



## Dirty, Little, Secret Charges



Make progress every day

Billing Date: 09/28/03 Page 3 of 4  
Telephone Number: 718  
Account: 718  
How to Reach Us: See page 2

### New Charges

\*Detail provided in the Itemized Calls section of the bill.

#### Verizon Basic Local Services

- 1 Monthly Charge for Dial Tone
- 2 Verizon Local Calls\*
- 3 Late Payment Charge - Basic Charges 8/28 bill

Up 409% since 1980

Up 43% since 2002

Services not yet rendered

Taxes 112% more than dial tone

\$8.61

16.29

.29

Quadruple taxes  
Doesn't go to the FCC  
Still can't take  
phone number  
Spanish American  
War Tax

#### 4 Surcharges and Taxes

FCC Line Charge	\$6.44	911 Surcharge	\$1.00
Local Number Portability	\$ .23	Federal USF Surcharge	\$ .64
Federal Tax	\$1.02	Surcharge(s)	\$1.90
NY State/Local Sales Tax	\$2.94		

"Out of control" slush fund

14.17

Total \$39.36

Truth-in-billing violations

#### Verizon Calls

- 5 Directory Assistance Calls
- In State Requests:

Paying Verizon taxes

\$ .80

1 at \$ .80 Only costs 30 cents

Additional bogus taxes

#### 6 Surcharges and Taxes

Federal Tax	\$ .03	Surcharge(s)	\$ .05
NY State/Local Sales Tax	\$ .07		

Tax 19%

.15

Total \$ .95

#### Verizon Optional Services

- 7 Custom Calling Package
- Call Waiting
- Call Forwarding

Costs 2 cents to offer

\$7.75

Wire breaks every 16 years

- 8 Inside Wire Maintenance

Up 243% since 1998

3.45

- 9 Late Payment Charge - Non Basic Services 8/28 bill

.08

Additional bogus taxes

#### 10 Surcharges and Taxes

Federal Tax	\$ .25	Surcharge(s)	\$ .68
NY State/Local Sales Tax	\$1.02		

Hidden taxes

1.95

Total \$13.23

### ITEMIZED CALLS

#### Verizon Local Calls

Refer to your phone book for rates and discount information.

With message rate service you pay a set price for each local call you make no matter how long you talk.

9 cent scam

Always rounded up

no.	place called	charge per call	number of calls	period	amount
11	N.Y. City	9.0¢	62	day	
12			17	eve	
13			102	ngt	
Total					\$16.29

Missing discounts

Increased 16% in 2003



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# **Phone Bill Independence Report:** *For the 20<sup>th</sup> Anniversary of the Bell Companies*

**Based on the Teletruth “Send Us Your Phone Bill” Campaign Results**

## **Teletruth**

### **Created by:**

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NOTE: Additional Phone Bill Exhibits can be found at:

<http://www.newnetworks.com/independenceexhibits.htm>



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NOTE: Additional Phone Bill Exhibits can be found at:  
<http://www.newnetworks.com/independenceexhibits.htm>

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## Phone Bill Independence Report

**What are the reasons for the vast amount of phone bill charges?**

**How much does local service really cost?**

**Mistakes on phone bills are costing customers money.**

**Teletruth calls for an “End-Result Test” of the phone bill.**

This Report is divided into two parts:

**1. *Phone Bill Independence Report, the 20<sup>th</sup> Anniversary of the Bell Companies***

represents the analysis of the “Send Us Your Phone bill” campaign: a survey representing a sample of 110 Verizon New York and New Jersey residential and small business local service phone bills. This data has been combined with direct statements from the FCC, Verizon, the Public Service Commissions and other parties.

**2. *Future reports*** will examine long distance, wireless and business phone bills, as well as present the results of other surveys conducted in other parts of the country.

The issues and conclusions contained in this report speak directly to every customer who pays a phone bill. Our analysis suggests that many of the discreet charges appearing on local telephone service bills have not been cost justified, many are misleading and some appear to be inflated by selective miscalculation on the part of the phone companies. Because of “deregulation” and a lack of government oversight, there is no regulator overseeing the charges on customer phone bills.

Teletruth believes that phone bills fail the “End Result Test”; a conclusion that is drawn when all charges that appear on an average phone bill (including all taxes and surcharges) are added together, the total being “unjust and unreasonable”. Worse, it is also apparent that many of the non-regulated services such as Verizon DSL, wireless, or Long distance are getting a free ride, thus costing customers more money from this “cross-subsidization”. To deal with this problem, Teletruth is calling for a full audit of the charges on phone bills including how all taxes and surcharges have been calculated and cost justified.

Using the survey data, Teletruth has found over \$20,000 in potential refunds and has acted as a consultant in two New Jersey Class Action suits against Verizon for missing small business discounts and non-existent special circuits being billed to business and residential customers.



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This report's data and phone bills were collected from January 2002 through July 2003. It is very apparent from this information that the charges are in a state of constant change. This is evidenced by increases in the FCC Line Charge, the fluctuating Universal Service Fund and price increases on numerous items (including taxes on those items).

While we have made every effort to keep the data in our analysis current, we recognize that even as you read this report, phone bills may have changed. For example, during the editing of this report in March 2004, in New Jersey, some customers are now receiving the same bill every month, instead of the practice of only giving complete phone bills every quarter. We applaud Verizon for making an attempt to remedy a long standing problem.

However, this does not affect our primary concerns about the validity of charges or our recommendations about how the State Commission, the FCC and Congress should deal with these issues.

NOTE: Additional Phone Bill Exhibits can be found at:  
<http://www.newnetworks.com/independenceexhibits.htm>

***This report is dedicated to Aunt Ethel, who passed away in May 2003, and Bob Calvano, who passed away April, 2004.***



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## **Executive Summary: The Major Issues**

In 2002-2003, Teletruth along with LTC Consulting (a phone bill auditing firm) and New Networks Institute (a telecommunications market research firm) ran a campaign titled "Send Us Your Phone Bills". Focusing on Verizon New York and New Jersey, we received 110 residential and small business phone bills generated through press coverage on WABC and FOX News, among other outlets. We have found that:

- Verizon receives an "F" (failing grade) on their "Easier to Read" phone bills – Two telephone experts have found phone bills are still unreadable.
- Teletruth found 59 "Truth-in-Billing" violations including missing information, charges that do not add up correctly, mislabeling, etc. ("Truth-In-Billing" is a set of guidelines created by the FCC to ensure that phone bills are readable.)
- Deregulation of the phone bill has allowed phone charges to no longer be "fair and reasonable". Phone bills failed the "End Result Test". – When all of the phone charges are added together, including taxes and surcharges that are also revenues to the local phone companies, the total is unfair and unreasonable.
- NO regulator examines the phone bill for revenues or profits. — Because of deregulation and the existence of multiple jurisdictions that have been allowed to add charges to the phone bill, no one examines the entire phone bill any longer.
- Aunt Ethel's phone bill went up 409% since 1980. — Local phone charges in New York increased 409% since 1980 for the exact same "local service".
- The term "Basic Service", through deregulation, has been "devalued". — In 1980 in New York, local service was a bundled service that included the wire in the home, the phone, six free directory calls and a \$4 local call allowance for \$9.51. In New Jersey, local service came with unlimited local calls, unlimited directory assistance, the wire, and the phone for about \$8. Today, local service is one line-item, "Dialtone" and every service is now ala carte which translates into more revenue.
- The "Surcharges and Taxes" portion of the phone bill is 112% more than the "Dialtone" charge of Basic Service on the Verizon New York phone bill.
- The Surcharges and Taxes portion of the phone bill applies double, triple and quadruple taxes to other taxes on the phone bill. — Taxes on top of taxes.
- Regulated increases to phone bills were supposed to be limited to 3% in New York, yet when totaled, phone bills show increases ranging from 16%-145% for phone calls, Directory Assistance, Inside Wiring, FCC Line Charge, the cost of dialtone and other services.
- There is no meaningful competition for local wireline phone service today and prices keep increasing for the majority of customers. — How can many states be raising the local phone rates? Competition is limited to only high-end users buying two or



more products in a bundled offering. The majority of American households spend less than the bundled costs when all of the taxes are included.

- The typical advertised price of a local/long distance package fails to mention all of the taxes and surcharges. In New York, this adds 36% to the cost of the package. Meanwhile, due to the unreadable phone bills and misleading advertising, 15-25% of customers are on the wrong package, hence costing them more money.

### **“Truth-in-Billing” Violations**

- “Truth-in-Billing” Violations — From charges marked simply as “Surcharges” to definitions that are not correct or are missing “call detail”, problems abound on phone bills.
- Word Jumble — Verizon New Jersey phone bill uses multiple names almost interchangeably. Are “Basic Local Charges”, “Basic Local Service”, “Local Phone Service”, “Basic Service”, “Basic Charges”, and “Monthly Charge” all the same thing?
- Word Jumble vs “Basic Rate” — Verizon states, “The current monthly rate of \$8.19 for local phone service has not changed since 1985.” On the phone bill, there is no “monthly rate”. Is the definition of “local phone service” different from “Basic Service” or “Basic Local Service Charges”?
- Hidden “Surcharges” — In NYC, customers are paying some of Verizon’s taxes and fees on phone bills as “pass-throughs” adding money each month to phone costs.
- Multiple “Surcharge(s)” Violations — Verizon New York does not supply enough data either on the phone bill or at their website to enable consumers to identify correctly the purpose and appropriate amount of surcharges added to a phone bill.
- Verizon New Jersey is guilty of multiple Truth-in-Billing violations, including a failure to supply customers with a “monthly” phone bill that contains all charges — Phone bills have categories called “non-basic” or “monthly charge” with no explanation of the service being paid for. Monthly phone bills do not tell the customer how many lines they have, that there is a touchtone charge, or that the service is ‘flat’ rate. (Note: During the editing of this report, some of the formats have been changing in New Jersey for residential customers, but we can not determine if these changes are being applied to all customers, including small businesses.)

### **FCC Line Charge Violations**

- The FCC Line Charge is inflated and has become a slush fund for the local phone companies. This charge, which *does not* go to the FCC but back to the local phone companies as revenue, increased from \$3.50 to approximately \$6.50, an 86%



increase in 4 years. The charge is not “mandated” and the FCC never conducted an extensive cost analysis for increasing this fee.

- The FCC Line Charge is quadruple-taxed in New York. — Though this charge is in the “Taxes and Surcharges” section of the phone bill, it is taxed a Universal Service Fund fee and a Federal Excise Tax (both of which apply only to “interstate” services), multiple surcharges, as well as state and local taxes. This adds an additional 27% to this charge that customers must pay (18% in New Jersey).
- FCC Line Charges should be reduced by 85% based on economic models presented in 1998. — This would make the total cost to customers, counting taxes (in New York) \$1.26, saving \$7 a month or \$84 a year.
- Verizon New York claims that local phone service was supposed to only increase by 3% — Either this charge is not included in their calculation, or they are mistaken.
- Verizon New Jersey places the FCC Line Charge in “Basic Service”, and claims it is regulated by the state Public Utility Commission (BPU) — This is wrong on multiple levels, since Verizon NJ does not include this charge when it quotes local rates, nor is it regulated by the state commission.

### **Local and Bundled Packages**

- Package scams? Truth in Advertising? — Verizon is now offering local and long distance service packages. While these bundled deals are advertised at \$59.95, the total cost to the customer in New York City is \$81.70, a 36% increase in the actual cost.
- Package “Truth-in-Billing” violations — The Verizon NY and NJ phone bills had multiple violations of the Truth in Billing guidelines, including a lack of “call detail” which lists the calls made. In NJ, the package is placed in the “Toll Call” section of the bill, while in NY, it is placed in “Optional Service”. Both are incorrect.
- Local and regional package scams? Many customers are paying more through a package. — Teletruth estimates that 15-25% of all customers on a package are paying excessive fees for the same services without a package.
- Packages do not benefit the majority of customers. — A customer must make enough local and long distance calls for the package to have value, yet the average customers spends less than a package, when taxes are included.
- Packages scams and Long Distance dumping? — Verizon has only assigned a small \$15 cost for their long distance services in these package offerings, potentially illegally ‘cross-subsidizing’ the service to beat out competitors and save on some charges.
- Lifeline service can be expensive if you make calls. — Lifeline is supposed to be a government-funded service for those who have trouble paying their overall bills. While the service itself is cheap, Lifeline users still have to pay retail for everything



else, including local calls, Call Waiting and Call Forwarding. One customer's Lifeline bill came to almost \$50 a month.

### **Other Taxes and Surcharges on the Phone Bill**

- Double, triple, and quadruple taxation — Numerous charges in the “Taxes and Surcharges” section of the bill such as the “Local Number Portability” or the “FCC Line Charge” are also being assessed Federal, state, and local taxes and a Universal Service Fund charge. In New York, a “Surcharge”, which is a pass-through of Verizon's taxes, is also being applied to these charges; quadrupling the taxes.
- The Spanish American War Tax — The Federal Excise Tax was applied to phone service starting in 1898 to fund the Spanish American War. The IRS is currently planning to expand this tax even further. Though a tax on “interstate” services, it is also applied to Local Number Portability and the FCC Line Charge — local charges.
- Verizon is charging a ‘Local Number Portability’ charge, even though you can't take your phone number with you when you move and Congress never authorized the charge on customers' phone bills.
- The cost to keep your local wireline phone number is outrageous. — One customer was quoted a one-time fee of \$558.00, and a monthly charge of \$96.04 (not counting taxes and surcharges), when they moved across town in New York City.
- Universal Service Fund is out of control. — The Center of Public Integrity and the FCC Inspector General found that the Universal Service fund is fraught with fraud, a lack of oversight, and a lack of competitive bidding.
- Universal Service Fund continues to increase. — It went from 3.9% in 1999, to 9.5% in 2003, a 142% increase in 4 years.
- Universal Service Fund is a series of different funds, each with their own problems. — For example, some of the \$2.5 billion in the “High-Cost-Fund” goes back to the local phone monopolies, even though many are under “price caps”, and thus no longer has regulators examining the companies' profits. Many rural companies have excessive profits and simply don't need this subsidy to offer local service.
- The largest recipients of The Schools and Libraries Fund are the local Bell monopolies. — The Bells received \$517 million, 45% of the top 25 Service providers in 2001. They are able to get refunded for discounts at full business rates.
- The Universal Service Fund is being improperly charged on local phone bills. — Verizon is adding this fee on local number portability and the FCC Line Charge, yet it is only supposed to be charged to long distance, interstate services.



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## **The Prices and Profits on Local Calling and Calling Features**

- The 9-Cent Scam — The price of local calls in New York City decreased from 10.6 cents to 9 cents. However, the “Time of Day” discounts were dropped, costing local phone customers on average \$28.50 a year; an increase of 16%.
- Remove the Touchtone Charge in New Jersey. — Verizon still charges for Touchtone service in New Jersey. It now costs more money to serve a “rotary” phone customer, and you cannot even buy a rotary phone any longer.
- Prices on some services are outrageous. — Call Waiting is charged at \$5.30 in New York but costs less than 1 penny to offer; a 53,000% increase.
- Directory Assistance prices are up 2,059% in New York since 1980. — This increase is happening even though the cost of Directory Assistance has continued to decline.
- Directory Assistance prices are up 1,200% in New Jersey since 1980 — Directory Assistance was a free call. Now customers get 4 free, with each additional call 20 cents each. However, if the call is out of the “local directory assistance calling area” it costs \$1.25 per call.
- Long Distance 411 Scam — Why is Verizon not paying additional fees for using the “411” number, a valuable local phone asset, for their own national directory assistance? Competitors should have the right to bid on this number, like any other license.

## **New Jersey Issues: Mistakes Are Common**

- Mistakes appear to be more common in New Jersey — This became apparent since the company publishes quarterly summaries of all of the charges; but there are also Truth-in-Billing violations that make the phone bill more confusing.
- Small Business Discounts were missing on an estimated 40% of small business accounts.
- Non-Existent Special Circuits are being billed to business and residential customers, estimated at 10% of all circuits.
- Custopak Packages are being improperly sold to small business customers who don’t need them.
- Inside Wire Maintenance is being charged to customers who didn’t order it.
- Double Billing has been found on numerous phone bills for the various services offered.

## **Other Cost of Service Issues that Affect Phone Bill Charges**

- Verizon is charging phone customers for “Insert” advertising of non-regulated businesses, including Long Distance, Wireless and DSL.





- Verizon New York's Consumer Education Insert has 75% of all space dedicated to the companies' products, including selling phones and Wireless.
- Verizon products are being cross-subsidized. — At every turn, from information in the insert and on advertisements, to the use of local phone bills and the subscribers' database and information, it appears that Verizon's other products are not paying their fair share, like any other competitor, which would lower local phone rates.
- Partial Customer Services — We are being told that broadband and telecom services work 24 hours, 7 days-a-week, but the reality is Verizon still offers limited customer services and repairs, and no service on Sundays.
- Inflated network costs cost customers annually. — The New York PSC audit of ¼ of the Verizon New York's Continuing Property Records showed \$633 million in missing equipment in the phone networks. Meanwhile, the FCC's own audit of the local Bell companies revealed that \$19 billion of equipment could not be found nationwide, representing only ¼ of the equipment that could be audited. Since the price of ALL local service is based on the costs of the network as the starting point, this matter should be immediately investigated further.
- The numbers on phone bills simply do not add up. — There is a great deal of variation in the price of some services that are supposed to be "fixed"; 11% of the FCC Line Charges were inaccurately billed in our survey, and the Universal Service Fund had varying amounts on customers bills for the same charge. How is this variation possible with 100% billing accuracy?
- The "Superman" Tax Scam — In this report we found documented cases of phone bills applying the wrong (too much) state and federal taxes. Is the company collecting a few pennies per customers for unlawful taxes?
- The phone bill is filled with "Idiot Items", which cost \$0.00. — 85% of the New York phone bills examined had items labeled "\$0.00" cost. For example, 25% of the bills had a charge for "Touch-tone", which was taken off New York phone bills in the 1990's. Hundreds of different charges with obscure names and reasons proliferate on the bills, which confuses the customer and violates multiple Truth-in-Billing laws.

### **Larger Issues — Long Distance and Lack of Local Competition**

- Long Distance phone bill issues — Although we do not cover long distance services in this report, the phone bills that contained long distance charges, such as packages, revealed multiple issues. On one long distance phone bill we found that the taxes and surcharges were 165% of the long distance charges and the customer was paying an average of \$.62 a minute. Also, Verizon, in its own packaged price, was not paying many of the surcharges added to a competitor's long distance service on a local phone bill.



- Internet and broadband tax issues — An entire future report will be dedicated to DSL/Broadband pricing issues due to a significant number of discrepancies. One disturbing fact was that Verizon was not paying any taxes or surcharges on their own DSL product while competitive ISPs using a competitive DSL provider were being hit with all taxes and surcharges, thus adding over 25% to the competitor's total costs. Obviously this is a discriminatory tax practice that puts competitors at a severe disadvantage.

#### **Conclusion:**

- **Verizon gets an “F”, a failing grade** for their phone bills and the mistakes.
- **Local phone bills fail the “End-Result Test”.**
- **Regulators should conduct a “Total Bill Analysis”** with all revenues and costs analyzed including taxes and surcharges.
- **Every charge should be investigated** and all unwarranted taxes & surcharges removed.
- **Regulators should conduct a “Cross-Subsidization’ investigation** to examine if customers are funding other services including Long Distance, DSL, and Wireless.
- **Truth-in-Billing violations** should be eliminated by every phone company.



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## Introduction

- In 1993, New Networks Institute (NNI) conducted a telephone survey of 1000 customers and found that literally 0% (3 out of 1000) of the population could answer basic questions about the charges on their phone bills.
- In 1998, then FCC Chairman William Kinnard told attendees during a speech at the New York Law School that he couldn't read his own phone bill.
- In March 2000, the FCC published the "Truth-In-Billing" guidelines to make phone bills more readable.
- In 2003, Verizon revamped the phone bill to make it more readable for the average consumer. See: <http://www22.verizon.com/pages/newbill/>

In 2002-2003, Teletruth, along with New Networks Institute and LTC Consulting, conducted the "Send Us Your Phone Bill" campaign, garnering 110, mostly Verizon residential and small business phone bills from New York and New Jersey. We set out to do the impossible: examine phone bills in detail. (Note: Verizon is the phone provider for most of New York City and New Jersey.)

We can now say with confidence that the customer does not have even a basic understanding about the charges on their phone bill and that what the customer does not know about the phone bill will ultimately hurt them.

Let's look at some of the findings.

### **Phone Bills are Unreadable and They Hide Many, Dirty Secrets.**

Verizon's "easier-to read" phone bills receive an "F" — a failing grade. Hidden are numerous charges, surcharges, mistakes including missing discounts, overbilling, triple, quadruple, and quintuple taxation and a slew of violations of basic "Truth in Billing" guidelines which were designed to make phone bills tell-the-truth and be readable.

We found 59 violations in just Verizon New York and New Jersey phone bills. However, the problem isn't just the cosmetics of the phone bills. Verizon has failed to address the primary issues with their new easier-to-read phone bills. The phone bill has become a Christmas tree of misnamed taxes, "Idiot Items", surcharges and bogus fees.

In fact the authors, two telecom and phone bill experts, are still not sure about some of the charges on the phone bill, even after months of research and analysis. We would also place a bet that customers receiving the new "easier-to-read" phone bills would not have any higher scores in their ability to understand the charges on the phone bill.



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We need to stress that the problem is not simply Verizon or the other local phone companies. The real problem is that there are no regulators to examine the phone bills' charges, taxes, surcharges, or even profits today — not the state commissions, Congress or even the FCC — and the American phone customer has been paying for it for decades.

### **Taxes and Surcharges — A Mache Pit of Taxes and Hidden Revenues to the Phone Companies**

*FACT: In New York, the “Surcharges and Taxes” section of the phone bill is 112% more than the cost of local “dialtone”.*

For an example of just how absurd and disturbing the situation is, one needs only to take the “FCC Line Charge” (also known as the “Subscriber Line Charge”) located somewhere on every US phone bill. Nearly everyone we polled believes it is a charge to pay for the FCC, but in reality it goes directly back to the local monopolies as revenue. Since 2000, the FCC raised this rate from \$3.50 to \$6.50 per line without proper cost support, even though Verizon’s major costs have been slashed in the last three years.

To make matters worse, this charge is also taxed a Universal Service Fund charge, despite the fact that Universal Service is supposed to only be applied to long distance service and not a local charge. In New York, it is also taxed a mysterious series of unmarked “surcharges” which we found there are some of Verizon’s own Utility taxes that are passed through and paid for by customers, as well as Federal, state and local taxes.

In New York, the FCC Line Charge, which resides in the “Taxes and Surcharges” section of the New York City bill is taxed an additional 27%; **It is a tax on top of a tax on top of a tax.** None of this can be discerned by the newly formatted phone bills or even the information supplied on the Verizon website.

In New Jersey, Verizon has placed this charge under “Basic Local Charges”. That phone bill states the FCC Line Charge is “mandated”, part of “local telephone service” and “regulated by the New Jersey Board of Public Utilities”, none of which is correct. Verizon NJ claims that it hasn’t raised local phone service since 1985 even though the FCC Line Charge went up 86% in the last three years and is defined by them as a local telephone service.



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Based on cost analyses done in 1998 by various economists, Teletruth believes that the FCC Line charge should be reduced 85% or immediately removed.

### **Other Taxes and Surcharges are Equally Perplexing**

The FCC Line Charge isn't the only questionable surcharge on the phone bill. There are a host of other extra charges that have been added by regulators for pet projects or other reasons. Items such as "phone number portability" or "E911" are being funded not by the telecom companies, but added as additional fees to customers' services. There are also items that are just plain outrageous. In New York City, somewhere there is a hidden tax for the Metropolitan Transit Authority – the subway. Meanwhile, the Spanish American War Tax (Federal Excise Tax) was initiated on phone bills in 1898 to fund the Spanish American War.

There are major issues surrounding something called the "Universal Service Fund" (USF), which has been recently cited as a large "out of control" slush fund of billions of dollars without proper oversight and which supplies funds to these companies in numerous ways. This fund not only funds school and library connections to the Internet, but the largest portion is for the "high-cost" fund to subsidize phone companies in high-cost areas. In many states, Verizon and the other companies are getting paid by customers to provide these services at business retail rates, sometimes without any competitive bidding. In other cases, many companies receiving high cost funds are highly profitable.

We support the need for Universal Service, phone numbers that are moveable and emergency services; we do not support the addition of multiple charges without oversight. What should annoy the reader is that the USF, portability and these other "taxes" are also taxed surcharges, Federal, state and local taxes. Once again, taxes being applied to taxes in the "Taxes and Surcharges" section of the phone bill.

Without any regulator examining the total bill for the profits from the services being provided, it is easy to surreptitiously bill customers with multiple charges without anyone taking notice or claiming responsibility. Who can read the phone bills? Who can complain?

*NOTE: The FCC's own data on this topic is totally flawed as well and is in part responsible for the various problems. Case in point: The FCC Line Charge should have been renamed and cost support analysis should have been applied. However, the major problem with the FCC data is that it is not based on actual phone bills.*



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## **How Did This Happen? Deregulation Without Oversight and the Devaluation of the Definition of “Basic Service”.**

Examining a 20-year history of phone bill charges demonstrates that these problems did not just start today. Aunt Ethel’s phone bill of 1980 from Brooklyn, New York was \$9.51 in total, because local phone service was a “package”. It included the telephone, six free local directory calls, the wire in her home and a \$4.00 allowance for local phone calling.

By 2003, local service in New York went up 409% to \$48.37 for the exact same service. If you remove the controversial phone rental, the total increase is still over 400%.

