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BellSouth pulls plug on DSL fee

Verizon still plans to pocket surcharge

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August 26, 2006

One of the nation's phone giants backed down Friday from a plan to continue collecting a rebated tax, under a new name, rather than pass along the savings to customers.

But another phone giant, Verizon Communications Inc., said it does not intend to change its plans.

BellSouth Corp. altered course Friday after a firestorm of criticism from consumer groups and threats of an inquiry from the Federal Communications Commission.

Earlier this week, BellSouth and Verizon told customers they would impose surcharges on monthly fees for DSL Internet service that are roughly equal to the universal service charge that had been applied to DSL in the past.

That charge, a 10 percent tax applied to long-distance phone bills, was also applied to DSL until this summer when the FCC decided to remove the fee.

It had been assumed that DSL customers would see a decline in their monthly bills when the tax ended this month. Instead, Verizon and BellSouth chose to apply their own surcharges that they would keep rather than send to the government fund, which goes mostly to subsidize rural phone service.

The FCC sent letters asking the firms to explain their actions, but before they were received, BellSouth backed down. AT&T Inc. and Qwest Communications International Inc. both plan to pass the tax reduction along to their customers.

A Verizon spokesman said the company is sticking to its plan.

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"We were planning to raise our DSL fees anyway," said Eric Rabe. "We needed extra revenue to finance the stand-alone DSL product we now offer."

That product, also called "naked DSL," enables customers to get a high-speed Internet connection without buying phone service. Verizon believed applying the new charge as the old tax was removed made sense because a customer's overall bill would stay the same, Rabe said.

"We mailed information to our customers explaining this," he said.

Calling the move "deceitful exploitation of consumers," Andrew Schwartzman, president of the Media Access Project, said when phone companies argued the FCC should stop taxing DSL customers, it would lower broadband fees.

Jeannine Kenney, publisher of Consumer Reports magazine, said the Consumers Union applauds the FCC for "looking in to what appears to be not just a consumer rip-off, but a blatant attempt to mislead consumers."

The FCC is looking at various changes in the way the universal service fund operates.

It's considering a flat charge to finance the fund by assessing every phone number a dollar or so a month.

Phone companies support this move because it would be easier to administer, but consumer groups complain that people who seldom make long-distance calls who now pay little or nothing toward universal service would see their phone bills go up.

The FCC is also looking at opening up subsidized rural phone service to more competition.

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