

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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OFFICE OF THE SECRETARY

In the Matter of)
Price Cap Performance Review)
for AT&T)
_____)

CC Docket No. 92-134

ORIGINAL
FILE

COMMENTS OF
SPRINT COMMUNICATIONS COMPANY LP

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Summary

Continued application of price cap regulation to AT&T's interstate services is both appropriate and necessary. AT&T retains market power in the market segments represented by Baskets 1 and 2, and any decisions about further streamlining of these services should be made only after careful consideration and review of marketplace conditions. Sprint believes that Basket 1 should be disaggregated so that IMTS is separated from other Basket 1 services, to minimize the possibility of cross-subsidization among services facing varying degrees of competition. Sprint also believes that there remain a number of as-yet unresolved 800 data base implementation problems which could present actual and potential competitive disadvantages to carriers other than AT&T. Until these problems are resolved, eliminating or streamlining regulation of Basket 2 services is unwarranted.

AT&T will not be unfairly disadvantaged by continued application of the minimal regulatory oversight represented by price caps. AT&T already enjoys substantial regulatory flexibility, which provides it with more than enough leeway to compete vigorously in the interexchange market.

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COMMENTS

Sprint Communications Company LP hereby respectfully submits its comments in response to the Notice of Inquiry (NOI) released July 17, 1992 (FCC 92-257) in the above-captioned proceeding. Among other things, the Commission has solicited comment as to whether AT&T price cap regulations should be continued after June 1993 (para. 33, Issue 1), and whether the composition of AT&T's Basket 1 should be changed (Issue 5). As discussed below, continued application of price cap regulation to AT&T's interstate services is both appropriate and necessary. AT&T retains market power in the market segments represented by Baskets 1 and 2,¹ and any decisions about further streamlining of these services should be made only after careful consideration and review of marketplace conditions. Sprint also believes that Basket 1 should be disaggregated so that IMTS is separated from other Basket 1

¹The Commission has also found that AT&T retains market power in the provision of private line services, now the only service remaining in Basket 3.

services, to minimize the possibility of cross-subsidization among services facing varying degrees of competition.

I. BACKGROUND.

In CC Docket No. 90-132, the Commission concluded that the market segments represented by AT&T's Basket 1 and 2 services--switched residential and small business services (domestic MTS, international MTS, operator and credit card services, and Reach Out America) and 800 services (800, Readyline 800, Megacom 800, 800 Directory Assistance and other 800)--are not yet fully competitive. The lack of 800 number portability, AT&T's far wider range of IMTS operating agreements with foreign countries,² the absence of a system of billed party preference (which would minimize problems associated with operator services), and lack of universal equal access and lingering consumer misperceptions about quality of service offered by IXCs other than AT&T (which hamper the ability of non-AT&T IXCs to market to some residential and small business MTS customers), all constitute formidable competitive barriers. Because of these remaining barriers to entry and expansion, the Commission found that continued application of price cap regulation of Basket 1 and 2 services was warranted.³

²AT&T had an estimated 80.2 percent share of the IMTS market in 1990 (1990-91 Statistics of Common Carriers, Table 4.7).

³Competition in the Interstate Interexchange Marketplace, 6 FCC Rcd 5880, 5904 and 5908 (paras. 138 and 165) (1991).

The Commission's conclusions regarding the lack of full competition in these market segments not only remain valid, but in some cases are even truer today than formerly. AT&T retains certain competitive advantages accruing from its monopoly heritage, and new impediments to competition have arisen: competition in the calling card market is threatened by AT&T's increasing use of proprietary cards; AT&T is obtaining more favorable accounting rate treatment in the provision of IMTS; and there are numerous 800 data base implementation issues, which, if not promptly and properly resolved, will only improve AT&T's competitive position vis-a-vis other 800 service providers. Until such barriers have been removed, the Commission should continue to apply to AT&T's Basket 1 and 2 services the minimal regulatory oversight represented by price caps.

AT&T will not be unfairly disadvantaged by continued application of price cap regulation to its Basket 1 and 2 services. AT&T already enjoys substantial regulatory flexibility in its provision of price capped services. For example, AT&T:

- was allowed to continue to provide bundled (inbound/outbound) service to customers of Tariff 12, 16 and other tariffed offerings if such customer had signed a final contract for service or begun taking service on April 16, 1992;⁴

⁴See Competition in the Interstate Interexchange Marketplace, Memorandum Opinion and Order on Reconsideration, released April 17, 1992, para. 4.

