

Report for Congress

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Telephone Bills: Charges on Local Telephone Bills

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Summary

Telephone bills are becoming more and more complex and such change and complexity occasion congressional and regulatory attention as well as constituent requests for explanation of new charges on their bills. As local telephone companies provide additional caller services and continue to act as billing agents for long-distance and information service providers, a customer's local bill can include charges for myriad options that did not exist a few years ago. Bills may now contain charges labeled federal subscriber line charge, presubscribed interexchange carrier charge, "national access fee," "carrier line charge," "federal universal service charge," or local telephone number portability. In addition, customers may now receive bills for different telecommunications services from different telecommunications service providers.

In the past, long-distance companies usually billed business customers directly and residential customers through a local phone company. Recently, long-distance companies have begun billing residential customers directly. One bill has become two. Cellular telephone and personal communications services (PCS) providers, competitive local exchange carriers (CLEC), and paging companies usually send bills directly to the consumer. Some cable television companies are providing local telephone service, and those charges may appear on a cable bill.

Although surveys show that consumers prefer one readable and understandable bill, there is no federal regulation or law that dictates the layout or wording that is used on bills. This report lists and describes the possible basic charges that commonly appear on most local service telephone bills and discusses the practice of "cramming," the appearance of unauthorized and possibly illegal charges on telephone bills. An overview of various actions by the Federal Communications Commission is also provided.

This report will be updated as events warrant.

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Telephone Companies

According to estimates of the Federal Communications Commission (FCC), there are over 1,300 companies that provide local telephone services and over 700 companies that provide long-distance telephone services in the United States.¹ There may be almost that many ways of presenting a telephone bill to a customer. The FCC does not dictate the form or wording of a telephone bill. State public utility commissions, the entities that oversee telephone industry regulation within each state, generally do not try to control form and wording of telephone bills either. A collection of FCC Fact Sheets concerning various telephone industry issues is available at [http://www.fcc.gov/cgb/information_directory.html] and also at [<http://www.fcc.gov/cgb/telephone.html>].

Coalition for Affordable Local and Long-Distance Services (CALLS)

In August 1999, six of the largest phone companies (AT&T, Sprint, Bell Atlantic, BellSouth, SBC, and GTE) announced an industry plan to substantially revise the complicated system of telephone access charges,² which include the subscriber line charge (SLC, see the section Subscriber Line Charge) and the presubscribed interexchange carrier charge (PICC, see the section Presubscribed Interexchange Carrier Charge). The plan, referred to as CALLS, was modified by the coalition of phone companies after criticism from the FCC and consumer groups. The FCC adopted the main provisions of this 5-year access reform plan on an interim mandatory basis on May 31, 2000.³ The access charge rate structure is mandatory for all major local phone companies with certain rate level components being mandatory on an interim basis. The mandatory nature of the plan has been criticized by some companies who do not believe that the plan does enough to guarantee affordable local telephone service in rural, high-cost areas. The plan permits some companies to opt out after the first year. Those who opt out will be subject to special cost studies.

¹ U.S. Federal Communications Commission, *Statistics of Communications Common Carriers*, 2001/2002 ed., Washington, 2001, pp. iii-iv. Available via the FCC Web site at [<http://www.fcc.gov/wcb/iatd/socc.html>].

² Access charges are the fees that long-distance companies pay to local telephone companies for access to the local phone network.

³ U.S. Federal Communications Commission, *In the Matter of Access Charge Reform...*, FCC 00-193, adopted May 31, 2000, released May 31, 2000. Available via the FCC Web site at [<http://www.fcc.gov>].

Some major long-distance and local telephone companies that were not parties to the proposal and certain consumer groups have criticized the plan. US West, recently acquired by Qwest and the only large local phone company that did not agree to the CALLS plan, and the National Association of State Utility Consumer Advocates (NASUCA) both filed petitions in court for review of aspects of the CALLS plan. US West believed the plan was “arbitrary, capricious and otherwise contrary to law.” NASUCA representatives stated that the plan would actually raise phone bills. On September 19, 2000, Qwest altered its position concerning CALLS and agreed to carry out its provisions. Qwest also announced that it would drop various lawsuits that it had filed and would review others.

Access Charges

Subscriber Line Charge (SLC). The subscriber line charge is a federally regulated charge that first appeared on phone bills following the divestiture of the American Telephone & Telegraph Company (AT&T) in 1984. It is also referred to as an “access charge” and is intended to allow local telephone companies to recover some of the fixed costs (telephone wires, poles, and other facilities) of connecting phone customers to the interstate long-distance network. When a customer makes an interstate long-distance call, in the vast majority of cases he/she must use a local phone company’s network to connect to the long-distance network. Access charges are paid to local telephone companies by both the end user (business or residential customers) and the long-distance company carrying a long-distance call. The SLC paid by end users appears on a bill as a specific itemized charge. The long-distance company that carries an individual long-distance call pays access charges to both the local phone company originating the call and the one terminating the call. The access charges paid by the long-distance carriers do not appear on a telephone bill. Over the past few years, the FCC reduced the amount of access charges paid by long-distance companies. Access charges are kept by the local phone companies. They are not forwarded to the federal government. Information on the subscriber line charge is provided at the FCC Web site [<http://www.fcc.gov/cgb/telephone.html>].

In conjunction with decisions related to the implementation of the Telecommunications Act of 1996, the FCC revised the SLC for residential and business customers with more than one telephone line, although SLC charges for customers with a single line did not change. In most cases, until the CALLS revisions, the SLC for a primary residential line was \$3.50 per month. Any additional residential lines are considered non-primary lines. The SLC for non-primary lines was capped at \$5 per line per month through 1998. Starting in 1999, the SLC for non-primary residential lines was adjusted for inflation and increased \$1. It was capped at \$6.07. However, this did not mean that all non-primary lines incurred a \$6.07 charge on a telephone bill. If the local telephone company’s average interstate costs of providing that line were less than \$6.07, it could only charge the actual amount of its costs to a consumer.

CALLS Revisions of the SLC. As of July 1, 2000, the SLC and PICC for **residential and single line businesses** were consolidated into a new SLC. The PICC charge was eliminated as a separate charge. The new primary line residential and single-line business SLC was capped at \$4.35 per month and on July 1, 2001, rose to \$5. Under this plan, the cap was scheduled to rise to \$6 on July 1, 2002, and to

\$6.50 on July 1, 2003. The increases after 2001 are subject to FCC validation. The FCC noted that, for the first year, the new single SLC charge was lower than the separate SLC and PICC charges combined.

The SLC cap for residential customers and single-line businesses remained at \$3.50 for smaller local telephone companies (approximately 1,300 carriers providing service to less than 10% of total telephone access lines). On October 11, 2001, the FCC adopted an order to reform these charges also.⁴ In this order, referred to as the MAG (Multi-Association Group) Plan, the SLC caps for the smaller carriers were increased to the same levels paid by most other telephone subscribers. As of January 1, 2002, the SLC cap for residential and single-line businesses increased to \$5. Beyond that date, the FCC will conduct cost review studies, and the cap may increase to \$6 on July 1, 2002, and to \$6.50 on July 1, 2003.

2002 and 2003 Increases in the Subscriber Line Charge.

On June 5, 2002, the FCC, following a cost review proceeding, determined that the scheduled increases in the subscriber line charge were appropriate and necessary to fulfill the Commission's access charge reform plans.⁵ As a result, as of July 1, 2002, the subscriber line charge cap for residential and single-line business customers increased to \$6, and will increase to \$6.50 on July 1, 2003. The FCC noted that raising the cap does not mean that all customers will necessarily see a charge at the cap level on their bill. If a phone company's cost of providing the line is less than the cap, it may only recover that actual cost. The cap is the maximum charge that may appear on a bill and applies to all carriers. In order to ensure the affordability of phone service for low-income consumers, the FCC expanded the Lifeline support program, part of the universal service mechanism, to cover the full amount of SLC charges.

