

# USF QUESTIONS

- 1) What is the universal service fund? Who pays for it? Who benefits from it?

There are actually three universal service mechanisms in the industry. Universal service is the broad concept that calls for ensuring reasonable rates are charged for local telephone services and that local telephone services are available every where. The universal service fund line item on the bill is the per line cost of operating the USF requirements.

Universal service funding goes to the following:

1. The federal e-rate program that provides schools, libraries, and rural health care providers with discounts on telecom services to achieve the cultural, safety, and overall economic benefit. This program was created by the Telecom Act of 1996.
2. The lifeline and link-up program is designed to help qualifying individuals and families to better afford basic service connection and monthly charges.
3. The high cost fund is a mechanism whereby service providers are compensated for investments made in high cost-to-serve areas. Eligible telecommunications carriers are required to serve geographic areas to ensure availability of basic service in exchange for subsidy payments to offset the high costs incurred.

Overtime, if not immediately, the multiplicity of USF charges will be eliminated and replaced by one monthly rate collected to fund the federal, regulatory USF systems.

There is a long history of universal service in the telephone industry. Arguably, all users of telecommunications have benefited through the widespread availability and affordable basic rates that regulators have prescribed, and been able to pay for using USF subsidies. The Telecom Act requires that industry subsidy mechanisms be made explicit and not concealed in legacy regulated rate structures. To achieve this objective, subscribers will be paying a specific USF charge that is identified separately on the bill.

- 2 ) How long is the USF surcharge going to last?

The surcharge for USF will be permanent.

- 3) Do lifeline customers pay USF?

Lifeline customers receive a waiver of the USF surcharge.

- 4) What if I refuse to pay the USF charge? Will my service be disconnected?

Service disconnection rules can vary by state. Service can be disconnected for non-payment of basic service charges, SLCs, and surcharges.

# CALLS QUESTIONS

1) What is CALLS?

The CALLS plan is comprehensive in that it affects both LEC and IXC pricing schemes. LECs are now required to recover more loop cost directly from subscriber customers (in the form of higher SLCs) and directly from a broadly funded universal service program. Included in this transition, is the fact that IXCs will receive access rate reductions which are to be passed on to the IXC customers in the form of lower usage-based charges and the offering of at least one rate plan that does not include a minimum monthly usage charge.

2) Who is the Coalition for Affordable Local and Long Distance Services?

An industry group comprised of AT&T, GTE, Bell Atlantic, BellSouth, GTE, SBC, and Sprint tasked with developing a comprehensive proposal for access charge rate reductions, simplifying the USF subsidy system.

3) What are access charges?

Access charges are the fees that local exchange carriers charge to interexchange carrier (toll service providers) for the use of LEC facilities in the provisioning of originating and terminating toll services. LEC access charges are a major expense for IXCs, and have historically included subsidy revenues (rates well above cost) that provided LECs with revenue streams that offset high cost-to-serve customers/areas.

4) Who determines the rates?

Citizens proposes rates in tariff filings made at the FCC. The FCC reviews the filing for completeness, accuracy, and compliance with the FCC's rules. IXC's also review the tariff filing/rates and participates in the approval process by pointing out problems with the filing and offering solutions. The CALLS plan operates as an agreement between LECs, IXCs and the FCC whereby the IXCs will pass through access rate reductions to subscribers in the form of lower toll rates and no minimum monthly charges in exchange for LECs charging higher SLCs and lower access rates.

5) What is a PICC?

The presubscribed interexchange carrier charge (PICC) is paid by IXC (i.e., ATT, MCI) to local exchange carriers to compensate LECs for IXC use of local loop facilities in the origination and termination of toll service. The CALLS plan eliminates PICC for all but multi-line business customers. The multi-line business PICC is a flat monthly rate assessed to the IXC based on the number of presubscribed lines. If a multi-line business subscriber is not presubscribed, then the charge is assessed to the subscriber.

6) Does the FCC order telephone companies to change the rates?

