BOOK VI

Overcharging on Your Phonebill
&
How to Save Money

Chapter 30 Overcharging on Your Phonebill

Forget about everything you just read. Returns on equity and Depreciation schedules are the stuff accountants are made of. The truth of the matter is that many of the charges on your telephone bill, that you pay every month, that have never been reasonable since the Era of the Baby Bells.

Let's talk Scandal.

As we have just witnessed, when comparing the profits of Bells to other US companies and other utilities, the Bells overcharged approximately $120+ billion from 1984 through 1997. This averages to approximately $1.000 per phoneline, and refunds of $500-$2,000 dollars. A more exacting analysis is required and it depends on the different state's laws, as well as the services the person has ordered.

By now the reader must realize that this money was easy to accrue, since many regulators have abandoned their monitoring of profits, based primarily on the Bell's promises of new technology deployment. According to our Ameritech mantra: "Federal and state regulators no longer limit the company's profits." (521)

Also we pointed out that no regulator examines the entire bill for profits. The state Public Utilities commissions control a portion of the bill, the FCC controls a part, and state and federal regulators, from Congress to state legislatures, levy taxes and surcharges.

A total shell game. And it's your pennies, nickels, dimes and quarters on the bill they are playing with.

So, once again we have to ask the question "What is reasonable?", this time examining the charges on telephone bills, because almost all of the profits are from subscriber charges. And the issue of "reasonable" when it comes to telephone charges is simple.

- How much does the service actually cost to offer?
- How much profit is accrued from that service?

- What did the service, such as inside wiring, cost before the break-up and how much did the costs rise?

Of course the charges need to be put into context of the companies total profits, not simply the regulatory shell than the money hides under. Our arguments then:

- If a service cost nothing to offer, such as Touchtone service, but the customer is charged $2.40 a month — is that charge reasonable?
- If a service, such as directory assistance has risen over 1800% since 1982, is that reasonable?

My realization of Bell overcharging came from an epiphany of a 37¢ Toll call. I was examining my company's telephone bills and noticed a one minute call from New York to Montauk, only 75 miles away. I had just completed a large study on long distance prices and found that a call across America the price averaged only 21¢. I also knew that a toll call is nothing more than electrons over wires and the costs were a fraction of a penny per minute. When I recalculated the long distance pricing for the toll calls, **I found a $5.9 billion dollar difference annually.** (522)

Startled, I then went back to older home phonebills, (I had saved every bill and keyed all the charges into a large computer spreadsheet. Over the ten year 1982-1992, my phone service, for the exact same "basic service", had cost an additional $1821 dollars, a 266% increase! I then went over to my Aunt Ethel's apartment, who has lived in the same place for almost three decades. Unfortunately, she had two lines as well as two old rotary telephones. Her bills showed that she had paid an additional $2,609 since 1982. By 1996, she had paid $1,119 for the use of just one rotary telephone (1982-1996) (523)

Previously we addressed the regulatory changes that have effected the charges on the telephone bill and now let's update the picture, using the overcharging phases to describe exactly what happened to the charges on the average telephone bill, with the caveat that there are 50 states and each state has different laws and different prices for every service.

The Break-up and Deregulation — More Money for the Same Telephone Services.

The break-up of AT&T and the associated deregulation of the telephone wire the telephone was one of the largest bad deals ever perpetrated on the American Public. And for all of those reading this who are interested in other utility or cable policies, the deregulation of the cable box and associated wire, or the deregulation of the electric wiring in the home, is going to go through the same bad logic.

Why? Because the price of every service escalated dramatically due to these deregulatory events. If you kept the exact same service you were severely penalized. And as we will show, it was the seniors and minorities who paid the most for this regulatory horror story.

In pre-divestiture, 1981, telephone service was simple. A residential customer received Unlimited calling, a telephone, the wire in their home, and unlimited directory assistance, or at least a large number of free Directory calls. By 1987, just 6 years later, every charge had gone up 100-400%, and every charge was now ala carte. There was also a host of other changes. For example, many states removed Flat rate service for the more expensive measured service, while the number of free Directory calls was dropped and each DA call cost more. Worse, the FCC added a new charge, known as the "Subscriber Line Charge" or "FCC Line Charge", costing $3.50 a month, $42. dollar a year. The exhibit below shows how basic service changed from 1982 to 1987. (524)

EXHIBIT 106
Redefinition of Basic Service from 1982-1987

Basic Service 1982	Basic Service 1987
Flat Rate	Measured Service
	ADDED CHARGE: FCC Line Charge
Free Directory Assistance	Charge for Directory
Telephone	Extra
Inside Wire	Extra
Installation included	Instillation Extra

And to make matters worse, the regulators, from the FCC, to the states, never bothered to change their calculations for the changes in "value" that the customer received. Take the case of Directory Assistance prices. In New York City, in 1982 a subscriber received 6 free directory calls and every other call was 10¢. By 1992, a

directory call cost 50¢, counting tax, and there are no free calls. For seven calls, a customer paid 10¢ in 1982, or $3.50 in 1992, a 3500% increase for the exact same service. No regulator bothered to calculate these changes to explain the actual cost of residential services, even though what comprised local service had dramatically changed.

And the overall changes based on national averages? Though each state has a different price and regulation for every telephone charge, the overall telephone bill charges went up an average of 275% (from 1983-1996), but each line item went up varying amounts. Below are the basic findings. (525)

EXHIBIT 107

Nationwide Telephone Charge Increases 1983-1996,

Sources: NNI's "Telephone Charges In America," updated 11/97

Installation Fees	956%
Directory Assistance	1800%
Inside Wiring	375%
Telephone Rental	437%
FCC Subscriber Line Charge	$42 EXTRA Annual
	$72 Annual (Business)
FCC Second Line charge	$60 Annual

Let's go through the changes that occurred to the different parts of the bill. It will allow the reader to see just how much deregulation cost the average consumer, meaning you. We will also make suggestions on how you can save money on your current bill.

- Telephone
- Inside Wire
- FCC Line Charge
- FCC New Charges
- Calling Features and "competitive Services— Touchtone, Call Waiting Call Forwarding, Unlisted Numbers.
- Flat Rate vs Measured Services
- Directory Assistance
- Toll Calls

- Installation Fees
- Taxes and surcharges-E911, Deaf Relay Teleconnect charge

Chapter 31 Aunt Ethel's $1,119 Rotary Telephone: The Most Expensive And Profitable Piece Of Telephone Equipment In History.

The consumer had no clue what deregulation meant, much less did they care. And so in 1985, three years after deregulation, the majority of the population was still renting a telephone. AARP's 1985 study showed that approximately 70% of seniors were still renting. (526)

The exhibit below highlights how a product that cost $22 to manufacture, and was written off, Depreciated, in 1983, made the phone companies $1,119 — local phone companies $217 per phone (plus tax), and $902 per phone for AT&T — 5100% profit! Of course the phone companies argue that it was a rental, which not only included the telephone but also the ability to replace it.

How often do they break? Aunt Ethel's phone was installed in 1964 and was never replaced. Also, the companies never supplied information about the average breakage rates.

The profits were garnered through a shocking series of rate increases. The prices jumped from $1.30 a month, $15 bucks a year, to a high of almost $7 dollars a month, $84 dollars a year by 1988 — for the same rotary phone. Also, an additional charge, the **Investment Recovery Charge**, which was not itemized on most bills nor even mentioned in the rental literature, added $1.90 a month. ($2.26 with tax) (527)

> "**Investment Recovery Charge** 'This charge is associated with leased equipment that AT&T Information Systems is billing you for. This charge enables the company to recover costs associated with equipment transferred in 1983 to AT&T'."

EXHIBIT 108

The Price of a Rotary Telephone Rental, in NYC, 1980-1997

	1980	1983	1988	1997	**Total**
Telephone 1	$1.18	$2.85	$4.25	$4.45*	
Tax	$0.12	$0.31	$0.48	$0.50	
Total	$1.30	$3.16	$4.73	$4.95	**$915.54**
Investment Recovery		$2.26	$2.26		**$216.64**
Annual	$15.60	$65.04	$83.82	$59.50	**$1,132.18***
% of Change		317%	437%		

Source: New Networks Institute, Phonebills.

*In 1997 AT&T instituted a discount of 25% for Aunt Ethel, per phone. Her total was $1,118.98 (528)

But these changes didn't just effect Aunt Ethel. With the majority of the elderly population still renting a telephone in 1985, customers had price increases from $16 to $65 for the exact same product. Also, according to an AARP study of those over 65+. the average number of rented phones per household was approximately 2 phone (1.9) Aunt Ethel has two rotary phones.