Under the CALLS plan, **non-primary line residential** (two or more lines in the home) SLC charges were increased and capped at \$7 beginning July 1, 2000. The charge will remain at this level for 5 years. However, if the telephone company's average interstate costs of providing the line are less than \$7, it may only charge the customer the amount of its costs. Not all non-primary residential lines will be charged at the \$7 cap. Prior to the implementation of CALLS, this charge was capped at \$6.07, but was scheduled to increase by \$1 plus an amount for inflation on July 1, 2000.

⁴ U.S. Federal Communications Commission, *In the Matter of Multi-Association Group Plan for Regulation of Interstate Services of Non-Price Cap Incumbent Local Exchange Carriers and Interexchange Carriers*, FCC 01-304, adopted Oct. 11, 2001, released Nov. 8, 2001. Available via the FCC Web site at [<http://www.fcc.gov>].

⁵ U.S. Federal Communications Commission, *In the Matter of Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps*, FCC 02-161, adopted June 4, 2002, released June 5, 2002. Available via the FCC Web site at [<http://www.fcc.gov>].

In the MAG Plan, the FCC adopted the MAG proposal to apply the same SLC caps to primary and non-primary residential lines of the smaller carriers. The FCC stated that several commenters in this proceeding indicated that higher SLC rates for non-primary lines would limit the growth of these lines, which are often used for advanced telecommunications services and are an important source of revenue for the smaller carriers.

Prior to CALLS, the maximum SLC for **businesses with multiple lines** was \$9 per line per month through 1998. In 1999, the multiple line business SLC was adjusted for inflation and increased to \$9.20 per line. This charge was adjusted for inflation annually. As with the residential SLC, local phone companies could only recover their costs. Thus, business customers with multiple lines did not necessarily see a \$9.20 charge for each line. The amount could be less, and according to the FCC, the average SLC for businesses with multiple lines was \$7.17. As a result of the adoption of the MAG Plan order, the multiple line SLC cap for smaller carriers increased to \$9.20 on January 1, 2002.

Multiple line businesses will not see a consolidation of the PICC and SLC charges. Under the CALLS plan, the multiple line business PICC is capped at \$4.31 (its pre-CALLS cap) and will be reduced and eliminated in most areas over the next several years (or sooner). The multiple line business SLC will be frozen for 5 years. For business customers of the largest local phone companies, the SLC charge is \$9.20 or the company's average interstate cost of providing the line in that state, whichever is less. Multiple line business customers of the smaller local telephone companies will be charged \$6 or the cost of providing the line in that state, whichever is less. The FCC plans to reevaluate the multiple line business charges at the end of the 5-year period covered by the CALLS plan.

The presence of a cap does not mean that every customer will be charged that specific amount on their bill. The cap is the maximum charge that may appear. The actual charge on an individual phone bill may be lower than the cap.

Presubscribed Interexchange Carrier Charge (PICC). The PICC began appearing on telephone bills in January 1998. It was a flat-rate per-line charge that long-distance companies paid to local telephone companies. It was charged in addition to the SLC, because the FCC determined that the SLC did not allow local phone companies to recover all of the fixed costs associated with the interstate portion of the local loop. The FCC set PICC charges as ceilings, not absolute rates, and thus specific PICCs varied from state to state depending upon the costs of providing service within the state. The charge could be assessed for all telephone lines regardless of whether a business or residential customer had actually selected (presubscribed) a specific long-distance company.

As of July 1, 1999, the PICC for primary residential lines and businesses with a single line was capped at \$1.04 per month, up from \$0.53 in 1998. The primary line and single line business PICC was adjusted annually for inflation and increased by \$0.50. Through June 30, 2000, the maximum PICC charge for non-primary residential lines was \$2.53 per line per month, up from \$1.50 in 1998. The cap for business customers with multiple phone lines was raised to \$4.31 per line per month, up from \$2.75 in 1998. The multiple business line PICC ceiling could be adjusted

for inflation and increased, if necessary, by approximately \$1.50 per year. As with the residential and single-line business PICC, the FCC estimated that, as its plans were implemented, PICC charges would decrease and eventually reach zero in many places.

Long-distance companies took various approaches to including or not including PICC charges on phone bills. In some cases, the charges appeared as an itemized line on a bill, but they also may have been lumped in with other charges and labeled “national access fee” or “carrier line charge.” The FCC did not order long-distance companies to present PICC charges in a specific way, nor did the FCC order the companies to charge the customer directly for PICC charges. The FCC stated that its reductions in access charges which the long-distance companies pay to local phone companies largely offset any increases in per-line or other charges, making them revenue-neutral. Some long-distance companies chose to recover all or part of the PICC charges from their customers and stated that they had to do so because their costs rose and the FCC reductions in access charges were not enough and had already been passed on to customers. Long-distance companies requested further reductions of these charges.

CALLS Revisions of the PICC. Under the CALLS plan, on July 1, 2000, the PICC charge was eliminated as a separate charge for **residential and single line business** customers. The PICC and SLC (see section “Subscriber Line Charge”) were consolidated into a single, new SLC charge. However, multiple line businesses will not see a consolidation of the PICC and SLC charges. The multiple line business PICC will be capped at \$4.31 (its pre-CALLS cap) and will be reduced and eliminated in most areas over the next several years (or sooner). As with SLC caps, the presence of a PICC cap does not mean that all customers will be charged at the cap rate. The specific charge may be less than the cap and must be based on the actual cost of providing phone service in each area.

Other CALLS Provisions. Overall, according to the FCC, this action will simplify charges and reduce the fees appearing on monthly bills, especially for low-volume residential and business users. Due to the wide variety of billing formats, the different fees on telephone bills, charges attached to different calling plans, and the volume of calls a customer makes, it is not possible to state that any particular bill will decrease by a specific amount or percent. The FCC has stated, however, that low-volume users (30 minutes or less of long-distance calling per month) may save between \$10 and \$50 per year. Various observers believe it is even more difficult to quantify savings for heavy users of long-distance services. In addition, this action by the FCC may result in an increase in local and long-distance competition and further reductions in long-distance charges.

According to the FCC, some of the major consumer benefits of the CALLS plan are as follows:

- the elimination of the residential and single line business PICC. The multiple line business PICC will be reduced over time and eliminated in some areas.

- a \$3.2 billion reduction in access charges paid by long-distance companies to local phone companies.

Although major long-distance companies have agreed to pass these savings on to their customers over the 5-year life of the CALLS plan, some consumer groups and analysts question whether all of the savings would actually reach consumers, and when. The government cannot force the companies to pass on the savings. It is not clear at this time whether per minute charges for long-distance calling will fall.

- availability of at least one long-distance plan (to AT&T and Sprint customers) that does not have a monthly minimum use charge.

Monthly minimum use fees (see the section “Minimum Use Fees”) of approximately \$3 per month have been charged by some long-distance carriers to customers who do not make large volumes of long-distance calls. Although this plan does not abolish the use of minimum monthly fees and the FCC did not reach the conclusion that such flat fees were unreasonable, inequitable, or inconsistent with the Communications Act, companies agreed to eliminate or make avoidable some of these fees.

