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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

In the Matter of	)	
	)	
PRICE CAP PERFORMANCE REVIEW	)	CC Docket No. 92-134
FOR AT&T	)	

COMMENTS OF AMERICAN TELEPHONE AND TELEGRAPH COMPANY

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SUMMARY

This proceeding is the Commission's scheduled review of AT&T's performance under price cap regulation, which was implemented in 1989. In its Notice of Inquiry ("NOI") commencing the review, the Commission correctly concludes that "price cap regulation has worked well, resulting in the lower rates, innovative services, and improved efficiency we sought to achieve." NOI, ¶ 1. To confirm that price cap regulation has indeed "function[ed] as intended," the NOI requests comments on five distinct issues. Id. at 11, 33.

The first issue -- whether price cap regulation should be extended beyond June 1993 -- should be dispositive of this proceeding. The incentives provided by the removal of outmoded rate of return regulation have generated enormous benefits to consumers. Rates are lower by at least $1.5 billion, a vast variety of innovative new services has been introduced, and AT&T's network has been expanded and modernized. These benefits are a direct result of the Commission's decision in adopting price caps to place greater reliance on the forces of competition. The Commission can now advance those objectives further, and achieve even greater benefits for consumers, by removing all remaining price cap regulations and permitting AT&T, finally, to compete on the same basis as its rivals. The NOI properly anticipates this possibility by explaining that the "price cap plans were . . . well suited to be transitional steps to even simpler

regulatory frameworks that . . . recognize[ ] the presence and positive effects of competition." Id. at 10.

That transition is now long overdue. There can remain no serious question that AT&T's interexchange services face intense competition. The Commission's conclusions in the Docket 90-132 proceeding, buttressed by subsequent developments and the "best available hard data" (NOI, ¶ 34), unquestionably establish the fiercely competitive nature of the entire interexchange market and confirm that AT&T's remaining price capped services should receive streamlined treatment without further delay. This will finally provide consumers the full advantages of competition.

The second issue seeks comments with respect to any changes to the price cap mechanism. If any final transition period of price cap regulation were to be considered, the Commission should undertake every effort to immediately eliminate counterproductive and unnecessary regulatory requirements. As examples, the Commission should eliminate the requirement that AT&T report interstate earnings; permit AT&T to introduce tariffs on 14 days' notice with a presumption of lawfulness; eliminate the price floors, which simply deny lower rates to consumers with no redeeming benefit whatsoever; give AT&T price cap credit for price reductions offered in promotions; limit the definition of new services to those services that actually offer new functionality to customers; and remove price cap regulation of such new services. Moreover, any extension of price caps should last no longer than one year and should be a _final_ transition period, at which time AT&T should be subject to the same streamlined regulatory treatment as its competitors.

The third issue requests comment whether "the productivity factor used to compute the AT&T price cap indices [should] be changed" or whether "a one-time change in AT&T's price cap index [should] be required." The NOI itself largely resolves the issue. Consumer benefits from the Consumer Productivity Dividend ("CPD") and below-cap pricing have alone exceeded $1.5 billion since the introduction of price caps. In addition, consumers have received an unanticipated benefit which stems from customer migration from higher to lower-priced services, and which is unaccounted for in the price cap index. Through migration, customers have lowered the rates they pay by more than $850 million, for a total consumer rate benefit in excess of $2.4 billion. Indeed, if _any_ changes to the productivity factor were in order to account for "unintended and unexpected" results, the unanticipated effects of customer migration would require a reduction in that factor.

Nor have any increases in AT&T's returns been "substantial," "persistent," or beyond expectation as required to justify a change in the productivity factor. The short answer to the third issue is that the returns for the Basket 1 services under price caps have only averaged 8.1 percent, well below the last AT&T rate of return prescription of 12.2 percent. Even for total interstate services, AT&T's

average return over the price cap period has been 13.2 percent (NOI, ¶ 20), a modest increase over prior rate of return levels and an entirely anticipated result of the incentive structure established by price cap regulation. The possibility of achieving such increases without triggering adverse regulatory action is fundamental to the operation of price cap regulation. Adjustments to the productivity factor or the overall index to recapture an increase in return would violate the Commission's commitment not to "recreate disincentives to further productivity gains." NOI, ¶ 11.