Ironically, the reason the phone companies can continually ask for increases is that the regulators have “Deregulated” or “devalued” each item. The regulators do not examine the profits from various services nor add up all of the charges. By redefining the words “Basic Service” “Local Service”, etc. to NOT include anything, they can use this slight of hand to show declines.

How bad does it get? Take the case of “Calling Features”, such as the popular Call Waiting, Call Forwarding, or Caller ID. According to the Florida Public Service Commission, the costs to offer Call Waiting or Call Forwarding is less than a penny, yet in New York customers pay \$5.30 a month for Call Waiting — a 52,900% profit margin.

In New Jersey, Verizon still charges for Touchtone, a service that costs nothing to offer, while Verizon in all states also charges for non-published numbers — a service with no cost as well.

Meanwhile, the price of local service should be continually decreasing since the costs of offering local phone service have been steadily dropping. In the last three years, Verizon has cut its construction budget by 53%, while over the last two decades there’s been a decrease of over 65% in the number of employees-per-line.

In New York, Verizon received a number of increases in many services over the last year, even though they claim it is only 3%. As we demonstrate, the rates for local phone calls went up 16%, with heavy users paying \$70 or more a year from this increase. The FCC Line Charge went up 86%, inside wiring went up 232%, local directory calls went up 60%, and “dialtone” went up over 40%.

The game, of course, is to redefine the definition so that nothing is included and the calculations are nothing more than a shell game.



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Even the actual cost of the network is in question. In 2000, the FCC released an audit of the Bell companies' network equipment that found \$19 billion in unverifiable or missing equipment, commonly called "Vaporware". This represented only ¼ of the audits that should have been conducted. The New York State Public Service Commission continued the audit and released a report (which was later taken off their website) that found \$633 million of missing equipment in just New York with only ¼ of the equipment examined. This means that the costs used to compute rates were inflated and it therefore ALL phone bill charges have been inflated for decades.

### **Packages Have Problems**

Today, many customers are being told that a bundle of services such as the combination of local and long distance, or adding DSL, could save them money. Unfortunately the entire story is not told to customers before they buy. Verizon NY advertises its "Freedom" package for \$59.95, but they do not tell the customer that the bill is really \$81.70 — an additional 36% in taxes and surcharges are missing from the stated price, including the FCC Line Charge, USF, portability, surcharges, etc..

No wonder our analysis found 15-25% of the population are paying more for the package than it would have cost as an ala carte purchase of services! More to the point, the majority of customers do not spend enough money for the services separately to get any benefit from a package when the taxes are included.

For the majority of users, there is no local wireline residential phone competition today. Virtually all services offered by the large competitors are for packages only.

We also found that while Lifeline, the discounted government program, gives customers a break on some of the costs, customers can still have large phone bills because all calling features and just using the telephone to make calls can make using these services prohibitive.

### **Packaged Services Getting a Free Ride? Massive Cross-Subsidization**

There are even deeper issues than the ones already touched upon. For example, not only do we have to worry about the phone charges, but also the "cross-subsidization" — paying for Verizon's other products that are not part of local phone service.

When you pay your local phone bill, the charges are supposed to be "fair and reasonable". You are not supposed to be paying for another competitive service to be created, such as DSL, or to fund the company's long distance or wireless rollouts and





advertising. The costs you pay are supposed to be related to the service you buy. For example, when you buy a car, you are not going to pay an additional fee to say, create a car wash, or to fund the design of a new commercial jet plane.

A simple example of cross-subsidization is the phone bill “Insert”. This insert was supposed to be for “consumer education” and the cost of printing and inserting this insert is built into the cost of local service. The insert has since turned into a free marketing vehicle for Verizon’s other products such as long distance, wireless or DSL. Based on a year’s worth of Inserts, we discovered that over 75% of the entire space was dedicated to the companies’ products or campaigns, and only 25% ever ended up to be discussing important “consumer” information, usually on the last page at that. Should customers have to pay to be advertised to? If these companies paid their fair share to advertise it would lower phone rates as well. The insert is only one of many free rides Verizon is getting instead of lowering phone rates.

### **Competitive Issues**

In our research we found two very disturbing competitive issues that gives Verizon an unfair advantage over their competition. Verizon’s competitive services are supposed to have their own subsidiaries that pay their own fair share of expenses.

First, it seems that independent Internet Service Providers (ISPs) who offer DSL bundled with their own Internet access pay multiple taxes and surcharges, while Verizon, in its own DSL offering (as part of their “Freedom Package”), is not paying any taxes. Clearly something is wrong with this. It gives Verizon an obvious market advantage, but it is also most likely improper, if not illegal, since the ISP subsidiary of Verizon should be paying or charging these taxes and surcharges.

Secondly, when examining the costs to competitive long distance companies, Verizon seems to be charging these companies numerous fees, which, once again their own long distance service (as part of their “Freedom Package”) does not pay.

### **Other Problems — Missing Lines, Mistakes on Phone Bills Cost Customers**

We also documented that many phone bills have mistakes that add costs to the customers. In the state of New Jersey we found that approximately 40% of Small Business customers (under 5 lines) were missing a discount. In another case, we found a large percentage of small businesses were paying for non-existent special circuits they didn’t order or had canceled.



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In our survey, we found 11% of the NY households were charged extra for the FCC Line Charge which also increased all taxes. Even worse, on many phone bills the numbers simply do not add up. Verizon claims that their billing is 100% accurate — We have documented evidence that that is far from the truth.

Probably the most amusing problem was the discovery of “Idiot” items — thousands of random billing fragments on the majority of New York phone bills, all showing \$0.00 charge for items like “Touchtone” — a charge that was dropped in New York in 1995. These, of course, not only add to the unreadability of the phone bill, but also demonstrate the obvious problems plaguing Verizon’s billing systems.

### **Conclusion**

Rather than go into the details about the history of phone charges, the negative effects of deregulation on phone bills, the jurisdictional issues of phone bill regulations, the costs and profits of phone service, this report is dedicated to an autopsy of phone bills; what we found and what we believe it means.

The reader should also be aware that Teletruth did not undertake this survey sample as an intellectual exercise. To date, Teletruth has found over \$20,000 in potential refunds and using the survey data, has acted as consultant in two New Jersey Class Action suits against Verizon for missing small business discounts and non-existent special circuits being billed to business and residential customers.

Finally, phone bills don’t lie. All phone charge information has been taken directly from customers’ phone bills.

### **Teletruth is also calling on the FCC, Congress and the state commissions to:**

- **Unfair and Unreasonable Charges — Do an “End Result Test”** — We believe that while most charges might be small, together they are unfair. Most extra charges should be removed from the phone bill or require a full audit. This includes the “Spanish American War Tax”, the “FCC Line Charge”, “Local Number Portability”, “Universal Service”, “Surcharges”, “E911” charges, and the application of all state and local taxes.
- **Investigate the Actual Revenues and Costs of ALL Services** — We believe that the actual costs of service are approximately half of what customers are being charged today. Deregulation didn’t work and customers are paying for it.



- **Investigate Cross-Subsidization** —The phone bill inserts, media advertising, etc. must be closely examined. Local phone customers should not be paying for Verizon's other products to be marketed.
- **Investigate Vaporware** — We have requested numerous times that the states complete the FCC's audits. Those unfinished audits represent billions in uncollected tax dollars that belong to the American public.
- **Rectify the Phone Bill Truth-in-Billing Violations** — We discovered 59 violations in just 2 states. The rest of America we assume has similar types of problems and these problems help to make phone bills unreadable.

**NOTE:** New Networks Institute, LTC Consulting and Teletruth have filed numerous Comments and Complaints with the FCC over phone bill issues. See:

**Class Action Suits filed In New Jersey.**

- [http://www.newnetworks.com/class\\_action\\_suits\\_against.htm](http://www.newnetworks.com/class_action_suits_against.htm)
- **Teletruth Launches "Send Us Your Phone Bill" Campaign**
- <http://www.newnetworks.com/PRSendphonesbills.htm>
- **NNI Files Complaint With FCC Over "Subscriber Line Charge" Increase**
- <http://www.newnetworks.com/presssslccomplaint.htm>
- **Phone Number Portability— NNI Petitions FCC to Allow Customers to Take their Phone Numbers When they Move— or Drop "Portability Charge". 6-28-00**
- <http://www.newnetworks.com/portrelease.html>
- **In The Matter Of Truth-In-Billing And Billing Format**, Cc Docket No. 98-170- Notice Of Proposed Rulemaking, Adopted: September 17, 1998.
- [http://www.newnetworks.com/FCC\\_CC\\_98-170.txt](http://www.newnetworks.com/FCC_CC_98-170.txt)
- [http://www.newnetworks.com/FCC\\_CC\\_98-170.pdf](http://www.newnetworks.com/FCC_CC_98-170.pdf) (PDF)
- **New Jersey customer phone bills have mistakes: TeleTruth files a complaint with the FCC** — January 14th, 2002.
- <http://newnetworks.com/TeleTruthNJ271commentsl..htm>
- **The Unauthorized Bio of the Baby Bells**, published in 1999.  
<http://www.newnetworks.com/downloadbook.html>



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## **“Send Us Your Phone Bill” Campaign**

Teletruth, working with LTC Consulting (a phone bill auditing firm) and New Networks Institute (a market research and consulting firm) has conducted two campaigns titled “Send Us Your Phone Bill” which focused on New Jersey and New York. The impetus for someone to send us their phone bills was to receive a free phone bill analysis and potential audit. See our website instructions:

<http://www.newnetworks.com/PRSendphonesbills.htm>

The campaign started in New Jersey in 2002, continued in New York in April 2003, and was completed in August, 2003. Collected phone bills are a random sample driven by television, print and Internet media, including stories on tri-state stations WABC News in New York and Fox News in New York, among other outlets including the Star Ledger and the Boston Globe. To see the Fox News broadcast, visit the Internet link:

<http://www.teletruth.org/bruce4Mb.qt> (requires Quicktime. 4 MB file.)

We received 110 Verizon phone bills, mostly representing New Jersey and New York and mainly consisting of residential and small business customers. To this day we are continuing to receive phone bills from these two states, as well as from across the country.

It should be noted that examining the charges on phone bills is a moving target. During the course of this investigation, Verizon has raised rates or has had increases on numerous services including the FCC Line Charge, the Universal Service Fund, local phone calling in New York, Directory Assistance in New York, the removal of the Small Business Discount in New Jersey and other charges which have also increased all taxes applied to these services.

It should be noted that Verizon New Jersey (formerly Bell Atlantic New York, formerly NYNEX) has different phone bill formats and different problems.

All telephone charge information has been taken directly from phone bills.



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## About the Authors of this Report

**Teletruth** is the only national independent volunteer customer alliance dealing exclusively with telecom, broadband and phone bill issues. Teletruth currently has approximately 400 members, including 25 Board of Advisors. Teletruth defines "Customer" as any residential or business user of the wireline, wireless phone or broadband and data networks. The goal of the organization is to educate/motivate customers to act to fix the current problems as well as take actions on behalf of customers, from filing complaints and comments to helping initiate class action suits on both the state and federal levels. The website address is: <http://www.teletruth.org>

Teletruth is a member of the FCC Consumer Advisory Committee.

**Tom Allibone** is the director of TeleTruth's Auditing Division and president of LTC Consulting, a firm that specializes in auditing phone bills. The company's telephone bill audit service provides a systematic review of all telephone carrier charges and customer service records. Since 1989, LTC has audited the telecommunications services and bills rendered to hundreds of New Jersey small businesses and discovered over \$10 million in hidden overcharges.

**Bruce Kushnick** is Chairman of Teletruth, and Executive Director of New Networks Institute, and has been a telecom analyst for over two decades.

**New Networks Institute** (NNI) was created in 1992 to investigate how the break-up of AT&T and the creation of the Baby Bells had impacted subscribers and the future of "new networks". Since that time we have completed the most comprehensive telecom research project ever undertaken, helped to initiate Class Action suits in specific states, filed comments and complaints with the FCC, IRS, and other government agencies in the hopes of creating change that benefits the telephone customer. In 2000, New Networks Institute and associates proposed a new piece of Federal legislation — the "Broadband Bill of Rights". New Networks is independently funded through research and consulting projects and the sale of books and research reports. Our research has been encapsulated in the book "**The Unauthorized Bio of the Baby Bells & Info-Scandal**", published in 1999 and free on the web: <http://www.newnetworks.com>



## 20<sup>th</sup> Anniversary Examination, Aunt Ethel's Phone Bill

(Note: While Aunt Ethel Cedar was a real person, the phone bills used for her service in 2003 are an extrapolation from other phone bills.)

**Local Phone Service in New York City Is Up 409% Since Verizon Took Over.** The following is Aunt Ethel's phone bill record from 1980 through 2003. Because of deregulation, virtually every charge has become ala carte and thus cost the customer more money for the exact same service (excluding phone rentals):

### Exhibit 1 New York City Phone Bill for the Exact Same "Basic Service"\*, 1980-2003

	<b>1980</b>	<b>1987</b>	<b>1992</b>	<b>1998</b>	<b>2003</b>
Untimed Message	\$6.04	\$7.44	\$6.60	\$6.60	\$8.61
Tel Outlet /Wire Maintenance	\$1.24	\$0.95	\$1.51	\$1.04	\$3.45
FCC Line Charge		\$2.60	\$3.50	\$3.50	\$6.50
E911			\$0.35	\$0.35	\$1.00
DA @ 7 calls	\$0.10	\$2.15	\$3.15	\$3.15	\$5.60
Local Number Portability					\$0.23
Call Allowance	(\$4.00)	(\$4.00)	\$7.94	\$7.94	\$9.21
Universal Service Charge					\$0.62
Surcharges				\$1.56	\$2.16
Investment Recovery Charge		\$1.90			
Wire Investment		\$1.33			
Federal Transfer Charge		\$1.16	\$0.01		
Municipal Surcharge		\$0.42	\$0.32		
NYS/MTA Surcharge		\$0.76	\$1.07		
NY FCC Surcharge		\$0.40	\$0.85		
Operator Expense Surcharge		\$0.46	\$0.20		
NY FCC Gross Surcharge		\$0.20	\$0.20		
Municipal Surcharge		\$0.41	\$0.32		
NYS/MTA Surcharge		\$0.76	\$1.07		
Total Before State and Local	\$7.38	\$20.94	\$27.09	\$24.14	\$37.58
State, Local, Federal	\$0.82	\$2.36	\$3.05	\$2.72	\$4.22
<b>Total</b>	<b>\$8.20</b>	<b>\$23.30</b>	<b>\$30.14</b>	<b>\$26.85</b>	<b>\$41.75</b>
<b>% of Change</b>		<b>184%</b>	<b>268%</b>	<b>227%</b>	<b>409%</b>



\*In 1980, local phone service was a bundled package which included the telephone, the wire in the home, six directory calls, and a \$4 local call allowance; all of the charges were only itemized once a year. By 2003:

- Untimed Message Service went up 43%,
- Inside wiring went up 232% since 1998.
- Directory calls went up 2059% for 10 calls. One call is now \$.80 up from \$.10, while taxes bring one call to \$.95.
- FCC Line Charge, Phone Number Portability, E911, USF and Surcharges were added.
- A local call "allowance" of \$4 was dropped and the cost per call increased.
- The rotary telephone went up 404%.

The previous model did not include the rotary telephone, which in 1980 cost \$1.18 per month. The total cost in 1980 was \$9.51 including taxes. By 2003, if you simply kept the same phone service, you were paying \$48.37 for the exact same service.

**Exhibit 2**  
**Changes to Local Phone Service, 1980-2003**

	<b>1980</b>	<b>1987</b>	<b>1992</b>	<b>2003</b>
Total	\$9.51	\$27.77	\$35.09	\$48.37
Percentage of Change		192%	269%	409%

**If you remove the controversial telephone rental** (money at that time went to both Verizon as well as AT&T), then the total is \$8.20 in 1980 vs \$41.75 in 2003 — still a 409% increase.

**Exhibit 3**  
**Changes to Local Phone Service, (Minus the Telephone) 1980-2003**

	<b>1980</b>	<b>1987</b>	<b>1992</b>	<b>2003</b>
Total	\$8.20	\$23.30	\$30.14	\$41.75
Percentage of Change		192%	269%	409%

We do not feel that most of these new charges are justified.

*Please Note: Aunt Ethel had two rotary telephones, mounted to the walls in 1966, and two inside wiring charges, which she insisted she did not order. For a full accounting of the charges see "The Unauthorized Bio of the Baby Bells", Book VI:*

<http://www.teletruth.org/docs/unauthbiobook6.pdf>





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## **The Back Drop — Verizon New York’s Current Deregulation Is Costing Customers More Money.**

Verizon New York was able to convince state regulators to grant Verizon “Deregulation” in 2002, which was in the form of a new “incentive” plan on local service that allowed Verizon “pricing flexibility”.<sup>1</sup>

“The New York State Public Service Commission (NYSPSC) has adopted a new incentive plan to regulate the services of Verizon New York, effective March 1, 2002. The plan provides pricing flexibility, adopts new service quality standards and does not restrict Verizon New York’s earnings. The plan will expire in 2004, except that the service quality provisions of the plan will expire in 2005.”

Verizon was supposed to be able to increase retail rates by 3% per-year for 2 years.

“The new plan: **Permits Verizon New York to increase its retail rates by 3% of its intrastate revenues per year in each of the two years of the plan**”. (Emphasis added)

Verizon also told the public that local service has not increased, but actually went down over the last 11 years.<sup>2</sup>

“The price of basic service in New York has not increased and, in fact has gone down, over the last 11 years,” said Paul A. Crotty, president of Verizon New York.”

Phone bills do not lie, and as we will show, there have been multiple increases in numerous services over the last three years. For example:

- The FCC Line Charge has increased from \$3.50 in 2000 to \$6.50 in 2003 — up 86%.
- Inside wiring has gone up from \$1.04 to \$3.45 since 1998— up 232%.
- Local phone calling went up an average of 16% in 2003.
- Directory Assistance went up 60% in the last year— from \$.50 to \$.80.
- Dialtone went from \$6.11 in 2001 to \$8.61 in 2003, an increase of 41%.

Verizon will argue that the FCC Line Charge is not part of “basic service”, that the inside wiring charge is “deregulated”, and that our local service calculations miss some important facts. Let the reader decide.



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## Back Drop: Verizon New Jersey Local Service Calculations Are a Slight-Of-Hand Trick.

As with the case of New York, Verizon New Jersey is committed to serious misrepresentation of the facts through slippery definitions. According to Verizon, the local phone service cost is \$8.19 and this has been the same charge since 1985.

"One of the benefits of PAR-2 to residential customers of New Jersey is in keeping residential basic rates unchanged since 1985, which are among the lowest rates in the nation." (Board of Public Utilities, November 7th, 2002)

"Verizon New Jersey (VNJ) noted that while New Jersey's per capita income more than doubled from 1986's \$17,652 to 1999's \$35,551, VNJ's highest rate for **Residential service in 1985 was \$8.19 and today it remains \$8.19, a zero percent increase over a more than fifteen year span.**"<sup>3</sup>

They manage to do this by redefining the words "residential basic rates" to suit their own needs. According to the New Jersey statutes, local phone service includes the FCC Subscriber Line Charge and Touchtone service:

"Basic residential charges include charges for basic residential telephone service, basic local service usage, non-recurring charges for basic services, the **federally mandated subscriber line charges** and applicable state and federal taxes. Basic residential local telephone service means voice grade access to the public switched network, touch-tone service..."<sup>4</sup>

As previously discussed, the FCC Line Charge went from \$1 in 1985 to the current rate of \$6.50— an increase of 550%. In fact, the FCC Line Charge went up 86% since 2000. New Jersey is also one of the few states that still charges a Touchtone charge which is still \$1 a month. Neither charge is part of the quoted \$8.19.

Basic logic dictates that local service is not \$8.19, but is now \$8.19, plus \$6.50, plus \$1, equating to **\$15.69**. This does not even include additional taxes and surcharges such as the Universal Service Fund, portability or other charges. Therefore, "Local Service" went up 92% in New Jersey since 1985. For example, NJ Directory Assistance went up over 2900% since 1985. In 1985, local Directory calls were "free" and included in the cost of local service. Now the residential customer gets 4 free and each additional call is \$.20. In our phone bill survey we found numerous customers making 5-10 calls a month, which would add \$1.25 a month, not including tax.



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## **Multiple Jurisdictional Swiss Cheese — There Are No Regulators to Examine the Entire Phone Bill for Profits.**

How is it that local phone prices keep increasing even though the costs to offer service keeps decreasing? The two major expenses, the upgrades and maintenance of the networks and the staff, have had dramatic cuts. Overall, the Bell companies have had:

- 65% drop in employees-per-line; the standard measurement for staff since 1980.
- 50% drop in construction budgets since 2000.

While we cannot go into details to examine the impacts of deregulation on phone prices in this report, we need to outline a basic, intrinsic problem in examining phone rates and the current charges on the phone bill:

### **No Regulator Examines the Charges on the Phone Bill for Revenues or Profits.**

This fundamental flaw in regulations to protect the Public Interest has been totally “deregulated” and, as we show, it is to the detriment of every customer.

For example, there is no legal way to do an “End Result Test”, meaning the examination of all revenues to the local phone company versus the actual costs, thus violating every “fair and reasonable” test.

As we point out, the FCC Line Charge (which is controlled by the FCC) had no cost support for increases of 86% over the last three years. Meanwhile, most states do not include this charge when they calculate local phone rates.

Under the current excessive use of “price caps” or “pricing flexibility” which allows increases to the local phone rates, the regulator totally failed to examine the actual costs of service or the revenues and thus profits for most services.

In fact, virtually every charge, except for the Federal, state and local taxes, are in various ways revenue back to the local telco because no one has bothered to add them all up.

The exhibit below shows the regulatory controls, or lack thereof, for most phone charges on the Verizon NY bill, which is similar to almost every other state. Even though some of the charges may be under the purview of a specific agency, via deregulation, it does not mean that they are doing any examination of the actual revenues or profits. Also, while services like E911, Local Number Portability or



Universal Service are done in the “Public Interest”, in many states these services are supplied only by the monopoly, not up for bid, or they receive a large portion of the revenues. See the rest of the report for more details. *Note: PUC is Public Utility Commission.*

#### **Exhibit 4**

### **Regulatory Agency Control of Phone Charges**

<b>Charge</b>	<b>Regulator</b>	<b>Problem, Regulation</b>
Dialtone	PUC	Price Flexibility
Inside Wiring	PUC	Deregulated, no examination
FCC Line Charge	FCC	No Cost Support
Calling Features	PUC	Price Caps or Deregulated
Universal Service	USOC	Multiple, including revenue to Bell
Local Portability	Congress/FCC	Revenue to Bell
E911	State and City	Revenue to Bell
Surcharges	PUC	Revenue: Paying Verizon’s Taxes.
Directory Assistance	PUC	Deregulated
Excise Tax	Congress and IRS	No calculations on impact of local phone customers.



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## **“End Result Test” Summary**

This report was created by Teletruth, with its board members: phone-auditing expert, LTC Consulting, and research firm New Networks Institute. It is the consensus of all parties that phone bills failed the "End Result Test".

The End Result Test is a common legal analysis used by utilities to claim that the rates that have been set constitute a “takings”. This means that if you add up all of the rates as set, the company is losing money or the price is below costs.

Teletruth's definition of the End Result Test as it is applied to the charges on the phone bill is exactly the same, though done from the customers' perspective. When adding up all of the charges — including the "deregulated", "non-regulated", “price-capped” or even the “regulated” services, as well as all surcharges, taxes and other parts of the bill that either go directly back to the local phone company as revenue, or partial revenue, or are some form of “enrichment” — the charges together are “unjust and unreasonable”. (The term “enrichment” is any tax or surcharge that is paid by customers but is essentially a tax that has been imposed on the phone company that they are allowed to currently pass-through to the customer.)

We include in this calculation various “expenses” that are being passed-through to the customer as well, such as the cross-subsidization of the phone bill “Insert” which seems to be allowing various non-regulated services, including Long Distance and wireless, free advertising space. In essence, this adds costs to the customer.

As we've previously stated, today there is NO regulator or regulating body that examines the entire phone bill for profits. While each charge may be legally applied — or as we discussed previously, may be added to the bill through multiple regulators — the total charges, surcharges, taxes, and other perks together are the problem.

It is for this reason that Verizon can claim they have had no increases in 11 years in New York, or 20 years in New Jersey, yet the charges appearing on the phone bill directly contradict that statement.

This report cannot go into the details of all of the nuances of the phone bills' deregulatory history. However, “The Unauthorized Bio of the Baby Bells” gives a full history of deregulation and phone bills, as well as the various types of regulation that apply to state and federal charges.



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## The Significance of this Report and VOIP

Our position:

**“NO New Taxes”** should be applied to any current or new services until every charge is investigated and/or removed and an End Result Test has been conducted on ALL revenues, profits, taxes, surcharges, and cross-subsidization that enrich the Bell companies.

For those not in telecommunications or related fields, there is a new service that has been introduced in the last few years that uses the Internet to send and receive phone calls. It is called “VOIP” or “Voice-Over-Internet Protocol”. While this service has been around for over a decade, the major difference is that it required broadband services to make it be an “overnight” sensation. Broadband allows VOIP to sound like a real phone call and not a low-grade conversation from the space shuttle — a common problem with earlier services based on regular dial-up services.

While the hype far exceeds the actual deployments, Vonage —the largest company offering this service — only had approximately 100,000 customers as of 2003. VOIP is now considered part of the fabric of telecom.