As part of the CALLS proposal, AT&T and Sprint agreed to make long-distance plans available that would address the needs of low-volume users. Also, members of the coalition agreed to work with the Consumer Information Bureau at the FCC to develop a consumer education plan. The plan will address important issues relating to long-distance and local phone service pricing and service. In addition, the CALLS companies will create programs and materials to assist consumers in understanding their telephone bills. In order to reach the maximum number of consumers, the materials must be available in various formats and languages. Within 90 days of publication of provisions of the Order in the *Federal Register*, CALLS companies had to submit a compliance statement relating to their consumer education plan to the FCC.⁶ Education efforts must continue over the 5-year life of the plan. A report was filed with the FCC on September 19, 2000.

As part of the education effort, the CALLS member companies established Web sites to provide phone bill assistance and other information to consumers. See [<http://www.phonebillcentral.org>] and [<http://www.lifelinesupport.org/li/lis/>].

- identification of \$650 million in implicit universal service support and establishment of an explicit universal service support mechanism to replace the implicit support.

According to the FCC, phone companies were collecting approximately \$650 million in universal service (see the section “Universal Service”) support for high-cost customers through their access charges. Under the new rules, this money is removed from access charges and replaced with an assessment on all telecommunications carriers’ interstate revenues. The money will be placed in a new universal service mechanism (separate from the existing high-cost fund) and made

⁶ *Federal Register*, June 21, 2000, pp. 38684-38704.

available to any carrier serving customers in high-cost areas. This new mechanism is capped at \$650 million and is targeted to density zones and study areas that have the greatest need for it. As of July 1, 2000, price cap local phone companies must create a separate line item to recover all contributions to the universal service support mechanism.

For more information on the CALLS plan and its provisions, consult the FCC Web site at [<http://www.fcc.gov>] or contact them at:

Federal Communications Commission
 Consumer and Governmental Affairs Bureau
 445 12th Street, S.W.
 Washington, D.C. 20554
 Call toll free: 1-888-CALL-FCC (1-888-225-5322)

Truth-in-Billing and Billing Format

On September 17, 1998, the FCC adopted a Notice of Proposed Rulemaking addressing the issue of the clarity of telephone bills.⁷ The three main proposals of the rulemaking were as follows:

- Telephone bills should be clearly organized and highlight any new charges or changes to consumers' services;
- Telephone bills should contain full and non-misleading descriptions of all charges and clear identification of the service provider responsible for each charge; and
- Telephone bills should contain clear and conspicuous disclosure of any information consumers need to make inquiries about charges.

The FCC received over 60,000 consumer inquiries concerning telephone bills in 1998. On April 15, 1999, the FCC issued an Order generally adopting the proposed principles and minimal, basic guidelines to help consumers understand their telephone bills.⁸ The guidelines adopted implement three basic principles. Consumers should know:

- who is asking them to pay for service;
- what services they are being asked to pay for; and
- where they can call to obtain additional information about the charges appearing on their telephone bill.

The FCC chose to adopt broad, binding principles instead of detailed rules that would rigidly control all of the wording and the format of a telephone bill. Thus,

⁷ *Federal Register*, Oct. 14, 1998, pp. 55077-55083.

⁸ U.S. Federal Communications Commission, *In the Matter of Truth-in-Billing and Billing Format*, First Report and Order and Further Notice of Proposed Rulemaking, CC Docket 98-170, FCC 99-72, adopted Apr. 15, 1999, released May 11, 1999. Available via the FCC Web site at [<http://www.fcc.gov>].

telephone companies have wide latitude to satisfy the adopted principles in a way that serves the needs of the carrier and the customer. In its Order, the FCC states that:

“We incorporate these principles and guidelines into the Commission’s rules, because we intend for these obligations to be enforceable to the same degree as other rules. Thus, while we provide carriers flexibility in their compliance, we fully expect them to meet their obligation to provide customers with the accurate and meaningful information contemplated by these principles.”

Deniable and Non-deniable Charges. The Truth-in-Billing Order also requires companies to identify charges on a customer’s bill that are “deniable” and “non-deniable.” Generally, deniable charges are those that, if not paid, may result in the termination (denial) of a customer’s local telephone service. Non-deniable charges are those that, if not paid, will not result in termination of the customer’s local telephone service. No specific format on a bill is required, although deniable and non-deniable charges must be clearly and conspicuously identified. In addition, carriers are free to choose other methods of informing consumers about charges that may be contested. State laws may also address this issue.

The FCC views identification of charges into these two categories as protecting consumers from paying questionable, unauthorized charges out of fear of having their local telephone service disconnected. However, this guideline applies only to companies who include both categories of charges on a single bill. Companies that bill directly for a service that includes no basic local telephone service would not be covered. For example, customers being billed directly by a wireless telephone company for only wireless service would not have charges for wired basic local telephone service on their bills. Although not paying charges on the wireless bill would have no effect on their at-home wired service, non-payment of the wireless bill may result in termination of their wireless service.

Essentially, customers should not conclude that every bill for a telephone service has both deniable and non-deniable charges on it. Prior to withholding payment for any charge on a bill, a customer should verify the status of the charge with the billing company.

After reviewing petitions for reconsideration relating to truth-in-billing and billing format, the FCC on March 29, 2000, released an Order on Reconsideration that reaffirmed the requirement that telephone bills highlight new service providers and prominently display a contact number for inquiries. This requirement is intended to act as a deterrent to slamming and cramming by allowing consumers to more easily identify changes in providers on their bills. The rule does not cover services provided on a per-transaction basis like directory assistance. Changes in a customer’s local or long-distance company would be covered.⁹

The Order also adopted proposals to require carriers to use standard industry-wide language and clear descriptions for line item charges identified as resulting from

⁹ *Federal Register*, July 13, 2000, pp. 43251-43258.

federal regulatory activity. The FCC felt that current presentations of these charges on telephone bills are misleading, inaccurate, and confusing. As a result, through a proceeding announced in the *Federal Register*, the FCC will seek comment from consumer and industry groups concerning standard labels for these charges.¹⁰

Finally, carriers must prominently display on each bill a toll-free number (or numbers) that customers may use to inquire about or dispute any charge on their bill.

Provisions of this Order not subject to further rulemakings become effective 30 days after the publication of notice of the effective date in the *Federal Register*. That notice was published in the October 12, 1999 *Federal Register* on pages 55163-55164. All other principles and guidelines adopted in the Order became effective on November 12, 1999.¹¹

The FCC provides consumer information on truth-in-billing, charges on telephone bills, and other telephone issues at their Web site. See [<http://www.fcc.gov/cgb/phonebills/samplePhonebill.html>], [http://www.fcc.gov/cgb/information_directory.html], and [<http://www.fcc.gov/cgb/telephone.html>].

Complaints concerning telephone service may be filed via the FCC Web site at [<http://www.fcc.gov/cgb/complaintfiling.html>].

State regulatory authorities may also address telephone billing formats and customer service practices of telephone companies operating in their state.

Charges on Local Telephone Bills

Local Telephone Service. This is the basic amount that a customer pays for local dialing service, not including any taxes or additional services. State public utility commissions regulate this charge, not the FCC. For Web connections to state public utility commissions, see the National Association of Regulatory Commissioners Web site at [<http://www.naruc.org/resources/state.shtml>].

The geographic size of a local dialing area and the structure of local dialing service packages vary from company to company and from state to state. Typically, customers may have local telephone service that allows an unlimited number of calls *within* their local dialing area for a flat monthly fee or a service package that allows up to a specific number of local calls during any one month. If a customer exceeds that number of calls, the extra calls are subject to additional charges. Usually, the various local telephone service plans are summarized in the front section of the white pages of a telephone book. In many cases, companies providing local telephone service list the individual component charges that are included in the fee a customer pays for local service. Questions concerning any of these components or the fees charged for each component should be addressed to the company providing local

¹⁰ *Federal Register*, June 25, 1999, pp. 34499-34501.

