

**JSI NEWSLETTER 1998 NUMBER 3: FEBRUARY 2**

**CLIENT ALERT**

**IXCs IMPOSE SURCHARGES TO COVER FCC-SANCTIONED ACCESS REFORM  
AND UNIVERSAL SERVICE CHANGES**

JSI has become aware that, beginning this month, a number of interexchange carriers (IXCs), including AT&T, MCI, and Sprint, have begun to add additional charges (surcharges) to their customers' toll bills. Theoretically, these charges are intended to cover the cost of Federal Communications Commission (FCC)-sanctioned changes in interstate access charges (access reform), as well as to fund the FCC's new universal service programs. However, our review of some of these surcharges leads us to believe that some may either be completely unwarranted or are excessive.

With regard to the access-related surcharges, the IXCs are suggesting to their customers that these charges are being imposed on them by the local exchange carrier (LEC) and, as a result, that the IXCs are simply "passing along" these charges. However, since rural telephone companies have not imposed any additional charges in 1998 to the IXCs and, in fact have reduced interstate switched access charges in the range of 35 percent to 40 percent, the IXCs are simply misstating the facts and pocketing the proceeds from the surcharge. (It is a fact that non-rural LECs, the federal price-cap companies, are imposing an additional charge, known as the PICC [presubscribed interexchange carrier charge] beginning in 1998; it is equally true, however, that many of these same price-cap companies have also reduced their access charge rates in 1998. Thus, JSI is not sure that some of the proposed charges can even be justified for price-cap-served local customers.)

Further, in connection with the new federal universal service programs, these same IXCs may also be imposing surcharges that are higher than those actually being assessed by the universal service administrator, the Universal Service Administrative Company (USAC). The FCC announced late in December that the contribution level required to support the high-cost and low-income universal service support programs, for the first quarter of 1998, would be 3.19 percent of interstate and international retail billed end-user revenues. The Commission also prescribed that the contribution level required to support the new schools and libraries and rural health care universal service support programs, for the first quarter, would be .72 percent of intrastate, interstate, and international retail billed end-user revenues. In a number of instances, we have observed that the IXCs have imposed assessments that appear to far exceed these sanctioned levels.

Congress has already stepped up its demands that the FCC provide an accounting of its actions on access charge reform and universal service. In December, Sen. John McCain (R-AZ), chairman of the Senate Commerce Committee, and Rep. Thomas Bliley (R-VA), chairman of the House Commerce Committee, wrote to FCC Chairman William Kennard on a number of issues, including why toll rates are not dropping as a result of the FCC's various orders and the status of the FCC's "negotiations" with long-distance carriers that resulted in changes to the universal service programs. In addition, Sen. McCain has listed a number of specific issues to be reviewed by the Commerce Committee this year as part of its consideration of the FCC's implementation of the Telecommunications Act of 1996, including the possible introduction of legislation to end the impasse between LECs and IXCs that continue to battle each other at the Commission and in the courts. Clearly, this continuing uncertainty will add further fuel to the fire.

In any case, at a minimum, JSI believes that clients should consider informing your customers of these developments in your regular subscriber newsletter, through direct mail, or in a news release to your local media. You should indicate: 1) the nature and magnitude of any additional charges you are assessing the IXCs; 2) the level of the USF assessment sanctioned by the FCC; and, 3) a recommendation that if the IXC-imposed assessments exceed their authorized levels, that the interexchange carrier should be notified immediately, and if customers do not receive satisfaction from the IXC, they should contact the FCC directly.

On the very important flip side of this issue, it represents an excellent marketing opportunity for JSI clients that have a toll resale subsidiary. The IXC's decision to continue to charge what appears to be excessive surcharges in some instances, for charges that are not even imposed by the LEC opens a window of opportunity to promote your own toll offering, especially to potential customers whom, prior to the appearance of these surcharges, you have been unable to attract.

JSI also is prepared to assist you with promotional/educational material if you wish to inform your customers about these surcharges or to seize this marketing opportunity. If you are interested in pursuing either of these options, or would like additional information, we encourage you to contact Chris Lehner, at JSI's Seabrook, MD headquarters, at 301-459-7590, or at [clehner@jsitel.com](mailto:clehner@jsitel.com)