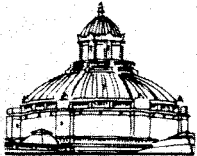


# Issue Brief

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**TELEPHONE INDUSTRY RESIDENTIAL SUBSCRIBER LINE CHARGES  
AND THE LIFELINE OPTION**

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**CONTENTS**

SUMMARY

ISSUE DEFINITION

BACKGROUND AND ANALYSIS

Residential Subscriber Line Charges  
The Lifeline Option

LEGISLATION

FOR ADDITIONAL READING

TELEPHONE INDUSTRY RESIDENTIAL SUBSCRIBER LINE CHARGES  
AND THE LIFELINE OPTION

SUMMARY

Filings by telephone carriers for major local rate increases as well as the Federal Communications Commission's (FCC) imposition of a monthly access (or subscriber line) charge on residential telephone subscribers has generated significant concern over the future ability of consumers to afford telephone service. Concerns that some segments of our society-- e.g. low-income, elderly, handicapped, and those on fixed incomes -- will not be able to remain on the telephone network have prompted various regulators, legislators, consumer groups, and the telephone industry, to consider proposals to alleviate the impact of rate increases. Included among these proposals are the development of various economy services, the freezing or elimination of monthly residential access charges, as well as the extension of a lifeline concept to telephone service (i.e., the offering of a limited number of local telephone calls at a price below cost for eligible residential subscribers).

Congress has focused considerable attention on the general issue of our changing telecommunications industry and its impact on the pricing of telephone service in particular. Despite this concern, however, it has failed to enact any legislation. Legislative proposals in the 99th Congress focused on the prevention of consumer drop-off from the telephone network and the preservation of the universal service goals of the 1934 Communications Act. These proposals took two major approaches: the suspension or elimination of the FCC-imposed monthly subscriber line charge; and the implementation of a federally developed lifeline service program. While both proposals had their advocates, the extension of a lifeline concept to the telephone industry seemed to generate the most support. Despite gathering numerous co-sponsors, however, neither House nor Senate lifeline proposals (H.R. 151, S. 950) were enacted.

Congress is not alone in developing lifeline proposals. Various States have implemented their own lifeline programs and the FCC, in December 1985, enacted a lifeline assistance program which provides for Federal assistance to qualifying State or individual telephone company lifeline programs. The limited nature of the FCC's voluntary program as well as the uneven participation rate of State lifeline action, however, has prompted many lifeline advocates to continue to press for Federal legislation.

Recently some of the major forces which have had such a significant impact on the industry are modifying and the frequency and rate of increase of local telephone rate filings appears, at least temporarily, to be on the decline. Disappointment however, over both the presently implemented FCC lifeline program and limited State lifeline activities, as well as the Federal/State Joint Board's recommended increase in residential subscriber line charges has made this a subject of continued congressional interest.

Measures which establish a mandatory nationwide lifeline program and freeze or repeal subscriber line charges have already been introduced in the 100th Congress.

## ISSUE DEFINITION

The substantial rise in local telephone rates and charges, coupled with the shifting of industry costs previously borne by long distance customers to all telephone subscribers through a monthly subscriber line charge has raised concerns that some consumers may be forced to give up telephone service. Although local rates did not rise at the pace that was once predicted, some groups feel that the potential for further major rate increases still remains. Whether the universal service goals contained in the Communications Act are in fact threatened by these events and what role, if any, Congress should play in promoting these goals are the likely issues to be debated in the 100th Congress.

## BACKGROUND AND ANALYSIS

Technological advances and increased competition in the provision of telecommunications equipment and services have brought positive benefits to consumers in the form of greater choice and decreasing prices in equipment and long distance rates. The impact on local telephone service, however, at least in the short run, has not been as favorable. Although not as dire as once predicted, significant rises in local telephone rates as well as the implementation by the FCC of residential access charges have caused concern that telephone service may become priced out of the reach of some segments of our society.

While the impact that local rate increases have had on the ability of consumers to remain on the network continues to be debated, various telecommunications measures proposed in the 100th Congress reflect these concerns. These bills focus on two major themes: concern over the impact on subscribers of the shifting of costs in the form of FCC-mandated residential subscriber line charges; and the implementation of a federally sponsored lifeline program to ensure the availability of basic telephone service to all consumers.