In time many people would eventually purchase a telephone, but in our Consumer survey of 1993 we found that 25% of the elderly were still renting, as well as 12% of all households — that's about 35 million people. And almost all of those interviewed thought the price of service was regulated. (529)

Selling Used Equipment at Retail Prices As stated earlier, the purpose of this deregulation was supposed to allow customers to purchase their own telephone equipment. However the easiest thing to do was to purchase the telephone in their home. And the cost of the telephone was super-retail, as shown below. Why? Because all of the installed phones were used equipment, many times refurbished. And some equipment was three decades old, not to mention that the companies also wrote down all of the telephones (530)

Exhibit 109
Average Purchase Price for Telephone Company Supplied Telephone

	As is	Refurbished
Average Price for Touchtone	$56.00	$66.00
Average price for Rotary	$42.50	$52.50

Source: AT&T, New Networks Institute, 1993

To make the matter worse, there were no 'rebates' or other cash reimbursements based on the age of the telephone. Imagine purchasing a used car, or a computer with no consideration of condition, or age.

Even more surprising, if the subscriber didn't want the telephone, it was their responsibility to remove it. If it was hard-wired directly into the wall, the telephone company would come to remove it, but at the subscriber's expense.

Reasonable? What happened to the telephone handset is simple. It was forgotten as soon as it was deregulated, and became *persona no grata* for any regulatory body to concern themselves with. How else then could a device that cost about $20 to manufacture in 1980 be worth more than $1132 by 1997, and in many years 440% above the pre-divestiture price. In fact, the rental telephone became the most expensive piece of equipment in telecommunications history.

A 440% increase in the price of a service is unreasonable. In 1992 NNI calculated that $23 billion dollars in total has been collected unreasonably, and $5.7 billion dollars was collected just by the Bells, that could be considered to be unreasonable, the rest paid to AT&T. And the problem continues even today.

SAVE MONEY: If someone you know is renting a telephone tell them to immediately consider purchasing a different phone. Then join us as we ask for an investigation and refunds. (See back for details)

Chapter 32 Inside Wiring Charges — A Faulty Insurance Policy

Definition: "Inside Wiring", also called **"Wire Maintenance"**, or specific names including "Line-Backer", is the phone wire that is located inside a home or office, including all of the extensions.

When the wire in homes and offices was deregulated, it was thought that this would start a new business of competitors, or at least allow people to do their own extensions. While there are customers who watch Tim Allen's TV show "Home Improvement", or Bob Vila's "Home Again", the fact is that most people were left holding the bag.

Let's start off in 1982. The wiring is deregulated and people get some phone company message that they can now wire their own homes or the company will manage it. However, in 1982 every home was already wired, so, not surprisingly, most people had no idea what the company was talking about.

Though the changes played out differently state by state, the price of inside wiring service went up dramatically over a very short time. Below is an exhibit from the Office of Ohio Consumer Counsel from 1992, showing that the price for inside wiring went from no charge, the price included as part of local service, to becoming deregulated. First costing 20¢ in 1987, then to $1.25 a month, by 1992, a 500+% increase. According to their annual survey of telephone prices, this model was typical of the rest of the USA. (532)

EXHIBIT 110
Ohio Bell's Inside Wire Pricing, 1982-1997

	1982	1987	1992	1997
Part of local service	—	.20	$1.25	($1.50 Avg.)
Increase Since 1982			525%	

Source: Ohio Consumer Council, 1992, Telephone Bills, FCC

According to the FCC's Rate Report released March 1997, in October 1995, (the most recent data) the "least expensive" wiring charge in America averaged $1.50, an increase of approximately 80% since 1987. However, the FCC only uses "lowest cost" and doesn't analyze actual charges.

> "The average monthly charge for the least expensive wiring maintenance option was $1.50, plus tax. These unregulated charges have increased 79% since October 1987."

And inside wiring generates a great deal of money. The quote below shows than when NYNEX deregulated inside wiring from the regulated part of the company, NYNEX moved $367 million dollars. (534)

> "On January 1, 1990 as part of the rate moratorium plan, NY Telephone eliminated inside wire related rates of approximately $367 million and began to offer wire-maintenance services on a deregulated basis".

And that's just one state, New York. In fact, our estimate for inside wire maintenance contracts in 1996, was approximately $5 billion dollars annually and is growing. This takes into various plans, some costing $3.50. (Since this service has been deregulated and is not included in the profits for local service, nor broken out for profits in annual reports, this is an estimate.)

Do You Own the Wiring?

In New York City in 1996, anyone wishing to change their service from an installed wire plan to their own wiring was required to purchase a network interface costing about $15 dollars. And there can be installation charges, at $93.44 for the first hour of work performed. (535) This added technology is obviously used to deter the customer from doing their own wiring, since the service is already working without this new interface.

A Faulty Insurance Policy? Maintaining A Wire that Doesn't Break

One Attorney General we interviewed called inside wiring a faulty insurance policy. Why? Because the customer is paying for a service that has very little, if any problems. According to a New York Telephone statement in 1980, (536) the wires break once every 16 years. However, the companies today do not provide any facts on this topic.

SCANDAL: Charging Customers who never ordered Inside wiring.

During NNI's telephone surveys, including personal interviews where telephone bills were provided, we found that approximately **70% of all customers were paying inside maintenance charges. However, half of those stated that they never ordered it.** That's right. almost half of those who are paying the charge stated that they never ordered the service. (537) It's now called "cramming", but this practice has been common nationwide.

For example, in the case of Linsky vs NYNEX, Mr. Linsky had found that he had been charged $3.21 a month, for the most expensive inside wire maintenance service NYNEX had to offer. Unfortunately, he never ordered it. (538)

> "This action involves the routine practice of NYNEX of charging their customers, including plaintiff and the members of the Class, for one of three Option Wire Maintenance Plans, when, in fact these customers had not ordered such service and were unaware that they were being assessed such charges.

Unfortunately the court decided that if it is on your bill, regardless of how it got there, it's too bad.

However, during the edit of this book, the New York Times ran a story, 11/13/97, stating that Ameritech was hit with a $225 million dollar settlement for their method of selling inside wire maintenance charges. (539)

SAVE MONEY: Check you phonebill and see if you are paying for wire maintenance service. (NOTE: In some cases, the service is not listed separately, so you have to study the front of the White pages telephone directory or call the local phone company) If you are paying for it and didn't order it, call the phone company and demand a full refund,

including all taxes, installation fees and interest. Also if you did order it, check to see if the service is the 'lowest cost' or the one you wanted. Then join us as we ask for an investigation and refunds. (See back for details)

Chapter 33 FCC's "Subscriber Line Charge" — WHY?

$8 Billion is Collected By the Bells, Annually, From Telephone Subscribers for the FCC Subscriber Line Charge.

"Watch out for the Info highway" is the name of a chapter in "The Tax Bracket", a book by Martin L. Gross. (541) In it he states that the FCC Subscriber Line Charge is a government tax that takes billions of dollars out of the pockets of tax payers, "us suckers". (542)

> "There's a hidden tax. This one outside of the purview of the IRS and virtually unknown to us suckers. It's a $3.50 a month Subscriber Line Charge, put on everyone's phone bill by the FCC.
>
> "It started with a $1 charge for phone users in 1985. Then it was raised to $3.50 for home subscribers ($6.00 for business.) That's $42. a year for each telephone number. A tax that takes $3 billion a year out of our fiscal pockets. If you have two numbers and perhaps an fax, that's $126 a year FCC tax just for using the lines."

And Gross warns us about the future: (543)

> "As the information superhighway leaps from Al Gore's imagination into a working road with an exit ramp to our homes, Uncle Sam will be looking carefully at the $500 billion a year industry.
>
> "Just a warning fellow citizens. Watch the next time you sit down to use your modem. The tax man may be watching."

While his analysis is somewhat off, since it is not a tax per se, and the money does not go to the FCC or the government but to the local telephone companies, he is correct in two areas. First, it is costing America billions of dollars annually. Second, based on the Telecom Act of 96', the FCC increased the FCC line charges for second lines starting in 1998. Considering the profits of the Bells, we must all wonder if there is any justification for any of these charges.

What Exactly is the FCC Subscriber Line Charge? (544)

> According to the FCC: "The federal Subscriber Line Charge (SLC) defrays a portion of local exchange costs that have been allocated to interstate toll (long distance) services." FCC, 1993

However, you would never know it from the vague definitions used by the phone companies on their telephone bills or in their directories, highlighted in the exhibit below. (545) Notice how none of these definitions match either the FCC's definition or each other's. Also notice that the charges are "mandated", or "ordered" by the FCC. There is no mention that this charge is revenue that goes directly to the Bells. In fact, during consumer interviews, when asked about the charge, most customers thought it went to the FCC. (545)

EXHIBIT 111

"FCC Line Charge" Descriptions by Telephone Companies, 1993

Source :Telephone Bills & Directories, New Networks Institute., 1993

- "Line charge ordered by the Federal Communications Commission" New York Telephone bill 1993
- "Mandated Charge Interstate Subscriber Line Charge" GTE bill, 1993
- " A monthly charge required by the FCC rules, for costs to connect your phone to the network" Detail NY Telephone bill, 1992
- "Charges for Network Access For Interstate Calling, Imposed by Federal Communications Commission" Pacific Bell telephone bill, 1993,
- "Access Charge Per FCC Order" Ohio Bell telephone bill 1993,
- "The Federal Subscriber Line Charge" is an access charge authorized by the Federal Communications Commission. This charge defrays a portion of the fixed cost of providing your access to the local network" C&P Virginia Telephone Directory, 1993

The FCC Line Charge's Steady Climb

The only thing that is not vague about the Subscriber Line Charge is the expense. Before the break-up of AT&T there was no FCC Charge. It started in 1985 at one dollar, then climbed to $3.50 per month, $6 for businesses by 1990, where it has remained, costing the average consumer about $42, $72 for businesses, not counting taxes. (546)

EXHIBIT 112

FCC Line Charge for Specific Years, 1980-1996

1980	1985	1986	1987	1990	1996
$0	$1.00	$2.00	$2.60	$3.50	$3.50

Source: FCC, New Networks Institute, 1993

According to the FCC, the total expenditures were $7.8 billion annually in 1995. We estimate that it was $8 billion in 1996. (547)

An FCC Increase for Second Lines in 1998: "The Internet and Small Business Tax"

But it gets worse. As of January 1998, the FCC has implemented an increase in the SLC for all second lines, including residential and business customers. We call these new charges the "Internet and Small Business Tax", primarily because second lines have become the basis of Internet home use and small/home business fax lines. Therefore, increasing the charges on second lines is the same as adding a tax to these households and small businesses.