¹¹ A summary of this Order was published in the *Federal Register* on June 25, 1999, on pages 34488-34498.

phone service or the state public utility commission. The FCC does not establish or regulate local plan prices or components.

Table 1. Average Residential Rates for Local Service in Urban Areas, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Monthly Charge	\$13.62	\$13.71	\$13.67	\$13.75	\$13.77	\$13.64	\$14.05
Subscriber Line Charge	3.54	3.54	3.53	3.52	3.58	4.50	5.03
Touch-Tone Service Charge	.44	.30	.25	.10	.09	.06	.06
Taxes, 911, and Other Charges	2.41	2.40	2.42	2.39	2.48	2.57	2.70
Total	\$20.01	\$19.95	\$19.88	\$19.76	\$19.93	\$20.78	\$21.84

Source: *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, by Keith Brown, Federal Communications Commission, July 2002. Available at [<http://www.fcc.gov/wcb/iatd/stats.html>].

Notes: Figures are average rates as of October 15, 2001, for flat-rate calling in a sample of 95 cities. Separate charges for touch-tone service are no longer levied in 81 of the cities, but have been incorporated into the basic monthly charge. Charges for add-on services, such as caller ID, call forwarding, etc., and cellular services are not included in the table.

Table 2. Representative Local Rates for Businesses with a Single Line in Urban Areas, 1995-2001

	1995	1996	1997	1998	1999	2000	2001
Monthly Charge	\$32.48	\$32.58	\$32.76	\$32.44	\$32.41	\$32.18	\$31.97
Subscriber Line Charge	3.57	3.54	3.54	3.54	3.52	4.39	4.99
Touch-Tone Service Charge	.97	.82	.38	.32	.25	.19	.18
Taxes, 911, and Other Charges	4.79	4.87	4.99	4.97	5.03	5.04	5.04
Total	\$41.81	\$41.81	\$41.67	\$41.27	\$41.21	\$41.80	\$42.18

Source: *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, by Keith Brown, Federal Communications Commission, July 2002. Available at [<http://www.fcc.gov/wcb/iatd/stats.html>].

Notes: Figures are as of October 15, 2001. The monthly charge presented in this table is a “representative rate.” Since flat-rate calling was available for single-line businesses in only 54 of the 95 cities in the survey, the FCC used the measured/message service rate (along with charges for placing 100 5-minute, same-zone, business-day calls) in combination with flat-rate charges to calculate a representative rate. No add-on services or cellular charges are included. Additional business tables are available in the FCC report cited.

Table 3. Average Household Expenditure for Telephone Service (All Households), 1994-2000

	1994	1995	1996	1997	1998	1999	2000
Annual Household Expenditure for Telephone Service	\$690	\$708	\$772	\$809	\$830	\$849	\$877
As a Percent of Total Household Expenditures	2.17%	2.19%	2.28%	2.32%	2.34%	2.29%	2.31%
Household Expenditure per Month	\$57.50	\$59.00	\$64.33	\$67.42	\$69.17	\$70.75	\$73.08

Source: *Reference Book of Rates, Price Indices, and Household Expenditures for Telephone Service*, by Keith Brown, Federal Communications Commission, July 2002. Available at [<http://www.fcc.gov/wcb/iatd/stats.html>].

Note: Statistics obtained from U.S. Bureau of Labor Statistics surveys of consumer expenditures. Charges for add-on services, such as caller ID and cell phone services, are included in these statistics. Data presented in the FCC report cited.

Directory Assistance Charges. Local phone companies, in most cases, assess charges for directory assistance (411) calls. Rates can be as high as \$1.25 per call. Charges for 411 calls are not regulated by the FCC. State authorities may regulate these charges. In some states, there are extensive regulations. In other states, the phone companies are given more freedom in assessing 411 fees. Local phone companies may allow a certain number of calls per month to 411 without charging any fee. Above that number, fees are assessed. Customers seeking to avoid these charges should contact their local phone company and ask about the number of free calls that may be permitted; use a phone book; try the Internet; or call a friend to get a number.

Inside Wiring. In some cases, a charge labeled “Inside Wiring” may appear on a customer’s bill. This is an *optional* charge that customers may pay to a company for service calls on the wiring *inside* their home. Monthly fees for inside wiring “insurance” vary from company to company. Inside wiring is owned by the home or building owner.

Customers paying this fee are not charged any additional monies if the company is requested to repair inside wiring. Customers choosing not to pay this fee will be charged by the phone company for any necessary inside wiring repairs requested. Fees charged for inside wiring work vary from company to company. If a customer has an inside wiring problem, there is no requirement to call the phone company. Since the wiring is owned by the home or building owner, any company may be called or the owner may choose to work on the wiring.

Toll Calls. Each telephone customer is permitted (within the parameters of their local dialing plan) to call certain telephone exchanges in their geographic area without incurring any additional charge on their telephone bill. Because of the introduction of new area code overlays, local telephone calls may require seven-digit or 10-digit dialing. Calls made *outside* of a customer's local dialing area, but not going far enough to be classified as long-distance, will incur additional charges on a telephone bill. Local dialing areas are not determined by the FCC. State authorities regulate the local dialing areas in their state and make the determination as to whether calls to certain exchanges are within a specific local dialing area or are toll calls.

Toll calls are often handled by the same company that provides local telephone service to a customer. However, in many states, state authorities have permitted long-distance carriers to compete in the toll call market. Toll call rates can vary substantially depending upon the carrier chosen (in states where such competition is permitted) and other factors. If there are any questions concerning toll call charges or whether a specific exchange is included in a local dialing area, they should be addressed to the company providing local telephone service or state authorities.

In-State Connection Fee. Long-distance companies may have a charge on a bill labeled the In-State Connection Fee or something similar. According to the long-distance carriers, this is a fee to recover the charges that local telephone companies assess on the long-distance companies to carry in-state long-distance and toll calls over their lines. These charges are often referred to as intrastate access charges. The FCC does not regulate the fee assessed to recover these charges. Customers with questions about the fee on their bill or intrastate access charges should contact the companies involved and their state public utility commission.

In some cases, long-distance companies exempt certain customers from the fee. For example, customers who have certain service packages from the long-distance company, customers enrolled in certain types of lifeline programs, or customers who spend less than \$1 per month on long-distance calling.

Jamming. With the advent of competition in the toll call market, complaints have arisen that some customer accounts are being frozen so that customers cannot use a company competing with their local phone company to complete a toll call. This tactic is referred to as jamming. In cases where this is occurring, customers may be paying more for their toll calls. Customers who feel that they have been jammed and have inquiries about competition in the toll call market should address their inquiries to state authorities.

Sliding. Some customers have also complained that their chosen provider of toll call service has been switched without their permission. This practice has been termed sliding. As with jamming, toll call rates can vary substantially from company to company. Consumers who believe that they have been victims of sliding should contact their chosen toll call provider or state authorities.

Miscellaneous Caller Services. Local telephone companies offer a wide variety of caller services such as: caller ID, call waiting, call forwarding, call rejection, call trace, call return, priority ringing, and voice mail, among many others. Both the types of caller services offered and the charges for these optional services vary from company to company. Charges may include monthly fees or per-use charges. The FCC does not regulate these charges.

Long-Distance Services. Long-distance charges are wholly dependent upon the long-distance company that a consumer chooses as his/her long-distance carrier, the particular calling plan (if any) chosen, and the number and length of calls made during a billing period. Usually, customers designate a specific long-distance company as their primary long-distance carrier. When a customer dials a long-distance call by dialing 1+(area code)+telephone number, a telephone switch automatically routes the call to the customer's designated long-distance carrier. However, customers are not required to use their designated long-distance carrier to handle any of their long-distance calls. If customers use "dial around" long-distance carriers (reached by dialing the appropriate 10-10-XXX code for a particular company) instead of their chosen long-distance carrier, charges for those calls can also be included on a local bill. In addition, customers may use different types of pre-paid phone cards or long-distance company calling cards to complete a long-distance call. Rates and conditions for these cards vary widely, and the charges billed to a card can vary depending upon whether a payphone, business, or residential phone is used.

