.

**Changes in Extended Area Service (EAS):** In February 1996 and September 1997, many Vermont communities saw an expansion of their local calling areas. This meant that many people could call more nearby areas without paying expensive toll calling rates. The expansion of local calling was designed to be "revenue neutral," meaning that companies would adjust their rates (receiving less money from toll calls, more from other charges), but receive the same total amount of money as they had before. In an effort to prevent basic monthly service charges from increasing too much, many local telephone companies were allowed to increase or introduce Local Measured Service rates. Without concurrent implementation of LMS, the EAS expansions would have required higher dial tone rates.

**Change in Federal Funding:** In 1987, a change in FCC policy resulted in a loss to Vermont of about \$27 million per year of Federal support for states with high costs for maintaining their local phone service. Since this lost revenue could only be recovered from in-state sources, the Public Service Board decided that the most equitable solution was to institute local measured service and eliminate flat rate local calling. By making this change, the Board was able to minimize dial tone increases and help ensure the additional required revenue was collected from those customers who use, and therefore benefit the most from, the local switched network. The overriding goal was to keep dial tone rates low and promote universal service.

### **Then why are basic rates in Vermont higher than other states?**

Despite charging for local usage, our dial tone rates are still higher than those charged in other states. We just can't get around the fact that Vermont has the most rural population in the nation, which means our population is small and dispersed. Vermont is the only state with no metropolitan area exceeding 50,000 population. Low density means high cost per customer. Other states have high density urban areas to support low density rural areas. Vermont doesn't have a Boston or a Hartford to offset rural rates. If we did, it is possible that rates (which are currently averaged statewide) could be lower.

### **What are typical Local Measured Service rates?**

Each LEC determines what its LMS rate will be. Depending on the time of day and which company serves you the local rates could be as much as five cents per minute, or as low as a half cent per minute. For most Vermonters, weekday/daytime local usage costs about two to three cents per minute. Off-peak rates are typically charged weekdays from late in the evening to early in the morning, and all hours of the weekend. Off-peak rates are typically between a half cent and one cent per minute. Most consumers also have a cap on the total amount they are charged for Local Measured Service per month. (Some local telephone companies, however, do not cap LMS.)

### **How long has Vermont had Local Measured Service?**

Optional Local Measured Service went into existence in the 1970s. Mandatory Local Measured Service was phased in for customers of Bell Atlantic (formerly NYNEX) beginning in 1985. LMS became mandatory for all Vermont consumers, except those with party lines, as of February 1996.

### **Is it possible not to have Local Measured Service?**

No. At this time LMS is not optional. However, your local telephone company may offer a discount plan enabling you to purchase a block of use at a discount.

### **Do other states have the same LMS policy as Vermont?**

Nationwide, many telephone companies have not yet adopted Local Measured Service, although several do add per-call charges. Instead, they get all of their revenue through other rates. There are fewer places where this is the case than there once were. When telephone companies and utility regulators try to bring the rates for telephone service closer to the costs of providing telephone service, the effort often requires LMS.

## **Why do telephone companies charge for LMS when my Internet service provider advertises unlimited dial-up access for one flat monthly rate?**

The Public Service Board does not regulate Internet service providers. Many Internet service providers charge a “flat rate” for unlimited dial-up access. These “flat rates” only cover unlimited access to the Internet, not unlimited use of the telephone network with a modem. In fact, calls made by a modem are billed by telephone companies just like any other call. Internet service providers are not involved in setting local telephone rates, nor do they receive any money from LMS.

In the past several years, many telephone companies have begun to provide Internet services. Although these Internet businesses may use the same name as a telephone company, they must keep their costs and revenue separate from those of regulated local telephone companies. A telephone company’s Internet service provider must pay its regulated side of the business for any telephone services that it needs, such as telephone lines. A local telephone company that offers Internet services cannot waive telephone charges, such as LMS, for customers of its Internet business. This would be a competitive advantage denied to other Internet service providers.

## **Why isn’t there a lower Local Measured Service rate for calls made by modem?**

Large increases in the use of modems have only happened relatively recently. The telephone network is not presently designed to tell the difference between a call made by a modem and a voice call. Furthermore, a call made by a modem currently places the same costs per minute of use on the telephone network as a voice call.

## **Will competition in the local telephone market change Local Measured Service?**

This is a time of enormous change in the telecommunications industry. With the advent of local exchange competition, there is the potential that local service will be very different in the near future. Thus far, about a dozen Competitive Local Exchange Carriers have been granted approval by the Public Service Board to provide local service in competition with existing LECs. Although, at this time none has entered the residential market, it will not be long before residential customers will be able to make a choice as to which carrier they will use for basic service. As this becomes a reality, it is possible that LMS rates will be subject to competitive pricing, much like the per minute rates for long distance calls. It is also possible that there will be different local service options, including some with flat rate calling plans.

## **Whom can I contact to express my opinion about Local Measured Service?**

Local telephone service in Vermont is regulated by the Vermont Public Service Board. You can write the Board at:

Public Service Board  
112 State Street  
Drawer 20  
Montpelier, VT 05620-2701

If you have questions or comments on this or other utility-related matters, you can contact the Department of Public Service at:

Department of Public Service  
Consumer Affairs and Public Information Division  
112 State Street  
Drawer 20  
Montpelier, VT 05620-2601  
1-800-622-4496  
TTY: (1-800-734-8390)  
<http://www.state.vt.us/psd>  
vtdps@psd.state.vt.us (use subject CONSUMER AFFAIRS)

You can also express your opinion to your local telephone company.

### **About the Vermont Department of Public Service**

The Vermont Department of Public Service serves all citizens of Vermont through public advocacy, long range planning and other programs to ensure a safe and effective telecommunications, energy, and other regulated utility systems.

The Consumer Affairs & Public Information Division protects Vermont consumers by resolving citizen complaints against regulated utilities, advocating for policies which protect consumer interests and educating consumers about utility issues so they can more effectively advocate for themselves.