There are many different flavors of VOIP:

- **VOIP using special “SIP” phones** — These can carry a phone call between phones over the Internet: phone-Internet-phone. Jeff Pulver’s Free World Dialup, which offers its own service, is the leader in this.
- **VOIP using the Internet and connecting to the phone networks.** — Companies such as Vonage allow a caller with broadband to use the Internet to carry the call from a person’s computer to a person on a regular local phone line.
- **VOIP using the phone networks** — This version proposed by AT&T is using the Internet to carry the calls between customers using the regular phone networks.

Why is this report so important? VOIP services to date do not pay any of the access fees, universal service funds, 911 and other charges so the service is lower cost than the current long distance or local phone calling. Every regulator, politician, phone company and every customer ALL have a stake in whether this service is required to pay fees or not. The current belief seems to be that if the call remains on the Internet and does not go to the local phone networks, it will not be taxed. However, if it does go to these other networks, then many regulators and politicians want to apply all of the taxes and surcharges you are about to read about.



There is also a definitional difference. Those who do not want to apply taxes and surcharges claim that VOIP is an “Information Service”. Information services are currently not required to pay various taxes and surcharges. This is in contrast to long distance phone calls, which pay a myriad of different fees as previously discussed.

The current proposals include adding not only the state, local, and Federal taxes, but also Universal Service Fund taxes, Access Fees and fees built into long distance calls that go back to the local phone companies to complete the call. This also includes the FCC Line Charge, as we will discuss.

We will demonstrate:

- The FCC Line charge, an access fee, went from \$3.50 to \$6.50 with no cost support. In fact, research by economists indicated in 1998 that before this increase was created, Access fees were inflated over 500%.
- The Universal Service Fund at approximately 9% is being misapplied today to local phone bills at \$.62 a month. The entire Fund has been charged by some as an “out of control” slush fund, with lack of oversight, lack of competitive bidding, and accusations of fraud.
- Phone monopolies receiving “high-cost” funding are very profitable, including rural companies that have an EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) —In short, revenues minus expenses) of over 55% (very high by any standard), and that profit is significantly inflated from access fees and USF fees.
- The Spanish American War Tax at 3% should have been repealed after the Spanish American War in 1898.
- Every charge also gets hit with other taxes and surcharges. In New York, the FCC Line Charge has 27% taxes applied alone.

In short, our position is that each and every charge that is being considered should first be examined, with the proper cost supports, audits and other customer safeguards. The regulators have not done their homework on the current situation, but instead now rush to add additional fees and inflate the already existing overcharging.

One other point also needs to be made. As we have clearly demonstrated, customers are not only paying excessive taxes and surcharges on their local phone bills, but in the case of VOIP over broadband, they are also paying additional fees and additional taxes and surcharges for their broadband connections. Interestingly, the Bell companies and cable companies seem to be illegally avoiding numerous taxes in the process. Since VOIP is using the existing network and the companies are being already compensated twice, then it would seem ludicrous to tax a third time for use of the networks. Let the reader decide if new taxes and surcharges should be added to VOIP.





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## **Terms, Definitions**

### **“Local Service” — The Customer Definition**

In this report, we use “Local Service” or “Local Telephone Service” to include everything that appears on the local phone bill, or we will make a specific distinction as to its meaning.

### **“Basic Service”, “Basic Monthly Charges”**

When used in this report, these terms will be defined at the time of presentation. As we point out, the definition of these terms have continued to be ‘devalued’ over time.

### **Long Distance — The Customer Definition**

In the case of packages, there can be ‘long distance’ charges. We will consider this distinct from local service, unless stated.

### **Taxes and Surcharges**

Any of the following we will consider part of this group:

- **FCC Line Charge** —sometimes called **“FCC Subscriber Line Charge”**
- **Local Number Portability** — sometimes called **“LNP”** or **“portability”**
- **Universal Service Fund — “USF”**
- **Surcharges**
- **Federal Excise Tax (Spanish American War Tax)**
- **State and Local Taxes**



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## I. “Truth-in-Billing” Violations

We begin with an examination of the cosmetics of the phone bill. Is the phone bill readable, and if not, what are the problems?

### 1) What is “Truth-In-Billing”?

Over the last decade, the FCC has repeatedly brought up the issue that phone bills are unreadable and that something should be done about it. In March of 2000, the FCC set up new guidelines and rules about the country’s phone bills known as “Truth-In-Billing”. The guidelines include basic principles about the information to be supplied to the customers. Here is a brief description of the rules. (Also on the web at: <http://ftp.fcc.gov/cgb/policy/truthinbill.html>)

“The Commission has adopted Truth-in-Billing rules to improve consumers’ understanding of their telephone bills. Among other things, section 64.2401 of the rules requires that a telephone company’s bill must:

- (1) be accompanied by a brief, clear, non-misleading, plain language description of the service or services rendered;
- (2) identify the service provider associated with each charge;
- (3) clearly and conspicuously identify any change in service provider;
- (4) contain full and non-misleading descriptions of charges;

“The Commission also determined that all telecommunication providers (other than CMRS) should use standard labels on bills when referring to line item charges relating to federal regulatory action, such as universal service fees, subscriber line charges, and local number portability charges.”

<http://www.fcc.gov/cgb/consumerfacts/charges.html>

Verizon is supposed to follow these rules and guidelines, but it is clear that the phone bills examined are not what was intended by the FCC. However, the FCC is in part to blame for some of the problems with phone bills and some charges.

The phone bills collected had numerous “Truth-in-Billing” violations. From charges marked simply as “Surcharges”, to definitions that are not correct or missing call detail.



## 2) Pervasive Truth-in-Billing Violations in Just Two Verizon States

Teletruth has identified 59 current Truth-in-Billing violations on the Verizon New York and New Jersey phone bills. This is a summary.

### Exhibit 5

#### Truth-In-Billing Violations Found on Verizon New York and New Jersey Bills.

#### Verbal Slight of Hand — Overall Problems with Verizon Definitions and Wordplay

- 1) **Word Jumble** — Verizon, NJ phone bills have multiple words — "Basic", "Local", "Charges", "Monthly", "Service" — and uses them almost interchangeably. Are "Basic Local Charges", "Basic Local Service", "Local Phone Service", "Basic Service", "Basic Charges", "Monthly Charge" the same thing?
- 2) **Word Jumble vs "Basic Rate"** — Verizon states that, "The current monthly rate of \$8.19 for local phone service has not changed since 1985". On the phone bill, there is no "monthly rate". Is the definition of "local phone service" different from "Basic Service" or "Basic Local Service Charges"?
- 3) **Category Fraud** — Touchtone — The monthly rate of \$8.19 for local phone service doesn't include the current Touchtone service.
- 4) **Category Fraud** — FCC Line Charge — The monthly rate of \$8.19 for local phone service doesn't include the FCC Line Charge, which went up 86% since 2000 and is included on the bill under "Basic Service".
- 5) **Format Confusion** — The New Jersey bill is an incomprehensible mess, even with the "new formats". The bill can run for 7-10 pages, and places the "total charges" of various items at the top of the next page with no explanation.

#### Various Charges Truth-in-Billing Violations

**FCC Line Charge** — This charge adds \$6.50 a month to residential customers.

- 6) Though the common belief is that this charge goes to the FCC, it instead is revenue to Verizon.
- 7) The charge is not mandated.
- 8) The charge does not relate to Long Distance calling.
- 9) On NJ bills the charge is not regulated by the State Utility Commission (BPU).
- 10) On NJ bills the charge should not be listed as part of "Basic Service".
- 11) The charge is not a tax or surcharge.
- 12) The charge has not been added to the advertised price of the Verizon packages, even though it is revenue to the company.



- 13) The charge should not be taxed with the Universal Service Fund, which is for “interstate” services.
- 14) USF Double Dipping? The FCC Line Charge may have hidden in the fee a charge for the Universal Service Fund.
- 15) The charge should not be taxed “Federal Excise Tax”, which is for “interstate” services.
- 16) Customers should not be disconnected if they do not pay this charge (as in NJ).

### **Universal Service Fund**

- 17) This charge should not be on local bills since the charge is for Interstate service.
- 18) This charge should not be applied to the FCC Line Charge.
- 19) This charge should not be applied to the “Local Number Portability” charge.
- 20) There is no identification on the phone bill or website as to how the tax is applied or to which services.

### **Surcharge(s)**

*(Note: Surcharges on the New York City phone bill is plural. The website shows 8 possible taxes with no description of what taxes are being applied to what charges or at what percentage. Therefore, we count some of these as “unknown hidden”).*

- 21) The term “Surcharges” is a violation of Truth-in-Billing.
- 22) Surcharges hide the fact that customers are paying some of Verizon’s taxes.
- 23) Surcharges hide the fact that customers are paying other unmarked fees.
- 24) There is no indication which taxes are applied — Unknown hidden in service.
- 25) There is no indication which taxes are applied — Unknown hidden in service.
- 26) There is no indication which taxes are applied — Unknown hidden in service.
- 27) MTA Fund — There is no indication how this tax is applied and to what items.
- 28) Utility Tax — There is no indication how this tax is applied and to what items.
- 29) Unknown — There is no indication how this tax is applied and to what items.

### **Hidden Taxes and Surcharges**

- 30) Verizon NY states that there are other taxes that are “part of local service” which are not identified, except as a list on the website.
- 31) Verizon does not give any information about the amount of tax or what they are applied to on the website.

### **Spanish American War Tax (Federal Excise Tax)**

- 32) There is no indication how the tax is being applied and to which charges.



- 33) This tax is only for 'interstate' services and should not be on the local phone bill.
- 34) This tax should not be applied to FCC Line Charge or the Portability charge.

### **Non-Published (Unlisted) Numbers**

- 35) "Non-Published Service" is an "Optional Service", but it is listed as a charge under "Basic Service" on New York phone bills.
- 36) In New Jersey, the service is called "Non-published Tel Charge" and is part of "Basic Charges", even though the service is optional.
- 37) Unlisted numbers should not have a charge since it cost \$0.00 to offer.

### **Idiot Items** (Charges with \$0.00 cost.)

- 38) The charge for Touchtone in NY was dropped in the 1990's but appears on some bills with \$0.00 charge.
- 39) Customers can have 2-10 Idiot Items on their phone bills with \$0.00 charge.

### **Packages**

- 40) Packages lack "Call Detail", which gives the number of calls, phone numbers and "time of day" information.
- 41) Packages have "\$0.00" charge for Basic Service in New York.
- 42) Packages list all the charges under "Optional" in New York, which is incorrect.
- 43) Packages list all the charges as "Toll Calls" in New Jersey, which is incorrect.
- 44) In New Jersey, the Taxes and Surcharges for the Package are under "Basic Service", which is incorrect.
- 45) In New Jersey, the Optional Services are placed under "Toll Calls".
- 46) The Package information does not contain which phone line of the package it applies to.

### **Verizon, New Jersey Bills**

(During the editing of this report, some of these issues may have been addressed)

- 47) Verizon only supplies quarterly bills with more complete details. Monthly statements are missing a number of specific details.
- 48) "Non-Basic" charges are all that is listed on monthly bills for numerous charges including covering over "inside wire maintenance".
- 49) Verizon uses a category called "Other Charges" which covers over various items.
- 50) The monthly statement is missing the Touchtone charge.
- 51) The monthly statement is missing "individual flat rate residence".
- 52) The monthly statement is missing "Auxiliary line" for second lines.



- 53) Basic local charges for two lines does not tell you the phone numbers of each line.
- 54) Basic Service can contain the taxes for two lines, and only one residential line is listed.
- 55) Various charges on the bill are not cross-referenced correctly. "Basic Local Service" which is mentioned on a previous page does not show up with the same name on a different page, or even the same charge totals.
- 56) Many charges have no indication to which phone line they are being applied to.
- 57) Verizon Long Distance is not itemized on the bill.
- 58) Verizon New Jersey, in one of their sub-totals, includes both Sprint calls and Verizon calls as "Toll calls", with no break out of carrier.
- 59) Verizon NJ's easier-to-read bill kept the old bad formats and added some new front pages, not fixing any of the previous problems.



### 3) Truth-in-Billing Violations, Word Jumble and Definitional Slight of Hand

Phone bills are supposed to be readable and understandable and use common customer-friendly definitions. However, in both New York and New Jersey, the definitional slight of hand for “Local Service” is out of control and extremely confusing.

**See: Phone Bill Exhibit 1: New Jersey Phone Bill – Basic Service.**

The Verizon New Jersey phone bill has multiple words — **"Basic"**, **"Local"**, **"Charges"**, **"Service"** — and uses them throughout the phone bill almost interchangeably with little rhyme or reason. For example, are "Basic Local Charges", "Basic Local Service", "Local Phone Service", "Basic Service", "Basic Charges", and “Monthly Charge” the same thing?

On just one New Jersey bill we found:

- Basic Local Charges
- Charges For Local Phone Service
- Nonrecurring Charges For Basic Service
- Installation Charges For Basic Service
- Subscriber Line Charges
- Basic Local Service Charges
- Other Charges
- Toll Charges
- Basic Charges
- Basic Service
- Monthly Charges

### 4) New Jersey Word Jumble vs “Basic Rate”

In a press release, Verizon states: <sup>5</sup>

“...the **current monthly rate of \$8.19 for local phone service**, the lowest rate in the nation and one that has not changed since 1985”

On the phone bill there is no "monthly rate". Is the definition of "local phone service" supposed to be a separate and different component from "Basic Service" or "Basic Local Service Charges”?





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## 5) Category Fraud — Touchtone, the FCC Line Charge, Are Not Included

It is clear that this word jumble allows Verizon to be able to say that they have had no increases because their definition allows them to use a slight-of-hand and limit the definition as they see fit. Case in point: the **monthly rate** of \$8.19 for **'local phone service'** doesn't include the current Touchtone service nor the FCC Line Charge (which went up 86% since 2000 and is included on the bill under "Basic Service").

In New York, we find the same slippery definitions. According to Verizon, "Basic Service" has decreased over the past 11 years:

"The price of basic service in New York has not increased and, in fact has gone down, over the last 11 years,"

The NY phone bill has much less clutter of names than New Jersey. It includes:

- Verizon Basic Local Services
- Monthly Charge for Dialtone

However, "Verizon Basic Local Services" includes "Verizon Calls", "Non-published service", and "Dialtone". There is no "Basic Service" on the phone bill.

These are all Truth-in-Billing violations because they are confusing to anyone outside of Verizon. Common words that have common meanings are being strung together and placed on phone bills without any definitions that clarify how "rates" have not gone up, although every charge has increased and the word "rate" does not even appear on a phone bill.

## 6) Phone Bill Format Confusion

The New Jersey bill, including the "new formats", is also difficult to follow. The bill can run for 7-10 pages, but worse, Verizon places the "total charges" of various items at the top of next page with no explanation. It seems that the company added two front pages for their "easier-to-read" campaign, but left the same, poor formatting.

An example from one phone bill (from a new bill dated 11/26/03) — On page 6 of this bill, Verizon is billing for a Long Distance Company, Telecom USA. The bill starts with "miscellaneous charges" of "3 FED UNIV SVC" with three charges dated Nov. 6, Nov 13 and Nov. 20 with no total and NO phone calls. The next page starts with "Fed" and "NJ



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Tax” and finally the total, still with no phone calls or explanation. Next is the list of calls followed by another set of Federal and NJ sales taxes applied, and then a total.

- Does the USF relate to the calls below?
- Why are there two different sales taxes applied?
- Why does it divide on the page?

Another phone bill from our survey, a ten-page bill, had the total for non-basic service at the top of page five as a single line item. This problem was encountered in virtually every phone bill we examined in New Jersey. The New York phone bills at least did not have this problem, or it was not as prevalent as those from NJ.

## **7) 7-10 Page Phone Bills?**

Another serious formatting problem with New Jersey is its sheer size. Most bills were over five pages with many bills in the 7-10 page range.

Throughout this report we will highlight other phone bill format issues.

## **8) Truth-in-Billing Violation — “Surcharges” with No Definitions**

Verizon is supposed to have a specific description for each charge. Instead, the Verizon New York phone bill has a line item called “surcharges”, that’s plural, and no description. On Verizon’s website, the company lists a number of taxes and surcharges. Unfortunately, there is no relationship between those mentioned and the line items on the phone bill. Appendix One contains Verizon’s “Surcharges and Taxes” as listed on their website.

On a typical New York phone bill, the “Surcharges” were approximately \$2.60 a month and added approximately \$31 a year — about 7% of the dialtone line and local phone calls.

On the residential “Freedom package”, “Surcharges” were \$4.15 a month or \$49.80 a year and none of these surcharges are included as a part of the advertised package price.



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## 9) **Surcharge Scandal Violation: “Surcharges” Hide the Fact That Customers Are Paying Some of Verizon’s Taxes**

In examining these various surcharges and comparing older phone bills, Teletruth has concluded that Verizon has been allowed to charge customers for some of its own taxes, now only named “Surcharges”.

Imagine seeing the quote below on your telephone bill. It explains that there is a surcharge called the "NYS/MTA", which allows the Bell to have the customer pay the company's taxes — a tax that adds 7+% to the entire bill. This is from a consumer education insert from 1991, and we believe that the current surcharges are covering over these items and that this practice started in 1982. *(Note: New York Telephone became NYNEX, which became Bell Atlantic, which became Verizon.)*

**"New York Telephone pays taxes too. The company must pay a New York State Gross Income Earnings tax, which we are permitted to recover as a surcharge to consumers and appears on your bill as a 6.5% New York Surcharge.** This surcharge applies to monthly and one time charges and to most calls made within the state". [Emphasis added]

In fact, the NYS/MTA surcharge is actually a 2-part charge, the majority, 6.5% going directly to pay New York Telephone taxes. There is also an "MTA" surcharge, about 1%, which goes to the Metropolitan Transit Authority, the organization that runs the buses and subways.

"A fee the company collects for New York State and the Metropolitan Transportation Authority. It helps pay State utility taxes and supports subway, bus and commuter rail lines. The MTA portion applies only if you have phone service in a county served by the MTA."

Considering the scandals in 2002 in New York over the MTA's finances, where the city found over one half billion dollars in a separate account that should have lowered the cost of using mass transit, this extra fee is insult to injury for those living and using the subways in New York City.



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## 10) Surcharges Scandal: More Pass Throughs — “Telecom Service Excise Tax”?

Somewhere on the bill are other taxes and surcharges that have been hidden. For example, this description of “Telecom Service Excise Tax” appears on the Verizon website. Where is it?

“Treated like a sales tax. The difference inferred in the name relates to the incidence of the tax — whether the tax is the liability of the customer or of the company. **(If the tax is the liability of the company, regulatory authorities usually allow us to recover it from customers, either as a separate line on the bill or just buried in our cost of service).**” (Emphasis added)

The website also lists a series of other fees that are somewhere on the phone bill, and that are most likely being paid by the customers. *(Note: Verizon does not say which fees are being assessed on which customers.)*

- **Municipal Franchise Fee** — A fee assessed for the privilege of using the municipal public right-of-way. This fee provides the municipality the funds needed to recover the cost of administering the access to the right-of-way. Typical costs included are for inspection, permit processing, engineering, traffic, and other like expenditures that the municipality incurs to manage the health and safety of its citizens, while utility companies work in the right-of-way. The fee is generally either an amount per telephone access line or a percentage of revenue. State law or Public Utility Commission Tariffs allow Verizon to recover these costs as a separately billed item.
- **Municipal Infrastructure Maintenance Fee** — Municipalities collect this fee from public utilities.
- **State Infrastructure Maintenance Fee** is similar to the Municipal Maintenance Fee. In both cases, public utilities recover these fees from their customers.
- **State Sales Tax** — A State tax levied on all long distance calls and some services and features.
- **State Transaction Privilege Tax** — Generally, there is little difference from a sales tax.
- **State Utility Gross Receipts Tax** — Telephone companies must pay tax on total revenue. This funds the Public Utility Commissions and other state services. This tax



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is usually a liability of the company (levied on the company's receipts), and generally must be paid whether or not it is recovered from customers.

- **Telecommunication Relay Service/Hearing Impaired/Telecommunications Device for the Deaf** — The Telecommunications Relay Service/Hearing impaired/Telecommunications devices for the Deaf surcharge is a fee for providing special needs equipment, facilities and services to the hearing impaired in order for the hearing impaired to use the telecommunications network. This includes special phones, hearing devices, Braille pads, necessary network switching equipment and the operation of a service center that the customer utilizes for specialized services. The requirements for collecting and remittance of the fees are state specific and established by state law, public utility commission rule or tariff filings.

There are three important points that need to be emphasized:

1) The regulators should never have been allowed to keep adding charges to the phone bill. There should have been a ceiling on the total amount of allowable taxes. The regulators are at fault for some of this excess charging snafu.

As we point out, the FCC Line Charge in New York is taxed 27%, while the Taxes and Surcharges section of the phone bill adds an additional 112% to the cost of “dialtone”.

2) These taxes and surcharges should have been itemized and in full view and customers should be told which fees are essentially revenues to Verizon. The phone bills and even the website do not explain which charges the taxes are applied to or even the percentage being added. When a customer pays the companies' numerous taxes which should be paid for by the shareholders, then something is wrong. Why is the company receiving this excessive amount of money and not explaining it to the public on the phone bill?

3) Much of these taxes and surcharges are financial enrichment directly to the company. If customers were fully aware of how much revenue they had inadvertently “donated” to the Bells through hidden phone bill charges, they would have likely demanded action.



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## 11) “Monthly Charges” Not Explained — Truth-in-Billing Violation

On a New Jersey phone bill (NJ951) we find a category called “Non-basic”, which includes:

“all charges except toll that are not regulated by the New Jersey Board of Public Utilities, such as inside wiring and Guardian services”.

However, the phone bill simply says:

**“Monthly Charges May 8 to June 7.... \$3.95”**

### **See: Phone Bill Exhibit 2: A Non-Basic Charge From NJ Bills**

There is no explanation of what this charge is or why it is on monthly bills. This violates the Truth-in-Billing guidelines.

Since we do not have other bills by this client, we can not find out what “monthly charges” refers to or whether the customer actually ordered this service. It is clear however that in New Jersey, many more customers than those in NY did not know that they were paying for inside wiring or various packages. In future sections we highlight case studies of customers who are paying for inside wiring and other services they didn’t order.

## 12) Quarterly Statements Are Another Truth-in-Billing Violation

(As previously stated, during the edit, some changes have been made to the Verizon, NJ phone bills.)

Verizon NJ will argue that the “monthly charge” is explained in a quarterly phone bill. This long held practice, to inform the customer of all charges once a year, every six months or once a quarter is a violation of the Truth-in-Billing rules. Since reading the phone bill was supposed to be cleared up by Verizon, keeping this practice obviously violates the FCC’s guidelines for correct monthly bills. Please note that New York phone bills terminated the quarterly statements practice long ago.

Below is a list of the missing data from monthly phone bills. The essential data that’s missing on the monthly bill includes:

- a) The customer has 2 lines,
- b) They receive ‘flat rate’ service,



- c) They are being charged for Touchtone service.
- d) The “monthly” charge does not tell the customer what service they are paying for.

**Exhibit 6**  
**Verizon New Jersey, Quarterly vs Monthly Phone Bills.**  
6/17/2003

<u>Monthly</u>	<u>Quarterly</u>
Monthly	2 Touch-tone-per line res individual flat rate residence auxiliary line
FCC Subscriber	FCC Subscriber
Portability	Portability
Universal Service	Universal Service
Intrastate local credit	Intrastate local credit
Federal Tax	Federal Tax
NJ sales tax	NJ sales tax
Non-Basic	Non-Basic
Monthly charge	Inside Wire Maintenance

In this example, on the quarterly bill we find the customer is paying for “Inside wire maintenance”. It still fails to identify which line the service is on, nor does it explain that this is the “premium” inside wire maintenance since there are a number of different flavors of this service (of course this one is the more expensive services).

Unfortunately, both the quarterly and monthly statements do not properly identify the phone numbers and lines the customer is paying for.

We found that this not only has caused serious customer confusion, but it also covers over which services the customer is paying for. Thus, we found that the New Jersey customers have a higher percentage of paying for services that they didn’t know they had, or even had ordered. A larger sample with more interviews would be required for a definitive analysis.





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## II. FCC Subscriber Line Charge: “Truth-in-Billing” and Other Violations

### 13) Find the FCC Line Charge on the Phone Bill — A Tax? Part of Local Service?

- a) On a Verizon, New York phone bill under the “**Surcharges and Taxes**” section there is a charge called the “**FCC Line Charge**”. There is another section called “**Verizon Basic Local Service**”.
- b) Another New York City phone bill states the charge is part of “**Monthly Service**” and the “Line Charge” is “**ordered**” by the Federal Communications Commission” (NY 807).
- c) On Verizon New Jersey phone bills, the “**federally mandated subscriber line charge**” appears under the section called “**Basic Local Charges**”. There is also a section called “Non-Basic”, which are services not regulated by the New Jersey Board of Public Utilities, “Toll Calls” and “Other Charges”.

**See: Phone Bill Exhibit 3: New Jersey – FCC Charge as Part of Basic Service.**

It also states that:

“You must pay past due balances for **Basic Local Service Charges** by the date indicated on the front page of your bill to avoid suspension of your local telephone service.”

And on the New Jersey bill it states that this charge is controlled by the state’s Public Utilities Commission.

“Basic Service includes all charges that are regulated by the NJ Board of Public Utilities (BPU), **such as the line charge**, local calling, etc.”

Also, according to Verizon, the FCC Line Charge is a “mandated” charge that is used for routing long distance calls.

“The FCC has mandated an access charge (known as the FCC Line Charge) to partially reimburse telephone service providers for the cost of routing long distance calls made by local customers. This charge is applied to all customers who have telephone lines in their home or business, whether they make long distance calls or not.”