This FCC action is a fundamental change in rate structure/design and SLC rate levels. The FCC has authority to order telephone companies to change rates. The FCC rules require Citizens to reduce access rates every July. In order to promote competition, the FCC has prescribed rate changes and structure changes that, in the future, will provide LECs with more control over pricing. The transition from regulated industry to competitive requires the regulator to “back off” on control of prices/rates and let the market operate.

That transition has not occurred to date, so the FCC can and does “order” LECs to change rates.

- 7) How do I find out what happens to my long distance bill?

You will have to contact your toll service provider.

- 8) What is an interexchange carrier?

An IXC (AT&T, MCI, SPRINT) provides interLATA toll services. A LATA (local access transport area) defines the toll service area for RBOCs. Interexchange carriers provide toll services to LEC customers under an access charge arrangement, i.e., for each originating and terminating IXC toll call there are access charges that are owed by the IXC to the LEC.

- 9) What is a LEC?

A LEC, or local exchange carrier, is the provider of local dial tone. This company is responsible for providing basic, local telephone services for a specific geographic, serving area. The LEC's network is generally positioned between the end user and the interexchange carrier.

# Access Charges and Universal Service Reform

## **THE CALLS PLAN**

### *Consumer Benefits*

The adoption of access charges and universal service reform, known as the CALLS proposal, will bring many specific benefits to consumers, including lower rates and less confusion about phone bills and line item charges. The reform of access charges and universal service will encourage a competitive, telecommunications markets.

Specifically, the Order:

- Eliminates the residential and single line business Presubscribed Interexchange Carrier Charge (PICC).
- Reduces over time the PICC for multi-line businesses until it is eliminated in most areas.
- Ensures that AT&T and Sprint customers will have at least one long-distance plan available to them that does not have a monthly minimum usage charge.
- Low-income telephone customers who subscriber to Lifeline service will continue to have their monthly Subscriber Line Charge (SLC) waived.
- Participating CALLS companies have agreed to waive the Universal Service Fund (USF) charge for lifeline service customers.
- Reduces access charges for long distance companies by \$3.2 billion.
- Specifies that before the SLC increase scheduled for July 1, 2002 takes effect, the FCC will hold a formal proceeding to ensure its validity.
- Removes \$650 million in implicit universal service support from access charges, and replaces it with an explicit, portable universal service fund charge to ensure affordable phone service for high-cost rural areas.

### *Consumer Savings*

The adoption of the CALLS proposal will amount to savings of \$2 billion in the year starting July 1.

- Reduction in flat fees (monthly minimum usage charges and PICC):
  - \$50 per year for consumers who make no long-distance calls
  - \$10 per year for consumers who make 30 minutes of long-distance calls a month
- Reduction in access charges - \$2.1 billion in lower rates in the first year
  - Consolidation of the PICC and SLC into a new SLC - \$600 million in consumer savings in first year
- Long distance usage per month (1998 figures):
  - Households with no long distance calls – 32%
  - Households with ten minutes or less of long distance calls – 41
- Cap of residential and single-line business SLC charges:
  - July 1, 2000 - \$4.35
  - July 1, 2001 - \$5.00
  - July 1, 2002 - \$6.00 (subject to FCC validation)
  - July 1, 2003 - \$6.50 (subject to FCC validation)

### ***Brief Timeline of Access Charges***

Since 1983, the Commission has issued a series of decisions that have led to continued decreases in long distance rates.

- In 1983, the Commission adopted uniform access charge rules following the break-up of AT&T.
- In 1991, the Commission implemented price cap regulation in place of rate-of-return regulation.
- In 1997, the Commission adopted rules reforming access charges to align the access charge cost recovery system more closely with the manner in which costs are incurred.
- In July 1999, the CALLS proposal was originally submitted to the Commission.
- In March 2000, a modified version of the proposal was submitted to the Commission.

For general information on other telecommunication-related issues, you may contact the FCC's Consumer Information Bureau in the following ways:

Via the Internet at [www.fcc.gov/cib](http://www.fcc.gov/cib)

Consumer Center, Voice: 1-888-CALL-FCC and TTY: 1-888-TELL-FCC

Address:

Federal Communications Commission

Consumer Information Bureau

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