And the increases are not small. Residential customers with a second line can expect their cost to go from $3.50 a month to $5 in 1998 then "Up to $9. a month" by 2001, with the price eventually leveling off at $7.60. (548)

EXHIBIT 113

FCC Second Line "Internet & Small Business Tax", 1998

1988	1999	2001	PHASE IN
$5 a month	$6 a month	Up to $9 a month	$7.60

Source: FCC, 1997

Multi-line business customers currently paying $6 a month will have to pay $9 a month in 1998.

These additions are supposed to offset other changes in various Access fees. The FCC Order uses phrases like "The reforms are designed to move the charges for those services to more cost-based" and "these changes will promote competition for interstate transport services". (549)

It has yet to be seen whether these charges do anything more than increase Bell profits.

ISDN prices may increase as well

The FCC's Access Charges Order states that the phone companies can add an additional charge to ISDN users. (550)

> "Price cap LECs may also assess a monthly flat-rated charge directly on end users that are subscribing to ISDN, digital subscriber line or other services that have higher line port costs than basic, analog service. "

But why are there fees at all? The Bell's profits are almost double other companies and every indicator shows that they are making substantially more than regulated utilities. The FCC's lack of investigation or questioning of this charge needs to be reviewed.

SAVE MONEY: Join us to repeal the FCC Subscriber Line Charges and the Internet and Small Business Tax.

Chapter 34 "Competitive" Services Do Not Pay Their Fair Share and Cost Virtually Nothing.

- **Touchtone** service is considered an "enhanced" service.
- **Call Waiting, and Call Forwarding** are called "competitive" yet no other phone company offers these services.
- **Caller ID, CLASS Services, Unlisted Numbers and VoiceMail** are also considered "competitive".

As previously quoted, in the "Rape of Ma Bell" the authors state that the costs of offering Touchtone service is virtually $0 when the networks were upgraded for equal access. Well, it turns out that almost all basic network services, besides Touchtone, including Call Waiting and Call Forwarding, are also virtually expense free. In fact, according to the authors, the implementation of these services makes the network more efficient by reducing uncompleted calls and busy signals. (551)

> "Another step to be taken for a more efficient system would be to provide Call Waiting on a universal basis. Again no new technology is needed here. Electronic central offices are already offering this service for an additional monthly charge. But there is no need for that charge. The cost of providing the service is quite small and is actually outweighed by the potential benefits to the telephone company. Call Waiting would eliminate a large portion of the annual 90 billion busy signals. When a customer gets a busy signal, it ties up the network without providing revenues to the telephone company. The telephone industry should consider providing this service without extra charge." [emphasis added].

Virtually all "competitive" services are nothing more than cash machines and almost none of these services were ever competitive. No company ever said "I can give you Call Forwarding for 50% off."

The use of the word "competitive" refers more to the fact that many state Alternate Regulations "deregulated" the services, and therefore, the regulator is no longer looking at the profits from these services. And in almost all cases, these changes were based on the promise to build the fiber-optic highway!

In the previously presented Alternate Regulation plans, Illinois Bell's plan states "competing services are not included" in any regulatory profit control, (552) while the Indiana Opportunity Plan specifically states that the prices of these services would become "Market Prices", with no one looking.

> "Market prices would apply to the balance of the Company's services. The Commission would decline its jurisdiction and allow the marketplace to determine the prices of these services which are already competitive in nature."

Ironies abound. Besides the failure to deliver the Info bahn, it has been the telephone subscriber that has paid for all of the research and development on all of the products, first through AT&T Bell Lab's and then as part of BellCore. The subscriber also paid for the upgrading of the network switching system that supplied Touchtone, Call Waiting and Call Forwarding. It comes with the upgraded network software for little, if any, cost.

But the ultimate joke is that the telephone company is allowed to charge super-retail prices, with expansive profit margins and keep all of the profits based on the fiber-optic interactive promises that were never met.

Charges For Calling Features

Below is a sample of the prices for Call Waiting, Call Forwarding, and Touchtone Service for Flint Michigan and Augusta GA. Notice first that there are no similarities in any of the service prices, and that business services almost always costs more. (553) (554)

EXHIBIT 114
Selected Monthly Prices of Calling Features, 1996-1997

Flint, Michigan, Ameritech	Residential	Business
Call Waiting	$4.00	$5.91
Call Forwarding	$2.74	$4.90
Touchtone	$2.43	$2.50
Augusta, GA Bell South	Residential	Business
Call Waiting	$3.25	$5.50
Call Forwarding	$2.10	$3.20
Touchtone	$1.30	$2.36

Source: Telephone Directories, 1996-1997

In New York, NYNEX offers a bundled five-year service contract for Touchtone, Call Waiting and Call Forwarding at $6.95 a month. That's almost $500 counting taxes, for a series of services that probably cost 10¢ a month, $6 for five years, to offer. And penalties exist if the customer cancels early. Also, this doesn't account for any initiating service fees, or other charges tacked onto the bill. (555)

There are other services that have little or no actual costs, including Unlisted numbers. It is one of the few times you must pay not to be listed in something. Below are some of the prices for having an unlisted number. (556)

EXHIBIT 115
Various Unlisted Number Charges, 1996-1997

Ameritech, Flint Michigan	$1.25
Bell Atlantic, Sommerville NJ	$1.45
Bell Atlantic, Monroe County PA	$1.25
Bell Atlantic, Newark, NJ	$1.44
NYNEX, Brooklyn, NY	$1.95

Source: Bell Telephone Directories, 1996-1997

Even more gauling is the fact that many of these services had a one-time charge that must be paid. Bell Atlantic, PA charges $15 to initiate an unlisted number, NYNEX, in its 1996-1997 Brooklyn, NY Telephone Directory puts it this way (557)

> "With most Optional Services, there is a monthly charge plus a one-time connection or service charge."

And How Many People are Paying These Charges?

First, according to the FCC, almost half of all states had separate charges for Touchtone at the end of 1995 and many states have supposedly dropped the charge for Touchtone. (558)

> "In most cities customers must still pay a separate monthly charge for touch-tone service. However, the number of cities with separate monthly charges for touch-tone is decreasing along with the average amount. In October 1987, 91 cities charged separately for touch-tone; by October 1995 this number was down to 42. "

We believe these numbers are flawed for a number of reasons, including the fact that "most cities" does not represent 42 of 95 cities. (559)

More to the point, the FCC's statistics do not reveal the number of subscribers who are actually using Touchtone or Calling Features. According to BellSouth's 1996 Annual Report, the company had "29 million features currently activated", (560) which included their voice mail and Caller ID products. Since BellSouth had 22 million lines, that means that the average subscriber had 1.3 features. (561)

Our 1993 Consumer survey found that approximately, 77% had Touchtone, 45% had Call Waiting and 9% had Call Forwarding. (562) With the increases over the last five years, we expect the calling products to have increased 25-40% each.

Calling Features — Revenues and Pure Profits

One thing is clear. Calling features are big business. As discussed earlier, we believe that Calling Features made over $9 billion dollars in revenues for 1996. For example, Bell Atlantic's 1996 Annual Report shows $1.5 billion in "Value Added"

products. (563) Considering the profits of these services, the "value" seems to have been the Bell companies.

Though state laws vary and the amounts of service for business and residential services vary greatly, one thing is true. None of these services are paying their fair share. Remember, after the software to offer these services is installed, and the number of users increases, the price per user plummets. There are, of course, marketing dollars spent on these services, and Public Utility Commissions to contend with, but inside industry estimates are that these services have profits over 50% or more. (564)

EXHIBIT 116
Estimates of Telephone Competitive Service Profit Margins, 1997

Touchtone	100%	Profit margins
Unlisted Numbers	100%	Profit margins
Inside Wiring	75%	Profit margins
Call Waiting/Call Forwarding	85%	Profit margins
Voice Mail	65%	Profit margins
Caller ID	60%	Profit margins

As previously mentioned according to the New York Times 1/1/4/97, profit margins for Caller ID and voice have profit margins over 50%. (565)

> "Ameritech has been promoting services including Caller ID and voicemail, which can carry profit margins greater than 50%".