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Can you spot how many violations there are in these Verizon bills? — At least 10.

The problems with the FCC Subscriber Line Charge are numerous and the FCC is to blame for some of these problems.

For example, the money is not used to pay for the FCC but is revenue to Verizon. It is not a “mandated charge”. It doesn’t go to fund long distance. It is not part of “Basic” service and it is not a tax or surcharge. The charge is not regulated by the NJ BPU. These definitions are extremely important because it should determine which taxes and surcharges are applied.

Also, because of this definitional-limbo, Verizon can claim local phone service hasn’t increased in 11 of 20 years, depending on the state, even though it obviously has.

In fact, the FCC Line Charge is a slush fund of massive proportions because there has been no cost-accounting by the FCC to support this charge on customers’ phone bills, and the charge keeps going up, while the costs to offer service keep going down.

#### **14) What Is the FCC Subscriber Line Charge?**

According to the FCC:

“Incumbent local telephone companies recover some of the costs of telephone lines connected to your home or business through a monthly charge on your local telephone bill. This charge is usually called the subscriber line charge. It is sometimes called the federal subscriber line charge because it is regulated and capped by the FCC, not by state public utility commissions.”

*NOTE: The FCC is wrong. Most phone bills call it the FCC Line Charge.*

And the FCC makes clear that this charge is not a tax and is paid to the local phone companies.

“The subscriber line charge is not a charge by the government. It is not a tax. The government receives no money from this charge. The money is paid to local telephone companies.”

Let’s go through the various issues.



## 15) FCC Line Charge — No Cost Support, No Rate Case for Increases

The charge started at the time of the formation of the Bell companies. It was supposed to be a subsidy for the costs of offering long distance that was built into long distance rates and transferred as a fixed fee to the customers.

Starting at \$1.00 in 1985, by July 2003 the price of the service had gone up to \$6.50 a month for residential customer's first line.

### **Exhibit 7** **New York, FCC Line Charge for Specific Years, 1980-1999**

1980	1985	1986	1987	1990	1999
\$0	\$1.00	\$2.00	\$2.60	\$3.50	\$3.50

*Source: FCC, New Networks Institute, 1996*

*Note: There are variations by state as to the exact cost of this charge.*

### **Exhibit 8** **New York FCC Line Charge for Specific Years, 1999-2003**

	2000	2001	July 2001	July 2002	July 2003
Line Charge	\$3.50	\$4.35	\$5.00	\$6.00	\$6.50

As FCC Commissioner Copps so aptly pointed out, the FCC has never done a full rate case on this charge, even though the agency added an additional \$36 a year to phone bills. See Appendix 2 for the full dissenting statement.

“Re: Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps.”

“I am troubled that consumers will face an increase in the line charge on their local bill without the Commission undertaking a thorough analysis of forward-looking cost data. In 2000, when the Commission adopted access charge reform for price cap carriers, the Commission pledged that it would initiate and complete before July 1, 2002 a cost review proceeding to ensure that consumers are not overpaying for telecommunications services. This has not been done. Carriers were required to provide, and the Commission stated that it would examine, forward-looking cost data. A significant number of carriers, however, submitted summary data without disclosing the inputs used, cost



models that were not transparent, or in some cases, models that have been rejected by the state commissions. NASUCA, the association of state consumer advocates filed its data purporting to show that the cap should not increase, but it used a model that the Commission has cautioned may have limits in establishing costs. The Commission then failed to conduct its own independent analysis of the cost data. By failing to undertake the thorough analysis of cost data that was promised in the access reform order, we are neglecting our obligation to consumers.”

In fact, according to Forbes, because of a deal with the Bell companies and the FCC, known as “Calls Proposal” which allowed the FCC Line Charge to increase, the Bells’ profits on access fees increased from 14-18% in two years.<sup>6</sup>

“In the 1990s the big three Bells’ interstate revenue earned them an average return of 14%, according to FCC data. Then came Calls and the purported sacrifices it required of the Bells. Yet in the two years since, their average rate of return has risen to 18%.”

In 2001, New Networks Institute filed a Complaint with the FCC to remove this charge. We argued that it should never have been added to phone bills. Because NO REGULATOR examines the total revenues or profits of the charges on the phone bill, it seems ludicrous that one agency can raise rates without examining the total charges paid by customers. What’s even more insulting is the fact that it has continued to increase from \$3.50 to \$6.50 in July 2003, with no cost support. If the companies are no longer regulated through profits, then how can the FCC justify any increase?

Our complaint <http://www.newnetworks.com/fccslccomplaint.htm>

For a more complete history of this charge see “The Unauthorized Bio of the Baby Bells”. Book <http://www.newnetworks.com/downloadbook.html>

We should also mention, in 2002, the FCC did call for data to examine the issue of raising the FCC Line Charge from \$5.00 to \$6.50. Various respondents presented data including NASUCA, the association of consumer advocates and the phone companies. The advocates found that 70% of the population should not have this charge increased, while the phone companies, of course, submitted summary data that showed that 100% of customers should have the increase and many would still be underpaying. No independent study was ever done to examine the increases in this charge.<sup>7</sup>



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## **16) Truth-in-Billing Violation: The FCC Line Charge Is NOT “Mandated”**

Verizon informs its customers that the FCC charge is mandated. From the website:

“The FCC has mandated an access charge (known as the FCC Line Charge).”

On the New Jersey Verizon phone bill, we find:

“...Federally mandated subscriber line charge”.

According to the FCC, the charge is not mandated.<sup>8</sup>

“No, the FCC does not mandate that Verizon charge you a subscriber line charge, the FCC does mandate that an ILEC may not charge you more than the cap.”

## **17) Truth-in-Billing Violation: FCC Line Charge Is NOT Related to Long Distance Services**

And according to Verizon, the FCC Line Charge is used for routing long distance calls:

“The FCC has mandated an access charge (known as the FCC Line Charge) to partially reimburse telephone service providers for the cost of routing long distance calls made by local customers. This charge is applied to all customers who have telephone lines in their home or business, whether they make long distance calls or not.”

However, the FCC states that this charge is not related to long distance charges:

“How are long distance calls affected? The federal subscriber line charge has nothing to do with the number or type of calls a customer places or receives. It is not a charge for making or receiving long distance calls. All local telephone networks can be used for making and receiving local and long distance calls.”

We would like to point out that these new revised FCC definitions are rewriting history. For example, according to the FCC, the 1993 definition claimed this charge was part of long distance service costs.



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"The Federal Subscriber Line Charge (SLC) defrays a portion of local exchange costs that have been allocated to interstate toll [long distance] services."

#### 18) Truth-in-Billing Violation: FCC Line Charge Is a Misleading Description

The FCC Line Charge does NOT go to the FCC, even though it is the common perception and the customer has no reason to doubt that the money funds a government agency as the name implies.

<http://www.fcc.gov/cgb/consumerfacts/charges.html>

**"This is not a government charge or tax,** and it does not end up in the government's treasury."

A ludicrous aspect of this situation is that the FCC did not require the Bell companies to create a new name that was truthful. Obviously this charge should be part of local phone service. You cannot get service without paying this charge and you can get disconnected if you do not pay it. It is revenue directly to the phone company. A truthful, non-misleading explanation to customers is missing for this charge.

#### 19) Truth-in-Billing Violation: Where Is the FCC Line Charge on the Bill and How Is It Billed?

Why does it matter where this charge is placed on the phone bill? In the opening of this section, we excerpted parts of the phone bill that shows that in New Jersey, the charge is bundled with local service and is part of **"Basic Local Service"**. This is a Truth-in-Billing violation because it is NOT part of basic local charges.

In New York, the FCC Line Charge is in the **"Surcharges and Taxes"** section, even though it is not a tax or surcharge. It is also not in the **"Verizon Basic Local Service"** section of the New York phone bill.

We received other New York City phone bills in which the charge is part of **"Monthly Service"** and the "Line Charge" is ordered by the Federal Communications Commission". (NY 807)

How can the same company have numerous policies of what to do with the charge? First, Verizon New Jersey was originally part of Bell Atlantic, and New York was part of



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NYNEX, even though both companies were descended directly from AT&T as part of the divestiture.

It is clear that both companies play with the charge in their announcements about phone rates. As we quoted before, a Verizon New York press release discussing Verizon's New York Alternate Regulation, stated that the price of "basic service" in New York has not only not increased, it has gone down in the last 11 years.

Obviously, if the FCC Line Charge is put into this equation then Verizon is lying in both states in their own common sense definition of the term "basic" service. Because of the misconception that there is something called "Basic Service" and that it only includes one line item on the telephone bill (dialtone) out of 20 other items, the company can claim that "basic service" has not changed, even though every other charge on the bill has gone up and gave the company more money. This is a regulatory slight of hand.

This regulatory impropriety is more evident in New Jersey where the state definition of residential basic rates includes the FCC Line Charge, yet the company (and even the Commission) tells everyone that there has been no increase since 1985, regardless of the facts.

## **20) Taxes and Surcharges Applied to the FCC Line Charge**

This is not simply semantics. As we demonstrate later, the FCC Line Charge is hit with multiple taxes that, in New York, add 27% to this one charge.

Because this fee is a slush fund, ALL parties can apply whatever definitions, taxes and surcharges they choose and hide their inclusion in basic service definitions, etc. It is the ultimate telecom Catch 22.

## **21) Package Prices Don't Include FCC Line Charge**

It does get worse. When Verizon offers its "Freedom Package" for \$59.95, the FCC Line Charge is NOT included in this package price, and the Package itself is under the "Optional Services" category in New York, even though it includes "Dialtone", which is part of the "basic local service". We will continue this discussion in the next section.





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**22) FCC Line Charge Scandal: What Should the FCC Line Charge Really Be? \$7 a Month Less (Counting Taxes, in New York).**

Besides questioning the starting point of this charge's increase in 2000, based on our research surrounding this report, Teletruth now believes that the entire charge should have only been 15% of the current total, thus saving \$7 on the charge, counting taxes.

According to Robert Garnet, Fellow at John Hopkins University, who worked for AT&T during the review of Access Fee costs:

"In late 1998, economists hired by AT&T put together an economic model of the charges Verizon and other incumbent local telephone companies imposed on long distance companies to carry their calls to customers over the local telephone networks they owned. At that time (using the FCC approved forward-looking cost HAI model, version 5.0a), the economists estimated that the cost of providing such local connection services was \$.008 per minute (8/10 of one cent). The Bell companies were charging on average \$.0525 cents per minute (including \$.0034 per minute for a universal service subsidy). In other words, the local telephone company was collecting about \$.04 per minute in excess charges to long distance users that were not cost justified.

To summarize, the actual costs should be less than a penny, yet AT&T was being charged 5 and a quarter cents. Hidden in this charge was also a USF charge of 3/10 of a cent per minute. Thus the actual costs were only 15% of what was really being charged. Remember, this means that you, the customer, paid this inflated rate.

Another way of looking at it is by viewing the amount charged. The amount is 556% above the actual costs. This includes the addition of a hidden Universal Service Fund Charge.

**Exhibit 9**  
**Access Fees, Costs Vs Actual Charges, 1998**  
(Source: AT&T)

Actual cost	\$0.0080	
Amount charged	\$0.0525	556%
USF included	\$0.0034	6.48%
Without USF	\$0.0491	
Above cost with USF	\$0.0411	
Above cost	15.2%	



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The increases from 2000 through 2003 which raised the FCC rate from \$3.50 to \$6.50 were shifted over based on the inflated phone rates and are still there today.

“Over the next several years, these excess charges were shifted out of long distance prices and local telephone company access charges and began to appear on the monthly bills as the itemized Federal Line Charge local telephone service customers paid directly to Verizon and other local telephone companies. Today, these charges amount to most of the \$6.50 Federal Line Charge that now appears every month on your typical residential bill for local telephone service. As FCC Commissioner Michael Copps has pointed out, these charges have not yet been cost justified.”

TeleTruth believes that the FCC has neglected to do its proper job in protecting consumers from this and other excess charges that the phone companies have put on customer bills. As a consequence, TeleTruth is asking federal regulators and Congress to investigate these charges to ensure that they are reduced to a level that is justified by the actual cost of providing these services.

### **23) But It Does Get Worse... Taxes and Surcharges Applied.**

In future sections we will demonstrate that Taxes and Surcharges on the FCC Line Charge were 27% in New York in 2003.

It is our belief that the original \$3.50 had been built into these excessive fees, as were the increases. If you look at the total charge in this light, as described by the exhibit below:

- a) The total charge today in NYC is \$6.50, and that taxes are \$1.75, making the total \$8.25 a month. It should be noted that “Dialtone” is \$8.61 a month in New York.
- b) If this analysis is valid, then the actual costs of the FCC Line Charge should be \$.99 and the taxes \$.27 for a total of \$1.26.
- c) Savings - The monthly savings are about \$7 a month, \$84 a year.



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**Exhibit 10**  
**FCC Line Charge Today and If Based on Costs**

	<b>Current</b>	<b>% of tax</b>	<b>Redone</b>
FCC Line	\$ 6.50		\$ 0.988
USF	\$ 0.57	8.70%	\$ 0.086
Surcharges	\$ 0.46	7.00%	\$ 0.069
Federal	\$ 0.20	3.00%	\$ 0.030
State & Local	\$ 0.54	8.25%	\$ 0.082
Tax Total		26.95%	
Taxes	\$ 1.75	27%	\$ 0.267
Total	\$ 8.25		\$ 1.255
<b>NYC Monthly Saving</b>			<b>\$ 6.997</b>
<b>Annual Saving</b>			<b>\$ 83.96</b>

**24) New Jersey Calculations**

In New Jersey, the taxes applied to the FCC Line Charge are the Federal Excise Tax at 3%, the Universal Service Fund at approximately 9%, and the state and local taxes for 6%, making the total tax on this one line item (in the Basic Service section of the bill) 18%. For a larger discussion, including the issue of "Forward Looking Costs" read the footnote.<sup>9</sup>



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### **III. Package Issues**

#### **25) There Are Numerous Customer Issues with Packages**

These days there is a trend towards selling customers a “package” or “bundle” of services which can be everything from unlimited local phone calling to a combination of local and long distance services or even wireless and DSL services.

When a customer is on the right package or bundle of service, the customer can save money. It requires that the customer does an analysis of what they are currently paying for, including their phone usage, optional services they have, etc. As we will demonstrate:

- 15-25% of all customers on packages seem to be paying more than they were originally paying for service, or would be better off not on a package.
- Cross referencing FCC data on current spending by customers for residential local and long distance service revealed that the majority of US households do not benefit from a package since the total package price, including taxes and surcharges (not the advertised price) is more than current spending.
- In New York, taxes and surcharges added 36% to the advertised package price. All packages are missing the FCC Line Charge, Universal Service fees, Portability, E911, Surcharges, Federal or state taxes.
- It is almost impossible to discern from most packages what a customer is currently using of the local and long distance calling, since many of the packages are missing vital “Call Detail”.

*Note: During the creation of this report the Federal Universal Service Fund charge, “FUSF”, increased, but we have not changed the calculations for this increase in this model.*



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**Exhibit 11**  
**Verizon New York Freedom Package**  
**August 2003**

Dialtone	\$ -
FCC SLC	\$6.50
LNP	\$0.23
FUSF	\$0.57
E911	\$1.00
Fed tax	\$0.25
NY sales tax	\$0.68
Surcharges	\$0.53
Total of Taxes <sup>1</sup>	\$9.76
Package	\$59.95
(LD portion	\$(15.00)
USF	\$1.22
Federal	\$1.91
NY state	\$5.24
Surcharges	\$3.62
Other taxes 2 total	\$11.99

**See: Phone Bill Exhibit 4: Verizon Freedom Package, New York, with Taxes**

**26) Advertised vs Actual Price of Packages**

First, as you can see from the summary exhibit below, while the package is \$59.95, an additional \$21.75 is added on a monthly basis, adding 36%.

**Exhibit 12**  
**Package Summary of Taxes and Costs**  
**August, 2003**

Package	\$ 59.95	73%
T & S	\$ 21.75	27%
Total	\$ 81.70	
<b>Package to tax</b>		<b>36%</b>

While Verizon will say that these are taxes and other charges that have been applied to customer's phone charges by regulators, as we point out in other sections, a significant



portion of the “Surcharges” on the New York phone bill, and all of the “FCC Line Charge”, and even the Local Number Portability, E911, and portions of the Universal Service Fund goes back to the local phone company as revenue or enriching the company by paying some of the company’s taxes.

This adds \$13.67 of potential revenues to Verizon. For example, Verizon’s “Surcharges” are mostly a tax that Verizon passes through to customers; the FCC Line Charge is direct revenue. This is only part of the story. In many states the E911 charge is an exclusive deal of the local phone monopoly. Some of the USF funds go to the Bell companies. For example, in 2001, the Bells got 45% of the total top Schools and Libraries’ service provider funds, which is part of the Universal Service fee — about \$517 million out of \$1.1 billion. We will return to this issue in other sections of the report.

**Exhibit 13**  
**Revenues Back to Verizon, 2003**

Surcharges	\$4.15
FCC	\$6.50
E911	\$1.00
Universal Service Fund	\$1.79
Local Number Portability	\$0.23
Total	\$13.67

**27) Missing Call Detail: Violation of the Truth-in-Billing Rules**

While the packages offered may or may not be a good idea, one of the fundamental problems with the Freedom package bills is that the phone bills do not contain any “Call Detail”, either local calls made or long distance calls. This makes it impossible to figure out whether or not these plans are cost effective for the customer.

**28) Local Phone Package Has No “Local Service” Charge — Another Truth-in-Billing Violation**

In the New York Verizon plan, the charge for “Basic Service” is \$0.00 followed by \$13.00 of taxes, while the monthly “dialtone” included in this package is under the category of “Optional” services. This is a Truth-in-Billing violation because local service should not be confused with “optional” services.



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In New Jersey, the Package is put into the “Toll Call” section of the phone bill and the “Basic Service” is not broken out. This is a series of Truth-in-Billing violations because local service should not be confused with “Toll Calls” and the customer will not know what is basic service, and thus could get disconnected if they did not pay that portion of the phone bill.

### **29) Packages Can Be a Rip-off**

Packages are still very complicated for many consumers to understand. Consumers do not grasp what charges are on the phone bill and they certainly have a hard time understanding how to examine their own calling usage pattern. None of this is helped by the various Truth-in-Billing violations we have highlighted as well, or by the fact that the advertised price does not include 36% of taxes.

Besides the fact that it is impossible to tell from the Freedom Package how many calls are being made and whether the package is of value to the customer, it is clear from other ‘regional’ or “unlimited” local packages that many customers are excessively overpaying for services by choosing a package.

### **30) Customers on the Wrong Local and Regional Packages**

While the Verizon “Freedom” package for Local and Long Distance does not supply adequate call detail to determine if the customer is on the right package, the unlimited local and regional packages made it clear that approximately 15-25% of those on a package could be paying more.

Example: This Verizon New York customer is on the “local unlimited package” which is supposed to supply unlimited local phone calls. This customer also has the “regional” package which gives customers discounts based on a formula. In this case, the customer paid \$26.15 for 53 local calls under the package at a cost of \$.49 each as compared to paying \$4.77 for the calls under a regular dialing program. This customer ended up paying an additional \$21.38 for this month, a 448% penalty for being on the wrong package. (Case no. NY 812)





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<b>Exhibit 14</b>			
<b>Verizon “Unlimited” Local Package Customer Overcharging, 2003</b>			
	<b>Cost</b>	<b>Cost per call</b>	
53 calls	\$ 4.77	\$ 0.09	<b>448% Mistake</b>
Package fee	\$26.15	\$ 0.49	
<b>Excess</b>	<b>\$21.38</b>		

Please note that these differences do NOT include Taxes and Surcharges, adding additional costs to the customers.

**Exhibit 15**  
**Verizon Regional Calling Package Customer Overcharging, 2003**

0 calls	\$ 27.22
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The “Regional” package cost this customer \$27.22 with no calls for the month.

This problem is so common we thought we should give another example. This next New York customer would have spent \$5.73 with no plan and instead spent \$16.11 for local phone calls, and on the regional package spent \$24.16 instead of \$7.08 — a cost of 29.8 cents was listed on the phone bill. (Case no. NY 811)

**The Total Difference: \$27.46 monthly for Local and Toll Calling — 212% Increase**

**Exhibit 16**  
**Case Study: Unlimited Local Package Customer Overcharging, 2003**

<b>Unlimited Local</b>	<b>Costs</b>	<b>Difference</b>
Total Calls Value	\$ 5.73	\$ 10.38
Actual Charge	\$ 16.11	181%
<b>Unlimited Regional</b>		
Calls	\$ 7.08	\$ 17.08
Charge	\$ 24.16	241%

**29.8 cents listed on phone bill**

Without the call detail on these various other Freedom plans, it is impossible to analyze the full extent of this problem. Based on our sample of regional and local packages with call detail, 15-25% of everyone on a package may have done better buying the basic services. In order to determine exactly how many customers are affected, we would



need a sample that extends throughout a year for each customer instead of having only one monthly phone bill. For the Local and Long Distance package, it would also require analyzing their long distance bills as well.

### **31) There is No Local Competition Today for Most Consumers**

The FCC data published in 2003 (as of November 2002) found there to be 104 million households that had telephone service and that the average household spent \$83 for telecom with \$48 dedicated to local and long distance service

“According to sample data from TNS Telecoms, a marketing information research firm, the average monthly household telecommunications expenditures for households with wireline service were \$83 for 2002.”

**Exhibit 17**  
**Household Expenditures for 2002,**  
(Source: FCC, TNS Telecoms)

- \$36 for local exchange service,
- \$12 for long distance service,
- \$35 for wireless service.
- **\$83 Total wireline and wireless per household.**

While we do not believe that the FCC’s data is totally accurate on this topic.<sup>10</sup> However, if the national average is \$48 for the total wireline and long distance and the current Verizon packages currently are \$70-\$80 counting tax, then **the majority of households do not qualify to benefit from these packages, regardless of the hype.**

In other New Networks Institute studies, the “average” price would indicate that the majority of customers do not spend more than \$48 on average. This is because the high-end user ratio to average user is 65%-35%; meaning that 35% of the high end users (and very high users) skew the average.<sup>11</sup>

There is something much more significant that has been completely lost in most discussions:

**“There is NO residential, local, wireline competition as a stand alone product.”**



No one is offering the local phone customer local phone service alone at a lower rate; only packages. Thus, while the phone companies continue complaining about competition in an effort to raise local phone rates, such as New York, New Jersey or other parts of the country, it is a mirage that there is local phone wireline competition, except to those 'high-end' customers who are buying more than one product.

**32) Is Verizon “Dumping” the Long Distance Part of the Package to Get Market Share?**

The exhibit below, and on the next page, represents the various charges for the Freedom Package offered in New Jersey. The first column is the charges of the package and the second are the charges if the customer paid for them a-la-carte. In New Jersey, local phone service comes with unlimited local calling (unlike New York) as part of the basic service.

Besides the fact that Verizon advertises the package at \$54.95 while the total is almost \$70 dollars, the other item of interest is that the package states that the total long distance component built into the package is only \$15 (allocated for LD). Comparing the ala carte price, the long distance component should have been \$26.20.

**Exhibit 18**  
**Summary of Verizon New Jersey Package Analysis of Long Distance**

<b>Service Description</b>	<b>Basic Chg.</b>	<b>Ala Carte</b>
Total Verizon charges	\$69.52	\$43.32
Monthly Difference		\$26.20
<b>Allocated for LD</b>	<b>\$15.00</b>	

The next page gives the details of this phone bill.

*NOTE: This phone bill is from June 2003, before the increases in the FCC Line Charge, Universal Service Fund, as well as the taxes and surcharges applied to those services.*



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**Exhibit 19**  
**Verizon New Jersey Freedom Plan Analysis**  
Bill Date: 6/5/03

<b>Service Description</b>	<b>Basic Chg.</b>	<b>Ala Carte</b>
Monthly Charge	\$ 1.45	\$10.40
FCC Subscriber Line	\$ 6.00	\$ 6.00
Local Number Portability	\$ 0.23	\$ 0.23
Federal Universal Fund	\$ 0.57	\$0.57
Intrastate Monthly Credit	\$(0.65)	\$(0.65)
Federal Tax	\$ 0.23	\$ 0.50
NJ Sales Tax	\$ 0.46	\$ 0.99
Total Verizon Basic Charges	\$ 8.29	\$18.04
Verizon Toll Charges		
Verizon Freedom	\$54.95	
Package Includes:		
Caller-Id		\$7.50
Call Waiting		\$4.59
Home Voice Mail		\$6.50
Threeway Calling		\$2.30
Speed Dial 8		\$2.30
Federal Universal Svc Fee	\$1.22	
Federal Tax	\$1.69	\$0.70
NJ Sales Tax	\$3.37	\$1.39
Total Verizon Toll Charges	\$61.23	\$25.28
Total Verizon Charges	\$69.52	\$43.32
Monthly Difference		\$26.20
<b>Allocated For LD</b>	<b>\$15.00</b>	

The significance is apparent. In order to get the customers' business and not have them go to another long distance company which would not have the ability to offer this bundled package (a result of having to pay for the use of the local phone networks), Verizon is cross-subsidizing the long distance part of the equation but only allocating \$15 to this portion of the package. Cross-subsidization (as described in upcoming sections) is when the regulated customers help fund other services. In this case, it seems that Verizon can undercut competitor's prices and use this illegal cross-



subsidization to block competition. Teletruth would need more data to confirm what looks to be a harmful competitive practice.

