Federal Communications Commission
Washington, D.C. 20554

AUG 24 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Mr. J. J. Walt
2661 Eldridge Ave. E.
North St. Paul, MN 55109

Dear Mr. Walt:

Thank you for your letter to Chairman William E. Kennard regarding a line item that has been added by your carrier to your telephone bill to recover its contributions to the universal service support mechanisms. Chairman Kennard has asked me to respond to your inquiry.

Long distance companies have been indirectly bearing the costs of universal service for many years, but have only recently been assessing these costs through specific line items on customers' bills. I therefore urge you to look at the bottom line on your phone bills to determine the impact on your rates. Average long distance rates have continued to decrease. Thus, the appearance of a separate line item attributed to universal service does not necessarily reflect an increase in your overall cost of phone service.

On May 7, 1997, the Commission adopted an Order to implement the Federal-State Joint Board's recommendations on universal service as required by the Telecommunications Act of 1996 (1996 Act). The Commission established universal service support mechanisms that fulfill Congress's goal, as stated in Section 254 of the 1996 Act, of ensuring that affordable, quality telecommunications services are available to all American consumers, including low income consumers and those located in high cost, rural, and insular areas. Universal service support for carriers serving high cost areas and for low income consumers has been provided for decades. In the 1996 Act, Congress expanded universal service goals to ensure the nation's classrooms and libraries receive access to the vast array of educational resources that are accessible through the telecommunications network. These support systems also will link health care providers located in rural areas to urban medical centers so that patients living in rural America will have access, through the telecommunications network, to the same advanced diagnostic and other medical services that are enjoyed in urban communities.

In the 1996 Act, Congress required all telecommunications carriers that provide interstate telecommunications services to contribute on an equitable and nondiscriminatory basis to universal service. The Commission implemented this statutory provision by requiring all such telecommunications carriers to contribute to the universal service support mechanisms. Neither Congress, nor the Commission, requires such carriers to pass this contribution on to their customers. To the contrary, carriers decide how and to what extent

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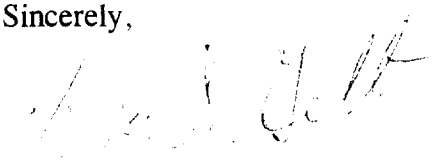
they recover their contributions. Carriers, however, may not mislead customers as to how they recover contributions and may only recover an equitable share from any particular customer.

The Commission is monitoring the universal service support mechanisms and their impact on telephone ratepayers. This issue will be carefully reviewed as the support mechanisms are administered.

Your letter has been placed in the official public record of the universal service proceeding (CC Docket No. 96-45). I appreciate your interest and views on these important issues.

Sincerely,



Lisa S. Gelb
Chief
Accounting Policy Division
Common Carrier Bureau

RECEIVED
JUN 19 5 02 PM '98
OFFICE OF

June 16, 1998

William E. Kennard, Chairman
Federal Communication Commission
1919 M Street NW
Washington, DC 20554

Dear Mr. Kennard:

**fee** (*n*) – A charge fixed by law for certain services or privileges.

**tax** (*v.t.*) – A charge, usually pecuniary, laid upon a person or property for public purpose; a forced contribution of wealth to meet public needs of government.

A fee requires that the payer directly benefit from service being charge. A tax forcibly extracts money from some to provide it to others. By Webster's definition, your attempted imposition of the new 5% long distance phone fee, in order to fund Internet access to schools and libraries, is a tax ! The payers of this fee derive no benefit. Since the FCC is not permitted levy taxes, this makes it illegal. The purported good intentions of the E-rate program are insufficient justification for this action.

What's even more upsetting is that you have tried to hide this new tax by demanding that the telephone companies not itemize the cost in their bills. The arrogance of this deceit on the part of your government commission is angering and demeaning.

If there is the political will by Congress to impose this new tax, let them do it. However, your attempted fiat bypasses the normal safeguards from unreasonable taxation that these laws were intended to prevent. Even in some scaled-back version, this unjust usurpation of power should be summarily and firmly rejected.

Sincerely,

Michael J Watt

Vice President Albert Gore
Rep. William Tauzin
Rep. John Dingell
Rep. Bruce Vento
Sen. Rod Grams
Sen. Paul Wellstone
C Michael Armstrong - AT&T
Timothy F Price - MCI

SAINT PAUL PIONEER PRESS
2H C SUNDAY, JUNE 7, 1998

# Phone fees boosted by Internet wiring effort

## ■ Massive cost of program hidden in consumer bills

LOS ANGELES TIMES

WASHINGTON

The relentless growth of telephone taxes finally has hit a political flash point, triggering demands by lawmakers last week that phone companies be blocked from imposing billions of dollars in new fees on customers this summer.

After a deluge of complaints from consumers across the nation, members of Congress are demanding the Federal Communications Commission — which regulates the phone industry — roll back an Internet wiring program that was championed by Vice President Al Gore.

Under the landmark Telecommunications Act enacted by Congress in 1996, the FCC was directed to subsidize the wiring of schools, libraries and rural health-care facilities for high-speed Internet access. The program was an extension of existing federal subsidies to underwrite phone service in costly-to-serve rural and urban areas.

But as the cost estimates for the programs have skyrocketed to more than $4 billion a year, many who never paid attention to the impenetrable world of telephone regulation are fed up with levies that critics derisively refer to as the Gore tax.

They say the FCC is trying to implement funding schemes that obscure the massive cost of the programs by hiding the subsidies in consumers' phone bills.

The FCC effort has "been a spectacular failure, and ... a raw deal for consumers," said angry lawmakers in a bipartisan letter sent last week to FCC Chairman William Kennard.

Not since the cable-TV industry drew the wrath of consumers by raising monthly cable fees at more than twice the rate of inflation in the early 1990s has Congress been so up in arms about FCC oversight of the $600 billion-a-year telecommunications industry.

Political furor over the telephone rate increases, in part, reflects the issue's proximity to coming federal elections.

Outrage also has been fueled by disclosures that some bureaucrats running the subsidy programs are paid lavish salaries, including $200,000 annually to the chief executive of the Schools & Libraries Corp., a nonprofit corporation created by the FCC to oversee the wiring of the schools.

Gore said Friday he is not withdrawing his support for the program, adding: "It would be a terrible mistake for the Congress to back away from it."

But even supporters fault the FCC's handling of the program.

"We love the program — and we hate the way they're paying for it," said Mark Cooper, research director of the Consumer Federation of America.

It was only a year ago that the FCC thought it had averted an uproar over phone subsidies, which are known as universal service fees and paid to the FCC by both local and long-distance companies. The FCC turns the money over to federally chartered nonprofit companies to administer.

The nonprofit companies then give the money back to telecommunications carriers to offset the cost of providing service to the poor and those in high-cost areas and to underwrite Internet access.

In May, AT&T Corp. promised Congress it would not pass along the additional cost of the subsidies for schools and libraries to customers if regulators agreed to reduce the special fees that long-distance carriers pay local phone companies to handle the local portion of toll calls.

The FCC agreed to that plan. But last month, AT&T reversed itself and announced plans to charge residential customers an additional 5 percent on interstate long-distance calls starting July 1.

MCI Communications quickly followed suit, saying it will impose a 5.9 percent charge on residential customers' long-distance bills. A spokesman for Sprint said it has no plans to charge residential customers.

Long-distance carriers have been passing on higher costs related to the phone subsidy program to their business customers with little fanfare since the beginning of the year.