Unreasonable?

Many of the optional service profits were supposed to be used for the fiber-optic highway. Since this didn't happen, then these services should have had regulated returns, closer to 11%, not 50% or 100%. Since the Bells have been asking in virtually every state to "rebalance the services to costs", then all of these services should be included in the rebalance, therefore dropping the price of all of these services to a few pennies a month each, or free.

SAVE MONEY: There is little a subscriber can do to lower the prices on these service. Join us to demand a rebalance of these services to cost.

Chapter 35 Installation Fees

Installation Fees are those costs associated with the set-up and receiving of telephone service in a particular residence or business. These fees can include the service connection to the telephone network, the installation of a telephone jack or wire, or other set-up fees, such as a visit to the customer's premises.

Installation Fees have increased an average of 956% since 1983. (566) The dramatic increases are attributed to a shift in policy. Before the break-up, the telephone companies charged one low, flat-fee for each installation item, but afterward, the policy changed to a per-hour series of charges. Installation Fees for any given item can range from a 294% increase in service minimums to over 1,600% for Jack or Wire Installations. Below is a charge showing the different installation charges from 1982, then 1996. (567)

EXHIBIT 117

Residential Installation Fees, National Averages, 1982-1996

	1982	1996	% Change Since 1986
Connection	$10.87	$40.69	274%
Premises Visit	$ 5.67	$33.88	498%
Jack Install	$ 4.86	$82.58	1598%
Wire Install	$ 6.79	$98.37	1348%
			930%

Source: NNI, Telephone Directories, 1980, 1996

The services and names include:

- **Connection to the Network** Sometimes referred to as the "Minimum Connection Charge."
- **Jack Installation** The installation of a telephone connection jack.
- **Wire Installation** The installation of a wire on the customer's premises.
- **Repair Services, Premises Visit.** These are services provided as they are required.

There are also other charges that of course are added. These include:

Deposit and Initiating Service Fees A deposit, as well as an Initiating Service Fee, are often required to start service and these fees can be hundreds of dollars. For example, to establish a New York business account on an existing residential line (which had been in service for 35 years), NYNEX required two charges, a $300 deposit and a $298 charge for initiating service, $598 dollars up front before service would start. (568)

Other companies do it somewhat differently. Ohio Bell's Telephone Directory states for starting residential service:(569)

> "You may pay a deposit not to exceed 230% of the amount estimated to be the charge for regulated service provided by Ohio Bell plus Long-Distance charges provided by other companies but billed to us."

Using this calculation, Ohio Bell may require over $125.

Meanwhile, the FCC's statistics on Installation does not take into account either deposits of start-up costs. Their analysis is based on a "Minimum Connection Charge." and has no bearing on what a consumer actually pays.(570)

Installation Impacts — Second Lines and a Moveable Society.

According to the Census Bureau, approximately 18% of the population move annually, while Link Resources found that 37% of the population moved in the five year period, 1990-1995. (571) (572) With the increases in second line installations, now accounting for 15% of households, the obvious questions are:

- Why are there any basic initiating service fees or other charges? The customer does not have a choice, and must get phone service from the Bell or local monopoly, therefore making the companies hundreds of dollars, with more than adequate returns. In almost all cases, the initiation of a service is nothing more than updating an existing telephone site, and therefore, has little if any costs.
- Secondly, the phone company should by now have been able to deliver on the basic service — two phone calls over the same wire. Then there would be no second

line installation required, just an update of the account. We contend that this service was never rolled out because it would prevent the collection of the current massive installation fee charges. Also, no regulator provides statistics which gives the actual installation fees, nor has regulators brought up the question why installation fees have been allowed to rise, especially when the monopoly utility is still in control.

Save Money: Until there is competition for installation fees there can never be lower prices. Then join us as we ask for an investigation for the removal of most installation charges. (See back for details)

Chapter 36 Directory Assistance — Count Your Calls

DEFINITION: Directory Assistance, (DA) is the service that allows a caller to find out the telephone number, and sometimes address of a person or business. There are four forms of Directory Assistance: Local, Long-Distance, IntraLATA and Intrastate. The two most common are:

- "**411" — Local DA** is accessed with the three-digit telephone number 411, and is constrained by a subscriber's "Local Calling Area", about a 10-15 mile area. In the US there are over 6,000 Local Calling Areas, and each state's definition of a calling area is different.
- "**212-555-1212" — Long-Distance DA** is carried over Long-Distance lines, and accessed by dialing a specific geographic location using the appropriate area code, then such as 212-555-1212 for New York City.

There are also two important parts of local directory services.

"**Allowance"** The number of free directory calls per month that is included with basic service.

"**Requests"** The number of phone numbers the person call ask for on one telephone call.

And there are four things you should know about local directory prices: (573)

- The price of Directory Services for the local subscriber has gone up 1830% since 1983.
- There are 50 states and at least 50 different charges.
- The FCC has never examined directory charges and its impact on local service rates.
- 0% of customers have any idea how much directory costs, or whether they receive free calls with local service. Lack of knowledge has cost them money.

DA: The Poster-child for the Patchwork Quilt State Laws

There are few products in America where the price can vary a few thousand percent. In fact, no two states have the same combination of price and allowances. Also, many states have different prices and allowances for business or residential services. Meanwhile, the independent companies and the long distance companies all charge varying amounts as well.

How Screwy is Directory Pricing?

The next exhibit compares the price for 7 calls in two adjacent NYNEX states: New York (NY) and Massachusetts (MA). In New York, there are no free calls, while the Massachusetts customer receives 10 free calls. And if the New England customer doesn't use all the calls, they receive a 20¢ credit. Also, the Mass. customer can make two different requests per phonecall, while NY customer is limited to one request per call. (574)

Comparing seven calls, the New York subscriber pays about $3.70 a month, while the Massachusetts user receives a $0.20 credit. On an annual basis, the NY subscriber is paying an additional $44.40 a year, while the MA subscriber will actually have $2.40 credited to their account.

EXHIBIT 118
New York and Massachusetts, Seven Directory Calls, 1997

	New York City, NY	Boston, MA
Allowance	NO Free Calls	10 Free Calls
Credits	No credits	$ .20
Price per call	$ .45	$ .34
Total including tax	$ 3.70	($ .20)
Annual	$44.40	($2.40)
E911	$ 5.28	
Total Costs	$49.68	($2.40)

Source: NNI 1997 2,170% Difference

Even more surprising, the Boston DA plan actually pays for the subscriber's E911 charges, which, in New York City was 44¢ per month, counting taxes. If this is included, an additional $5.28 would be added to the total, thus bringing the New Yorker's total to almost $50 ($49.68) more per year, just for Directory. That's a 2,170% difference! Finally, Boston users get two "requests" per call, in New York it's only one. (We didn't include this in these statistics.)

If you consider that both local telcos are NYNEX companies, (New York's local company was New York Telephone, while Massachusetts's was New England Telephone), one has to stand in disbelief that two companies could charge such disparate prices, considering that the costs associated with offering DA should be similar for these two companies.

Just to show that there is no logic to either the price per call or the number of free calls across America, here are some directory prices from other states. The number of free calls ("free") is given, followed by the price per call. (575)

EXHIBIT 119
Sample RBOC Directory Assistance Pricing, 1983-96

	1983	1991	1997
Michigan	Free	20 free, 22¢ per	5 free, 45¢ per
New York	6 free, 10¢ per	No free, 45¢ per	No free, 45¢ per
Illinois	8 free, 20¢ per	No free, 15¢ per	No free, 30¢ per
Virginia	6 free, 10¢ per	3 free, 29¢ per	3 free, 29¢ per
Mass.	Free	10 free, 34¢ per	10 free, 34¢ per

Source: NNI, NARUC, 1992, Telephone Directories, 1996-1997

Massive Decreases of "Value" of Directory Services Since 1984

The exhibit also highlights the changes from 1983. The most common features are that allowance calls were slashed in most states, while the cost per call also went up. And the changes happened in almost all states. Notice that in Michigan and Massachusetts, Directory charges were free in 1983, and that New York's price went

from 6 free calls, then a dime per call in 1983, to no free calls and 45¢ each, not counting tax.

In fact, before the break-up of AT&T, about 1/3 of the states had free directory assistance, and almost all the other states provided healthily amounts of free calls. (576) The original logic of adding free directory calls was that it generated revenue. After finding the right number, the customer would keep calling and use the network. It was also simply better customer services. But as progress of the Alternate regulations continued over the decade, the price of directory calls continued to rise, while the number of free calls continued to be cut.

The change has been dramatic. In 1983, the average household had 9 free calls per line, and the cost afterward averaged 11¢ nationwide. By 1997, the average cost per call is 38¢ and the average household gets only one free call, with many states no longer having any free calls. (577) Also, the number of requests per phonecalls has been reduced, usually to only one request per call. When you add up the changes, from the number of calls, the increase in price, or the number of requests, Directory charges have increased a whopping 1830% from 1983 to 1997, with each state having different changes.