### 33) Lifeline Services Are Still Not “Cheap”

Lifeline is a service that was supposed to be designed to help those who need assistance pay for their phone service. See: The Nationwide Support information, part of the Universal Service Fund, website: <http://www.lifelinesupport.org/li/lis/>

“Consumer qualifications for participation in the Low Income Program vary by state. Consumers in states that provide state support must meet the criteria established by the state commission. State commissions are required to establish narrowly targeted eligibility criteria based on income or factors directly related to income. In states that do not provide state support, consumers may be eligible for Lifeline if they currently participate in one or more of the following programs:

- Low-Income Home Energy Assistance Program (LIHEAP) or any official Home Energy Assistance Program
- Federal Public Housing Assistance or Section 8
- Medicaid
- Food Stamps
- Supplemental Security Income (SSI)”

Once again, while the customer may not be paying for some of the local services used, the telephone companies are not doing this out of the goodness of their heart but are having the original costs reimbursed.

**“Lifeline reimburses telephone companies for discounting consumers’ monthly phone bills.** Lifeline support enables low-income consumers to save at least \$5.25 per month and up to \$10.00 per month on their telephone bills. Consumers may also qualify for an additional \$3.50 per month in matching support from their state. Moreover, low-income consumers living on reservations may qualify for monthly discounts ranging from \$30.25 to \$35.00.”

In our survey, we found that the Lifeline is only \$1 and the customers are excluded from having to pay the FCC Line Charge or FUSF charges. Ironically, because the customers actually use the telephone, the phone bill can be \$40-\$50 or more a month.



The discounts do not apply to any of the Calling Features or the costs associated with actually using the phone to make calls.

In the example below, this customer's local phone calls cost \$27.45 alone, while two calling features added \$13.29 to the bill. This does not include related taxes and surcharges. A study in the 1990's found that the largest reason customers dropped off of Lifeline was because when they actually used the telephone to make calls, the charges still came to more than they had to spend on telephone service.

**Exhibit 20**  
**New York City LifeLine Customer Bill, May 2003**

Lifeline	\$ 1.00
Local Call	\$27.45
Surcharges	\$ 2.53
Calling Waiting	\$ 5.30
Caller ID	\$ 7.99
Fed.	\$ 1.33
State	\$ 3.65
Total	\$49.25

To our knowledge, the FCC's own data on this topic has never questioned the actual charges Lifeline customers pay.

Secondly, as we point out elsewhere, the phone companies' profits in many states are no longer examined for the calling features, and though it cost less than one cent to offer Call Waiting, this customer is paying \$5.30.

One would think that a different type of rate — cost plus some profit — would be a sufficient return for products such as this being applied to Lifeline customers. We also bring this up in future sections dealing with the USF fund because while funded by customers through additional fees on phone bills, the phone company still gets to charge schools and libraries the full business rates, which have large profit margins.



### III. More Taxes and Surcharges

See: Phone Bill Exhibit 5: Verizon New York, Taxes and Surcharges

#### 34) Triple, Quadruple and Quintuple Taxation — Taxes on Top of Taxes.

Anyone reading a phone bill should be somewhat startled to notice the “Surcharges and Tax” sections on the phone bill because it is replete with charges. In New York, the Surcharges and Taxes section of the bill is 112% higher than “Dialtone” (i.e. the local phone service).

In the group of Surcharges and Taxes on the Verizon New York phone bill we find the FCC Line Charge, Local Number Portability, Universal Service Fund, E911 and even “Surcharges”. Verizon New Jersey also has most of these charges with the exception of “Surcharges” and E911, though they have previously been on New Jersey bills.

What should bother everyone is that besides the fact that none of these charges are included in the price of a package or even “basic” service, they add about \$100 dollars a year to the customer’s phone service; \$8 dollars a month in New Jersey, and \$9.50 in New York City.

If you compare just the taxes on top of taxes (as compared to the cost of “Basic” service), taxes add 112% to the cost of basic dialtone.

#### Exhibit 21 Dialtone Charge vs Taxes on Top of Taxes, Verizon NY, 2003

	Dialtone	Taxes alone	
Dialtone	\$8.61		
FCC Line		\$ 6.50	
E911		\$ 1.00	
Portability		\$ 0.23	
Federal		\$ 0.22	3.3%
NY state & City		\$ 0.63	8.2%
Universal Service		\$ 0.62	9.2%
Surcharge		\$ 0.48	7.1%
	\$ 8.61	\$ 9.68	112.4%



### 35) Taxes on Top of Taxes on Top of Taxes

**See Phone Bill Exhibit 6: Taxes and Surcharges on Verizon NY Bill.**

Of the “taxes alone” section of this exhibit, are taxes applied to other taxes and NOT to the “Dialtone” line:

- **The FCC Line Charge** — Taxed Federal, NY State & City, Surcharges and Universal Service Fund — adding 27%
- **The Portability Charge** — Taxed Federal, NY State & City, Surcharges and Universal Service Fund — adding 27%
- **Quadruple Taxation** — “Surcharges”, some of which are pass-throughs to customers for Verizon’s taxes, are also being applied as taxes on these other parts of the ‘Surcharges and Taxes’ section of the phone bill, including the FCC Line Charge and Portability charge. Customers are paying taxes on top of Verizon passing through their own taxes, which are themselves being taxed.

*Note: because of the various phone bills we received, some of the charges, such as Universal Service or FCC Line Charge, may have increased or changed for different customers in New York or New Jersey.*

#### **Exhibit 22**

#### **New York, Double, Triple and Quadruple Taxation on Phone bills, August, 2003**

	<b>NJ</b>	<b>NYC</b>
FCC Line Charge	\$ 6.50	\$ 6.50
Local Portability	\$ 0.23	\$ 0.23
Universal Service	\$ 0.57	\$ 0.57
Surcharges		\$0.50
E911		\$1.00
<b>Total</b>	<b>\$ 7.30</b>	<b>\$8.30</b>
Fed tax	\$ 0.22	\$ 0.25
State and Local tax	\$ 0.44	\$ 0.68
<b>Total</b>	<b>\$ 7.96</b>	<b>\$ 9.73</b>





If this was a Monty Python skit it might be funny, but the fact is that this type of multiple taxation on various products that are compounded with other taxes are costing consumers a great deal of money each year.

As of this writing, March 2004, two telecom experts still can't determine what every tax is applied to or the actual amounts. "Surcharges" and the application of the Universal Service Fund are still a mystery because even the Verizon website does not provide adequate information to answer basic questions.

Let's go through some of the taxes on the phone bill.

### **36) The Spanish American War Tax — The Federal Excise Tax**

One of the most amusing or tragic taxes on the phone bill (depending on your point of view) is the Federal Excise Tax. This was originally put on the bill to fund the Spanish American War in 1898. Conceived as a luxury tax on the rich, because as a group they were able to afford phone service, this 100-year-old tax is now simply an embarrassment. When the politicians complain about giving tax cuts, it's clear that they only want to do cuts that grandstand rather than help the common American household.

We are not the only group who has pointed out how unjust this tax really is. The Americans for Tax Reform have written about this for years.<sup>12</sup>

There have also been several bills in the House of Representatives, such as bill H. R. 2957 presented in 2003, to repeal this tax:

"To amend the Internal Revenue Code of 1986 to repeal the excise tax on telephone and other communications services."

To read this proposed piece of legislation, visit the website address:

<http://www.newnetworks.com/excisetaxbill.html>

Even as you read this, there is a move afoot to increase this tax and broaden its scope. According to the Small Business Administration's (SBA) Office of Advocacy, in a letter dated, September 9, 2003, the IRS may redefine the definition to expand its ability to tax more companies in different ways. See SBA's Letter online:

[http://www.sba.gov/advo/laws/comments/irs03\\_0909.html](http://www.sba.gov/advo/laws/comments/irs03_0909.html)

According to SBA's letter, there may be a caveat about the way the current use of the Excise tax is applied to local phone bills. According to the SBA, a communication



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service is a phonecall, where distance is calculated as part of the call or in the case of a flat fee, is still based on “communications”. According to SBA:

“Under the law, “communications services” subject to the excise tax include “toll telephone service,” which is defined as “(1) a telephonic quality communication for which (A) there is a toll charge which varies in amount with the **distance** and elapsed transmission time of each individual communication and (B) the charge is paid within the United States...” The proposed rule would affect this statutory definition by eliminating the distance calculation (the “distance” definition).”

There is a second definition of toll telephone service (the “flat fee” definition) which reads:

“(2) a service which entitles the subscriber, upon payment of a periodic charge (determined as a flat amount or upon the basis of total elapsed transmission time), to the privilege of an unlimited number of telephonic communications to or from all or a substantial portion of the persons having telephone or radio telephone station in a specified area which is outside the local telephone system area in which the station provided with this service is located.”

Teletruth believes that neither Local Number Portability or the FCC Line Charge fit this description and therefore we question whether the tax should be applied to these non-services.

### **37) Portability Charges Are Being Illegally Charged to Customers**

On every phone bill is a charge called “Local Number Portability”. The fee is \$.23 cents a month per line in New York and New Jersey. You would assume that this would allow a customer to take their phone number with them when they move. Nothing could be further from the truth. The reason for this charge is to allow a customer to keep their phone number when they change providers.

Truth-in-Billing? The customer response to this has been a bit of outrage. Every customer who has confronted a move to a different location using a wireline phone service has questioned why this charge exists, since the obvious issue for local number portability should have been to allow a customer to keep the number when they change locations; in most cities, you cannot keep your local number unless you are moving within the same “wire-center”, a very short distance in New York City.



It is also clear that customers not being able to take the phone number when they move is a major, frustrating issue for any business or residential customer. In the case of a business, the company has to not only get in touch with all of its clients, but also change everything from the stationary and website to directories, etc. This costs companies thousands of dollars in not only expenses, but also in staff time, frustration, lost business, etc.

New Networks Institute has previously filed a complaint about this issue with the FCC, complaining that customers should be able to keep their phone numbers when they move. According to the US Census, over 15% of the population moves each year and the costs of establishing a new identity is expensive. See:  
<http://www.newnetworks.com/portrelease.html>

### **38) Wireless Number Portability Is a Big Issue**

Recently, a plan for wireless number portability has been put into effect which allows a customer to keep their phone number when they switch wireless providers or supposedly when a customer goes from wireline to wireless. The changeover has been a nightmare for many customers who have tried. According to an article in Newsday, the FCC received 743 complaints the first two weeks and instead of taking 1½ hours, the switchovers could take days or weeks.<sup>13</sup>

After two months, the FCC released a press release stating that:<sup>14</sup>

“Since wireless phone number porting began on November 24, 2003, the FCC has received 4,734 informal complaints about wireless local number portability as of January 23, 2004.”

Like the rest of telecom, it is also clear that this is yet another scam. According to an analysis by Center for Public Integrity,<sup>15</sup> “The top wireless firms have banked \$629 million for service not yet offered in 2003”, and that “the fees range from a nickel to \$1.75 per month.” See: <http://www.openairwaves.org/telecom/report.aspx?aid=67>

However, the irony of this entire discussion is — why didn’t the FCC mandate wireline portability over the last decade? It’s more inconvenient to move a business number with hundreds of employees, etc..



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### 39) The Cost to Keep Your Phone Number Is Outrageous

One customer sent us an email in 2002 about their problems with keeping their wireline number when they moved to a different, though nearby section of New York City. The price they were quoted to keep their phone number was a one-time fee of \$558.00, and a monthly charge of \$96.04 (not including taxes and surcharges).

#### **Exhibit 23** **Keeping Your Phone Number Charges In New York City, May 2002**

- One time fee of \$558.00.
- Monthly charge of \$96.04 (not including taxes and surcharges).

To read this customer's letter see weblink:

<http://www.teletruth.org/About/newsletter/Portabilitynightmare.htm>

### 40) Customers Should Not Be Paying the Portability Charge

The quote below is from the Telecom Act of 1996. It states that the cost of phone number portability should be paid for by the "telecommunications carriers", not customers:

"SEC. 251. [47 U.S.C. 251] INTERCONNECTION.

(e) NUMBERING ADMINISTRATION.—

(2) COSTS —The cost of establishing telecommunications numbering administration arrangements and number portability shall be borne by **all telecommunications carriers** on a competitively neutral basis as determined by the Commission." (Emphasis added)



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#### 41) Universal Service Fund Is an “Out of Control” Slush Fund

According to the FCC:

“On February 8, 1996, President Clinton signed the Telecommunications Act of 1996. This law represents the first comprehensive revision of the USA's communications laws in more than 60 years. The universal service section of this law, Section 254, will help schools and libraries obtain access to state of the art services and technologies at discounted rates. The FCC, through its decision-making-process, shapes the policy that will bring about this increase in access to technology.”

The Universal Service Fund (USF) is an incredibly large fund that is supposed to fund a number of areas. These include:

- **High Cost Support Mechanism** provides support to telephone companies that serve high cost areas, thereby making phone service affordable for the residents of these regions.
- **Low Income Support Mechanism** assists low-income customers by helping to pay for monthly telephone charges as well as connection charges to initiate service.
- **Rural Health Care Support Mechanism** allows rural health care providers to pay rates for telecommunications services similar to those of their urban counterparts, making telehealth services affordable.
- **Schools and Libraries Support Mechanism**, popularly known as the "E-Rate", provides telecommunication services (e.g., local and long-distance calling, high-speed lines), Internet access, and internal connections (the equipment to deliver these services).

For more general information about the Universal Service from the FCC see weblinks:

[http://www.fcc.gov/wcb/universal\\_service/proceeding.html](http://www.fcc.gov/wcb/universal_service/proceeding.html)

Question and Answer: <http://ftp.fcc.gov/cgb/consumerfacts/universalservice.html>

We would like to make it clear that we believe the funding of schools and libraries and other assistance programs are important. However, as we point out, there have been a series of recent reports that have come out that clearly show deficiencies worthy of investigation.



#### **42) A Large Sum of Money for Customers**

In the second quarter of 2003, the USF charge was 9.5% and is supposed to be applied to only long distance and international calling. The proposed contribution factor for fourth quarter of 2003 was 9.2%, while the first quarter of 2004 is 8.7%. The discussion of the calculations can also be found at weblink:

[http://www.fcc.gov/wcb/universal\\_service/quarter.html](http://www.fcc.gov/wcb/universal_service/quarter.html)

“Currently, Universal Service is supported by all telecommunications carriers that provide service between states and internationally.”

The increases to this fund have been enormous. The charge went from 3.93% in October 1999 to 9.5% in August 2003 — a 142% increase in 4 years. (Source: FCC)

#### **Exhibit 24 Increases to the Universal Service Fund as a Percentage, 1999-2003**

Oct-99	3.93%
Jun-00	5.90%
Mar-01	6.70%
Mar-02	6.90%
Jun-02	7.30%
Aug-03	9.50%
Increase	142%

This is a very significant amount of money. The High Cost Fund alone was \$2.6 billion in 2001, constituting 56% of the total dollars.

#### **Exhibit 25 FCC Inspector General's USF Information for 2001**

High Cost	\$2,560,200	55.9%
Schools and Libraries	\$1,464,299,000	31.4%
Low Income	\$584,032,000	12.5%
Rural Health Care	\$7,890,000	0.02%
Total	\$4,658,608,000	100%

There have also been serious issues surrounding what can be charged to customers. There have been a series of law suits against numerous telephone companies because



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of the methods used by companies to add extra USF charges claiming that they should also be allowed to add a "Management/Administration Fee", and other charges.

The FCC has set the amount that a phone company can charge, however the FCC states that since the charge is not required, customers should shop around to see who doesn't charge the universal service fee.

"The FCC does not require telecommunications companies to recover their Universal Service contribution from their customers. Companies that do choose to recover their contributions from customers may do so in different ways, however, they may not shift more than an equitable share of the contribution to any customer or group of customers. The actual percentage or fee that a company recovers from its customers may be different from the Contribution Factor, and may vary from company to company. If the contribution factor increases, not all companies will adjust the fees they charge customers in the same way. "Be a smart consumer. Shop around, and ask about each telecommunications company's Universal Service charge. Compare the charges and choose a carrier based on your needs."

*Editors Note: We appreciate that the FCC has a sense of humor since no customer would ever select a provider based on the Universal Service Fund percentage.*

Let's start with the phone bill issues followed by the overall business and funding issues.

#### **43) Illicitly Applying Universal Service Charges to Local Service**

First and foremost, Teletruth believes that Universal Service should not be on the local phone bill in the "Surcharges and Taxes" section because it is only for "long distance and international calling". (In New Jersey during the month of July, the average charge was \$.57, (\$.61 in November 2003), while in New York, the numbers do not match or make sense as we will discuss below.)

First, after a slew of investigations, we finally found that the Universal Service Fund was being applied to both the FCC Line Charge and the Number Portability Charge. According to a Q&A posted on the AT&T site and we assume that the "Universal Connectivity Charge" is the same as the "Universal Service Fund":

"Question: If I have AT&T for Local service does the UCC apply?



Answer: The Universal Connectivity Charge applies to the FCC Line Charge(s) and the Number Portability Charge(s)."

We also assume that Verizon is doing the same practice, though that information was not found on the Verizon website.

More to the point, we contend that Universal Service should not be applied on the local phone charges. As we pointed out, the FCC no longer states that the FCC Line Charge is for long distance calls, while Verizon New Jersey claims that the FCC Line Charge is part of "Basic Local Charges". Meanwhile, the name "Local" Number Portability says it all. Therefore, an explanation should be in order why this charge is being applied to local service.

One other point that we made previously about the FCC Line Charge is that there may in fact be a hidden Universal Service Fund charge built into this fee, which we believe deserves a separate investigation.

#### **44) Charges of Universal Service in New York on Local Phone Service Does Not Match**

It gets worse. Here are a typical series of New York residential phone bills, the data taken from the same month. While the amount of Taxes and Surcharges may go up or down, the Universal Service tax is supposed to be a percentage of two fixed fees — the FCC Line Charge and the Number Portability charge. As you can see, it certainly does not track with being calculated against two fixed fees, nor does it track with the other total taxes and surcharges as you would expect from a percentage-based fee. Thus, you can have \$15.60 of taxes and surcharges and the USF is \$.52, while a bill with only \$8.16 has a higher USF, which is technically not possible if it is based on a percentage. (This still baffles the authors.)

#### **Exhibit 26 Universal Service Charges? New York Phone Bills, April-May, 2003**

<b>Customer No.</b>	<b>T &amp; S</b>	<b>USF</b>
NY 819	\$ 15.60	\$ 0.52
810	\$ 8.16	\$ 0.57
820	\$ 8.93	\$ 0.53
835	\$ 11.09	\$ 0.58
806	\$ 11.77	\$ 0.62
823	\$ 10.80	\$ 0.55





In short, these are billing errors, since this charge should be the same for the same month.

#### **45) The Bells are the Largest Recipients of USF Fund for Schools & Libraries**

The Center for Public Integrity published a chart of the top 25 recipients of the USF fund for service providers from the schools and libraries fund. The Bells received 45% of the total top 25 — about \$517 million out of \$1.1 billion. See weblink:

<http://www.publicintegrity.org/dtaweb/report.asp?ReportID=493&L1=10&L2=10&L3=0&L4=0&L5=0>

#### **Exhibit 27 Top 25 USF Recipients, Bell Revenues, 2001**

BellSouth	\$125,321,130
SBC	\$220,298,545
Verizon	\$129,218,737
Qwest	\$42,212,528
<b>Total</b>	<b>\$ 517,050,940.00</b>
<b>Total 25</b>	<b>\$ 1,152,285,878.00</b>
	45%

#### **46) The Bells Are Reimbursed at Business Retail Rates**

While the Bell companies always put on a face that they are helping to bring the American public schools and libraries to the Internet, the reality is that while the school gets 10%-90% off the price of service, the Bell gets reimbursed at their full Business Rates — no “school discounts”. If, as we argue, the business retail rates are inflated, then we are all paying extra for these services and getting less for our money.

Also, since the schools and libraries are paying collectively \$2+ billion for services, one would assume that regulators would have figured out that these companies should get discounted prices because their “collective” buying power should qualify for “Bulk” rates.

#### **47) The High Cost Funds to Very Profitable Companies**

This subject becomes a great deal more questionable because the “High Cost fund” is distributed to the “1200 local phone companies” who get to divvy up the money.



“Approximately 1200 incumbent carriers and 18 competitive carriers participate in the High Cost program.”

In other words, ALL of the local phone companies and only 18 competitors were allowed to split \$2.5 billion dollars in 2001. There are many different divisions of this money for the different parts of offering local phone service.

Another major problem from the customer’s perspective is that many of the local phone companies are under something called “Price Cap” regulation, where the companies’ profits are no longer examined. How can companies receive funds out of this program when they no longer have restrictions on profits for the remainder of their services? In examining this area, we also found that while the fund was designed for rural areas, there is a great deal of “high-cost” in urban areas. Here is a partial list, by state, of some of the Verizon territories. While there are independent companies operating in these states besides Verizon, how much of the \$40 million did Verizon receive from this fund for New York? It should be noted that many of these Verizon states are under “price caps” and therefore should not be receiving funding if the profits were examined. This data is from 1999. Weblink: <http://www.fcc.gov/wcb/tapd/hcpm/welcome.html>

**Exhibit 28**  
**Partial List, High Cost Funding of the States Verizon Offers Service, 1999**

NJ	\$ 970,056
NY	\$ 40,314,168
ME	\$ 29,247,519
NH	\$ 8,047,764
PA	\$ 22,369,536
VT	\$ 24,846,127
WV	\$ 53,182,962
VA	\$ 11,384,640
Total	\$191, 497, 168

For 1999, the highest receiver of this fund was Puerto Rico — \$137,108,028, while Texas, which is an SBC state that is also under price caps, received \$116, 619.

Ironically, Verizon also owns 52% of TELPRI, which owns the Puerto Rico Telephone company, as well as one of the wireless companies.<sup>16</sup>



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“As of December 31, 2002, we owned a 52% interest in TELPRI, which owns Puerto Rico Telephone Company (PRTC), Puerto Rico’s principal wireline company, and Verizon Wireless Puerto Rico, Inc. (VWPR), one of the island’s wireless companies. At December 31, 2002, PRTC served 1.3 million access lines and VWPR provided wireless services to approximately 351,000 customers.”

**48) Rural Companies Also Are Large Recipients of High-Cost Funds — And They Appear to Be Very Profitable.**

Another disturbing finding pertaining to the High-Cost Fund are the profits of rural companies that are receiving these funds. These billion dollar+ companies own numerous local phone companies throughout the US. The exhibit below highlights the EBITDA for 5 of the largest Rural LEC’s (Local Exchange Companies) wireline businesses, and the average is a whopping 56.4%.

*NOTE: EBITDA stands for Earnings Before Interest, Taxes, Depreciation and Amortization) — Revenues minus expenses.*

Though it does not include new construction or dividends paid, these companies have a very large cash flow. To put it into perspective, the Bell companies EBITDA for the last few years for wireline service ranged in the 40-50% range.

**Exhibit 29  
Rural ILEC's EBITDA, 2003**

Alltel	57.2%
Commonwealth Tel	67.4%
TDS	48.2%
Century Tel	54.9%
Citizens com	54.4%
Average:	56.4%

Besides receiving low-cost loans from government agencies, according to numerous sources, the High-Cost fund contributes significantly to these companies’ EBITDA and thus profits. While there are critics of using EBITDA as a measurement for company health<sup>17</sup>, this should be a red flag to everyone. An in-depth analysis needs to be done on these companies’ profits and the money they receive from the high cost fund.



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#### 49) **Many States May Be Collecting Multiple Times for Internet, Broadband and High-Cost Funds.**

While this is a report about phone bills pertaining to New York and New Jersey, it should be noted that in New Jersey and in other states, the companies have already been collecting monies in the form of higher rates for broadband and the rewiring of the states' for fiber optics. For example, in the case of Pennsylvania, Verizon committed to rewiring the entire state with fiber optics that could deliver speeds of 45Mbps in two directions. By 2004, half of the state was supposed to be rewired and this would be done in rural, urban and suburban areas equally. This was not DSL over copper wiring but fiber to the home.

The commitments:

"In view of Bell's **commitment to providing 45 Mbps** for digital video transmission both upstream and downstream, we look forward to Bell's providing this two-way digital video transmission at **45 Mbps**."<sup>18</sup>

"Verizon PA has committed to making **20%** of its access lines in each of rural, suburban, and urban rate centers broadband capable within five days from the customer request date by **end of year 1998; 50% by 2004;** and 100% by 2015."

"In order to meet this commitment, Bell plans to deploy a broadband network using **fiber optic** or other comparable technology that is capable of supporting services requiring bandwidth of at least 45 megabits per second or its equivalent."

"It is apparent that **DSL, as it currently exists today, (March 2002), is unable to provide the broadband availability of 45 Mbps both upstream** and downstream that the Company voluntarily committed to and the Commission approved in 1995."

To read more about PA see weblink: <http://www.teletruth.org/PennBroadbandfraud.html>

To read more about the Broadband Scandals see weblink:

<http://www.newnetworks.com/Bellsfailedfiberopticdeployments.html>



Therefore, the state averaged the costs of these services throughout the state. In many states we are finding that the prices of various services have been inflated to pay for fiber optic deployments even though they were never delivered. It is also clear that in some states, monies were allocated to wire schools, libraries and other government agencies; yet these same schools also apply for USF funding on the federal level.

Have customers paid twice to fund these activities? Have inflated phone rates been used to supply the companies with more money which was not spent on the networks? And in states with 'high-cost' funds, did the state already calculate its rates based on an averaging of costs so that the high-cost funds shouldn't be applied?

This requires a series of investigations out of the scope of this report, but which are important to every customer paying a phone bill.