- may now bundle outbound services with inbound services using "new" 800 numbers, to any customer (id.);

- can offer 800 term discount plans without the requirement that customers be allowed to opt out when 800 numbers become portable, without incurring an early termination liability;

- can offer service to customers under Tariff 15, many of which include inbound and/or international services; and

- may implement Basket 1 and 2 rate changes on 14 days' notice, if such changes are within band and under the price cap limit.

Such regulatory flexibility has provided AT&T with more than enough leeway to compete vigorously in the interexchange market. Indeed, AT&T's share of interstate minutes has stabilized, even increased, over the past several quarters.⁵ Given AT&T's continuing market power, as well as its substantial regulatory flexibility, continued application of price cap regulation to Basket 1 and 2 services is in the public interest.

II. BASKET 1 SERVICES SHOULD BE FURTHER DISAGGREGATED.

Most of the barriers to entry and expansion in the provision of Basket 1 services still exist today. Indeed, new barriers to competition have arisen which, if anything, have

⁵AT&T's share of all interstate minutes was 62.65% in 1990, 62.31% in 1991, and 62.56% in the first quarter of 1992. See Long Distance Market Share Report, released June 26, 1992 by the Industry Analysis Division, FCC, Table 3.

lessened the degree of competition in both the operator services and IMTS market segments.

Sprint agrees with the Commission's tentative view that changes in the composition of Basket 1 services are warranted. As the Commission notes (NOI at 11, fn. 26), the current mix of services which includes both competitive and non-competitive services provides AT&T with the ability to target cost reductions to its more competitive services. Thus, separating such services into different baskets "might well help target productivity gains to [AT&T's] standard schedules" (id.).

However, before the Commission separates AT&T's services into competitive and non-competitive baskets, it must first establish separate baskets for AT&T's domestic and international services. As Sprint has previously explained (Petition for Partial Reconsideration and Clarification filed June 8, 1989 in CC Docket No. 87-313 at 3-9),⁶ there are several significant differences between the domestic MTS and international MTS markets.⁷ IMTS cannot be substituted for any

⁶The relevant pages of Sprint's petition are included as Attachment 1.

⁷Although the Commission declined to establish a separate IMTS basket in its Reconsideration Order (6 FCC Rcd 665 (1991)), it did so primarily on the grounds that the creation of new baskets makes "the process of allocating exogenous costs among baskets more burdensome" (para. 31). Given the fact that as a result of the Commission's decision in CC Docket No. 90-132 several of AT&T's services are no longer under price cap regulation, the cost allocation process becomes less difficult. Indeed, as stated, the Commission now appears to be willing to establish separate baskets for the various services now included within Basket 1.

domestic service. Further, entry by AT&T's competitors into an international market to provide competitive MTS services between the United States and a foreign country is not automatic. Rather, it requires the authorization of the foreign administration and coordinated interconnection with a foreign carrier's network.

Sprint does not contend that it has been unable to secure operating agreements to provide international services. However, securing such agreements often involves extended periods of negotiations. Moreover, even when Sprint or other IXC's have entered a particular international market, their ability to exert competitive pressure upon AT&T is limited. This is so because the provision of IMTS requires that the US carrier and the foreign administration establish accounting rates for the purpose of settlements. AT&T's dominant position and long-time relationships with foreign administrations enables AT&T to negotiate lower accounting rates with foreign carriers. This, in turn, lowers its costs in the provision of service in that foreign market. Although the Commission has stated its "expectation that an accounting rate reduction agreed to by a foreign correspondent will be available to all competing carriers U.S. carriers in a non-discriminatory fashion" (Regulation of International Accounting Rates, 6 FCC Rcd 3552, 3554 (1991)), there are a number of international markets, especially in Latin America, in which the foreign administrations are reluctant, if not totally unwilling, to

make available to Sprint and AT&T's other competitors the accounting rate reductions agreed to with AT&T.⁸

Under the current Basket 1 structure, AT&T need not pass the savings it achieves through lower accounting rates to its customers in those markets or perhaps other international markets. Instead, AT&T can utilize such savings in the provision of its more competitive domestic services, thus adversely affecting competition in the domestic market. Plainly, the creation of a separate IMTS basket would enhance the visibility of AT&T's accounting rate reductions and enable the Commission to ensure that such reductions are passed on to AT&T's customers in the various international markets.