Many long-distance companies are now billing their residential customers directly instead of billing through a local telephone company. As a result, customers may receive a minimum of two bills for telephone service.

On March 1, 2000, the FCC and the Federal Trade Commission (FTC) issued a joint *Policy Statement* concerning advertising practices relating to long-distance services, especially dial-around (10-10) numbers.¹² The agencies took this action following thousands of complaints from consumers and issued the *Statement* to "... encourage industry to adhere to the standards offered in the joint *Policy Statement*." According to the FCC and FTC, the *Policy Statement* does not preempt any existing state law.

Suggested guidelines for advertising of long-distance services are as follows:

- All claims must be truthful, non-misleading, and substantiated;

¹² *Joint FCC/FTC Policy Statement For the Advertising of Dial-Around And Other Long-Distance Services To Consumers, Policy Statement*, File No. 00-72, FCC 00-72, released Mar. 1, 2000.

- Carriers should disclose all costs consumers may incur, such as per-call minimum charges, monthly fees, and universal service charges;
- Advertising should disclose any time or geographic restriction on the availability of advertised rates;
- The basis for comparative price claims should be disclosed, and only current information used in making claims; and
- Information should be disclosed in a clear and conspicuous manner, and without distracting elements, so that consumers can understand it and make fully informed choices.

Consumers are usually charged a fee of up to \$5 by a local telephone company when they change the long-distance carrier selected as their primary carrier. Often, the newly designated long-distance carrier will pay the fee as an incentive to obtain new customers. The fee has been capped at \$5 since the 1984 divestiture of AT&T. On March 14, 2002, the FCC began a proceeding to examine this charge.¹³ The agency will seek to determine if the charge is outdated and may, in fact, hinder competition by discouraging consumers from switching companies. As part of the proceeding, the FCC will attempt to determine whether it should set a lower cap or rely on market forces to set reasonable rates.

The FCC provides Consumer Fact Sheets at its Web site, see [http://www.fcc.gov/cgb/information_directory.html] or [<http://www.fcc.gov/marketsense/welcome.html>] or [http://www.fcc.gov/cgb/consumerfacts/longdistance_detariff.html].

Single Bill Fees. Customers who receive a single bill for local and long-distance services may be charged a fee by the long-distance company for this service. The fee is not mandated by the FCC and is not a federal charge. In some cases, customers are informed in advance about the fee. In other cases, no advance notice is given. Should this charge appear on a phone bill, a customer must contact their long-distance company and inquire about separate billing for long-distance calls. The fee will then not apply. Single bill fees are approximately \$1.50 per month. An FCC Fact Sheet is available at [<http://www.fcc.gov/cgb/consumerfacts/singlebill.html>].

Slamming. Generally, slamming is the unauthorized change of a customer's long-distance service provider.¹⁴ There are existing FCC rules and policies designed to protect telephone customers from this practice, and sections of the Telecommunications Act of 1996 prohibit carriers from changing a customer's long-distance company without following specific verification procedures. On April 13, 2000, the FCC adopted additional rules to combat slamming.¹⁵ As a result, state regulatory agencies will be responsible for resolving slamming disputes. In cases where a state elects not to administer the slamming rules, the FCC will resolve

¹³ *Federal Register*, May 15, 2002, pp. 34665-34669.

¹⁴ For an overview of the slamming issue, see CRS Issue Brief IB98027, *Slamming: The Unauthorized Change of a Consumer's Telephone Service Provider*, by Angele A. Gilroy.

¹⁵ *Federal Register*, Aug. 3, 2000, pp. 47678-47693.

disputes. The new rules also require slammers to compensate both the consumer and the authorized carrier.

Consumers may verify the long-distance carrier connected to their home phone by calling 1-700-555-4141 *from their home phone*. A recording will state the name of the long-distance carrier connected to that line. This is an automated service. Consumers cannot call the 700 number from another location to verify service on their home phone. Calls must be made from the line for which one wishes to verify service.

If there is a problem, customers should contact their local telephone company and chosen carrier and arrange to be switched back to the chosen carrier at no charge. If there was a charge for switching or higher rates when slammed, customers have the right to demand a refund. Consumers may also choose to contact their state's Attorney General, public utilities commission, or a consumer protection group or agency.

The FCC provides information on telephone slamming at its Web site at [<http://www.fcc.gov/cgb/consumerfacts/slamming.html>]. Complaints concerning slamming may be filed electronically at the FCC's Consumer Information Bureau Web site [<http://www.fcc.gov/cgb/complaintfiling.html>]. Complaints may also be filed directly with the FCC:

Federal Communications Commission
Consumer and Governmental Affairs Bureau
445 12th Street, S.W.
Washington, D.C. 20554
Call toll free: 1-888-CALL-FCC (1-888-225-5322)

Minimum Use Fees. Certain long-distance carriers charge minimum use fees to some of their long-distance customers. In most cases, basic rate customers (those customers who are not on any calling plan) are assessed the charge. However, in some circumstances, customers on calling plans may also be charged. The companies stated that it was necessary to assess the charge because of the expenses of billing, account maintenance, and customer service. Consumer advocates condemned the charge as punishing low volume callers. The fee, if assessed, can be \$3 or more per month.

Long-distance carriers may exempt qualifying low-income customers from paying the fee and, usually, long-distance calls made during the month are applied against the fee. If a customer makes \$2.50 in long-distance calls during the month, 50 cents will be added to the bill to bring charges up to the \$3 minimum. If calls exceed \$3, there is no additional fee. Questions about the structure of these fees or company policies concerning the fees should be directed to a customer's long-distance carrier.

Consumers should note that a minimum use fee is different from the monthly charge that may be assessed by a particular company's calling plan. A customer might pay \$5.95 per month to be on a plan that offers long-distance rates of 10 cents

per minute, 24 hours per day. This charge does not increase or decrease regardless of the volume or cost of calls made during the billing period.

Customers who wish to avoid minimum use charges may contact their long-distance carrier and inquire about discount calling plans, switch to a long-distance company that does not charge minimum use fees, or cancel their designated long-distance carrier. Most long-distance calling plans, regardless of the company, may carry basic monthly charges. These charges often exceed \$3. Should a customer cancel the designated long-distance carrier, they will still receive *incoming* long-distance calls, but would only be able to make *outgoing* long-distance calls by using dial-around carriers, prepaid calling cards, or cell phones. Customers choosing this option should pay strict attention to the details of the price structure of dial-around or prepaid services. Prices for these methods vary significantly.

CALLS Revisions. Neither the FCC nor the states currently regulate minimum use fees charged by long-distance companies. On July 9, 1999, the FCC announced that it would begin an inquiry into how these fees affect low volume callers.¹⁶ This inquiry was concluded as part of the CALLS proposal adopted on May 31, 2000 (see section “Coalition for Affordable Local and Long-Distance Services”). Although minimum use fees were not abolished, companies agreed to eliminate them or make these fees avoidable through special calling plans with no minimum monthly charge.

The FCC provides a series of tips at their Web site for choosing a long-distance provider. See [<http://www.fcc.gov/marketsense/welcome.html>].