## 50) Multiple Problems with Universal Service Fund

Teletruth believes that there are so many things wrong with this picture that an independent investigation must ultimately be initiated.

According to an article in Government Technology, a report by Center for Public Integrity and another report to Congress by the FCC Inspector General, the system is riddled with fraud and is 'out of control'.<sup>19</sup>

"A Center for Public Integrity investigation reveals the huge program, funded by everyone who pays a phone bill, is in financial disarray. A new report to Congress on the fund by the FCC Inspector General's office said the program, known as the E-Rate fund, is **virtually out of control**. (Emphasis added)

"It's not unfair to say we have found something wrong everywhere we have looked," said Tom Cline, an auditor in the FCC Inspector General's Office. "It appears to be both intentional and unintentional."

To read the FCC Inspector General's Report, weblink:<sup>20</sup>

<http://www.fcc.gov/oig/sar902.pdf>

See: [http://www.govtech.net/news/features/news\\_feature.phtml?docid=2003.01.14-37912](http://www.govtech.net/news/features/news_feature.phtml?docid=2003.01.14-37912)



The partial audit of the E –Rate, weblink:

<http://www.publici.org/dtaweb/report.asp?ReportID=494&L1=10&L2=10&L3=0&L4=0&L5=0>

## 51) Lack of Oversight, Fraud and Mismanagement

### Exhibit 30 FCC Inspector General's USF Oversight Issues for 2001

High cost	\$2,5602,457,000	55.9%	<ul style="list-style-type: none"><li>• Only recent oversight</li><li>• Lack or resources for adequate oversight</li></ul>
Schools and Libraries	\$1,464,299,000	31.4%	<ul style="list-style-type: none"><li>• Lack of resources for adequate oversight</li><li>• Inadequate competitive bidding</li></ul>
Low Income	\$584,032,000	12.5%	<ul style="list-style-type: none"><li>• No oversight</li></ul>
Rural Health Care	\$7,890,000	0.02%	<ul style="list-style-type: none"><li>• No oversight</li></ul>
Total	\$4,658,608,000	100%	

According to the FCC's own Inspector General, almost every area of the Universal Service Fund has problems and to date there has been little, if any oversight.

An example: The High Cost program of \$2.6 billion has not had any oversight or audit by the office that is supposed to be guarding the gate. Quoting the Inspector General:

**"B.1 Audit Survey of High Cost Program: The High Cost program can provide up to \$2.5 billion annually in support to telecommunication carriers in high cost/rural service areas (recent annual funding is around \$1.9 billion). The program has not been subjected to a comprehensive program of audit and oversight by this office."** (Emphasis added)

The E-rate has had problems as well:

**"A.2 Audit Support to Investigations: There have been a number of allegations of fraud, waste, and abuse in connection with the E-rate program that are under investigation by all levels of law enforcement (federal, state and local). OIG has provided audit support to a number of these investigations with OIG staff, detailed auditors, and in teaming arrangements with USAC internal audit... Additionally, we provide real-**



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time data extraction and analysis in support of the Federal Bureau of Investigation (FBI) and the Department of Justice (DOJ) Antitrust Division, with whom we have a working relationship and where numerous large scale investigations are being performed.”

Other areas including the Bureau of Indian Affairs have also had issues:

“A.3 Bureau of Indian Affairs/Indian Reservation Schools/Insular Areas. The Department of Interior (DOI) OIG has audit cognizance over Indian reservations and insular areas, such as the Virgin Islands and Guam. We were advised by that office that numerous recent audits indicate financial management of federally funded programs at Indian reservations and insular areas are problematic. Further, there are a large number of cases of fraud in programs operated by the Bureau of Indian Affairs (BIA) and by tribes.”

Additionally the telecommunications companies that are collecting the monies and passing it over to the FCC are being questioned by the auditors:

“The telecommunications companies pass the costs of these USF contributions on to the consumers of their services in the form of charges on their telephone and wireless bills. The contributions are based on a calculated factor of interstate and international end-user telecommunications revenues. The FCC Wireline Competition Bureau (WCB), supported by USAC, develops the contribution factor on a quarterly basis and NECA is responsible for gathering and analyzing investment and expense data for the line exchange carriers. However, OIG is unsure of the extent of audit effort performed at the contributor level.”

## **52) Fraud and Mismanagement Are Commonplace in the USF Fund**

What kinds of violations are there? Here are some of the comments made by the FCC Inspector General:

“In calendar year 2000, USAC contracted with a public accounting firm to conduct audits of 18 beneficiaries of funding from the first year of the Schools and Libraries program. The audit report disclosed weaknesses (ranging from regulatory non-compliance to computation errors at many of the beneficiaries and approximately \$8 million in inappropriate funding



disbursements. In addition, their audit resulted in a major investigation involving representatives from the FBI and office of the Inspector General...Furthermore, several millions of dollars in inappropriate disbursements will not be recovered..."

"In calendar year 2001, USAC contracted with a public accounting firm to conduct audits at 22 beneficiaries. The draft report for these audits, dated, May 31, 2002 indicates there may be findings at nearly all locations including service millions of dollars in inappropriate disbursements and unsupported costs."

"In fact, we are currently tracking 26 investigations, sixteen of which were initiated during calendar year 2002. E-rate cases being tracked range in dollar value from a \$4,000 case to several cases in which the problem has committed hundreds of millions of dollars in E-rate funding."

This next exhibit gives just a small sample from the audits conducted. According to the FCC Inspector General:





**Exhibit 31**  
**Appendix 1 1998 (FY1) Beneficiary Audit**  
*Specific Applicant/Service Provider Actions*

Page Reference	Paragraph Reference	Applicant	Classification of Observation	Specifics of Observation	[Column Redacted]	Amount
A-ii	D5a	NYCBOE	Customer bills not supporting the amount requested	For 6 FRNs the IBM customer bills did not detail the cost allocation worksheet for a variance of \$35,567		\$35,567
A-iii,	D5a	NYCBOE	Inadequate detail provided on customer bills	Verizon billings do not provide detail by school to assure that ineligible entities are not included within the invoice.		\$2,649,432
B-iv	D8	Puerto Rico	Services delivered after the last date to receive services	Non e-rate equipment (100,000 workstations) was not installed due to a legal dispute with a potential bidder.		Audit report did not contain sufficient detail to determine the exposure amount
C-ii	C3	LAUSD Cluster 7	Customer bills do not support requested amount	Neither the vendor nor the applicant could supply documentation to validate the invoices submitted.		\$1,958,219
C-ii	C3	LAUSD Cluster 7	Technology plan implementation was not being monitored.	The applicant was unable to track the progress of the implementation of the technology plan.		Upto\$3,375,177
C-iv	E8	LAUSD Cluster 7	Bidding procedure compliance not properly documented	The contract for service from Lucent and documentation of compliance with bidding requirements were not available.		\$1,958,219
G-iv	D7	Henderson	Customer bills do not support requested amount	Two BEAR invoices were overbilled to SLD as a result of a calculation error.		\$54,123
J-iii	D5d iii	Eldorado	Billing in excess of contract rate	GTE invoices were in excess of the contract rate		\$1,081
M-ii	C3	Illinois BOE	Vendor billing of ineligible equipment	\$18,790 was billed for a 10% service charge from the state management agency		\$18,790
M-ii	C3	Illinois BOE	Customer bills not supporting the amount requested	\$25,897 was billed in excess of services supplied		\$25,897
P-iii	E8b	St. Charles	Bidding procedure compliance not properly documented	Bidding documentation was not retained		\$31,320



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### **53) Lack of Competitive Bidding Inflates the Costs to Customers**

While investigations continue, the most disturbing finding is that in many cases there is no competitive bidding, meaning that the local phone company or a selected group is the only choice examined and there are no other bidders to lower the costs.

“... we noticed that many of the cases being referred for investigation alleged that no competitive procurement process took place and that, as a result, the cost of the goods and services was inflated. We have included audit procedures in our standard e-rate beneficiary audit program to evaluate the competitive procurement process and have identified this as a problem during several audits.”

“Meanwhile the result of audits and the allegations under investigation lead us to believe that program is subject to an unacceptably high risk of malfeasance through noncompliance and program weaknesses.”

As with the case of number portability or E911 charges, many of these services are also hardwired to the local telco as revenue producers with the prices being set by the company, not through a competitive process.

### **54) E911 — A Necessary Service, But Who’s Minding the Store?**

Most consumers obviously want the best emergency services. In a sense, E911 is an important charge. E911 stands for “Emergency” or “Enhanced” 911 and this service connects the caller to the police as well as supplies the caller’s phone number and address.

E911 is a very profitable service for the telephone companies. For example, in 1991 New Jersey Bell showed revenues of \$17 million dollars from E911 services. (Source: New Jersey Bell Annual Report, 1991)

We could not find more recent data on the revenues of E911 in New York or New Jersey; however, based on recent reports, the service seems to be an exclusive deal with Verizon and was not put up for bid as is the standard protocol for such services.

### **55) E911 Costs to Customers**

First, we also noticed that the E911 charge in New Jersey was removed from the collection of taxes. We do not know if it is now bundled under some other tax or



whether the system was paid for and therefore there is no need to charge for it (or it is funded by some other source).

The price in New York for E911 was \$.35 from 1992 through 2003. The price in 2003 increased to \$1.00 for this surcharge — an increase of 186%!

**Is this Increase Justified? How Much Money Does the System Cost to Operate? Why Has It Not Been Put Up for Bid?**

If you consider that at the end of there were 15 million access lines, then if each line pays \$1 a month; the total collected would be \$180 million per year. Some, if not all of these funds go directly back to Verizon.

**56) Variations of the Costs of the E911 Charge in New York City**

During the data collection for this report we found a curious circumstance: the charges being applied for E911 didn't match up for the same billing period, and the extra amounts were not sufficiently explained. For example:

- On some phone bills for April 28-May 28, 2003, we found an additional \$1.30 for an E911 Rate Increase from "10/7 to 12/16". (NY819)
- On another bill with the same dates, the price of E911 was still \$.35, no added charge. (NY813)
- On another bill, we found that the E911 charge for Feb 25-March 24, 2003 was already \$1.00. (NY 806)
- On another bill dated May 7, 2003, there was an additional \$1.95 increase. (NY807)

Are some customers being charged more money than others? Are there sections of New York that did not get the charge? It is impossible to tell from the collected phone bills why there was such a variance in the price to customers. It seems that this charge was increased "retroactively" on some phone bills and not others.



## V. The Prices and Profits of Local Calling and Calling Features.

Leaving the area of taxes and surcharges, we now come to the costs of a phonecall and “Calling Features”, such as “Call Waiting” and “Call Forwarding”.

### 57) The 9-Cent Scam

*Note: In New York, Local phone calls are charged by the “call” for most residential customers. Businesses and some other customers are charged by the minute. In New Jersey, local phone calls are ‘flat rate’, meaning unlimited in your local calling area, though businesses pay by the minute. However, Verizon now offers packages for unlimited local calling to residential and some business customers in New York.*

In the spring of 2003, Verizon New York was able to change the price of a local phone call from 10.6 cents to 9 cents for a call. While the lowering of the price per call may sound beneficial, our survey revealed that unfortunately, the new 9 cent price did not include the “Time of Day” discounts, which were 35% for “Evening” rates and 65% for “Night” rates and Weekends.

#### Exhibit 32 New York Local Phone Calling Time of Day Discounts, 2002

<b>Day</b>	<b>No Discount</b>	8AM-9PM Monday-Friday.
<b>Evening</b>	<b>40% off</b>	9-11PM Monday through Friday, 5-11PM Sunday
<b>Night</b>	<b>65% off</b>	8AM Saturday — 5PM Sunday, 11PM-8AM every day.

This change was part of a state Alternate Regulation plan that was supposed to be only raising rates 3% a year. As previously quoted from the Verizon press release:

**“The new plan: permits Verizon New York to increase its retail rates by 3% of its intrastate revenues per year in each of the two years of the plan”.** (Emphasis added)

However, we found that:

- The average cost per month increased \$2.50, a 16% increase.
- The average cost per year in additional fees is \$30.00.
- Only 6% of the population of residential bills had any savings
- While the average increase was \$30.00 a year, 25% of the users paid an additional \$72.78, another 25% paid an additional \$33.12, 31% paid an additional \$5.90, 13% had virtually no change, and only 6% actually had a decrease of \$13.19.



The exhibit below shows that of an average of 206 calls, the 9 cent plan cost customers \$18.54, as compared to a previous cost of \$16.04 a month, an increase of \$2.50 per month, or \$30.00 per year. (NOTE: Due to rounding, some numbers are slightly different in presentation.)

**Exhibit 33**  
**Average Increases in the Cost of Local Phone Calling, 2002-2003**

				Increase:	
Averages	Calls	9 cents	10.6 cents	Monthly	Annual
	206	\$ 18.54	\$ 16.04	\$ 2.50	\$ 30.00
				16%	

**See Also: Phone Bill Exhibit 7: 9 Cent Scam**

As you can see from the exhibit below, while there were some savings during the Daytime for calls, the Evening and Night calls were all hit with large increases.

**Exhibit 34**  
**The Average Savings by Time of Day, 2003**

				Increase:	
	Calls	\$ 0.09	\$ 0.106	Monthly	Annual
Day	112	\$ 10.07	\$ 11.86	\$ (1.79)	
Evening	26	\$ 2.35	\$ 1.66	\$ 0.69	
Night	68	\$ 6.12	\$ 2.52	\$ 3.60	
	206	\$ 18.54	\$ 16.04	\$ 2.50	\$ 30.00

**In short, 94% of the customers are pays more or had no change.** Also, the amount of extra charges some customers paid was disproportionate to the savings.

**Exhibit 35**  
**Verizon New York, Local Calling Patterns Based on Respondents, 2003**

Active	\$72.78	25%
Average	\$33.12	25%
Non-Actives	\$5.90	31%
	0	13%
	(\$13.19)	6%
		100%

According to Verizon, the change to 9 cents made using the phone simpler for customers since they did not have to worry about the time of day when calls were being



made. While we agree in principle that time of day discounts (especially when they change during the weekends) is a hassle to remember, the solution is not to use these changes as a ploy to make more money.

#### **58) Remove Touchtone Charge in New Jersey**

Probably one of the most ridiculous charges on New Jersey phone bills is the charge for Touchtone service which was removed in most states because it costs more money to supply rotary telephone service than Touchtone.

Historically, when the networks were upgraded for “equal access” in the 1980’s, which allowed a customer to choose their long distance carrier, the networks were upgraded to accept Touchtone. These upgrades also supplied other calling features including Call Waiting. It was argued that this upgrade would make the network more efficient because a rotary telephone’s dialing time is much longer versus Touchtone. Therefore, customers paid for upgrades that included Touchtone and some calling features. By 1986, the country was supposed to have completed this “equal access” conversion, though it wasn’t finished until the 1990’s.

This charge should have been taken off telephone bills in the 1980’s and it certainly should not be on phone bills in 2004.

#### **Exhibit 36 Monthly Cost of Touchtone in New Jersey, 2004**

Residential	\$1.00
Business	\$2.01

#### **59) Profits on Calling Features Are Outrageous**

Local phone service is still one of the most profitable services in America and Touchtone is not the only Calling Feature scam. The exhibit below highlights findings from a Florida Public Service Commission report comparing the actual cost of various “Calling Features” to the price paid by subscribers. The Florida Commission found the profit margin on Bell South’s Call Waiting feature to be 48,680%. Caller ID, which cost the customer \$7.50 per month, had a 3,263% profit margin.<sup>21</sup>



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**Exhibit 37**  
**Revenue, Expense & Profit Margin for Selected BellSouth Calling Features, 1999**

	<b>Price</b>	<b>Cost</b>	<b>Profit</b>	<b>Percentage</b>
Call Waiting	\$4.00	\$.0082	\$3.99	48,680%
Call Forwarding	\$4.00	\$.0362	\$3.96	10,950%
Caller ID	\$7.50	\$.2230	\$7.28	3,263%

In New York, Call Waiting is \$5.30, while Caller ID is \$7.99. In New Jersey, Call Waiting is \$4.59 and Caller ID is \$7.50. Using the same analysis as BellSouth, we find that the average profits are 60,000% for Call Waiting and 3369% for Caller ID.

**Exhibit 38**  
**Verizon New York, New Jersey Call Waiting and Caller ID, 2003**

<b>Call Waiting</b>	<b>Price</b>	<b>Cost</b>	<b>Profit</b>	<b>Percentage</b>
NJ	\$4.59	\$0.0082	\$4.58	55,776%
NY	\$5.30	\$0.0082	\$5.29	64,434%
<b>Avg.</b>				<b>60,105%</b>
<b>Caller ID</b>				
NJ	\$7.50	\$0.2230	\$7.49	3,260%
NY	\$7.99	\$0.2230	\$7.98	3,479%
<b>Avg.</b>				<b>3,369%</b>

In many states, including New York and New Jersey, Calling Features have been deemed “competitive” or “optional” and therefore the Commissions are no longer examining the profits from these services. In many statements over the last decade, the Bell companies have been able to claim that they lose money on local phone service because the profits from Calling Features are NOT included in the definition of “Basic Local Service”.

It should be noted that various states have mentioned “Rebalancing” the phone charges, claiming they are not profitable or that they are being subsidized. The variations are endless. What the public does not know is that these plans DO NOT examine the total profits, including Calling Features, so they are essentially a shell game that only “rebalances” the charges they want to include in this analysis. If the profits from Calling Features were added into this equation, local phone rates would continually drop, not increase.



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## 60) The Cost of Directory Assistance Continues Increasing Without Justification.

Prior to 1984, the price of local “Directory Assistance” (DA) (the local 411 service) was included as part of local service in most states or the customer received a large number of free calls.

- In New Jersey, local phone service came with free local directory assistance calls.
- In New York, customers received 6 free directory assistance calls, and then paid \$.10 per call. If the customer didn’t use the calls, they received a \$.30 cent credit.

In 2004:

- New York had no free calls and the price per call is \$.80 per call (\$.95 with tax).
- New Jersey has 4 free calls, and each additional call is \$.20, but only if it is in the “local directory assistance calling area”. The in-state calls were \$1.25.

If you examine the “value” lost to customers for Directory Assistance calls in New York City, one has only to look at 10 Directory calls.

### Exhibit 39 Directory Assistance Pricing Comparison, 10 Calls New York City, 1980-2003

<b>1980</b>		
•	6 for free, then 10 cents each	\$ 0.40
•	Taxes on Directory	\$ 0.04
	<b>Total</b>	<b>\$ 0.44</b>
<b>2003</b>		
•	No free, 80 cents each	\$ 8.00
•	Taxes on Directory*	\$ 1.50
	<b>Total:</b>	<b>\$ 9.50</b>

In New York there has been an increase of 2059% for 10 calls, including taxes. This means that the customer is paying an additional \$9.50 a month since the Bell companies took over.





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**Exhibit 40**  
**Directory Assistance Pricing Comparison,**  
New York City, 1980-2003

	<u>1980</u>	<u>2003</u>	<u>Increase</u>
Directory Pricing	\$ .44	\$9.50	2,059%
Difference	Monthly \$8.98	Annually \$114.00	

Once again we remind the reader that Verizon stated that the cost of service was increasing by 3% in New York. In this last round the price of a call went from \$.50 to \$.80, not including taxes — an increase of 60%.

In New Jersey, 10 calls today cost an additional \$1.20; another method of generating revenue to the local phone company by devaluing the term 'Basic Service' since directory was included for free. The exhibit below shows that directory for 10 calls would have cost \$1.20 plus 9% tax:

**Exhibit 41**  
**Verizon NJ, Directory Assistance Pricing Comparison,**  
Verizon, New Jersey, 1980-2003

	<b>1980</b>	<b>2003</b>	<b>Increase</b>
Directory Pricing	\$0.00	\$1.20	1,200%
Difference	Monthly \$0.00	Annually \$14.40	

Once again we need to point out that Verizon NJ claimed their price for local phone service hadn't increased since 1985. Naturally they did not count the Directory calls that were included with local service.

And we need to point out that if the Directory call is within the state but not in the "local directory assistance calling area", the cost is \$1.25 per call. How many people know how far their "local directory assistance calling area" extends?

It should also be pointed out that historically in some states such as Massachusetts, other services such as Directory Assistance were so profitable that it paid for some of the Public Interest services. In 1997, Massachusetts not only had 10 free calls, gave customers a 20-cent credit if they made no calls, but it also paid for E911 service.



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## **61) Consumer Perspective on Directory?**

In New Networks Institute's 1993 Consumer Survey published by Probe Research, it was clear that the majority of customers thought that local Directory Assistance calls were part of local phone service and free, or that they had some number of free calls. Virtually no one could cite the actual cost of directory in their state or whether their service came with free calls. We also found that a large number of those who thought local service came with free calls would make \$3-5 dollars worth of DA calls without knowing that their specific state had dropped the free call allowance. We would expect that such confusion exists today over local directory assistance.

How many calls do customers actually make to DA? Massachusetts released a report in 1997 that said that 85% of the population made 10 calls or less. Our survey data couldn't be used to make the determination of the number of DA calls because when a customer has a package that includes DA, there is usually no call detail. We had some customers with 6 or more calls, while others only made a few. We do not know if this pattern was normal or not. A further longitudinal study would be needed to examine DA calling patterns more closely.

However, according to NARUC (The National Association of Regulatory Utility Commissioners),<sup>22</sup>

"Consumers spend more than \$6 billion per year on directory assistance. However, the market has not been subject to any meaningful retail competition."

## **62) The Costs to Offer Directory Assistance Keep Decreasing.**

The costs to offer Directory service have dramatically decreased over the last decade because of technology and the ability to route calls all over the country, thus saving on staff expenses. The current costs are estimated to be \$.25-\$.30 per call, while using a fully automated call costs \$.10-\$.15 per call.

A recent data report published by NARUC (The National Association of Regulatory Utility Commissioners) found that the average price in the US for a local directory assistance call was \$.80. The costs of providing it averaged \$.30 and the profit per call was 167%. While the costs for long distance directory are the same, the average price for the ILECs (Incumbent Local Exchange Carriers) was \$1.20, yielding 300% profit. The Long Distance companies averaged \$2.05 for a directory call, yielding 583% profit.<sup>23</sup>



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**Exhibit 42**  
**NARUC's Cost, Price and Profit Analysis for Directory Assistance, 2003**

<u>Provider</u>	<u>Avg. Price</u>	<u>Average Cost</u>	<u>% Profit</u>
ILEC Local	80¢	30¢	166.6%
ILEC LD	\$1.20	30¢	300%
IXC	\$2.05	30¢	583%

**63) Mistakes Abound with Directory**

Over the last decade there have been hundreds of articles and media coverage bemoaning the fact that directory assistance is filled with mistakes. One example, an article by the Chicago Sun Times found that, “At least one out of three calls to directory assistance resulted in a wrong number,” and “Nationwide, consumers waste nearly a million dollars a day on wrong numbers.”<sup>24</sup>

Neither the FCC nor any other regulatory agency has ever analyzed the accuracy of 411, even though most customers find it is filled with mistakes.

**64) The 411 National Scam — Why Did Verizon Get to Keep a Very Valuable Asset, the ‘411’ Number, for Personal Use?**

Over the last decade, companies have paid billions of dollars in fees to be able to get wireless licenses. Known as a “spectrum” auction, these resources can make a company billions of dollars and are therefore very valuable.

Now take the spectrum called “411”. These are special networks using only three digits that routes a customer’s call directly to the local phone company.

Historically, the local phone company was supposed to give you only local phone directory information. When Verizon and the other Bell companies also wanted to offer their own “Long Distance” information — anywhere in the country information — it was able to capture this market for free because it was able to keep the three-digit dialing code for free, grandfathered by the state commissions without any payments.



Imagine that you're a competitive provider and you want to offer long distance directory information cheaper than Verizon. You would want the 411 networks up for bid because it is a very valuable asset.

The states and customers lose out in the end. We estimate that the 411 resource is probably worth \$30-50 million per state and customers have lost out on this sweetheart deal. Not only could the state have gotten more money for each number throughout the state if it was put up for bid, but it also could have lowered the costs of Directory calls to all customers.

#### **65) Charging for Unpublished Number — Charging for Nothing**

It cost \$0.00 money for someone to have an unpublished number. There is no cost once a customer has signed up and yet Verizon is allowed to charge customers a premium for NOT being listed.

Based on our survey, 25% of residential customers have an unlisted number. In an era where Congress, the FCC and the FTC have had to come up with a "Do Not Call" list (for free) to remove a customer from unwanted telemarketing calls, charging for an unlisted number might be considered extortion for something that cost the company nothing.

#### **Exhibit 43**

#### **Verizon's Non-Published Service Charges, New York, New Jersey, 2003**

New York Non-Published Service	\$2.50 per month
New Jersey Non-Published Tel Listing	\$1.45 per month

As with other services, in New York and New Jersey the exact same service can have a different price in each state even though the costs should be almost equal. In telecommunications, the price for each service was derived in each state. There is no rhyme or reason to the pricing of a service that costs nothing to offer, and in this case, they also have a different title on the phone bill as well.

#### **66) Non-Published Service: Truth-in-Billing Violation**

This charge is "Optional", however on New York and New Jersey phone bills it is listed as part of the "Basic Service" charges, a Truth-in-Billing violation.



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## **VI. New Jersey Issues — Mistakes on Phone Bills Are Common.**

*Note: Mistakes and problems are common to both New York and New Jersey. However, due to the abundance of problems found in New Jersey and the extensive supporting data from NJ based LTC Consulting, this next section outlines specific New Jersey issues as well as other issues that are common to both states.*

Please note that New Jersey's phone bills, as previously mentioned, only supply complete data to the customer every quarter and therefore it is more confusing to customers — and thus more problems.