The fourth and fifth issues seek comments concerning the need for increased monitoring of "AT&T's network reliability and service quality" and whether the composition of Basket 1 should be changed. As the NOI explains, AT&T has achieved substantial network expansion and modernization over the past three years, and the unfortunate but highly visible service interruptions were each "thoroughly investigated" and <u>not</u> related to, nor provoked by, price cap regulation. NOI, ¶¶ 22, 29. There is no reason to apply an overlay of unnecessary reporting and monitoring requirements to ensure the highest possible service quality and performance; the competitive marketplace provides all the necessary incentive. As to the final issue raised in the NOI, there is no need to address the composition of Basket 1 if the entire Basket is streamlined, as it should be.

To fulfill its purpose, this review proceeding should complete the record concerning the existence of an extremely competitive interexchange marketplace and bring the transitional regime of AT&T price cap regulation to an end. In no event should the Commission retreat from its path to reliance on the most efficient regulator of all: a competitive marketplace where customers receive the full benefits of lower prices, innovative services, and timely responsiveness to their dynamic needs for interexchange services.

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In the Matter of	)	
	)	**CC Docket No. 92-134**
Price Cap Performance	)	
Review For AT&T	)	

COMMENTS OF
AMERICAN TELEPHONE AND TELEGRAPH COMPANY

American Telephone and Telegraph Company ("AT&T") hereby submits its comments in response to the Notice of Inquiry released by the Federal Communications Commission on July 17, 1992.[1]

With the NOI, the Commission commences its scheduled "review of AT&T's performance under price cap regulation," to confirm its tentative conclusions that price cap regulation of AT&T's interstate services has "achieved the goals of reasonable rates, effective incentives for efficiency and innovation, and reduced regulatory burdens." NOI, ¶¶ 1, 13. The NOI identifies five separate topics for which it seeks "hard data and relevant analysis," and explains that the original goals of price cap regulation -- including "greater efficiency," "improvements in consumer welfare," and

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1 Notice of Inquiry, In the Matter of Price Cap Performance Review for AT&T, CC Docket No. 92-134 (hereinafter, "NOI"). By public notice dated September 1, 1992 (hereinafter, "NOI Update"), the Commission updated some of the data presented in the NOI.

minimizing "regulatory burden[s]" -- remain unchanged. Id. at ¶ 32.

These comments respond to the five issues listed in the NOI. Several overall conclusions, however, are apparent from any review of the opposition of price cap regulation. First, the answer to whether price cap regulation is "functioning as intended" (NOI, ¶ 11) is a resounding "yes." Consumers have clearly benefited from the Commission's greater reliance on competitive forces and the incentives inherent in a competitive marketplace. AT&T's rates "in all three price cap baskets have remained below the price cap limits" by the cumulative amount of $742 million. NOI Update, Chart 3. With the addition of $819 million required by the Consumer Productivity Dividend, consumers have achieved a total of $1.56 billion in lower rates. Id. When other consumer advantages resulting from competitive forces are considered (principally the effects of customer migration from higher to lower-priced services), these consumer benefits rise to more than $2.4 billion.

Similarly, price caps have provided incentives to greater efficiency and innovation. AT&T has "introduced 77 new services into the price cap baskets." Id. at ¶ 24. At the same time, "AT&T has expanded and modernized its network" with a "rapid technological upgrade," to digital and fiber optic facilities. Id. at ¶ 22. And there is no relationship whatsoever between price cap regulation and the service outages that unfortunately have occurred. The Commission "thoroughly investigated" each incident, and "[n]one appeared to be directly traceable to price cap regulation . . . ." Id. at ¶ 29.

Second, and as the NOI anticipates with its first issue ("Should the AT&T price cap regulations be continued?" NOI, ¶ 33), the interexchange marketplace is so intensely competitive that continued price cap regulation of AT&T is wholly unnecessary to ensure competitive outcomes for prices, profits, investment, and innovation. The "dramatic changes" which have "swept" the telecommunications industry (id. at ¶¶ 2-3), particularly the interexchange market, have resulted in vigorous competition in all portions of the interexchange market. The Commission's goals of maximum consumer welfare, service innovation, infrastructure development, and minimal regulatory burden can be more fully realized if unnecessary price cap regulations are removed and full interexchange competition is permitted.