Internet Access and Long-Distance Charges (Reciprocal Compensation). Members of Congress and the FCC have been inundated with inquiries concerning the classification of telephone calls to Internet Service Providers (ISP) as long-distance instead of local. Those complaining believed that Congress and the FCC were about to enact provisions that would make all calls to ISPs subject to long-distance charges. There were and are no bills in Congress to do this.

The FCC conducted a proceeding at the request of telephone carriers to clarify how local telephone companies should compensate each other (reciprocal compensation) for carrying telephone traffic to ISPs. Essentially, when Telephone Company X (a local phone provider) delivers a local call to the ISP, who has chosen Telephone Company Z to handle its local calls, X pays Z to deliver the call to the ISP. If the ISP calls someone, Z pays X to deliver the call. Charges paid from X to Z or Z to X are based upon the length of time that the call is connected or some other basis determined by X and Z. X and Z enter into an agreement for a specified period of time to compensate each other for carrying calls. This compensation is paid between X and Z and does not involve any charges to the ISP or its customers and has no direct bearing on the fees that an ISP charges its customers.

However, calls to ISPs tend to last a long time, since using the Internet is usually not a speedy endeavor, but outbound calls from ISPs do not (in most cases). Thus,

¹⁶ *Federal Register*, Aug. 5, 1999, pp. 42635-42637.

local phone companies like X end up paying a lot more to Z than Z pays to X since the compensation is often based upon the length of time that the call is connected. X and other local phone companies in the same position petitioned the FCC to reconsider the status of these calls and designate them as interstate instead of local. Reciprocal compensation applies only to local telephone calls.

On February 25, 1999, the FCC ruled that “... Internet traffic is jurisdictionally mixed and appears to be largely interstate in nature” and in a Notice of Proposed Rulemaking is seeking to determine a federal inter-carrier compensation mechanism.¹⁷ Designation of these calls as interstate by the FCC is a purely jurisdictional designation. Although this ruling means that the structure and method of reciprocal compensation (payments between X and Z) will change, it does not change the status of local calls to ISPs to long-distance for the purposes of billing individual customers. It also does not require an end to reciprocal compensation. The U.S. Court of Appeals for the District of Columbia ruled, on March 24, 2000, that the FCC had not adequately justified its analysis of phone calls to Internet service providers as interstate. The case was sent back to the FCC for further explanation.

In an Order released on April 19, 2001,¹⁸ the FCC concluded that telecommunications traffic delivered to ISPs is interstate access traffic and is not subject to reciprocal compensation. However, the FCC did not abolish reciprocal compensation. Instead, it established a gradual reduction of the rates over the 2 years following the effective date of the order.

The FCC does not regulate the fees that ISPs charge their customers for Internet access. ISPs construct their own packages of monthly, weekly, hourly, or per-minute charges for their customers. Additional information is available via the FCC Web site at [http://www.fcc.gov/Bureaus/Common_Carrier/Factsheets/nominate.html].

Federal Telephone Excise Tax. The federal telephone excise tax first appeared in 1898 as a temporary tax to finance the Spanish-American War. The tax reappeared in 1914 as a tax on long-distance service necessitated by World War I. It has been repealed and reinstated several times since then. The tax was made permanent by the Revenue Reconciliation Act of 1990 (P.L. 101-508) and is currently assessed at a rate of 3% on local and long-distance telephone services. Monies collected from this tax are not kept by the telephone companies but are forwarded to the U.S. Department of the Treasury for general revenue purposes.¹⁹ The Telecommunications Act of 1996 (P.L. 104-104) did not alter this tax.

¹⁷ *Federal Register*, Mar. 24, 1999, pp. 14203-14206, 14239-14243.

¹⁸ U.S. Federal Communications Commission, *In the Matter of... Intercarrier Compensation for ISP-Bound Traffic*, Order on Remand and Report and Order, CC Dockets 96-98 and 99-68, FCC 01-131, adopted Apr. 18, 2001, released Apr. 27, 2001. Available via the FCC Web site at [<http://www.fcc.gov>].

¹⁹ For additional information on the telephone excise tax, see CRS Report RS20119, *Telephone Excise Tax* and CRS Report RL30553, *The Federal Excise Tax on Telephone Service: A History*, both by Louis Alan Talley.

Legislation to repeal this tax was introduced, but did not become law, in the 106th Congress. Similar legislation has been introduced in the 107th Congress.

Telephone excise tax collections have been as follows: FY2001 (\$5.7 billion), FY2000 (\$5.6 billion), FY1999 (\$5.2 billion), FY1998 (\$4.8 billion), FY1997 (\$4.7 billion), and FY1996 (\$4.2 billion).

Because charges on a telephone bill are presented in numerous ways, it is not always clear to what amount the 3% federal excise tax is applied. Essentially, the tax is assessed on all local and long-distance telephone services. According to the IRS code (section 4251), the tax is imposed on "...amounts paid for communications services...." Communications services are defined as including local telephone service, toll telephone service, and teletypewriter exchange service.

Many telephone bills may have a line labeled "federal tax" or "federal excise tax" with an amount next to it, but the total upon which the tax is based may not appear near the federal tax line. To determine the total upon which the tax is based, perform the following calculation:

$$\begin{aligned} &\text{If the federal excise tax on a bill is listed as } \$1.21. \\ &\$1.21 \text{ is } 3\% \text{ of what number?} \\ &1.21 \div .03 = 40.3333 \end{aligned}$$

The total upon which the 3% federal excise tax was calculated was \$40.33. That total may appear somewhere else on the bill, or the individual components that add up to the total may be presented.

Excise Tax on Frequent Flier Miles. Some long-distance companies offer their customers the chance to earn frequent flier miles based on their long-distance calling plan. The long-distance companies purchase the miles from airlines and award them to their customers according to the rules of the promotion being offered. Congress, in the Taxpayer Relief Act of 1997, established an excise tax of 7.5% on the purchase of frequent flier miles. The airlines collect the tax from the companies that purchase the miles. Some long-distance companies have chosen to pass all or part of this tax on to their customers who receive the miles. They are free to do so, but are not required to do so. Although the long-distance companies collect this charge via the telephone bill, it is not a telephone-related charge and although the charge is the result of a federal excise tax, it is not related to the 3% federal telephone excise tax mentioned above.

Local Number Portability (LNP). The Telecommunications Act requires implementation of local number portability. LNP permits telephone customers to retain their telephone number even if they switch telephone companies. LNP was implemented in stages and was initially available in the 100 largest metropolitan areas. Phone companies reportedly have spent approximately \$3 billion to implement LNP.

As of February 1, 1999, local phone companies may, but are not required to, assess a monthly charge on customers' telephone bills to recover some of their costs incurred in implementing LNP. A monthly charge for LNP may appear on

customers' bills only in areas where LNP has been implemented. The charge will vary from company to company and region to region depending upon the costs incurred to implement LNP. According to various reports, LNP charges that have been assessed have been in the 20 to 60 cents range. In most cases, residential and business customers will be charged the same amount. The charge is permitted to continue for 5 years from the date it first appears, but should not increase during that time.

Since LNP was implemented in stages, customers in the largest metropolitan areas will probably see the charges first, while customers in other areas will not see any charge until LNP is implemented in their area. Any carrier assessing an LNP end user charge must file a tariff with the FCC.

On July 1, 1999, following a 5-month investigation, the FCC announced that it had directed several local phone providers to reduce their charges for LNP. According to the FCC, this action will result in a savings of \$584 million to consumers.

Wireless and competitive local exchange carriers (CLEC) and long-distance companies have also incurred costs associated with LNP. These companies are not subject to the same restrictions regarding cost recovery and are free to charge their customers as much or as little as they want over a period of time of their choice to recover the costs associated with LNP implementation. As a result, customers may see wireless, CLEC, and long-distance companies assessing an LNP charge also.