EXHIBIT 120

The Changing Price of Directory Assistance, Nationwide 1983-1997*

1983	1997	Extra Cost—10 calls	Increase
11¢ per call 9 free	38¢ per call 1 free	$3.70 a month	1830%

Also, the calculation for the directory "Increase" has a number of caveats. (578) However, the average household is spending about $45 a year more for 10 directory calls, (not counting tax).

We would also like to point out the drop in "value" to Basic service. In 1997, now has to spend about $3.70 extra a month, for the exact same "Basic Service" that they had in 1983. Unfortunately, none of this drop in "value" is accounted for in the telephone rates published by the FCC or even most state Public Service Commissions.

The Other Sleight of Hand — Customers' Confusion Adds Money

With the continued price changes and the fact that all 50 states have different prices, it should come as no surprise that in the our consumer survey we found that only 2 out of 1,000 knew the price of a call or whether their service included any allowance. In fact, almost 50% of customers (8+38%) believe that directory is still free or that they get free calls, while 30% thought directory cost 50¢, which was also incorrect (579)

EXHIBIT 121
Consumer Perception of Directory Assistance Pricing, 1993

Directory Assistance Is Free	8%
I Get a Certain Number of Calls	38%
Directory Assistance Cost 50¢	30%
I Don't Know	21%
None of the Above	3%

Source: New Networks Institute, 1993

To be blunt, most consumers guessed at the answers. Why does it matter? Because of those interviewed, almost half thought that directory was free or they received free calls. This has led many customers to use the service unknowingly, racking up $2-$7 dollars a month in directory charges.. For example one older customer we interviewed thought Directory was free and she averaged 13 calls a month. Unfortunately, this customer was paying an extra $3.50 a month, and was annoyed to find out the truth.

SAVE MONEY: Start by trying to guess the price or a call and the allowance. We bet you got it wrong. Then go to your telephone directory and look up the price and whether you get free calls. Then join us as we call for an investigation into Directory prices and customer education.

Chapter 37 Taxes and Surcharges — Expensive Ghosts, Goblins and RBOC Revenues

Probably the hardest information to track in telecommunications is the collection of taxes and surcharges applied to the subscriber's bill. These phantoms, ghosts, and goblins can strike without the person ever knowing the truth about what has happened. They can also add an additional 10% or more to the total bill above and beyond federal, state and local taxes applied to normal consumer goods.

And there's a dark secret hiding. Many surcharges are either misnamed or redefined by the telephone companies, so that the truth, that the charge is really direct revenue to the company, is completely obscured. This obscurity is many times helped by the regulatory groups who have either tacked on charges for their own needs, or have allowed the telephone companies to collect fees without proper identification or notification.

Death, Taxes and Telco Surcharges

When a subscriber pays a telephone bill, it is likely that they are paying some surcharge besides the FCC Line Charge, which is imposed on everyone. Some of these have been around for over 10 years, such as E911, while the reader should expect a host of new Info Bahn charges, like the "California Teleconnect Fund" for wiring schools. Future taxes and surcharges are coming in 1998 as a bad result of the Telecommunications Act.

The two most common charges are:

- **Deaf Relay & Telecommunication Devices for the Deaf (TDD) Service** The "Americans with Disabilities Act of 1990" mandated that the disabled were entitled to accessibility of telecommunications services and the FCC was directed to oversee the implementation of "relay services" which enabled Telecommunication Devices for the Deaf (TDD) service users to communicate with non-deaf subscribers. There are numerous parts to this work including statewide "Dual Party Relay" services, and a lease

or sale on SCPE, "Specialized Customer-Premises equipment". The law required these services to be installed in three years, which started 7/26/90.

- **E911** Enhanced/Emergency 911 services, is a fee to upgrade police emergency equipment and network enhancements.

Hundreds of "Other" charges

And there are hundreds of other local state and federal taxes, some appear with names like "Other", "Occupation", or the author's personal favorite, the "NYS/MTA" tax. (580)

EXHIBIT 122
Taxes and Surcharges Found on Telephone Bills, 1995

Non-basic Charge(PA)	$0.85
Other	$1.25
Municipal	$0.41
NYS/MTA	$0.66
Occupation	$3.13
PUC Surcharge	$ .06
Universal Lifeline	$. 33
Surcharge (PA)(11.02)	$0.11

How Many People are Effected?

Though there are federal and state taxes to contend with, each state has a different series of taxes it imposes. For example, according to the FCC, E911 was on almost 90% of all phonebills, and the amount collected was over 40¢ a month. That's about $600 million collected from the Bells annually. In fact, according to the FCC, E911 charges accounted for 1% of the Consumer Price Index increases. (581)

> "An increasing number of cities are using a tax to fund emergency 911 service. In some cities a fixed amount of tax is levied on each access line. Other cities use a percentage tax. Eighty-five of the 95 sample cities had

> emergency 911 charges as of October 1995, compared with 25 in October 1987. The average emergency 911 charge for a residential line with unlimited calling in these cities was $0.47. On a nationwide average basis, $0.42 of the average of $2.34 in taxes was collected for emergency 911 service. The implementation of emergency 911 taxes accounted for about a one percent increase in the CPI local service index in recent years. "

The FCC doesn't give a breakout of the Disabilities surcharges, but according to the FCC, the costs are 3-20¢ a month. (582)

> "An increasing number of jurisdictions are also using a tax to fund equipment for the hearing disabled. These taxes typically add 3 cents to 20 cents per month to the cost of telephone service."

How bizarre do surcharges get? Probably the saddest bill we found was from GTE California with 11 surcharges and fees. (583)

EXHIBIT 123
California (GTE) Surcharges, 1995*

	May 95	April 95
GTE Communications Devices Fund For Deaf & Disabled	$ .10	$ .11
Funding To Support The Public Utilities Commission	$ .05	$ .06
AT&T Universal Lifeline Telephone Service Surcharge	$ .58	$ .56
AT&T Communications Devices For The Deaf & Disabled	$ .06	$ .06
Universal Lifeline Telephone Service Surcharge	$. 33	$ .58
Temporary Surcharge Allowed By The PUC	$3.39	$2.94
911 State Tax	$ .36	$ .43
Taxes	$ .63	$ .59
Total	$5.50	$5.33
Number of Surcharges	11	

Source: GTE Telephone Bill, New Networks Institute, 1995

Taken directly from telephone bills, this person is paying about $5.40 (for the two month average) in charges. When one considers that the price for the calling plan is $11.50 one must wonder how the regulators would allow for these charges to add almost 50% more to Basic Service. Also, try tracking the charges and you'll go blind. If you examine all taxes paid for two months, this particular subscriber had only two charges remain constant, while all 8 others changed over just the period of one month.

But the real problem with these charges is not just the fees, and how they are paid for, but where all the money goes.

Taxes and Surcharges as Revenues and Profits

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. (584)

> "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. However, there is also an "MTA" surcharge, about 1%, which goes to the Metropolitan Transit Authority, the organization that runs the buses and subways. (585)

> "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."

The bottom line is simple. New York subscriber's are paying New York Telephone's taxes, and therefore it is both a cost to the consumer and business as well as revenues to the company. And they have been collecting this charge since 1982!

E911 and Deaf Relay as Revenues

Most consumers obviously want the best emergency services. So, in a sense, E911 is an important charge. However, it is also profitable for the telephone companies. For example, in 1991 **New Jersey Bell showed revenues of $17 million dollars from E911 services.** (586)

In fact, all mandated services collected by the telephone companies can be revenues, including Lifeline, or TDD services. For example, the Michigan Public Utilities' Audit of Michigan Bell' Alt Reg. plan found that the Deaf Relay services were just company revenues with no competitive bids. (587)

> "The deaf-relay system is being provided free from competition with other vendors and providers (i.e., all of the money paid for these services, as mandated by the 1990 federal act, is simply direct revenues for the company)".

Reimbursed for Community Discounts

And even the discounts of costs to schools, hospitals, and libraries that the Bells tout as being community oriented service will just be reimbursed through some extra tax. For example, Pac Bell states about the "the Teleconnect fund" (588)

> "The final decision also establishes a discount program for schools, libraries, certain community-based organizations and municipal- and county-owned hospitals and clinics. Carriers providing services at a discounted price will be reimbursed from a newly created California Teleconnect Fund. This discount program will be funded by a separate surcharge of 0.41 percent on the bills of customers of all telecommunications carriers in California."

How much has been made over the decade still needs to be determined, but when we consider that E911 has been collected since the mid-1980's in some areas, the amount of money can be hundreds of dollars in fees, hundreds of millions in Bell revenues.

Are These Charges Reasonable?

Probably the oddest part of this tale is that some states have found that services such as directory assistance are so profitable that its profits can be used to pay for both E911 and Deaf Relay. For example, Massachusetts has set up its directory assistance to give 10 free calls, pays for E911 and Deaf Relay, and even gives a phone credit to subscribers because of its profitability. The question remains "Where did all the money go?"