In no event is there any justification for retrenchment from the "transitional step" of price cap regulation. NOI, ¶ 10. The Commission appropriately concludes that it does "not anticipate reimposing rate of return regulation" or making changes that would "reduce the incentives" created by price caps. Id. at ¶ 32. Yet one of the five issues suggests the possibility of increasing the productivity offset, or, alternatively, effecting a "one-time change" in the price cap indices. Id. at 33, Issue 3. These possibilities not only threaten to reimpose rate-of-return-type controls, but would severely reduce the incentives to efficiency and consumer welfare intended by price cap regulation.

In short, this review proceeding should match its promise. The Commission frankly acknowledges that its original "decision to adopt the AT&T price cap plan reflected no conclusions about the state of the interexchange telephone marketplace." NOI at ¶ 10 (emphasis added). The Commission should finally address the matter, recognize the reality of the marketplace, and permit AT&T to compete on an equal footing with its competitors. Certainly no adjustments should be made which effect a retreat from the transition to full reliance on the marketplace and the incentives to efficiency and innovation thus provided.

I. RETENTION OF PRICE CAP REGULATION OF BASKET 1 SERVICES IS UNWARRANTED IN VIEW OF THE INTENSE COMPETITION IN THE INTEREXCHANGE MARKET

The first issue posed in the NOI is whether "the AT&T price cap regulations [should] be continued after June, 1993?" NOI, ¶ 33, Issue 1. As an intermediate measure, the NOI seeks comment whether any revision in the composition of Basket 1 services is appropriate. Id., Issue 5.

The proper resolution of these issues is straightforward. The change from rate-of-return regulation to less intrusive price caps proved to be of great benefit to consumers precisely because it moved the industry towards greater reliance on the forces of competition, and away from reliance on the forces of regulation, to generate increased innovation, enhanced quality, and lower prices. The potential to achieve further advances in those areas will not be fully realized until the Commission recognizes that the interexchange market is now fully competitive, and discards the unnecessary regulation, including price cap regulation, that it imposes uniquely on AT&T. Price cap regulation of AT&T's Basket 1 services therefore should not be extended beyond June 1993.[2]

As with the competitive services originally contained in Basket 3, the requested data and analysis of "the

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2 The Commission will grant regulatory relief for AT&T's Basket 2 services upon the advent of 800 number portability, which is now scheduled for March 1993. See In the Matter of Competition in the Interstate Interexchange Marketplace, 6 FCC Rcd. 5880, 5905 n.233 ("IXC Rulemaking Order"), recon., 6 FCC Rcd. 7569 (1991), further recon., 7 FCC Rcd. 2677 (1992)("IXC Reconsideration Order"). See also NOI, ¶ 10 ("800 number portability and streamlining of Basket 2 will occur in the first half of 1993"); IXC Reconsideration Order, 7 FCC Rcd. at 2680 n.40. In Docket No. 90-132, AT&T demonstrated conclusively that Basket 2 services are no less competitive than other business services. Specifically, AT&T showed that (i) AT&T's competitors have the capacity to absorb all of AT&T's Basket 2 traffic within 5 months; (ii) inbound customers are equally willing and able to switch carriers to obtain more desirable prices and features; and (iii) AT&T's share of the 800 service business has dropped even more sharply in recent years than its share of the interexchange market generally. AT&T has also shown that the number portability factor does not warrant treatment of Basket 2 services different from that for AT&T's other business (i.e., Basket 3) services, particularly in view of the Commission's findings that number portability is, at most, a concern to only a small proportion of customers. IXC Rulemaking Order, 6 FCC Rcd. at 5905.

development of competition in the long distance marketplace" (NOI, ¶ 1) clearly establish that such reform is long overdue. The Commission implemented price caps as a "transitional step[ ] to even simpler regulatory frameworks that . . . recognize the presence and positive effects of competition" (NOI, ¶ 10). As the Commission first recognized in the Competitive Carrier Proceeding,[3] and again in its IXC Rulemaking Order,[4] where there is effective competition, a carrier that seeks to charge supracompetitive prices will simply drive its customers to its competitors, and a carrier that tries to price predatorily will generate losses that can never be recouped. In such circumstances, regulatory schemes such as price caps do not serve the public interest, but only harm consumers by preventing or delaying the introduction of new services and lower prices.