Wireless Local Number Portability. The wireless telephone industry and the FCC are in the process of implementing LNP for wireless customers. As a result of technical problems, implementation has been delayed. Under current FCC rules, wireless LNP is scheduled to be in place by November 24, 2003.

Universal Service. Section 1 of the Communications Act of 1934, as amended, states that one of the reasons for creation of the FCC is to

“... make available, so far as possible, to all the people of the United States, without discrimination on the basis of race, color, religion, national origin, or sex, a rapid, efficient, Nation-wide, and world-wide wire and radio communication service with adequate facilities at reasonable charges ...”

The Telecommunications Act of 1996 added section 254 (Universal Service) to the Communications Act. This section states that policies for the preservation and advancement of universal service shall be based upon, among other things, quality service at just, reasonable, and affordable rates and that access to advanced telecommunications and information services should be available in all regions of the nation.

The concept of universal service can trace its roots to the turn of the century and the early years of the telephone system in the United States. During these years, a complex system of cross subsidies developed to fund telephone services for all citizens of the United States. Wiring rural areas was much more expensive than wiring urbanized population centers. Profits generated in the urbanized areas were used to subsidize rural wiring. Higher rates were charged for business customers and

long-distance calls, enabling lower residential charges for local calling. Later, assistance was provided for low-income households. As the years passed, revenues continued to increase, and these complex cross subsidies enabled the funding of universal service at affordable rates for all citizens.

With the divestiture of AT&T in 1984, the expansion of competition, and advances in technology, the structure of the telecommunications industry in the United States began a complex transformation that continues today. No longer was the system of cross subsidies applicable mainly to a single major provider of telephone service. At divestiture, seven “Baby Bells” were created. Due to mergers and corporate restructuring, only four of the original seven remain, and only one of those has the same name it had at divestiture. The number of local and long-distance providers mushroomed, and the country entered the information age. Telephone service was no longer limited to a wired connection in a home or business. New questions arose relating to the concept of universal service. What type of connections should be included? Who should contribute to a universal service mechanism? How much should they pay? How should they pay?

As a result of the Telecommunications Act of 1996, the FCC attempted to answer some of these questions. In its May 7, 1997, universal service and access reform decisions, the agency, in compliance with the provisions of the 1996 Act, expanded the field of entities eligible for universal service to include schools and libraries (known as the “E-rate”²⁰) and rural health care providers. The pool of companies paying to fund universal service was enlarged and access charges were restructured.

Up until the present time, telephone bills for the most part did not include itemized charges for universal service. While, technically, all telephone customers have contributed to universal service for decades, such charges were built into the rate system. The companies that currently pay into the universal service mechanism do so based upon their revenues and a quarterly contribution factor, not according to a specific fee. The FCC had not established rules mandating or forbidding phone companies from itemizing their universal service costs on telephone bills, and there is no specific federal universal service charge that must be charged directly to customers. Phone companies are taking different approaches to itemizing universal service costs on customers’ bills. Some phone companies feel that they must pass on the costs of universal service directly to their customers and are itemizing charges on bills to reflect this. Any charge on a phone bill labeled as a “federal universal service charge” or “universal service connectivity charge” or something similar has been added as a specific item by the company issuing the bill. Questions about any such charges should first be directed to that company.

There has been a great deal of consumer confusion over universal service charges presented on telephone bills. Some companies collect a flat monthly fee. Other companies assess the charge as a percentage of the interstate portion of the bill.

²⁰ For more detailed information on the E-rate, see CRS Issue Brief IB98040, *Telecommunications Discounts for Schools and Libraries*, and CRS Report 98-604, *E-Rate for Schools: Telecommunications Discounts Through the Universal Service Fund*.

The flat fees and the percentages vary from company to company. Telecommunications providers pay a percentage of their interstate end-user revenues into the universal service mechanism based on a contribution factor that is adjusted quarterly. The contribution factor, as of the second quarter of 2003, is set at 9.0044%.²¹ Some companies that assess the universal service fee based on a percentage have assessed the charge at percentages exceeding 10%. Many consumers have complained about charges exceeding the contribution factor claiming that the companies are profiting from collecting excessive universal service fees. Telecommunications companies have stated that they are only recovering the universal service fee and administrative and other business costs associated with collecting the fee.

On May 8, 2001, the FCC initiated a review of the way that telecommunications carriers contribute to the universal service fund. Part of the review will be to ensure that the carriers' contributions are recovered (from customers) fairly, accurately, and equitably. In a *Federal Register* notice published on March 13, 2002, the FCC invited additional comments on reforming the universal service contribution recovery process to make it more fair and understandable for consumers.

2003 Changes in Universal Service Fees on Phone Bills. Following a review of the comments received by the FCC, the Commission announced new rules on December 13, 2002, that prohibit telecommunications carriers who choose to recover universal service contribution costs through a line item on telephone bills from assessing universal service fees that exceed their universal service fee contribution factor. If the contribution factor is 9%, the line item on the phone bill may not exceed 9%. The carriers may continue to choose to express the line item as a flat fee or as a percentage, as long as the charge does not exceed the total amount associated with the contribution factor. Although this action should result in lower universal service fees for many consumers, the FCC did not prohibit the carriers from recovering their administrative and other costs through their customer rates or another line item. Those additional costs, however, may not be included in the universal service fee on the phone bill. In addition, carriers may not recover universal service contributions from Lifeline (qualifying low-income) customers. The rules take effect on April 1, 2003.²² The FCC chose not to direct the carriers to use specific wording to label the universal service line item on a phone bill. As a result, language is likely to vary. A summary of the FCC action may be found in the *Federal Register* on December 30, 2002, on pages 79525 through 79533.

For extensive information on the FCC's actions relating to universal service and copies of documents see [http://www.fcc.gov/wcb/universal_service/welcome.html], as well as the FCC Consumer Fact Sheets on universal service at [http://www.fcc.gov/cgb/information_directory.html].

²¹ Information on the quarterly contribution factor is available at the FCC Web site at: [http://www.fcc.gov/wcb/universal_service/quarter.html].

²² U.S. Federal Communications Commission. *In the Matter of Federal-State Board on Universal Service ... and Truth-in-Billing and Billing Format*, FCC 02-329, adopted Dec. 12, 2002, released Dec. 13, 2002. Available via the FCC Web site at [<http://www.fcc.gov>].

The universal service fund is administered by the National Exchange Carrier Association (NECA), which can be reached via their Web site [<http://www.neca.org>] or at:

National Exchange Carrier Association
80 South Jefferson Road
Whippany, NJ 07981-1009
(800) 228-8597

NECA's subsidiary, the Universal Service Administration Company (USAC), provides detailed information on the various components of the universal service mechanism at [<http://www.universalservice.org>].

Local Taxes. The county, city, or state in which an individual lives often has its own tax on telephone service. Local taxes may be much higher than the federal excise tax and can exceed 20%. Local taxes may include: franchise, gross receipts, state sales, local sales, municipal, special district, or earnings taxes, and state mandated universal service surcharges.²³ Some or all of these charges may appear on a customer's telephone bill. Questions about these taxes should be directed to local phone companies, state public utility commissions, or local tax authorities.

Property Taxes. In some cases, a telephone company may include a charge on the bill to recover the property taxes that it pays to local governments. It may be called the Carrier Property Tax or something similar. Assessing this charge on a customer is the company's choice. The FCC does not regulate this practice, and it is not a federal tax.

Interstate Tax Surcharge. This charge, also known as a gross receipts tax, applies to interstate revenues generated by long-distance telephone companies within an individual state. It is not a federal tax. State or local tax authorities can provide information on this tax.