SAVE MONEY: Unfortunately, taxes and surcharges are added directly to the bill and everyone must pay these charges. Join us in helping revoke the charges that are unreasonable, require that the phone company identify the charges as revenues, and require all surcharges to be put up for competitive bidding or even replaced when total phone company profits are examined.

Chapter 38 Long Distance Charges: The Bells Get 40% of Every Dollar You Spend.

The average customer spends about $30 dollars a month on long distance calls, and according to the FCC and MCI, 40% of that goes back to the Bells for Long Distance Access fees. As we pointed out earlier, MCI claim's that Access fees are a $14 billion dollar rip-off, and that it costs the average household $110 extra a year. (589)

Probe Research also found that access charges have been overcharged by a whopping $60 billion from 1984 through 1994. Their argument, based on extensive research and databases, is that Access fees was only supposed to pay part of the cost of running the network, but instead, Access fees paid for the entire network, with $60 billion dollars left over. (590)

While the Bells continue to state that Access fees are expenses for the Long distance companies, the truth is that these are pass-throughs, paid for by the customer, i.e., residential and business subscribers.

Also, as stated previously, competition has greatly reduced the cost of long distance calls. Regardless of the bull being spread around by the Bells, that there is no competition in the long distance markets and that prices never came down over the decade. The truth of the matter is that the overall retail prices have dropped an average of 28%, while the current discount plans have dropped the price of service 50% (49.6%).

And the long distance plans, from Sprints' offering a dime per minute on evenings and weekends to the other long distance plans, have all both lowered prices as well as give the customers numerous cost saving options.

While the new FCC Access Order is supposed to lower access fees and therefore prices, we believe the Bells are still in control and the prices will still be inflated, no matter have the new math is applied.

There are no White Hats in Telecom

Another book could be dedicated to many of the questionable exploits by the long distance companies.

SAVE MONEY: It is not in the scope of this book to highlight all of the long distance plans. However, the most important next step is to get a more accurate accounting of the access charges and then their removal. Join us in calling for an analysis for accurate statistics of the overall bill, including long distance fees and their related access fees.

Chapter 39 Why We Pay a Per-Minute For a Local Call— The Measured Service Scam & The "Pelican Brief of Telecom"

In the 1970's almost all of America's business and residential customers were charged a flat rate for an unlimited amount of local calls. But over the next two decades, the Bells would try state by state, and many times succeed, to migrate the customer to "measured service", which charges the customer on a per-minute or per-call basis. While the Baby Bells have pronounced measured service to be cheaper for most customers, we believe these statements are based on self-fulfilling data, not accurate accounting.

But let's backtrack. In the 1970's, AT&T devised a plan to implement measured service throughout the Bell system, replacing all flat rate service options. The following internal, **confidential,** AT&T memo, dated 1979, (Appendix X), an updated version of a document from 1977, clearly shows that the Bell system's original intent. The memo states: (591)

> "By 1985, nearly all business customers and a preponderance of residence customers will be charged for (local) exchange service on a measured basis.

And the strategy: ..."enlighten" all subscribers to the benefits of Measured service. (592)

> "The path must be paved toward the System Goal by careful evaluation of strategies. Ratemaking and Rate Case Planning philosophy must be in tune with requirements of Measured Service Pricing. . . . Subscribers will expect to be enlightened on this pricing change and every effort must be made to assure them of the equability of Measured Service."

The plan laid out all of the specifics necessary to implement measured services, from "Public Relations" and "Tariff" issues, but also "Marketing" and even the details of "Network Engineering". (see Appendix X)

And it worked in many jurisdictions. Like fingers from the grave, Ameritech's Investor News, dated November 1993, 14 years later, states that their measured service push was working well. (593)

> "Our progress to date — 93% of our business customers and 73% of our residential customers pay for their local calls on a usage-sensitive basis

"Our progress to date" is presented in the exhibit below. As you can see, Illinois and Wisconsin had made measured service mandatory for residential customer, while Indiana's legislature had banned it until 1995. However, all business subscribers in four states no longer have a choice to select flat rate services. (594)

EXHIBIT 124
Ameritech Flat-Rate and Measured Service Status by State, 1993

	Residential	Business
Illinois	99% residential non-optional	100%
Indiana	Banned in legislature until 1995	
Michigan	Above 400 calls per month	100%
Ohio	Residence optional	100%
Wisconsin	100% residence	100%

Source: Ameritech Investors Handbook, 1992, NNI

Considering that this 1979 memo was the working plan for all local Bell companies at the time, and that all Bell company presidents and therefore all future Holding company presidents were at meetings held specifically to discuss current and future business, the Bell system is not only alive and kicking but pursuing the plans of measured service objectives, even years later.

So is Measured Service Better for Customers?

Simply put: The Baby Bells' definition of "progress" is more profits, and according to Ameritech, Measured service was "progress". To understand our contention — that the migration off of Flat Rate Service was not in the best interest of many

consumers or most businesses, a few specifics pertaining to pricing and customer usage need to be examined.

First, almost unanimously, when consumers are given a choice for migrating to measured service from flat rate service, there is little excitement. Only 8% of the population opt for measured service when there is a choice and in some states there have been actual revolts to the idea. This was documented clearly by NARUC in their 1994 Annual Survey of Public Service Commissions. Some states were 'very negative" about switching. Maine even had a referendum in 1986 to abolish LMS (local measured service) (595)

EXHIBIT 137
Some of NARUC Findings About Flat-Rate Service, 1994

Arizona:	Customer response was very negative in 1980; however, there are no surveys more recent.
Maine:	A group opposed to Local Measured Service (LMS) gathered enough signatures to force a referendum question to be placed on the November 1986 Ballot—LMS was abolished.
Texas:	Customer take-rates have been low, political opposition high. A moratorium on measured service is currently in place.
Virginia:	Consumers generally opposed to timed-message rates as proposed by C&P Telephone.

Source: NARUC 1993-1994 Annual Survey of Commissions

If this is the case, then how can could Ameritech and the other Bells move customers off of Flat rate service? The reality, (based on our consumer data, and cross referenced with US Census information) is that the data presented was self-serving to prove the point.

For example, Illinois found that 60% of the residential population will save money with measured service (596)

> "According to the Illinois PUC, when asked about consumer response to measured service — 60% had monthly savings."

In fact, NNI found the exact same conclusion, 60% of households have a savings when choosing a measured service plan over a flat rate plan. However, there is a serious caveat, focused on the exhibit below and taken from NNI's consumer research:(597)

Approximately 40% of the population spend 70% of all communications dollars, including calls.

In all telecommunications use there are "active" and "inactive" users. In the exhibit below we find that while almost 60% of the population spent under $50 a month in 1995, approximately 40% spent over $50, but generated almost 70% of all the money. (598)

EXHIBIT 126
Spending Power of Telecom Active Vs Inactives, 1995

	Under $50	Over $50
% of respondents	59%	41%
Spending Power	32%	68%

Source: New Networks Institute, 1995

Using nationwide averages of telephone services for flat rate vs measured service, we also found in 1995 there was only a $4.20 difference between flat rate and measured services nationwide. However, when the measured service calls are calculated for heavy and light users, Active users spent on the average $17 more with measured service.

Therefore, while 60% of the population saves $4 per month, while 40% of the population paid $17+ more.

And don't depend on the FCC's statistics on Measured and Flat rate services. They are seriously flawed because the agency uses "the lowest recurring charge." We found a 269% difference in the statistics compared to actual telephone bills. (And the FCC has not changed its methodology in its most recent telephone rate report, dated March 1997.)

The bottom line is that there is serious evidence to show that measured service was nothing but a ploy to make more money for the local Bells, and that the data supplied

was skewed toward proving the point at the cost of large increases to active users, 40% of the population.

However, there are much bigger questions that Measured Service vs Flat rate service bring up — Internet usage, which will be addressed later.

SAVE MONEY: In most regions there are different local service plans. Without getting nauseous, look at your local service plan information in the telephone directory and see if there is another plan that might save you money. Unfortunately, since every state has different plans, a discussion of proper examination might take another book. Join us in requiring investigation of customer charges based on examining flat rate vs measured services.

Also, we believe that the utility should be responsible to tell the subscriber which service will save them the most amount of money and that plans should be required to be designed to save money for customers.

Chapter 40 Toll Calls: "A Big Rip-off"

DEFINITION: "Toll Calls", sometimes called **"RBOC Long Distance",** or **"IntraLATA Toll"**, are calls made within a state, and within a LATA, (see definition page) and are between 10 to 250+ miles away from the subscriber's home. The calls do not cross state lines and therefore are not "Inter-state" or "Long Distance" calls.

In 1992, we found that the local telephone company charges for Toll calls were approximately **$5.9 billion dollars annually** more than if the long distance companies had offered the same service. (599) That number also included the long distance access paid to the Bells.

When we mentioned this fact to a telecom analyst from a respected consulting firm, his reply was "Where have you been? Toll Calls are a big rip-off". (600) By 1996, while some Toll call prices have dropped, mainly due to mandated state reductions, not competition, there are so many caveats to the price decreases that we should explain to the reader just how broken the situation is.