The competitiveness of the interexchange market is no longer open to legitimate dispute. In CC Docket No. 90-132, AT&T demonstrated that all AT&T services are subject to

3 See Policy and Rules Concerning Rates and Facilities Authorizations for Competitive Carrier Services, CC Docket No. 79-252 ("Competitive Carrier Proceeding"), Notice of Inquiry and Proposed Rulemaking, 77 F.C.C.2d 308 (1979); First Report and Order, 85 F.C.C.2d 1 (1980); Second Report and Order, 91 F.C.C.2d 59 (1982); recon., 93 F.C.C.2d 54 (1983); Third Report and Order, Mimeo No. 012, released October 6, 1983, 48 Fed. Reg. 46,791 (October 15, 1983); Fourth Report and Order, 95 F.C.C.2d 554 (1983); Fifth Report and Order, 98 F.C.C.2d 1191 (1984); Sixth Report and Order, 99 F.C.C.2d 1020 (1985), rev'd, MCI v. FCC, 765 F.2d 1186 (D.C. Cir. 1985).

4 See, e.g., IXC Rulemaking Order, 6 FCC Rcd. at 5881-82.

intense competition, and that it has no ability to charge supracompetitive or predatory rates.[5] In its IXC Rulemaking Order, the Commission concluded that the outbound business services category is substantially competitive, and that the regulation of AT&T's Basket 3 services should therefore be streamlined. As support for this conclusion, the Commission relied on: (i) the readily available, substantial excess capacity in the hands of AT&T's competitors that would "constrain AT&T's market behavior and inhibit it from charging excessive rates" (IXC Rulemaking Order, 6 FCC Rcd. at 5889); (ii) the availability to customers of numerous competitive alternatives offered by a variety of carriers, and the demonstrated willingness of customers "to switch carriers in order to obtain price savings and desired features" (id. at 5887); and (iii) the continued decline in AT&T's market share (id. at 5889).

On the record that was before it in Docket 90-132, the Commission could and should have extended the same streamlined regulatory treatment to AT&T's Basket 1 services.[6] From the beginning of that proceeding, however, the Commission made clear its intention to defer to a later date consideration of regulatory relief for these services. Thus,

5 See AT&T Comments, CC Docket No. 92-132, filed July 3, 1990 ("AT&T 90-132 Comments"); AT&T Reply Comments, CC Docket No. 90-132, filed September 18, 1990 ("AT&T 90-132 Reply Comments").

6 See AT&T 90-132 Comments, pp. 44-54.

in its NPRM, the Commission tentatively concluded that it would not consider streamlined regulation for MTS and Reach Out America until the Price Cap Performance Review, "[d]espite the fact that these services appear to be competitively provided."[7] In the IXC Rulemaking Order, the Commission again acknowledged that residential and small business services "are becoming increasingly competitive," but declined to modify its regulation of these services (6 FCC Rcd. at 5908).

With the arrival of the Price Cap Performance Review, there is no reason to delay further the extension of full streamlined regulation to AT&T's Basket 1 services. Such relief is clearly warranted under the evidentiary and analytical framework followed in Docket No. 90-132. Indeed, developments since the record was closed in that proceeding confirm the fierce competition that pervades the interexchange market generally, and for each of AT&T's services.

For example, the Commission found that MCI and Sprint could (i) immediately absorb as much as 15 percent of AT&T's business day traffic without any expansion of their existing networks and (ii) readily activate about 25 billion minutes of additional capacity in their networks within a period of 5 months ("short-term" capacity).[8] The Commission

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7 In the Matter of Competition in the Interstate Interexchange Marketplace, Notice of Proposed Rulemaking, 5 FCC Rcd. 2627, 2646 (1990) ("IXC Rulemaking NPRM").