The operator services/payphone market segment is also not yet fully competitive. Largely because of its "first-in" position and size, AT&T has an enormous advantage over other IXCs in the operator services market. AT&T has issued a far greater number of calling cards than any other IXC, and the majority of public phones continues to be presubscribed to AT&T. Thus, AT&T's strategy of converting its customers to an

⁸For example, AT&T's current accounting rate in the U.S.-Ecuador market is \$1.58 per minute; its accounting rate in the U.S.-Peru market is \$1.50 per minute; and its accounting rate in the U.S.-Bolivia market is \$1.66 per minute. Sprint's per minute accounting rates in those markets are \$1.70, \$1.85, and \$1.78 respectively. AT&T enjoys a \$.26 per minute advantage over Sprint in the accounting rates for Saudi Arabia (\$2.10 for AT&T vs. \$2.36 for Sprint). And, although in the U.S.-South Africa market, AT&T and Sprint now pay the same accounting rate (\$1.80 per minute), AT&T's rate was effective nearly 9 months earlier than Sprint's (AT&T's rate became effective on April 1, 1991; Sprint's rate became effective on January 1, 1992).

AT&T-proprietary calling card is making it increasingly difficult for customers of other IXCs to make a call from a payphone presubscribed to AT&T. Furthermore, customers of payphones presubscribed to a carrier other than the customers' preferred IXC must still dial extra digits to reach their preferred IXC.

Although the Commission has required that 10XXX calling from payphones be unblocked,⁹ there remains a serious question whether the Commission will be able to monitor and enforce the unblocking requirements of TOCSIA (Telephone Operator Consumer Services Improvement Act of 1990) and Part 64 of the rules effectively. Access code unblocking will not be fully effective for nearly five years, and enforcement of this regulation will be extremely difficult, given the millions of telephones to which this rule applies. In any event, as noted above, even if 10XXX access is available, customers of IXCs other than the one to which the public phone is presubscribed still must dial extra digits to reach their preferred IXC.

Sprint and numerous other parties have pointed out that ubiquitous deployment of billed party preference¹⁰ is needed

⁹Policies and Rules Concerning Operator Service Access and Pay Telephone Compensation, CC Docket No. 91-35, 6 FCC Rcd 4736 (1991). In this proceeding, the Commission also required operator service providers to establish an 800 or 950-XXXX access number to provide an access method for consumers at aggregator locations where 10XXX access is temporarily unavailable.

¹⁰Billed party preference allows consumers to reach the IXC of their choice using a calling card simply by dialing 0+.
(Footnote Continued)

to promote the public interest and to encourage consumer-focused competition. Despite the clear benefits associated with billed party preference, however, such a system has not yet been adopted, and even after adoption, implementation is expected to take at least several years. Thus, streamlined regulation of operator services should at a minimum await implementation of a system of billed party preference.

III. BASKET 2 SERVICES SHOULD REMAIN SUBJECT TO PRICE CAP REGULATION.

In the instant NOI, the Commission states (para. 10) that "streamlining of Basket 2 will occur in the first half of 1993." However, the Commission has suggested elsewhere that it would consider such streamlining in an orderly proceeding which would encompass record evidence of the state of competition in the 800 market after 800 number portability is generally available.¹¹ Sprint urges the Commission to follow the latter course, and decide whether further streamlining of

(Footnote Continued)

Thus, it "redirects the focus of OSP [operator service provider] competition for public phone traffic towards the end user and away from the recipient of 0+ commissions" (Billed Party Preference for 0+ InterLATA Calls, Notice of Proposed Rulemaking, 7 FCC Rcd 3027, 3029 (para. 13) (1992)).

¹¹Specifically, the Commission stated in CC Docket No. 90-132 (6 FCC Rcd 5905 (n. 233)) that

Because no party has identified any other significant barriers to 800 services competition, we intend to implement, on our own motion or on petition, further streamlined regulation for AT&T's 800 services when 800 number portability is generally available.

Basket 2 services is warranted only after careful consideration of record evidence.