First, Toll Calls still bring in the bucks, about $8 billion in revenue in 1996. When associated Access fees paid by competitors (of intra-state and Intra-lata) are counted, an additional $7 billion was also collected in 1996 — approximately $15 billion in revenues. (601)

We estimate that Toll Call revenues are still being overcharged, and when associated access fees are combined, Toll Call excess comes to $5 to 8 billion annually. A more accurate number requires audits of costs. In fact, our original study in 1992 can no longer be repeated because the Bells are no longer required to supply detailed Toll call information.

And Toll Calls are still expensive. Some calls, for the first minute, are over 40¢. For example, below are the Toll Call rates for New Jersey-Bell Atlantic, from their 1996-1997 Telephone Directory. It shows that for a one minute call, just 65 miles away from the subscriber's home, the cost was 42¢. While the second minute is less, about half of all calls in America were less than one minute long. (602)

EXHIBIT 127
New Jersey-Bell Atlantic Toll Call Charges, 1996-1997

Miles	First minute	Second
33—48	33¢	11¢
49—64	37¢	11¢
65+	42¢	12¢

Source: Bell Atlantic Telephone Directory 1996-1997

Actual Cost to Offer a Toll Call — Well, "Access" Cost About a Penny.

MCI and others have testified that the costs of Toll Call access fees, fees paid by competitors to offer Toll calls, are exorbitant. MCI also claims that Bell Atlantic-New Jersey charges 7 to 17 times the actual costs, with the cost of Access less than 1¢. (603)

> "Bell Atlantic-New Jersey charges up to 7-times the actual cost to connect a local toll call when its actual cost to provide access service is less than a penny. For in-state long distance calling, the overcharge is 17-times the actual cost, money that comes right out of it's customers' pocketbooks." [emphasis added]

The next exhibit highlight's some of MCI's claims about overcharging on Toll Calls. According to MCI, various states, including Missouri, Texas, Ohio, and New Jersey, are charging excessive toll call and in-state access fees, costing hundreds of millions of dollars to customers. (604, 605, 606, 607)

EXHIBIT 128
MCI's Findings Of Toll Calls Access Fee Overcharging, 1997

State	Telco	Annual Overcharge Cost
Missouri	SBC Com	$ 52 million dollars
Texas	GTE	$178 million dollars>2¢
Ohio	Ameritech	$ 64 million dollars
New Jersey	Bell Atlantic	$108 million dollars>1¢

SOURCES: MCI press releases, September 16, 18, 1996

MCI blames the State Public Service Commissions, in part, for these overcharges. About Missouri's Access fees MCI states: (608)

> "MCI is appalled by today's decision by the Missouri Public Service Commission (MPSC) to dismiss -- without hearing any evidence -- a joint petition from over 30 long distance industry representatives to lower Southwestern Bell's (SWBT) excessive access charges to their actual cost. This decision is a disservice to the great majority of businesses and consumers of Missouri, and constitutes an abdication by the MPSC of its responsibility to protect the public interest and the ratepayers of Missouri."

Toll Call Shell Game — Shifting Toll Call Revenues

Toll Call access charges doesn't tell the true tale of Toll Call overcharging because, more recently, there has been a shell game with other parts of your telephone bill. The original reasoning behind Toll Calls' high prices is that the excess monies are used to subsidize other services. But MCI put it this way:(609)

> "In the past Bell Atlantic-New Jersey has made the misleading claim that the access overcharge is needed to subsidize Universal Service. That is an old, tired scare tactic used by the monopoly phone companies to keep this profit center intact at the expense of their captive customers."

In fact, almost all local phone company Toll call reductions have been lowered due to PUC actions, many times just shifting portions of the charges by making a deal to "rebalance" their earnings. Ironically, many of these deals are shrouded with the promise of allowing competition.

In the case of Toll Call competition in California we presented earlier, while there was a drop by GTE and Pac Bell in their Toll Call prices using competition as an excuse...

According to a GTE Telephone Bill, January 1995. (610)

> "A California Public Utilities Commission decision rebalanced local telephone company rates and introduced competition in the regional long distance market effective January 1995. The decision moves GTE California's local service prices closer to cost but provides customer with an approximate 42% reduction in Regional long distance rates. The dramatic decrease in regional long distance rates will be reflected on calls made since January 1, 1995."

...the real story was that Basic Service was raised 60% and 35% respectively, and these increases effected 65% of the bill, while Toil call price deductions had little impact. In fact, the average residential subscriber was paying over $100 dollars more per year, just so that toll call prices would decrease, or they could choose a competitor. Meanwhile only 5% switched to someone else.

Toll Call Marketing Problems: 66 Different Prices Per City

If you examine your local telephone company directory to examine Toll Call prices, you might feel a bit nauseous. When prices are given, they are usually accompanied by endless lists of prices and telephone exchanges, telling the customer which "zone" is in their calling area, etc. For the most part, Toll Call prices are still charged by mileage, known as "zones", and nationwide the average is 11 Zones for toll calls per city, with 11 prices. Worse, most Toll Calls still use a different price for the first and second minute, a throw back to pre-divestiture long distance prices. And there is also

a different price for day, evening, and night rates, with different schedules when each rate is used. Competition has been changing this model, but it is a hit or miss situation, depending on the state.

Extra Digits Stop Competitors

As we discussed earlier, the Bell's have been resisting any competition, especially "dial 1 competition". Dial 1 is the ability for a competitor's service to not require additional five digits to use the service, but have the customer simply pick up and dial the phone. To date the requirement for extra digits is still a state by state battle.

Non-Urban Internet Users Should Really Hate Toll Calls

Probably the worst problem with Toll Call pricing are those it hits the most — Internet and Online users. If you live in a less than urban area, the odds of having an Internet provider within your local telephone calling area, is small. And for those in that situation, the subscriber usually has to use a much more expensive means of connecting. Sometimes it is an expensive 800 service call — expensive because the subscriber will pay for the call with added charges, or they can pay toll call prices, which can add $20-$50 a month just in telephone charges. (611)

Dirty Secret: Phone Companies are ROUNDING UP to the Next Minute.

It is a little known fact that almost all Toll calls are rounded up to the next minute. If the call is 2 minutes, 1 second, you pay for three minutes. Or if the call is 5 seconds, the caller realizing that an answering machine has answered, the caller is charged the full minute. (612) Also, on the average, almost 50% of all calls in America are under one minute. This is one reason why most states' Toll Calls have a higher charge for the first minute. (613)

SAVE MONEY: Check you telephone directory to see if the phone company offers packaged discounts on Toll Calls. Also, notice when your discounts start. Some start at 5 PM some start at 8PM. Look for competitors if you want to compare. Then join us as we ask for an investigation and refunds for all Toll Calls charges. (See back for details).

Chapter 41 Digital Spew?

Imagine for a second that you were able to put a charge on the telephone bills. Nothing big. Maybe a few extra calls, or even extra services that the customer never ordered, such as inside wiring. It is something right out of a Superman IV movie where the Richard Pryor character figures out how to program a bank's computer to pay his account excess fractions of a cent from other accounts.

Whether it is done intentionally, just part of the lack of proper bureaucratic examination, total customer confusion, or actual flaws in network design, the truth is that Digital Spew is no only real but quite commonplace.

Forget about B.S. — In the world of telecom, it's D.S.

DEFINITION: Digital Spew (DS) is when the network, (or the telephone company) 'spews' bad data onto the telephone bill, resulting in extra charges to the customer. These can be temporary, as in the case of a few directory calls, or permanent, as is the case with inside wire.

There seem to be two types of Digital Spew:

- "Phantom Charges"
- "Added" Charges"

More recently called "Cramming", this problem is not something new in local telecom. It has just been found by the media, spurred on by a flurry of activity from the Long distance companies, who sometimes switch a person with permission or add bogus charges for unmade calls.

Digital Spew's "Phantom Charges": Charges that Come and Go

Phantom Charges appear to be random and show up on telephone bills sporadically and they are virtually impossible to track. The author's own experience was finding two directory assistance "direct-connect" calls which he did not make. i.e.; "If you wish for us to connect you to that party, we will do it for an additional 35¢".

Though it was only 70¢, the obvious question is "How many other people had these charges attached to their bill that month? Was it just a small technology glitch or did it effect hundreds, if not thousands of people?

More comical was the 1,057 calls that appeared on Jonathan Berman's telephone bill. According to a New York Times article titled "1057 Calls: A Telephone Bill Is on Hold", (10/19/97) Mr. Berman's bill of over $220 dollars was the result of over 800 calls that NYNEX could not account for, and that Mr. Berman didn't make. (614)

Digital Spew's "Added Charges": Charges That Were Never Ordered

Previously we mentioned the finding's from our 1993 consumer survey interviews, as well as collections of actual telephone bills. We found that at least half of the consumers who were paying inside wiring charges stated they never ordered the product.

That incredibly high number can be attributed in part to the lack of customer education. For example, many customers see various charges with words such as FCC Subscriber Line Charge, or inside wire charges and have no idea what the fee is for — How can they complain?

How much Digital Spew is produced by the network or through phone company additions? It is impossible to judge the actual depth of this problem without further investigation, and considering that unless there are red flags, such as a subscriber phonebill doubling, the average customer can not defend themselves from the problem.