8 IXC Rulemaking Order, 6 FCC Rcd. at 5888.

concluded that "this capacity is in itself more than sufficient to constrain AT&T's pricing behavior insofar as it could accommodate a substantial number of new customers."[9]

This analysis likewise warrants relief for AT&T's Basket 1 services. Because excess supply in the interexchange market is highly fungible, it can be used to provide virtually any type of long distance service. The excess capacity available to MCI and Sprint could immediately absorb at least 16 percent of AT&T's Basket 1 traffic. As the Commission has found, this represents more than a "substantial number" of new Basket 1 customers and is more than sufficient to make a supracompetitive pricing strategy unprofitable and entirely irrational.

The figure for short-term available capacity, moreover, is extremely conservative, because it considers only the MCI and Sprint networks (excluding the capacity of other facilities-based carriers), and only as those networks existed in 1989. Since then, MCI and Sprint have continued to add capacity to their networks. For example, MCI has increased

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9 Id. Indeed, AT&T showed that AT&T's competitors possessed enough capacity to absorb virtually all of AT&T's traffic within 18 months, and all of AT&T's Basket 1 traffic within 10 months. See AT&T 90-132 Comments, pp. 12-13, 53; Appendix A. It is not necessary, however, that AT&T's competitors be able to absorb all of AT&T's traffic. See IXC Rulemaking Order, 6 FCC Rcd. at 5888. The real issue is "whether AT&T's competitors have or could quickly acquire the capacity to take away enough business from AT&T to make monopoly pricing by AT&T unprofitable." Id.

the number of route miles in its fiber network by 43 percent, from 13,839 to 19,793.[10] At least 60 percent of these new fiber route miles are "lit" (i.e., are equipped with associated intermediate and terminating electronics).[11] MCI has increased its switching capacity by at least 25 percent. Sprint has increased its lit fiber by more than 60 percent,[12] and its switching capacity by more than 40 percent.[13]

The sheer number and vitality of competing interexchange carriers themselves confirm the vigorous competition in the market. According to recent Commission reports, there are now 482 long distance carriers providing service in the United States, 361 of which provide equal access service in at least one state.[14] This represents an

10 See Fiber Deployment Update Industry Analysis Division, Common Carrier Bureau, Table 1, March 20, 1992. In the aggregate, interexchange carriers competing with AT&T have almost twice the number of route miles of fiber as the AT&T network. Id.

11 Id. at Table 3.

12 Id.

13 Moreover, AT&T's 1989 study of its competitors' capacity assumed that their networks utilized 1.7 Gbps transmission systems. After that study was completed, Sprint announced plans to upgrade its backbone network facilities to 2.4 or 4.8 Gbps between 1989 and 1991, which would expand significantly its capacity per fiber pair. See "Carrier Watch," Network World, March 27, 1989, p. 13. Similarly, MCI has stated that it is conducting trials of transmission systems capable of handling volumes of traffic "that are a 50 percent increase over what is commercially available today." MCI 1991 Annual Report, p. 13.

14 Summary of Long Distance Carriers, Industry Analysis Division, News Release No. 23592, June 23, 1992, Table 4 (reporting data as of March 1992). Compare Trends in

(footnote continued on following page)

increase of 13 percent since 1989. Six carriers now purchase equal access in and serve between 45 and 50 states.[15] A total of 77 long distance carriers purchase equal access in and serve four or more states, reflecting an increase of nearly 30 percent in the most recent twelve-month period for which data are available.[16]

The success and financial strength of AT&T's two largest facilities-based competitors, MCI and Sprint, assure their continuing presence in the market as aggressive competitors, offering a full range of services.[17] Indeed, both of these competitors have continued their substantial growth since the record was compiled in Docket 90-132. Thus, MCI's revenues have grown 30 percent in the last two years, from $6.5 billion in 1989 to $8.4 billion in 1991.[18] MCI recently announced that its traffic for the second quarter of this year had increased by 14.6 percent over the comparable

(footnote continued from previous page)

Telephone Service, Industry Analysis Division, February 14, 1990, p. 22.

15 Summary of Long Distance Carriers, Table 3.

16 Id. In each state, there are at least 5 different carriers offering equal access services; in 45 states, at least 10 different carriers provide such services. Id., Table 4.

17 See, e.g., MCI 1991 Annual Report, p. 9 ("MCI offers the complete array of domestic and international services, business and residential").