### **Residential Subscriber Line Charges**

The FCC's 1982 Access Charge Order established a new framework to compensate local telephone companies for the costs they incur for the origination and termination of interstate telephone calls. Under this plan part of the local telephone company's fixed costs will continue to be the responsibility of the interstate category; however, the payment of these costs is shifted from interstate users to all subscribers. This is accomplished by levying a flat monthly charge on all end users of telephone service to help cover these costs. The implementation of such charges has caused considerable debate. Some support the shifting of such costs as a move toward pricing efficiency which will keep large users on the public network to the ultimate benefit of consumers. Others who are opposed to this shift claim that these costs should remain the responsibility of the interstate carrier as a cost of gaining access to its customers and only pose a further threat to universal service goals.

Although the Access Charge Order contains a number of categories of charges, the levying of a subscriber line charge on residential subscribers has generated the most controversy. The residential subscriber line charge is presently frozen at \$2 per line per month. While a \$2 monthly charge may not, in itself, cause a major hardship for most consumers, it is one of the aspects of the Access Charge Order which is under review. A Federal/State Joint Board on March 12 recommended that residential subscriber line charges be increased incrementally to total \$3.50 per line per month by April 1989 and the FCC is expected to approve this increase. An additional increase in subscriber line charges is opposed by many as a further threat to affordable telephone service. While admittedly only one of several factors contributing to the rise in local telephone rates, in the past some have chosen to seek legislation to eliminate or freeze this charge as a way of preventing further erosion of universal service goals. While never enacted, the present recommendation to increase residential subscriber line charges has provided a catalyst for the introduction of similar legislation (H.R. 782, S. 209) and scheduled hearings in the 100th Congress.

### The Lifeline Option

Others, who may or may not be opposed to the levying of a subscriber line charge, are seeking a more comprehensive solution to ensure that telephone service remains an option for all segments of our society. Chief among the solutions being proposed is the extension of a lifeline concept to telephone service. The lifeline concept, as applied to telephone service, generally includes, as a minimum, the offering of a limited number of local telephone calls at a price below cost for residential subscribers who meet an established means test. While most, if not all, support the availability of some form of basic telephone service to help ensure that the economically disadvantaged continue to have access to the telephone network, controversy over how this should be accomplished has sparked considerable debate. While not a definitive listing, some of the major controversies relating to the development of a lifeline plan focus on the following issues:

- what is the appropriate eligibility criteria for participants;
- who should administer the program, e.g., the Federal Government, State government, or telephone companies;
- how should the program be funded, e.g., by telephone industry revenues or by general revenues sources (taxes);
- how comprehensive should the program be, e.g., should the cost of a telephone, connection charges, and/or installation charges be included as well as a limited number of local telephone calls; and,
- should presently available industry devised discount service options such as budget, economy, or measured service be used in conjunction with or in lieu of a newly devised lifeline plan?

Despite these controversies, the extension of a lifeline concept to telephone service has grown in popularity as the costs associated with joining and remaining on the telephone network have increased. Although never enacted, lifeline proposals were introduced in both the 98th and

99th Congress. Various States have also enacted their own lifeline programs and the FCC's lifeline program, enacted in December 1985, provides limited Federal assistance to those State or telephone company lifeline programs which meet FCC-established criteria; as of February 1, the States of Arizona, Arkansas, Colorado, Hawaii, Maryland, North Carolina, Oregon, Utah, Vermont and West Virginia and the District of Columbia have qualified for the FCC's plan. Although the Joint Board's March 12 recommendation calls for an expansion of the FCC's lifeline program, continued dissatisfaction by many lifeline advocates over the presently designed FCC plan and the limited nature of most State lifeline activity, however, makes it likely that supporters will continue to press for legislation to implement a more extensive, federally mandated lifeline program; such a measure (H.R. 291) has been introduced in the 100th Congress.

#### LEGISLATION

##### **H.R. 291 (Leland)**

Provides lifeline telephone service to promote fairness in telecommunications policy. Introduced Jan. 6, 1987; referred to Committee on Energy and Commerce.

##### **H.R. 782 (Wyden et al.)**

Prohibits access charges in excess of the current rate of subscriber line charges. Introduced Jan. 27, 1987; referred to Committee on Energy and Commerce.

##### **S. 209 (Gore)**

A comprehensive telecommunications bill. Includes among its provisions the repeal of subscriber line charges. Introduced Jan. 6, 1987; referred to Committee on Commerce, Science, and Transportation.

#### FOR ADDITIONAL READING

Low-income customers discover down side of phone, banking, deregulation. National Journal, Jan. 26, 1985: 204-5.

Phone, banking lifelines sought for nation's poor. Washington post, Mar. 10, 1985: G1, G4.

Phone bills found up 20% since breakup. Washington post, Dec. 30, 1986: E3.

Phone rate increases found below dire predictions of '84. New York times, June 16, 1986: A1, D4.

Telephone lifeline rates after the AT&T divestiture. Public utilities fortnightly, June 16, 1986: 57.