According to industry wisdom, over 50% of business phone bills have problems and our "Send Us Your Phone Bill" campaign found that residential and small business phone bills also have a litany of issues. In New Jersey, we found that 35% of residential bills had mistakes (not counting the statewide problems we mentioned, such as the Truth-in-Billing issues), while 75% of the bills of small businesses had mistakes. In New Jersey, Teletruth not only found over \$20,000 in potential refunds from audits, but we also uncovered patterns of identical problems. Since that time, Teletruth has worked with a law firm and helped to initiate two Class Action suits to protect the public's interests.

The first two items in this section highlight these cases, and the remainder of the section outlines other problems that we have also found to be common.

### **67) Case One — Small Business Discounts Missing on an Estimated 40% of Small Business Accounts Under Five Lines.**

Teletruth found that an estimated 40% of New Jersey small businesses were missing specific discounts that were supposed to be applied to every small business with less than five lines per billing account. Each line after the main line is entitled to a \$1.01 per month discount. This discount was started in 1994 and therefore, we believe that many accounts could be missing the discount from this period forward.

According to Verizon, in the state of New Jersey there were 600,000 small businesses in 1999, while the Small Business Administration's published report on Small Business in New Jersey found 487,000 small businesses. Approximately 80% are under 10 people and most likely are part of the under-5 line category.

*Note: In articles, press statements, etc., Verizon has continually told the public that they have 0% defects – 100% accuracy. In other statements they claim that their billing networks have 3 out of 1000 problems.*



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## **68) Proposed Class Action Suit Settlement**

Verizon knew that their system had a serious flaw because this problem of missing discounts was called to their attention numerous times and in numerous ways. For example, Teletruth's filed Comments with the FCC for Verizon's entry into long distance pointed out this problem, which was also presented to the state's Consumer Advocate and state's public utility commission. For more details see weblink:

<http://newnetworks.com/TeleTruthNJ271commentsl..htm>

## **69) Case Two: Non-Existent Special Circuits Being Billed to Business and Residential Customers.**

Based on our survey data and LTC Consulting's experience as auditors, we believe that approximately 10% of all "Special Access Circuits" could be either missing, not installed, disconnected, etc., but are being charged to small business customers. These may have been on the phone bill for 5-10 years without the customer being aware of this billing error because the phone bills are unreadable and the items were never properly and clearly delineated on the phone bill.

We have found customers with the wires never connected to the their premises, service never installed, circuits still charged after the building was demolished, circuits to answering service bureaus no longer in business, and alarm monitoring circuits to police departments that discontinued monitoring years ago. We have documented "leftover billing fragments" (partial information) associated with non-existent circuits that were replaced with a newer technology. The bottom line is that a significant number of the circuits ordered seldom match the actual number of circuits installed and billed on the customer's phone bill.

According to Verizon's own data supplied to the FCC in 2000, there were 2.7 million Special Access lines in the state.<sup>25</sup>



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## Other New Jersey Issues

### 70) Custopak

Verizon has been aggressively marketing a bundled package to small businesses called "Custopak". It contains equivalent features that are normally included in a business phone system commonly known as "Centrex". Features include "Intercom", "Call Hold", "Call Transfer", "Conferencing", "Speed Dialing", etc.

#### Issues Uncovered

In many cases, we have found that the customer did not understand the package, did not need or use many of the features, and did not know that they were even on a package.

**Example: Case # NJ944:** A customer operates a small business out of his garage and has a phone system that provides all the required features such as call hold, conference and speed calling. The Intercom feature has no value because all the employees sit next to each other in one large room. According to the customer, he thought that he had subscribed to basic service with no extra bells or whistles.

In our analysis, Custopak:

- Was more expensive than regular business lines by approximately \$5/month per line.
- Lost 75 free message units (New Jersey) worth \$4.95/month.
- Lost small business discount for customers with 2-4 lines @ \$1.01 per line.

There are a great deal of Truth-in-Billing problems with Custopak which also hides information from the customer:

- FCC Subscriber Line Charge is hidden in the monthly cost.
- Normal monthly bill hides "Custopak" under the service category "Regular" service.

There are also a series of problems with the sales and marketing for the service:

- Custopak was oversold to customers with "feature rich" phone systems that have all the Custopak network features such as "intercom", "transfer", "conference", "speedcalling" etc.
- Sold to customers on the basis of "free" installation or a "better quality" line.
- Custopak features are not explained to the customer.



- Custopak “user guides” were never given to the customer.

### **Custopak Truth-in-Billing Violations Summary**

- Violations include FCC TIB Rules, Cramming, Section 201 (b) of the Telecom Act.
- Deceptive marketing stressing "better quality line" and waiving of installation charges and not explaining the full service offering and recurring costs.
- Regular phone bills bundles all Custopak charges under "Regular Service". There is no mention of Custopak on the regular monthly phone bill.
- Failure to disclose that all local calls are subject to message unit billing, including the first 75 Minutes of Use (MOU).
- PCCC charges (special charges to access long distance) for Custopak versus regular business lines are being used as a cost savings to push Custopak. This is deceptive and discriminatory.

### **71) Inside Wire Maintenance**

Verizon aggressively markets inside wire maintenance plans to the residential and business marketplace. Inside wiring is the wire that is in the customer's home or the business office and it can extend to the company's network box, known as an "NIC".

In New Jersey, the premium residential plan is called "Guardian" and the standard plan is called "Optional Wire Maintenance" plan. In the business world, there is a "Basic Inside Wire Maintenance" plan, "Sentry I", "Sentry II" and "Sentry III". Each plan has a specific targeted service and customer environment. For example, the Basic Wire Maintenance plan and Sentry I plans are intended for single line environments. The plans include diagnosis of inside wire problems as well as repair of inside wire and associated phone jacks. Sentry II and Sentry III plans cover more complex business environments. These plans only provide diagnosis and do not cover wire or jack repair. All the plans cover Verizon provided dialtone lines only.

**Example: Case # NJ912:** This senior residential customer has basic phone service. The customer has a single phone number and does not subscribe to Touchtone service. The customer has been charged for optional inside wire maintenance for years and never knew it. In addition, the customer's wallphone is hardwired from the original Bell System days. Pre-existing conditions such as hardwired phones and existing defective wiring are excluded from the plan. Since the regular phone bill hides the charge under "non-basic" service, charges such as this can go undetected for years.





## Issues Uncovered

In New Networks Institute's 1993 Consumer Survey, we found that about half of those who have inside wiring plans on their phone bill didn't order it, and this has been a serious problem in many states. We found that this is still a problem in New Jersey. The main reason is that in New Jersey, only Verizon's quarterly bills identify the service; on the monthly bill it is not identified, but is instead placed under a non-basic monthly fee — another Truth-in-Billing violation.

There are also Truth-in-Billing and other violations with this charge.

- Charges for inside wiring are hidden in "monthly service" on business phone bill and customers unknowingly pay for this charge.
- Charges are hidden in "non-basic" section of residential phone bill and customers unknowingly pay for this charge.
- There are various flavors of inside wire maintenance and there is no indication that the customer would know which service they have from the monthly bill.
- Charges can be randomly applied to different customer lines.
- Optional plans have been inconsistently applied, e.g., Sentry I and Sentry II on the same bill.
- Hardwired phones do not qualify for wire maintenance.
- Verizon has not advised customers how to perform basic testing at the network interface box, "NIC" (the connection between the end of the Verizon telephone network and the start of the customer's home or office).

*Note: Verizon New York customers also have issues dealing with Inside Wire Maintenance that are similar to those in New Jersey. However, we focused on New Jersey because LTC Consulting did follow up interviews with customers to determine if they knew they were paying for the service. As previously mentioned, in New Jersey, the company only publishes quarterly statements and there is no identification that the customer is paying for Inside Wire Maintenance on their monthly bills.*

## 72) Double Billing

Double billing of services can occur without detection by the underlying computer systems collectively known as the Operations Support System (OSS). Virtually any type of service can get double billed. The root causes of this phenomenon are too complex to address in this report. Human error combined with poor system integration and manual handling of orders are contributing factors.



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## VII. Other Cost of Service Issues that Effect Phone Bill Charges.

### 73) Phone Bill Inserts Have Become Free Advertising for Non-Regulated Services.

The price of local phone service historically had costs built into it for the “consumer education” insert, sometimes called “Bill Stuffer”. And while customer education might have been a noble Public Interest goal, the current phone bill insert is now nothing more than advertising space for Verizon’s products.

Numerous Verizon New York inserts examined in 2003 and 2004 clearly demonstrate this. These are full-color, 4 page, 6 by 8 ½ inserts.

For example,

- The January 2003 insert starts with a full page advertisement for a **Verizon Long Distance contest, a “Verizon Luge Challenge”**. The Contest follows on the next page followed by a discount skiing package for Verizon customers. In this case, pages one, two and most of three are dedicated to advertisements or “community” awards funded through rates but with the imprateur of looking as if Verizon is doing good deeds for the public. These are also followed by a series of bad news of rate increases and more inconvenience when you dial the phone. This insert is typical of the Verizon inserts.
- In Verizon’s April 2003 insert, the company advertises its **“Variations Local Long Distance, Wireless. It’s All Together Now”**. This is followed by “Which Long Distance plan is best for you?” on page two and “Best Mother’s Day gifts – Cordless phones”, on page three. Lifeline service is on the back page as is increases in cell phone rates to wireline services.
- In Verizon’s May, 2003 insert, the company is advertising its renamed “Freedom Package” with the caption **“Local Long Distance, Wireless. It’s All Together Now”** on pages one and two, followed by a sale of cordless phones. Page three, which contains the only consumer information for a specific group, talks about the “Relay Service”, which is followed by Verizon “Literacy” campaign.
- Verizon’s June insert is “Verizon Online Now with Wi-Fi”, while pages two and three are dedicated to selling telephones or “All on one bill for wireless, DSL, Local and Long Distance”.



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- Verizon's August insert features Verizon METs Ticket Discount.
  - Verizon's September insert starts with "Verizon Helping New York City Read", followed by two pages of Verizon sales materials for DSL, Freedom packages and other services.

The most amusing insert was **"It's Back to the Future Using a Corded Phone"**, (which is Verizon worrying that their other services are cannibalizing their own wireline services) and if you want 911, keep your phone. This is of course followed by mostly information about their cordless phone or Verizon Freedom package and sometimes a quarter page dedicated to telemarketing sales calls.

- The last Insert received during the editing of this report, February 2004, says it all. "On the Inside", on the front page outlines this issue of
  - Page 1 — Long Distance Offer
  - Page 2 — Verizon Freedom
  - Page 2 — "Anna in the Tropics On Broadway",
  - Page 3 — "2004 Verizon Luge Challenge"
  - Page 4 — "Pick Up the Perfect Phone."

To see the actual Insert see: <http://www.newnetworks.com/Verizonfeb2004insert.htm>

### **The Insert has become advertising for Verizon's other products.**

In going through a year of inserts, one disturbing fact came out:

- 77% of the first three pages was dedicated to advertising Verizon products or promotions and almost ALL of the products were based on bundles, DSL, or the selling of phones.<sup>26</sup>

Only the last page had "Consumer Information", which dealt with everything from Lifeline to increases in rates or changes in area codes. Virtually none of the new information was ever good for consumers, such as lower rates.

### **Problem: Who's Paying for these Inserts?**

We believe there is serious cross subsidization, allowing the Utility to charge customers to promote other businesses. Customers are paying for advertising space of non-



related deregulated products, and these other products are thus being illegally funded through these actions. We ask:

- Who is paying for this insert? Is it built into Local phone rates and charged to customers? Even if the phone rates are under price caps, (meaning that the price of service does not have regulators examining the profits) was it built into the original rates set under “rate-of-return”, which would have included the costs of “consumer education” as an expense to customers.
- Does the DSL or Long Distance or Wireless company pay back to the regulated monopoly monies to lower phone rates?
- Does it have use of the lists and other valuable properties for free and not pay back to the regulated side money to lower the phone rates?

Additionally, if this is an advertising vehicle, why is it not open to every other competitor where the revenues go back to the local regulated company and therefore helping to lower the cost of service?

#### **74) Phone Bill Advertisements – Another Free Ride and More Truth-in-Billing Violations**

It was also interesting to find directly on the front page of their new, easy to read phone bills, that Verizon is advertising DSL with Microsoft’s MSN Internet service.

“Congratulations, Your Line Pre-Qualifies For High-Speed Internet Access. Verizon Online DSL with [MSN@8](#) is now at our lowest price ever. Order today by calling 1-877-688-5375. Or if you order online at [verizon.com/orderds](#) you’ll get a month free. “

It is obvious that once again this advertisement may be getting a free ride and that the profits from this advertisement could be used to lower phone rates. It is also completely anti-competitive since Verizon is once again advertising a non-regulated service via a supposedly regulated service - local phone service.

What is most amusing is that this is a Truth-in-Billing error since it is followed by the fact that it might not be available afterall.

“Service not available on all lines and subject to circuit availability and final verification by Verizon, Other terms and restrictions apply.”



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## 75) No Human Customer Services on Sunday

We are supposed to be living in a 24-hour 7-day-a-week world of broadband and telecommunications services. Many companies now offer 24 hour, 7-day-a-week telecom and broadband intensive services that include having a website, as well as access by the public 7-days-a-week through telecommunications.

It is clear that Verizon does not seem to care about this item. In New Jersey, the company now offers a human being for customer services only from Monday-Friday, 8AM to 6PM, with NO Saturday or Sunday service. (Source: Website and phone bills.)

### **Exhibit 44 Verizon New York and New Jersey Customer Service Hours, August 2003**

#### **New York**

Monday - Friday	8:00am - 7:00pm
Saturday	8:00am - 4:00pm
Sunday	NO CALLS.

#### **New Jersey**

Monday - Friday	8:00am - 6:00pm
Saturday	NO CALLS.
Sunday	NO CALLS.

Verizon, of course, argues that it has web services as well as 800-phone-based-automated-voice services that operate 24 hours a day.

However, we discovered a caveat to this timetable for New Jersey. The Verizon Freedom Package advertisement for March 2004 contained an insert which showed that these plans had 'better' customer service hours, and an 800 number to call.

#### **Freedom Package Hours**

Monday - Friday	7:00am - 9:00pm
Saturday	8:00am - 4:00pm



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## **76) Payment with Credit Card: Verizon Doesn't Take Credit Cards — Pay More**

Imagine: Verizon, a \$67 billion international company refuses to take credit card orders over the telephone. In a recent experience by this author, Verizon stated that in order to use a credit card to pay over the telephone, the customer has to use a “3<sup>rd</sup>- Party”, and that they charge a \$2.50 fee for this service.

Go to a local restaurant like Mitali West, pay for a book at Strands, the used book store, or even pay for subway rides on the MTA — almost any company today takes credit cards to process the customers' money. This practice is obviously anti-competitive, yet the company can do this because of the lack of true, local, wireline competition.

## **77) Problems with Verizon New York's Quality of Service**

Having banking hours for a major utility in the Digital Age is an outrage, but the problem is being worsened because staff cuts and construction declines have led to a serious problem with customer services in general. According to the New York Public Service Commission's recent actions, the PSC has suspended some of Verizon's financial flexibility because of “concerns over the quality of telephone service”.<sup>27</sup>

“In response to concerns about the quality of telephone services provided by Verizon New York Inc. (Verizon), the New York State Public Service Commission voted today to initiate a service quality proceeding that will include an independent audit focusing on the adequacy of Verizon's long-term service quality improvement efforts. Further, the Commission decided to direct Verizon to file tariffs suspending the company's pricing flexibility and to file a service improvement plan that envisions attainment of all five service quality objectives in the second year of its current regulatory plan, the Verizon Incentive Plan (VIP).”

Most recently, Ben Silverman, a New York Post columnist, outlined how Verizon had repeatedly lied to him during an installation from the phone company.<sup>28</sup>

“The company recently cost me three days of work and countless hours of stress while I awaited the installation of a phone line in my new apartment.

“I was lied to at least three times - once to my face - and stood up for an appointment; and when a technician finally did install my phone line, he knocked out my neighbor's service in the process.”



While a full analysis of Verizon's customer services could take another report to cover, we suggest that the reader examine the filings of the New York Communications Workers of America, who have outlined how major staff cuts, cuts in construction budgets and lack of adequate training has degraded the ability of the current workers to perform their essential tasks.

See: <http://newnetworks.com/cwareportaugust2002.htm>

### **78) Inflated Network Costs Cost Customers Money Annually: VET — "Vaporware Equipment Tax"**

The price of service has historically been set based on the expenses of the equipment in the network and staff costs. Even today, the prices that you pay have a starting point with the equipment in the networks.

It has been unequivocally demonstrated that a percentage of the equipment in the network that was used to set these rates does not exist. Known in the industry as "Vaporware", Teletruth estimates that the average residential customer has paid over \$600 for missing network equipment. We call it the **Vaporware Equipment Tax**, "VET".

**Background:** In 1999, the FCC released a series of reports on audits on the local phone monopolies' network equipment using data from the year 1992. They discovered that \$19 billion of equipment was either missing or could not be found — "unverifiable". This audit represented only ¼ of the potential audits that should have been done. Because of political maneuvering at the FCC, the audits were essentially squashed and handed over to the states.

To date, the only state commission that examined any of this material, the New York Public Service Commission, found that \$633 million of equipment was missing and that was only one-quarter of the audits that should have been done. Also, the auditors, Price Waterhouse, knew there were accounting problems.

In an effort to hold the phone companies accountable for these cooked books, Teletruth, New Networks Institute, and the Anti-trust Intelligence Report has:

- Filed complaints with the IRS, claiming that the Bell companies took tax deductions for the missing equipment.
- Released excerpts of the audits showing that there are tens of thousands of accounting violations, with some information being left blank or having just "\*\*\*\*\*".
- Filed a Complaint with the SEC for accounting violations.
- Filed Comments with the FCC on the missing equipment.



- Filed a FOIA with the FCC to make the books used in the audits public.
- Filed complaints in three states, New York, New Jersey and Massachusetts, to continue the audits.
- Published an interview with a former Bell staffer who claims that missing equipment had been going on for decades.

To see the documents mentioned, see: <http://www.teletruth.org/auditupdatefin.html>

How does all of this affect the consumer and the phone bill charges? We believe that every charge on the phone bill has paid an illegal Vaporware Equipment Tax (VET) for this missing equipment, and it has added an estimated \$600 or more to your phone costs per line.

For example, the FCC increased the FCC Line Charge over the last three years based on a starting point of 1991. If that number was inflated 5-10% because the equipment is missing, then every time the FCC increased the charge, it also inflated the charge — this applies to every charge on the phone bill.

It also affects many other charges. For example, when a school gets a discount off of the “Business Retail Rates” under the Universal Service Fund, if this rate has been inflated, then it also impacts the cost to every school, library, etc.

#### **79) Phone Bill Secret — The Numbers Don’t Add Up.**

Try as we might to do simple mathematical analyses on the charges presented on the phone bill, we kept coming back to the fact that the numbers many times simply do not add up, or they have significant mistakes.

#### **80) FCC Line Charge Mistake: \$6.49 Instead of \$6.00**

One mistake that appeared on 11% of New York City surveyed phone bills was a mistaken FCC Line Charge fee of \$6.49 instead of \$6.00. Verizon said that the problem affected less than one percent of their customers in New York. (NY800) (NY800a)

The customer highlighted below has two separate lines in the same location. Not only were they overcharged \$.49 for the FCC Line Charge on both lines, but the FUSF charge is not correct on either bill based on the statement made on the phone bill itself.

**This phone bill states: "Effective January 1, the FUSF Charge will be \$.62 cents."**





As the exhibit below shows, the FUSF charge was \$.61 and the second bill was \$.65.

**Exhibit 45**  
**Verizon New York, FCC and USF Mistakes**  
(NY800 and NY800 A)

The first bill dated Dec 22 -Jan 21 2003 has

- FCC line \$6.49
- USF \$.61

The second bill dated Jan 28th -Feb.27 2003 has

- FCC Line \$6.49
- FUSF \$.65

**81) The Superman Scam — Bill Taxes Don't Add Up**

In another case (NJ951) we find a different problem. The total taxes do not add up and the customer is overcharged a small amount. We do not know the extent of this problem or how long it has been going on.

We named it the "Superman Scam" based on the Superman movie with Richard Pryor who finds that if he siphons off a fraction of a cent per account — you can make millions.

**Exhibit 46**  
**Verizon New Jersey Example, Taxes Don't Add Up**

	<b>Cost</b>	<b>NJ Sales Tax</b>	<b>Fed Tax</b>
<b>Basic Charges</b>	\$24.49	\$1.35	\$0.67
<b>Non Basic Charges</b>			
Toll Charges	\$87.87	\$4.87	\$2.43
Other Charges	\$4.19	\$0.24	
<b>Totals</b>	\$116.55	\$6.46	\$3.10
		\$6.42	\$3.09
<b>Overcharge Amount</b>		\$0.04	\$0.01

In this case, the New Jersey Sales Tax and Federal Tax were off by 5 cents total — \$6.46 vs 6.42 for the NJ sales tax, and \$3.09 vs \$3.10 for the Federal tax.

Because this was discovered during the writing of this report, it is not clear how extensive this issue is.



## 82) Idiot Items Fill Up the Phone Bills

One of the most ridiculous finds of this report is the sheer number of phone bills that contain 'Idiot Items', charges on the phone bills that have a \$0.00 cost. Of our survey of phone bills, we found that in New York, 93% of all phone bills had items that simply should not be on the bill.

**See: Phone Bill Exhibit 8: NY Bill with Touchtone Charge.**

The most disturbing thing about Idiot Items was the fact that 35% of the phone bills had a line item for "Touch-tone" with \$0.00 charge. The charge for this service was removed in New York during the 1990's!

### Exhibit 47 New York Verizon Phone Bills with "Idiot Items — Cost \$0.00, 2003

All Bills	Without Package	
93%	85%	Had some item with \$0.00
35%	25%	Touch-tone was an Item.
7%	15%	Had no mistaken charge

## 83) Multiple Truth-in-Billing Violations?

Some of these charges can be explained as a placeholder for explaining to the customer that they have a specific service included in a package, but there is no charge. For example, some bills had a charge for a type of blocking, however, the sample for the exhibit above used only non-packaged phone bills. There is no situation that it can be correct to have Touch-tone on a NYC phone bill in 2003, even if there is no charge. This is obviously a long-term problem that has never been addressed or corrected.

**See: Phone Bill Exhibit 9: NY Bill: Optional "Denial", "Blocking", \$0.00 Charge.**



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**Exhibit 48**  
**Examples of New York Verizon Phone Bills with “Idiot” Items**

<b>Customer ID</b>	<b>Location on Bill</b>	<b>Charge</b>
NY805	Under Basic Service Under Optional	Touchtone Anonymous Call Rejection Network Interface Blocking Service Change
NY 806	Under Optional	Anonymous Call Rejection Sensible Minute Plan
NY 800A	Under Optional	CMR Customer –2

**84) Packages Are Filled with Idiot Items.**

*NOTE: Every Verizon phone bill that had some sort of “Package” has some \$0.00 charges related to numerous items throughout the bill. Our survey was conducted before some customers received the updated “Easier to read” phone bills, so another sample would be necessary in 2004.*

A phone bill sent to us from New Jersey for a package had 15 items with \$0.00 charge. The phone bill states:

“Products with a .00 rate are part of your package”

Yet on a different part of the phone bill, Verizon gives “Verizon Freedom Extra — 59.95” and then lists almost the exact same list, this time without any charges or \$0.00.

Considering this is a 7 page phone bill and that it doubles up on information that is completely confusing to read, it is obvious that “easier to read” phone bills are creating more problems, not eliminating them.



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## VIII. Larger Issues — Long Distance and Lack of Local Competition

### 85) Long Distance Phone Bill Issues

Although this report's focus is local phone service, we felt it was important to address some very significant, distressing points.

### 86) Multiple Additional Charges, Tax Assessments and Other Issues

In the exhibit below (NJ951), the Verizon customer has two lines and uses Sprint long distance on one of the phonelines.

There are so many bad things about this example that it is hard to know where to start. The customer paid \$.62 per minute. In spite of the cost per minute being \$.25 for a day-rated call, this customer also paid 165% in taxes above the actual cost of the call; this included: "Single Bill Fee", "Instate Access Recovery" (of which there were no in-state calls), and even a "Carrier Property Taxes", not to mention the Universal Service Fund, which was rated at 15.7% (instead of 9.1%).

#### Summary:

- \$2.35 for 10 minutes of calling, no fractional billing.
- \$3.87 Taxes/charges
- \$6.22 Total
- Price per minute \$.25, day rate. \$.10 night and weekend
- Cost per minute - \$.62.
- Taxes and charges were 165% above the cost of the call.

#### **Exhibit 49** **Charges and Taxes on Sprint Long Distance,** (Verizon Customer), May 2003

\$2.35	Calls made
\$1.50	"Single Bill Fee"
\$ .37	Carrier Universal Service charge — 15.7%
\$1.40	"in-state" access recovery charge
\$ .05	Carrier Property Tax
\$ .18	Federal Tax
\$ .37	State and Local Taxes
<b>Taxes:</b>	<b>\$3.87</b>
<b>Total</b>	<b>\$6.22</b>



It becomes worse when you examine the details. In this example:

- The Carrier USF is 15.7% if it was just applied to the calls. It was only supposed to be 9.1%\$ at the time, not 15.7%. It seems that it could also be applied to the “Single Bill” fee or the “In-state Access Recovery” Charge. There is no way of knowing from the bill.
- The taxes do not add up. According to the calculation, the Federal Tax is supposed to be 3%, not 3.2%, while state and local taxes should be 6%, not 7%. This means that the customer was overbilled 4 cents on this one bill section.