18 MCI 1991 Annual Report, p. 3.

period of the preceding year.[19] Sprint's revenues from its long distance services have likewise increased dramatically, from $4.3 billion in 1989 to 5.4 billion in 1991, a rate of growth that "outpace[s] the market."[20]

Further, this segment of the market is characterized by high demand elasticities. PIC change and market share data establish conclusively that customers not only are aware of the options available to them, but that they can and do freely choose among them.[21] As discussed _infra_, millions of Basket 1 customers change interexchange carriers each year. Since the record in Docket 90-132 was compiled, the rate of churn in the industry has increased dramatically. Thus, the number of customers switching from or to AT&T _each_ year has increased by

19 _Communications Daily_, July 24, 1992, p. 9. Significantly, MCI's President noted that this gain reflected, among other things, "continued success in residential services and strong international growth across all markets." _Id._ MCI's 1991 Annual Report (p. 2) concludes that "[w]ith an outstanding 1991 behind us, _we're stronger than we've ever been_ -- in our technologies, our products, our position in the U.S. market and our worldwide potential" (emphasis in original).

20 United Telecom Press Release, February 5, 1992. Sprint's long distance operating income for 1991, $295 million, is double what it was in 1990. _See_ Sprint 1991 Annual Report, p. 2.

21 The Commission has correctly recognized that it is inappropriate to rely on market share data alone to determine the presence or absence of effective competition, particularly in markets which, like the interexchange market, are characterized by "high supply and demand elasticities." _IXC Rulemaking Order_, 6 FCC Rcd. at 5890. The Commission has likewise found that a substantial market share "is not incompatible with a highly competitive market." _Id._

over 60 percent since 1989. Further, AT&T's market share continues to decline. AT&T's overall share for minutes of use of Basket 1 domestic services has fallen from 83 percent of total minutes in 1983 to 67 percent in 1989, and to 64 percent in first quarter 1992.[22]

The vigor of competition is dramatically underscored by the extensive mass media advertising, direct mail and telemarketing efforts of long distance carriers. These efforts are explicitly directed to customers of Basket 1 services and would not be undertaken unless, as the Commission has found, "customers are willing to switch carriers."[23] AT&T estimates that in 1991, for example, interexchange carriers sent 164 million pieces of direct mail to customers, and made 72 million telemarketing calls. AT&T, MCI and Sprint spent a combined total of $150 million on advertising and telemarketing during the first quarter of 1992 alone. AT&T's

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22 These figures take into account all domestic interLATA calling, both interstate and intrastate, for Basket 1 services, and comparable services offered by competitors, and are based on minutes of use. International traffic is included in the share data presented infra in part A.3. All share information used herein was computed in the ordinary course of business using AT&T records as well as analyses of competitive volumes based on financial and regulatory submissions, public statements, customer surveys and discussions with industry analysts.

23 IXC Rulemaking Order, 6 FCC Rcd. at 5888 (emphasis in original). See also MCI Annual report, p. 3 ("strategically sound investments in our network, in customer service, in our sales force and in advertising . . . enabled MCI to attract new customers [and] retain more of our existing customers").

expenditures account for only 40 percent of this figure. Similarly, in 1991, AT&T's competitors outspent AT&T on advertising, and on telemarketing.

There is thus no legitimate reason to postpone reform, and no need or basis to retain any of the current price cap regulations or regulate AT&T any differently than its competitors.

A. All Basket 1 Services Are Subject to Effective Competition

The NOI (¶ 33, issue 5) implies that it might be appropriate to eliminate price cap regulation for some Basket 1 services, but retain it for other services. There is no basis for such a fragmented approach, however, because AT&T's Basket 1 services are part of a single, unitary market that is subject to vigorous competition.[24] In all events, a service-by-service examination only reconfirms the competitiveness of the market as a whole.

1. Residential Services

When the Commission issued its NPRM in Docket No. 90-132, it correctly recognized that AT&T's MTS and Optional Calling Plan ("OCP") services are "competitively provided."[25] Since then, competition for these services has become even more intense. In fact, competition for the

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24 See Competitive Carrier Proceeding, 95 F.C.C.2d at 562-64.

