



Oklahoma State Senate

Legislative Brief July 1998

Telephone Charges

Issue Background: Fees on Telephone Bills

The Oklahoma Telecommunications Act of 1997 (HB 1815) had a provision -- applying mainly to Southwestern Bell -- that certain companies' rates for basic phone service could not go up without legislative action. However, other provisions of the act authorized charging customers a fee for the Oklahoma Universal Service Fund (OUSF) created by the Legislature in the same bill. Monies collected by the companies are remitted to the Oklahoma Corporation Commission and spent according to Commission rules which implement the relevant portions of HB 1815.

Phone companies are allowed to draw upon the OUSF for help with the high cost of delivering phone service in remote areas, a burden which the federal government is trying largely to shift to the states. The OUSF will be a means of support for the historic commitment that everybody ought to be able to obtain basic telephone service at a reasonable rate. The OUSF also broadens the concept of universal service by providing funding for several new state programs related to telephone service and technology. Among these are funds for the Attorney General to fight telephone fraud; toll-free lines, according to service area, for incoming calls to public schools, public libraries, county offices, and not-for-profit hospitals; free Internet access lines for public schools and libraries; funds for teacher technology training; emergency 911 equipment; and money for Oklahoma to meet federal matching requirements for participation in the "Lifeline" program, which subsidizes basic phone service rates for very low income people.

[The federal Telecommunications Act of 1996 also broadened the universal service concept, mainly by funding the so-called "e-rate" which is to help schools, libraries, and rural non-profit medical facilities meet the expenses of Internet connections and equipment. Fees for support of the federal e-rate may start appearing as early as the July 1998 billing cycle.]

HB 1815 charged the Oklahoma Corporation Commission with determination of the amount needed for the OUSF. Many of the projected costs could only be roughly estimated. In general, the initial costing of the program, with all its uncertainties, was extremely difficult. Following an agency rule-making adopting Commission staff's estimate, phone companies were initially assessed a 2 1/2% fee, which almost all elected to pass through to the customers. Southwestern Bell obtained permission to set the customer fee at a flat \$1.48 per line rather than a percentage.

Because the Corporation Commission now has better information about the cost factors that determine the amounts companies must pay (whether or not they bill their customers, as most have done), these fees should be dropping very substantially by September 1998 billing cycles, probably to about one half of 1%.

The initial 2 1/2% fee began showing up on most customers' bills in April 1998. Southwestern Bell, however, rather than show the OUSF fee as a separate item on the bill, rolled it into the basic monthly charge, explaining it with a one-time insert. Thus, on the surface, Southwestern Bell customers have tended to think that the rate for basic phone service has been increased in spite of the legislative prohibition.

Cellular, PCS, and other wireless telecommunications (and cable) are not regulated by the Corporation Commission, but HB 1815 directed that all telecommunications providers must contribute to the OUSF and HB 1815 is being interpreted to authorize auditing by the Commission to ensure that reductions in OUSF requirements are passed through to the customers.

Issue Background: Fees on Long Distance Bills

AT & T, MCI, Sprint, and some other long distance companies have started listing a separate fee for the access charges they must pay the local companies to terminate calls. Access charges previously were a cost of doing business that was not visible to the customer except in the general sense that rates reflect cost plus profit. Since the early days of the phone business, fees for terminating long distance calls have been a substantial means of subsidizing local service. In fact, access fees are considerably less than they were before the passage of the federal Telecommunications Act of 1996. The extent to which long distance companies will also start itemizing the federal and state universal service fees on customers' bills remains to be seen.

Summary of Actions

Hearing from constituents confused or upset about the fees showing up on their bills, the legislators took two actions during the 1998 session:

1. Acting informally, they suggested to the Corporation Commission and its staff that the initial estimate of OUSF need was overstated, thus causing the fees to be higher than necessary. They also informally endorsed the Corporation Commission's plan to review all the elements in the OUSF and "true up" the estimate; and
2. They passed HCR 1108:

Remission of OUSF Fees

HCR 1108

This concurrent resolution, while it does not have full force and effect of law and cannot, under the Oklahoma Constitution, bind a future Legislature, emphatically expresses the 1998 Legislature's intent that the companies should exercise their option under present law not to recover their OUSF charges from their retail customers; and that the 1999 Legislature should amend the law to prohibit such recovery.

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[Legislative Brief Index](#)