**Exhibit 50**  
**Example: Tax Is Wrong on Verizon Billing for Sprint**

	<b>Current</b>	<b>Tax</b>	<b>Correct</b>	<b>Percent</b>
Federal Tax	\$0.18	3.2%	\$0.17	3%
State and Local Taxes	\$0.37	7%	\$0.34	6%

While it is only a few pennies, multiply that by millions of phone bills, delivered every month.

Next, the Federal, state and local taxes are being applied to ALL charges, including USF, In-State Access, Single Bill Fee, and even “Carrier Property Tax”. Federal taxes are only supposed to apply to ‘interstate’; and not “In-state” Or “Carrier Property Tax”, or “Single Bill Fee” which are local in scope.

Without a solid road map provided, two telecom experts cannot ascertain exactly what is happening with these taxes.

**87) Sprint vs. Verizon Billing on the Verizon Bill — Verizon Getting Another Free Ride?**

Even with all of these ridiculous charges, another important finding is that Sprint is being charged additional fees that Verizon does not pay for their long distance plan (or is unmarked). There is no indication on the Verizon bills that they pay "Carrier Property Tax", "In-State Access Recovery" or "Single Bill Fees".

Does Verizon pay back to the local phone company fees for billing its Long Distance (LD) packages? If the LD portion is supposed to be a separate subsidiary, would they not also have to pay the same taxes and surcharges as any other company? Wouldn't



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it have to be itemized or explained somewhere?

**88) There is No Local Wireline Phone Competition.**

In our section on Verizon Packages, we found that many customers were on the wrong plan and paying \$10-\$20 a month or more for services than if they had stayed on the regular stand alone services. Since some of the packages lack “Call Detail”, it is impossible to know the extent of the problem without further research.

It was also clear that Verizon in both New York and New Jersey have received significant rate increases on numerous services. If this is so, then how could a monopoly raise its rates if local phone service had significant competition?

One of the interesting facts that appears to have eluded most analysts is that according to other data from the FCC and other sources, the average customer spends less than the total cost of the package, including all of the taxes and surcharges.

The Verizon bundled price of service is about \$80, including taxes, but the majority of customers do not spend that much on local phone and long distance combined.

The FCC’s report on the price of service<sup>29</sup>, as of November 2002, states that there were 104.0 million households that had telephone service and the total for local and long distance was \$48. (To read FCC reports on competition, local service, etc., visit weblink: <http://www.fcc.gov/wcb/iatd/stats.html>)

According to sample data from TNS Telecoms, a marketing information research firm, the average monthly telecommunications expenditures for households with wireline service were \$83 for 2002:

- \$36 for local exchange service
- \$12 for long distance service
- \$35 for wireless service

Therefore, if the national average is \$48 for the total wireline and LD services currently purchased by customers, and the prices for packages are \$70-80 (with tax), then the majority of customers have no other choices for local wireline phone service. These packages only benefit the “active” group of users, not the average customer. Of course more analysis would need to be done comparing this overall average with a state or city average for this analysis to be complete. Regardless, it is clear from this data that packages only help the heavy user and not the average household.



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### **89) Only Package Competition?**

Another fact to add to this discussion is that while AT&T, one of the largest local service competitors, states it is serving only 4 million local service customers, all of these customers most likely have bundled packages. This is also true of MCI and almost every other local competitor.

In summation, there are virtually no local competitors who are competing solely for local, residential, wireline phone service.

### **90) Loss of Local Phone Revenues from Verizon's Own Subsidiaries?**

Another disturbing trend of these packages is that Verizon now controls 40% of the wireline and long distance service in their own states, according to their 4<sup>th</sup> quarter results for 2003. This could be a serious factor in the companies' stated need to raise local phone rates. Its own subsidiaries may not be paying their fair share of costs and expenses; so as Verizon and the Bells increase their revenues from long distance, it harms the revenues quoted for local phone service.

As previously discussed, Sprint was paying a "Single Bill Fee" and an "In-State Access Recovery Fee", which come to \$2.90 — more money than the actual calls that were made. If Verizon loses this revenue for the local phone company because its subsidiary is getting a free ride, it can show lower revenues and request higher local phone rates.

### **91) Competitors Paying Broadband Taxes that Verizon Does Not Pay.**

The auditors came across a serious tax anomaly that puts competitors offering broadband at a serious disadvantage. Internet Service Providers (ISPs) in New York who are offering broadband through a competitor, such as Covad, are forced to pay a myriad of taxes that Verizon is not paying for its own DSL internet offerings; at least based on their own phone bills.

*Note: As with our other materials in this section, this is not a full examination of broadband pricing.*

In this exhibit (from phone bill NY837), Verizon Online has assigned no taxes or surcharges to its price for DSL as part of this package. Their costs to the customer under the Verizon Freedom package were \$34.95 for the DSL portion of the bill.



A phone bill supplied to us by an active New York-based ISP clearly shows that the small ISPs are being hit with multiple taxes and surcharges. The small ISP offers service via Covad, a competitive DSL provider.

Notice that in this example, Verizon's customers are only paying \$34.95 without any tax while the customer using the independent ISP (or the ISP who pays these taxes) is forced to add an additional \$8.94 of taxes to the cost.

#### How it works:

- Small ISP Customer — A customer calls the ISP and they place the order via Covad, who places the order to use the Verizon networks. Covad has its own "DSLAMs" (the equipment necessary to supply DSL over a customer's phone line). The ISP supplies the end-customer with both Internet access as well as the "broadband" connection.
- Verizon customer — A Verizon customer is using an Internet service as well as the phone networks equipped with broadband, all provided by Verizon. These services are offered through a separate subsidiary, VADI, Verizon Advanced Data Inc.

#### Exhibit 51 Verizon DSL vs New York City ISP, (2003)

	Small ISP	Percent	Verizon
	\$37.00		\$34.95
<b>Taxes</b>			
Common Carrier Regulatory Fees-Federal Tax	\$ 0.07	0.2%	
Universal Service Fund Surcharge-Federal Tax	\$ 3.22	8.7%	
Telecom. Relay Service Surcharge-Fed. Tax	\$ 0.06	0.2%	
Excise Tax-State Tax	\$0.93	2.5%	
Sales Tax-State Tax	\$1.76	4.8%	
Excise Tax-County Tax	\$0.87	2.4%	
Special Tax-County Tax	\$0.22	0.6%	
Sales Tax-City Tax	\$1.81	4.9%	
Total Tax	<b>\$8.94</b>	24.2%	0
	24%		
Total	<b>\$45.94</b>		<b>\$34.95</b>
<b>Internet Provisioning</b>	<b>\$9.95</b>		<b>included</b>
	<b>\$55.89</b>		





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The problem is simple. **The taxes charged to the customer for the same service should be the same.** However, Verizon is able to undercut competitors through this tax slight of hand. Because it is bundling its DSL service and its Internet service by one company, it can claim the entire service shouldn't be taxed. Whereas an independent ISP purchasing DSL service from a competitor and then supplying its own Internet provisioning, pays for the DSL service as a separate service that is taxed and surcharged. Covad also sells its own product and allows for the bundling without taxes.

A full discussion is beyond the scope of this report. The small ISP offers superior customer services, innovative products and other small business services that the large companies do not. Thus, it harms the small business community to have these companies unfairly taxed and put at a disadvantage. Our next report will go into the details of broadband costs to customers.



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## Conclusion

- Local phone bills fail “End-Result Test”
- There should be a “Total Bill Analysis” with all revenues and costs analyzed including taxes and surcharges.
- Every charge should be investigated and all unwarranted taxes and surcharges removed.
- The phone bill should be investigated for cross-subsidization.
- The Truth-in-Billing violations should be investigated and fixed.

It is clear that the phone bill can be a customer’s worst nightmare. For too long the customer has had to deal with a great deal of questionable practices, not to mention questionable charges.

To date, there has never been a complete audit of any local phone company’s phone bill charges; a disgraceful fact. NO REGULATOR has simply taken the entire collection of phone bill charges and added everything together and decided if the total was “fair and reasonable”.

An “End-Result Test” would show that while some other charges may be nominal, the entire collection of charges violates every fair and reasonable statute, particularly since the Bell companies are still monopolies, still utilities, and still have Public Interest obligations. It is also clear that many of these “surcharges” are direct payments to the local phone company. Everything from the FCC Line Charge and Phone Number Portability to the New York City “Surcharges” are fees that find themselves going back to pay Verizon’s own taxes.

There is the issue of how each of these charges has been created and the problems with them. As we demonstrated, the FCC Line Charge increases were done without the benefit of a real “rate-case,” that the USF fund is fraught with fraud, there was no competitive bidding when there should have been. And even charges such as “Unlisted Numbers” or charging for Touchtone in New Jersey are all anti-customer acts that have somehow been allowed to accrue.

We also question the actual costs of services. Based on the various partial audits of Verizon showing missing network equipment or the cross-subsidization of charges such as an advertising insert — paid for by customers for Verizon’s other non-regulated products and services — questions about these charges abound.



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The idea that the phone bills are now “Easier to read” is laughable. Any pop-quiz to a group of customers would find little more than blank stares. In fact, Verizon still failed to deliver a phone bill that passes the FCC’s “Truth-in-Billing” guidelines.

Similar to one of the late-night talk shows in which someone goes into the street and inquires as to what people know about a specific topic, if our experts could not figure out certain charges on the phone bills, what do you really believe the general public knows about them?

Teletruth has already taken two Class Action suits and will be filing more suits in addition to a series of complaints to various government agencies about the results of this survey.

We also offer any business reader a free phone bill analysis to see what mistakes are on their phone bills, and to receive funds back through an audit.

To contact us, please send an email to: [audits@teletruth.org](mailto:audits@teletruth.org)



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## **APPENDIX ONE<sup>30</sup>**

### **“Taxes and Surcharges on Your Bill” From Verizon’s Website**

Because taxes may differ by state and each person may select different features, you might find some variation of the following taxes on your bill:

#### **Emergency Service Fee for 911**

The 911 Emergency Service Fee is a fee to cover the costs of local jurisdictions for providing 911 emergency response services to its citizens. The fee is generally either an amount per telephone access line or a percentage of revenue. State law mandates the fee. Verizon is collecting this fee as a billing agent on behalf of the appropriate 911 jurisdictions within the state. A few states have authorized Verizon to collect the fees as a cost recovery where the state designates Verizon as the provider of the 911 emergency phone service.

#### **City Tax**

A tax collected for city governments from purchasers of products and users of telecommunication services which may include equipment, installation, maintenance as well as local and long distance services.

#### **Federal Excise Tax**

A federal tax levied on all long distance calls and some services and features.

#### **Interstate Access Charge**

The FCC has mandated an access charge (known as the FCC Line Charge) to partially reimburse telephone service providers for the cost of routing long distance calls made by local customers. This charge is applied to all customers who have telephone lines in their home or business whether they make long distance calls or not.

This is also known as the Federal Subscriber Line Charge and the Federal Line Cost Charge.

(Editor Note: Notice that the “FCC Line Charge” is the name on the bill, but is not listed as the tax or surcharge.

#### **Intrastate Access Charge**

These state assessed surcharges partially reimburse telephone service providers for the cost of routing long distance calls made by local customers. This charge is applied



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to all customers who have telephone lines in their homes or businesses whether they make long distance charges or not.

**Federal Universal Service Fund (USF) charge**

This is a monthly, per-line surcharge paid by the customer to recover local companies' contribution to the Federal Universal Service Fund. This fund supports telecommunications and information services in schools, public libraries, and rural healthcare facilities. The fund also subsidizes local service to high-cost areas and low-income customers. The FCC regulates this charge.

The Federal Universal Service Fund (FUSF) rate is reviewed quarterly. This fee helps to keep local telephone rates affordable for all customers and gives a discount to schools, libraries and low-income families. This charge will not be applied to Lifeline customers. Please visit the [Lifeline](#) website to find out if you are eligible, or contact us at the toll-free number on your bill.

**Metropolitan Transit Authority (MTA)**

Generated funds are reserved for mass transit systems.

**Municipal Franchise Fee**

A fee assessed for the privilege of using the municipal public rights-of-way. This fee provides the municipality the funds needed to recover the cost of administering the access to the right-of-way. Typical costs included are for inspection, permit processing, engineering, traffic, and other like expenditures that the municipality incurs to manage the health and safety of its citizens as utility companies work in the right-of-way. The fee is generally either an amount per telephone access line or a percentage of revenue. State law or Public Utility Commission Tariffs allow Verizon to recover these costs as a separately billed item.

**Municipal Infrastructure Maintenance Fee**

Municipalities collect this fee from public utilities.

**Service Provider Number Portability**

Federal law requires all local phone companies to provide "service provider number portability" which allows customers to retain their phone number when switching companies. Federal law allows for the recovery of costs associated with the development, implementation, and operation of service provider number portability. The Federal Communications Corporation (FCC) and State Public Utility Commissions approved the amounts that the local phone companies can charge on a fee per access



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line basis. This is done to recover costs by charging PBX and ISDN PRI customers nine and five times the basic per line fee, respectively.

**State Infrastructure Maintenance Fee**

This is similar to the Municipal Maintenance Fee. In both cases, public utilities recover these fees from their customers.

**State Sales Tax**

A State tax levied on all long distance calls and some services and features.

**State Transaction Privilege Tax**

Generally speaking, there is little difference from a sales tax.

**State Utility Gross Receipts Tax**

Telephone companies must pay tax on total revenue. This funds the Public Utility Commissions and other state services. This tax is usually a liability of the company (levied on the company's receipts), must be paid without regard to whether or not it can be recovered from customers.

**Telecommunication Relay Service/Hearing Impaired/Telecommunications Device for the Deaf**

The Telecommunications Relay Service/Hearing Impaired/Telecommunications Devices for the Deaf surcharge is a fee for providing special needs equipment, facilities and services to the hearing impaired in order for the hearing impaired to use the telecommunications network. This includes special phones, hearing devices, Braille pads, necessary network switching equipment and operation of a service center that the customer utilizes for specialized services. The requirements for collecting and remittance of the fees are state specific and established by state law, public utility commission rule or tariff filings.

**Telecom Service Excise Tax**

This is treated like a sales tax. The difference inferred in the name relates to the incidence of the tax - whether the tax is the liability of the customer or of the company. (If the tax is the liability of the company, regulatory authorities usually allow the company to recover it from customers, either as a separate line on the bill or just buried in the cost of service.)



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**APPENDIX TWO**  
**STATEMENT OF COMMISSIONER MICHAEL J. COPPS,**  
**DISSENTING<sup>31</sup>**

*Re: Cost Review Proceeding for Residential and Single-Line Business Subscriber Line Charge (SLC) Caps*

I am troubled that consumers will face an increase in the line charge on their local bill without the Commission undertaking a thorough analysis of forward-looking cost data. In 2000, when the Commission adopted access charge reform for price cap carriers, the Commission pledged that it would initiate and complete before July 1, 2002 a cost review proceeding to ensure that consumers are not overpaying for telecommunications services. This has not been done. Carriers were required to provide, and the Commission stated that it would examine forward-looking cost data. A significant number of carriers, however, submitted summary data without disclosing the inputs used, cost models that were not transparent, or in some cases, models that have been rejected by the state commissions. NASUCA, the association of state consumer advocates filed its data purporting to show that the cap should not increase, but it used a model that the Commission has cautioned may have limits in establishing costs. The Commission then failed to conduct its own independent analysis of the cost data. By failing to undertake the thorough analysis of cost data that was promised in the access reform order, we are neglecting our obligation to consumers.

I suspect there is a case to be made for proceeding with an increase in the cap. Indeed, in all probability, there are many areas of the country in which forward-looking costs exceed \$5. But as the courts have recently been at pains to tell the Commission, we need to obtain the data and conduct our analysis before we act. Without such data, I am unable to support an increase in the line charges on consumers' bills.

I also remain concerned about the line charges imposed on rural consumers. As the cap increases, it is highly likely that the disparity in line charges between rural consumers and urban ones will increase. For example, as the Order points out, those living in Washington, DC, will pay less than \$4 per month whereas those in most rural areas will soon pay over \$6 for this one charge on their bills. In 2000, the Commission determined that this line charge was not subject to the rate integration and rate averaging directives in the statute. Although a reexamination of that issue is not before us in this proceeding, before allowing further increases in the line charge, I would urge the Commission to consider this disparity and whether it runs afoul of section 254(g) or the Congressional mandate that the rates paid by those living in high-cost areas are reasonably comparable to those paid by consumers in urban areas.



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## Endnotes

<sup>1</sup> Verizon New York Inc., Annual Report, 2002.

<sup>2</sup> Investor Information /News Verizon, New York DPS Reach Agreement on New Regulatory Plan, Feb 11, 2002.

<sup>3</sup> VNJB at 15-16, NNJ -10 at 11-12 BPU DOCKET NO TO01020095 on page 20.

<sup>4</sup> N.J.A.C 14:3-7.17 Termination of Residential Telephone Service

<sup>5</sup> "Verizon Proposes \$20 Million Increase in Advanced Technologies for New Jersey Schools No Rate Increase Requested: Lifeline Service Commitment Expanded", January 23, 2002.

<sup>6</sup> "Shortchanged: The Baby Bells may have bilked consumers out of billions by inflating the cost of their networks. Regulators seem content to overlook the matter," by Scott Woolley, May 12, 2003. <http://www.forbes.com/forbes/2003/0512/082.html>

<sup>7</sup> CC Docket No. 96-262, CC Docket No. 94-1, Order, June 2002.

<sup>8</sup> Source: Email from FCC, FCCTSR59, FCC - GCC59, November 19, 2001.

<sup>9</sup> 1. The data: In late 1998, economists hired by AT&T put together an economic model of the charges Verizon and other incumbent local telephone companies imposed on long distance companies to carry their calls to customers over the local telephone networks they owned. At that time (using the FCC approved forward-looking cost HAI model, version 5.0a), the economists estimated that the cost of providing such local connection services was \$.008 per minute (8/10 of one cent). The Bell companies were charging on average \$.0525 per minute (including \$.0034 per minute for a universal service subsidy). In other words, the local telephone company was collecting about \$.04 per minute in excess charges to long distance users that were not cost justified.

Over the next several years, these excess charges were shifted out of long distance prices and local telephone company access charges and began to appear on the monthly bills as the itemized Federal Line Charge which local telephone service customers paid directly to Verizon and other local telephone companies. Today, these charges amount to most of the \$6.50 Federal Line Charge that now appears every month on your typical residential bill for local telephone service. As FCC Commissioner Michael Copps has pointed out, these charges have not yet been cost justified. TeleTruth believes that the FCC has neglected to do its proper job in protecting consumers from this and other excess charges that the phone companies have put on customer bills. As a consequence, TeleTruth is asking federal regulators and Congress





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to investigate these charges to ensure that they are reduced to a level that is justified by the actual cost of providing these services.

On forward looking cost analysis: Forward Looking Cost analysis is a controversial formula for estimating the cost and price of what the local telephone companies would be able to charge customers if they operated in a competitive marketplace. In estimating such costs, the economic model essentially builds from the bottom up a prototype telephone network using the latest technology and best equipment prices. This approach is premised on the notion that a new competitor would in fact build such a network and that it would force the incumbent telephone company to respond by lowering its service prices to the level of the new competitor in order to keep customers. It also presupposed that the incumbent would work hard to effect efficiencies in operations that it would not otherwise seek in the absence of competition and that such efficiency savings would have to be passed along to customers. (Note: under the current price cap regulation of incumbent telephone companies, the telcos have incentives to reduce costs. But they get to keep most of the savings due to the absence of competitive pressures to lower their prices.)

Even if forward looking costs are merely best estimates of what costs and prices would be if competition was strong and pervasive in an industry such as local telephone service, the fact that local telephone companies possibly collect up to four times what they need to collect in Federal Line Charges is enough to justify a thorough study and audit of their service pricing and costs.

<sup>10</sup> For example, in another place the FCC states, “According to the Cellular Telecommunications & Internet Association (CTIA), the average monthly wireless bill was \$48.40 as of December 2002.”

<sup>11</sup> For a complete analysis of call volumes and consumer patterns see “Consumer Attitudes and Perceptions Toward Telephone and Cable Companies”, created by New Networks Institute and published by Probe Research in 1993. Survey work conducted by Fairfield Research

<sup>12</sup> See: “Abolish the Telephone Tax” by Peter J. Ferrara.  
<http://www.atr.org/policybriefs/010899pb.html>

<sup>13</sup> “Switching Cell Phone Providers, Keeping Same Number Proves Maddening for Some,” by Richard J. Dalton Jr., Newsday, December 23, 2003.  
<http://www.newsday.com/business/ny-bzcell1223,0,4179104.story?coll=ny-business-headlines>



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<sup>14</sup> "Wireless Portability Complaints: 4,734 Consumer Complaints Since Porting Began on Nov. 24, 2003". FCC press release, January 28<sup>th</sup>, 2004

<sup>15</sup> "Prepaid Profit Plan for Wireless Companies: Top firms have banked \$629 million for service not yet offered," by [Morgan Jindrich](http://www.openairwaves.org/telecom/report.aspx?aid=67), October 20, 2003.  
<http://www.openairwaves.org/telecom/report.aspx?aid=67>

<sup>16</sup> Verizon 2002 Annual Report.

<sup>17</sup> According to Robert Garnet, a John Hopkins Fellow in Economics and a Teletruth advisor, quoting and adding to a Wharton Business School article, 11/2002, "Is It Time to Get Rid of EBITDA? EBITDA has been used by analysts and investors as a tool to measure the fiscal health of many high-tech, media and other asset-heavy firms that do not generate earnings, but incur plenty of depreciation, amortization and other charges. It became popular among analysts in the 1980s through the 1990s, many who believed that peeling away these expenses (which generally were not directly incurred in operations) would enable them to more accurately analyze and compare the core operations of companies. Many treated EBITDA (incorrectly) as a modified cash flow statement, sometimes mistakenly referred to as free cash flow.

"A real cash flow statement, however, reconciles a company's net income or loss for a period to a company's cash position as of the end of that period. EBITDA does not. And of course, EBITDA excludes so many expenses it does not measure net income. It ignores cash outlays for capital expenditures that can be significant. It also ignores interest and other specified expenses that can account for a large part of a company's cash outflow.

"EBITDA was originally developed to assess the ability of a company to service its debt in the short run, about a year or two. Comparing EBITDA to interest expense would theoretically give a user an idea about whether there was sufficient operating income to meet interest payments. But because it ignored many sources of cash outflow (such as capital expenditures), a company could turn in a stellar EBITDA, yet not have enough cash on hand to fund its interest and other payments."

<sup>18</sup> "ORDER Re: Verizon Pennsylvania, Inc., Petition and Plan for Alternative Form of Regulation Under Chapter 30 P-00930715 2000 Biennial Update to Network Modernization Plan".

<sup>19</sup> "Phone Fund for Schools, Libraries Riddled with Fraud The FCC's Office of Inspector General said the E-Rate program is out of control," by Bob Williams, The Center for Public Integrity - January 14, 2003.

<sup>20</sup> "Office of the FCC Inspector General Semiannual Report", October 31, 2002.



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<sup>21</sup> "Report of the Florida Public Service Commission on the Relationships Among the Costs and Charges Associated with providing Basic Local Service, Intrastate Access and Other Service by the Local Exchange Companies in Compliance with Chapter 98-277, Section (2) 1, Laws of Florida", February 19, 1999.

<sup>22</sup> "\$4.11, A NARUC Telecommunications Staff Subcommittee Report on Directory Assistance", Presented at the Annual NARUC Meeting in Atlanta, GA, November, 2003.

<sup>23</sup> "\$4.11, A NARUC Telecommunications Staff Subcommittee Report on Directory Assistance", Presented at the Annual NARUC Meeting in Atlanta, GA, November, 2003.

<sup>24</sup> "4-1-1 Mistakes Cost Callers Millions; Need The Numbers For Yellowstone National Park Or Even Comiskey Try Again," by Shu Shin Luh, Chicago Sun-Times.

<sup>25</sup> "FCC Statistics of Common Carriers", published September 2002.

<sup>26</sup> This study broke up the insert advertising into 2 quadrants a page and counted an entire year. Any product offering (mostly packages) or promotion for the company's products was included as advertising. Any information about "consumer issues", including Lifeline, Telemarketing calls, changes in rates for basic services or increases to wireless calls were all considered "consumer worthy". Obviously, some interpretation was added to make these determinations. However, anyone interested can simply get the Inserts and count for themselves.

<sup>27</sup> "PSC Orders Independent Audit of Verizon Service Quality Efforts Directs Company to File Plan to Achieve All Service Quality Goals in Second Year of VIP New York, NY" – 6/18/03, 03042/02C0543;00C1945.

<sup>28</sup> <http://www.nypost.com/seven/04122004/business/22558.htm>, April 12<sup>th</sup>, 2004

<sup>29</sup> "Trends in Telephone Service", FCC, August 2003.

<sup>30</sup> [http://www22.verizon.com/customerhelp/cgibin/smarthelp.asp?env=www22&new&kb=consumer&varset\\_statename=NY&varset\\_coast=East&case=6414](http://www22.verizon.com/customerhelp/cgibin/smarthelp.asp?env=www22&new&kb=consumer&varset_statename=NY&varset_coast=East&case=6414) as of April 19<sup>th</sup> 2004

<sup>31</sup> CC Docket No. 96-262, CC Docket No. 94-1, released June 5<sup>th</sup>, 2002