25 IXC Rulemaking NPRM, 6 FCC Rcd. at 2646.

business of residential customers has accurately been described as the subject of "one of the fiercest marketing wars of the decade."[26]

Numerous long distance carriers, in addition to AT&T, MCI and Sprint, compete to provide service to residential customers.[27] MCI, Sprint, and other interexchange carriers have introduced a plethora of OCPs and other offerings designed for and marketed to residential customers. In fact, AT&T's principal competitors each have developed a variety of offerings structured to appeal to different groups within the residential segment of the market, and respond to customers' particularized needs.

MCI's offerings to residential customers include PrimeTime, PrimeTime Plus, SuperSaver, MCI Anytime, MCI Choice, and its much publicized Friends and Family program. Sprint has countered with plans of its own, including Sprint Plus, Sprint Select, Sprint Day Plus, Sprint Select Day and The Most. All of these offerings provide discounted rates on

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26 Investor's Daily, Long Distance Marketing War Heats Up -- Again, August 19, 1992, p. 4.

27 Examples of other carriers providing long distance service to residential customers includes: Allnet Communications Services, ACC Long Distance American Long Distance, American Long Lines, American Share Communications, ATC Long Distance, Automated Communications, Burlington Telephone, CGI Communigroup Inc., LDDS Communications, CTI/Capital Telecommunications, Inc., Delta Communications, Inc., Long Distance America, LCI International, Metromedia/ITT, RCI Long Distance, R D & J Communications and United Telephone Long Distance.

domestic calls, and some of them also provide discounts on international calls.[28] Interexchange carriers other than AT&T, MCI and Sprint likewise have introduced their own OCPs, such as RCI Long Distance's Frontrunner, ATC Long Distance's Ring America and LCI International's All American plan and Simple, Fair and Inexpensive plan.

Additional evidence of the intense competition for residential customers is the frequency and speed with which new services and rate plans are revised and enhanced in response to counter-offers by competitors. For example, MCI's Friends and Family offering has been changed no less than nine times since its introduction in March 1991, and now includes such features as a "personal 800 inbound option," calling to an international number, an increased calling circle, and so forth. Most recently, MCI responded to an AT&T promotion "within days" by offering Friends and Family subscribers 10 minutes of free calls each month.[29] "Within three days," Sprint announced a promotion for "The Most."[30]

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28 For example, Sprint Select subscribers receive a 5 percent discount on direct-dial international calls, and MCI Friends and Family subscribers receive discounts on calls to one international telephone number. Both MCI and Sprint also offer a variety of international OCPs that provide discounts to specified countries or regions, such as MCI Call Europe and Call Mexico, and Sprint World. <u>See</u> Part I.A.3, <u>infra</u>.

29 Investors Daily, <u>Long Distance Marketing War Heats Up -- Again</u>, August 19, 1992, p. 4.

30 <u>Id.</u>

Any doubt about the willingness of residential customers to switch services is completely foreclosed by the number of such customers who change their primary interexchange carrier each year. Based on AT&T's presubscription records and other data, AT&T estimates that between 12 and 14 million households, or as many as 15 percent of <u>all</u> households in the United States, made a PIC change during 1991.[31] More than one-third of all residential customers have selected carriers other than AT&T to be their primary interexchange carrier within the past three years. MCI claims that between March 1991 and March 1992, it had added 5 million <u>new</u> customers as a result of Friends and Family alone.[32] These data firmly establish that residential long distance users are discerning consumers who are ready, willing and able to evaluate competing offerings and choose among them to obtain the prices and features that best meet their needs.[33]

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31 This figure takes into account only replacements of an incumbent carrier with a different carrier, and excludes selection of an incumbent carrier in connection with a household move, for example.

32 <u>See</u> Business Week, <u>MCI's Winning Pitch</u>, March 23, 1992, p. 36.

33 The willingness of customers to switch carriers, and the vigor of competition for residential customers, are likewise confirmed by the fact that AT&T's share of domestic residential minutes declined from 72 percent in 1989 to 68 percent as of the first quarter of 1992. The degree of customer churn, however, is far more probative of the willingness of customers to change suppliers than market share data, which measure only the net result of the churn.