Save Money: Start reading your telephone bill, especially if the charges are higher than usual. Then join us for an investigation into Digital Spew.

Chapter 42 Other Services, Other Scandals: Cellular/PCS, Directory and Payphones

An additional book could be written highlighting what's wrong with the other services including Cellular, Directory Services and Payphones. We'll just highlight what we consider to be some of the most outrageous. Also, we will briefly discuss the differences between Consumer and Business prices. The rule of thumb is that Businesses pay about twice as much for the exact same service.

Cellular and PCS

- **Cellular Services** are the original wireless phone services, that allows the caller to leave their home and use their "cell" phone in their car, or other outside places.
- **PCS, Personal Communications Services,** are the more modern "digital" services, starting to be sold in major cities.

It is a little known fact that the Bells were grandfathered the original Cellular licenses, which are the radio frequencies reserved just for cellular services. These licenses are worth multiple billions of dollars, as evidenced by the billions brought in for the more recent the PCS licenses sales. Yet the Bells received these valuable properties for free.

The obvious question is "How has the Public Interest been served by giving these companies such valuable assets?" We believe that it has never been served and that the Bells should have been required to pay for them, especially since cellular service prices are unregulated.

Also, the licenses, as well as many of the cellular properties themselves, were just pocketed when the Bells spun off their cellular properties or merged. For example, when Pac Bell spun off its cellular activities to form Air Touch, the company's assets were worth over $7 billion dollars and they only paid California subscribers about $60 million. (615)

Worse, as mentioned in the regulation section, the audit of Pacific Telesis, found that the Bell had inappropriately charged customers for development of PCS. (616) This identical problem was found in the Ameritech audit by Ohio and Wisconsin. (617)

- **"Pacific Telesis:** "Personal Communication Services (PCS) was developed using ratepayer funding."
- **"Ameritech:** "Ameritech Services failed to directly assign the PCS trial to non-regulated activity".
  Source: NARUC Audits, 1993-1995 New Networks, 1995

These audits were not repeated in almost every other state, even though the Bell's actions are usually similar if not identical.

Also, Cellular markets were for years a "duopoly", where the Bells owned one company and the others were competitors. For the most part, since the Bells controlled the charges to competitors for connecting to the local network, the price of service never fell very far, the Bells setting the bottom line.

Cellular or PCS Charges — Get Out Your Magnifying Glass.

Then, of course there is the issue of charges. Take out the magnifying glass and you notice that what seems to be a reasonable offer suddenly includes numerous, very odious charges. For example, the Bell Atlantic Mobile advertisement in the New York Post, 11/11/97, gives "100 bonus minutes" if you purchase the "plus 40" at $29.99. In the fine print (we weren't kidding about the magnifying glass) we find that (618)

- early disconnection of the service plan costs $175.
- Deposit is required
- all of the minutes **are rounded up** and therefore "the actual number of allowance minutes will vary".
- "Landline, toll, or cellular long distance charges apply" making almost any bonus call cost money. Landline calls are 5¢ a minute, in New Jersey 12¢ a call.

The Bells are not alone in their ridiculous rates, or misleading advertising. AT&T Cellular bills collected in New York City shows that some calls cost almost $1 per minute, and all of the charges are rounded up. Some other charges and amounts include "Roaming Charges", "Local calls", "Local Cellular Company Long Distance", and

"AT&T Long Distance". And on top of this there are taxes, such as "Home Usage Taxes" or E911. (619)

And the amounts — a two minute call can cost $1.62, while 27 minutes of Roaming charges came to over $1 a minute. (actual NYC phonebill charges) (620)

EXHIBIT 129
Selected AT&T Cellular Charges, New York City, 10/97

2 minute call		$ 1.62
Roaming Charges	27 minutes	$28.96
Total 46 minutes		$68.20 Total Bill
Average per phonecall		$ 1.50 per minute

Rounding up also can add large numbers. For example, according to the customer's bill, the local cellular company long distance calls showed 4.65 minutes of service but 7 minutes of charges, while 8.55 minutes was 13 minutes of charges. In these examples, that's about 50% more costs just for rounding up.

In fact, when the bills were added up, these typical bills showed 46 rounded-up minutes, and the total bill of $68.20. That's about $1.50 a minute, counting tax, over $2.00 a minute when actual calls, not rounded up, are counted.

Is This Reasonable?

Finally, there is the issue of the new "PCS services" the digital wireless services. The Bells purchased billions of dollars worth of PCS licenses. One of the biggest purchase was for almost $1 billion in licenses to **Primco Personal Communications,** a partnership equally owned by the AirTouch, US WEST venture and Bell Atlantic/NYNEX Mobile. (621)

Obviously, the question of the Bells' ganging together is troubling, but the big question is whether the funds for the licenses were from excess profits derived from I-Way promises, and whether the Bells drove up the bidding to stop other less funded entrepreneurs from entering the markets.

Directory Yellow Pages

It is an industry secret: According to industry analysts, Telephone Directories' profits margins are almost 50% and it has been like that for most of the Bell's life. Most of the money was supposed to go back to pay for other ratepayer services, including Universal Service. However, over the last five years, many of the Bells have been applying for and receiving permission not to give these revenues back. And it varies greatly by state. As previously stated: (622) From the "Joint report issued in 1990 by Public Communications Associates and the Michigan State University Department of Telecommunications")

> "Some states, such as Iowa and North Dakota, permit agency consideration of directory revenue and expenses associated with the sale of classified advertising or listing by a telecommunications firm in determining rates, while Missouri prohibits agency Yellow Pages jurisdiction unless it finds these directory revenues are being associated with telecommunication revenues by way of direct or indirect subsidy.

Also, the price of Directory Advertisements, according to the Pacific Telesis Audit (623) has risen 250% since 1984, while the development of most new directory products was funded through cross-subsidizing of customers.

Therefore, when the Bells no longer contribute to ratepayers, should the Bells be allowed to continue overcharging customers? And since it is still a most monopoly business, should the Bells be allowed to simply keep the customer base?

Pay Phones — The Telecom "One Armed Bandits" (624)

Probably the most frustrating part of telecom today is Pay Phones. These are the telephones located on street corners and gas stations to stores, and restaurants. And just the name, PAY PHONE, should indicate that this is costing customers money.

Unfortunately, the pay phone market was deregulated years ago and so many of the problems are not simply the fault of the Bells. There are two major complaints:

• **The Phones Just Don't Work.** In this case, both non-Bell phones as well as Bell phones just don't work, or just keep the money. In the case of NYNEX, an independent study by the New York Times (April 19th, 1997) found that over 30% of all phones were not working properly. However, other carriers have been also tied for this honor. (625)

• **Exorbitant Charges** Pay phone charges have always been expensive with many "Operator Assisted", "Collect Calls", or "Long Distance" starting at $1.50 or more for the first minute. However, many other firms have simply jacked up the prices to dollars per minute. There is virtually little regulation on the pay phone charges.

Business vs Residential Charges

There is little you can say about the disparity of Business prices vs residential prices that makes sense. Below are two customers' bills for the same month, and in the same building. On the average, the business phoneline cost 125% more, with some services, such as Inside Wiring, costing over 500% more. (626)

EXHIBIT 130
Comparing NY Business to Residential Charges, for 1992

	Residential	Business	% Difference
Basic Service	$6.60	$16.56	151%
FCC Line Charge	$3.50	$ 4.71	35%
Inside Wire	$0.99	$ 6.20	526%
NY Gross Income	$0.20	$ 0.22	10%
Call Waiting	$5.19	$11.68	125%
Touchtone	$1.53	$ 3.08	101%
Municipal	$0.32	$ 0.57	78%
NYS/MTA	$1.07	$ 1.52	42%
NY FCC Surcharge	$0.20	$ 0.31	55%
Enhanced 911	$0.35	$ 0.35	0%
State tax	$1.77	$ 3.81	115%
Federal	$0.64	$ 1.22	91%
Total	$22.36	$50.23	125%

Source: NNI, Telephone Bills

And in every state, almost every price for business and residential customers will NOT have the same differences between business and residential services — some higher, some lower. (In a previous exhibit, exhibit 122, featuring Flint, Michigan (Ameritech) and Augusta, Georgia (BellSouth), not one price for Call Waiting, Call Forwarding or Touchtone for either business or residential customers matched in any comparison.)

There are a host of questions this residential and business price differential brings up.

First, there is the entire work-at-home and small business argument, which is that these customers should not have to be paying business rates, especially when using residential lines, and most states do not have a work-at-home rate.

Secondly, one can argue that businesses should not be paying any difference because they use the network more and therefore supply additional revenues with their usage. They also purchase more lines and therefore pay more money — at higher prices.

Also, there is the question of charges for schools, non-profits, etc. While some states have discounts, these are usually discounts off business rates and therefore are usually still more expensive than residential rates.

SAVE MONEY: What's fair and reasonable? We believe that based on the Bell's excessive earnings, the cost of services for the various groups, business and residential, as well as the sub-groups, such as work-at-home and non-profits/schools needs to be examined.