911 Charges. Local government authorities are responsible for the construction and maintenance of 911 emergency calling systems within a state. Any 911 charges or taxes appearing on a bill are dependent upon a local government's actions relative to 911 and will vary from locale to locale. Implementation of an enhanced 911 (E911) system is underway for wireless service providers. As a result, customers of cellular and personal communications services and other wireless service companies may see 911 charges on their bills.

Relay Center Surcharges. Also known as Telecommunications Relay Services (TRS), this charge is used to provide operator-assisted telecommunications services for people with hearing or speech disabilities. Costs for intrastate TRS services are paid by the states. Costs for interstate TRS services are borne by the Interstate TRS fund, administered by the National Exchange Carrier Association and funded by all interstate carriers. The NECA collects funds from approximately 3,000 companies based on their interstate revenues. Charges on customers' bills are usually

²³ *Telecommunications Tax Policies: Implications for the Digital Age*, National Governors' Association, Feb. 2000.

a few cents per telephone line. TRS services are required by Title IV of the Americans With Disabilities Act (P.L. 101-336). For additional information on TRS, see the FCC's Web site at [<http://www.fcc.gov/cgb/dro/trs.html>] and [<http://www.fcc.gov/cgb/consumerfacts/trs.html>].

Cramming. Customers who cannot determine what a specific charge is for might have been “crammed.” Cramming refers to the inclusion of unauthorized or possibly illegal charges that appear on a customer’s bill. An amount might be labeled as “monthly fee,” “membership,” or “information service.” Contact should be made with the local telephone company or bill provider to obtain the name, address, and phone number of the company for whom they are collecting the fee in question. Consumers should request that the charge be removed from the bill if they believe they are a victim of cramming. Since the local phone company is usually only acting as a billing agent for a company, they cannot resolve individual disputes. However, they should be made aware of the situation.

Complaints concerning questionable charges for calls placed within a customer’s state should be directed to a local consumer office or the state public utility commission and the company that initiated the charge in question.

If the charges involve information services (900 numbers, psychic hotlines, etc.), not telephone services, a customer may register a complaint with and obtain information from the FTC Web site [<http://www.ftc.gov>] or:

Federal Trade Commission
Consumer Response Center, Room 130
600 Pennsylvania Avenue, N.W.
Washington, D.C. 20580
Toll free: (877) 382-4357

Should the complaint involve telephone-related issues, interstate or international services, or charges, a complaint may be registered in writing with the FCC:

Federal Communications Commission
Consumer and Governmental Affairs Bureau
445 12th Street, S.W.
Washington, D.C. 20554
Call toll free: 1-888-CALL-FCC (1-888-225-5322)

The FCC is currently conducting an inquiry into invalid and unclear charges on telephone bills. The FCC provides further information at its Web site, [<http://www.fcc.gov/cgb/consumerfacts/cramming.html>].

Information on the FCC’s anti-cramming best practices guidelines is provided at [http://www.fcc.gov/Bureaus/Common_Carrier/Other/cramming/cramming.html].

Internet Cramming. Recently, a cramming scam that targets small businesses, religious groups, charities, foundations, or any small organization desiring an Internet presence has generated thousands of complaints. Companies,

usually through some type of telemarketing²⁴ operation, will contact consumers and offer a “free trial” for the design and maintenance of a Web site. In many cases, such companies fail to disclose that, unless the free trial is specifically canceled by the consumer, a monthly fee (for continued maintenance of the Web site) will be collected and charged to a customer’s telephone bill. In some cases, even when the free trial is canceled by the customer, the charges continue to appear on the customer’s phone bills.

The FTC has filed Internet cramming cases against various companies and provides information at their Web site. Complaints may be filed at the FTC Web site or by contacting the FTC at the address or phone number listed above.

Charges on Wireless Telephone Bills

Many of the charges that appear on local (wired) telephone bills also appear on bills issued by wireless companies. Most notably: monthly service charges, itemized call charges (local and long-distance, depending upon the calling plan a customer chooses), federal telephone excise tax, 911 fees, any applicable state or local taxes, universal service charges, LNP, and TRS fees. As with local phone bills, wording used on wireless bills can vary from company to company. Also, wireless companies are not subject to the same truth-in-billing and billing format principles discussed earlier in this report. However, the FCC is currently conducting an inquiry into whether its truth-in-billing requirements should apply to wireless carriers and what uniform labels should be used to identify charges resulting from federal action.²⁵

Neither SLC nor PICC charges appear on wireless bills. However, some wireless companies use the wording “Interconnect/Landline Charges,” or “Landline Connection Fee” on their bills. This charge is not a result of the FCC access charge mechanism. It is a charge assessed by a local phone company to connect a wireless call through their network to the called party. The charge varies company to company and calling plan to calling plan.

Although many charges on wireless bills are similar to or the same as those on wireline bills, there is a series of charges that are particular to wireless. For instance, wireless customers in many cases are billed for both incoming and outgoing calls, and wireless companies may start billing for a call as soon as the send button is pressed. Unlike wireline calls, a charge may appear on a wireless bill for a call that did not go through. In addition, wireless companies often bill by the minute, not by the second. As a result, a call lasting 61seconds may be billed as a two minute call. Also, there may be substantial termination fees assessed on customers who try to cancel their service before a certain date, and there are usually geographic limits for coverage provided by different companies and plans.

The FCC has no regulatory authority over these various fees or billing practices. Essentially, when customer signs up for wireless telephone services, they have

²⁴ For more detailed information on telemarketing, see CRS Report RL30763, *Telemarketing: Dealing with Unwanted Telemarketing Calls*, by James R. Riehl.

²⁵ *Federal Register*, June 25, 1999, pp. 34499-34501.

entered into a contractual agreement with a company. Customers must read the contract carefully and fully understand the terms. The monthly charge quoted for service is not necessarily the full cost of a calling package. Just as with wireline telephone bills, fees and surcharges added to a bill can substantially increase the base price of a monthly plan. Labels and names attached to these fees and surcharges vary significantly. In cases where customers believe they have been misled or have been the victims of some questionable business practice or incorrect charge, they may wish to contact the office of the attorney general or the public utility commission in their state. The FCC provides information on wireless phone bills and issues at [<http://www.fcc.gov/cgb/phonebills/WirelessPhonebill.html>] and [<http://www.fcc.gov/cgb/cellular.html>].

Federal Communications Commission

The FCC Consumer Information Bureau has developed a Web site devoted to various telephone-related issues. The site includes several FCC fact sheets on specific telephone-related issues and summaries of enforcement actions, and it allows consumers to file complaints electronically.

See [http://www.fcc.gov/cgb/information_directory.html].

Federal Communications Commission
Consumer and Governmental Affairs Bureau
445 12th Street, S.W.
Washington, D.C. 20554
Call toll free: 1-888-CALL-FCC (1-888-225-5322)

The FCC Web site provides a list of main, complaint, and in-state, toll-free telephone numbers for the telecommunications regulatory authorities in each state. The list is available at [http://www.fcc.gov/wcb/iatd/state_puc.html]. No mailing addresses are provided.

National Association of Regulatory Utility Commissioners

The National Association of Regulatory Utility Commissioners (NARUC) is an organization of state and federal regulatory commissioners having jurisdiction over public utilities. Individual state public utility commissions (PUC) may provide assistance to consumers concerning telephone bills and any state laws and regulations that may apply to companies providing telephone services within the state.

Web site connections and addresses for state PUCs are available through the NARUC Web site at [<http://www.naruc.org>]. Also, NARUC can be contacted at the following address:

National Association of Regulatory Utility Commissioners
1101 Vermont Avenue, N.W., Suite 200
Washington, D.C. 20005
(202) 898-2200