Record-based decision making as to further streamlining, rather than the "expiration date" approach which the NOI appears to contemplate, is clearly warranted. There remain a number of as-yet unresolved 800 data base implementation problems which could present actual and potential competitive disadvantages to carriers other than AT&T. For example, under the current system, any 800 traffic routing changes must be submitted to the resp org for input into the SMS 800 data base. Thus, if a customer decides to switch some or all of its 800 traffic from its incumbent carrier (which will almost always be the resp org for that 800 number) to another carrier, the incumbent receives advance notification of such changes, and has an opportunity (and an incentive), arising out of its role as the resp org, to exert whatever steps it feels are called for to discourage the customer from leaving.¹² AT&T makes it clear that it intends to take advantage of this situation, characterizing any action on its part stemming from advance notification of traffic deletions as being "the

¹² See Sprint's "Petition for Declaratory Ruling and Request for Further Proceedings," filed July 10, 1992, in CC Docket No. 86-10. Sprint suggested that one way to minimize the anticompetitive impact of this situation is to authorize the ostensibly neutral NASC administrator to make traffic routing and resp org changes in existing SMS records if such changes involve a carrier other than the one who presently serves as the resp org.

essence of competition."¹³ Until issues such as this are adequately resolved, 800 number portability may be considered "generally available" only in a technical, but not a practical, sense.

Sprint would also note that various 800 service subscribers have expressed serious concerns about the reliability of the 800 data base system of access.¹⁴ Sprint believes that requisite testing of data base and SS7 components will be accomplished sufficiently by the scheduled March 1993 data base implementation date. However, subscribers' decisions about whether and when to switch to a new 800 service provider will be influenced to a large extent by their perceptions about the data base. Some large end users have told Sprint that they will not switch from their incumbent carrier until they have sufficient experience with the data base to be fully convinced that the transition to a new carrier can be implemented smoothly and seamlessly. Under these circumstances, far from adopting further streamlining of Basket 2 services, the Commission should consider extending both its proscription

¹³ See AT&T comments on Sprint's Petition for Declaratory Ruling, filed August 20, 1992, p. 7.

¹⁴ See, e.g., Comments of the Ad Hoc Telecommunications Users Committee filed March 31, 1992 in CC Docket No. 86-10. Ad Hoc states, for example, that the RBOC/GTE 800 data base implementation plan "does not provide adequate assurance that the transition from the NXX form of access to the database form of access will be ubiquitous and non-disruptive" (p. 1).

on AT&T's bundling of inbound and outbound services, and the 90-day "fresh look" window.¹⁵

Before further streamlining of Basket 2 services is adopted, the Commission should also consider other evidence of AT&T's continuing market power in the 800 services market. For example, AT&T retains a monopoly in the provision of 800 Directory Assistance (DA) service. As the Commission has correctly noted, "[b]ecause [1-800] 555-1212 is generally known to be the interexchange DA code, it would appear that whatever party controls this code is virtually assured of a monopoly or at least significant market power in 800 DA service."¹⁶

The Commission has attempted to minimize the competitive imbalance associated with AT&T's monopoly provision of 800 DA by requiring that this service be tariffed (4 FCC Rcd 2937). However, even a tariff regime has not been entirely successful in offsetting AT&T's advantage. The rates charged to list an 800 number in AT&T's 800 DA data base are excessively high (for example, the initial rates were based on competitors' use of AT&T's 800 DA service, and did not reflect AT&T's own use

¹⁵Subscribers of AT&T's Tariff 12 packages which include inbound service may terminate these packages within 90 days from the time 800 numbers become portable, without imposition of early termination liabilities (see 6 FCC Rcd 5906 (para. 151)).

¹⁶Provision of Access for 800 Service, 4 FCC Rcd 2824, 2846 (fn. 206) (1989).

of this service) and close to the maximum allowed.¹⁷ Moreover, AT&T has exempted itself from the 800 DA tariff, and likely applies different rates, terms and conditions to its own 800 service than apply to its competitors.

As comments filed in CC Docket No. 86-10 indicated,¹⁸ access to an 800 DA service is a necessary adjunct to the provision of basic 800 service. Because AT&T is expected to retain monopoly control over this service for the foreseeable future, it will have a competitive advantage over other 800 service providers as a result of its historic monopoly position.

AT&T's market power in the 800 services market segment is also exemplified by its reported refusal to participate in multicarrier routing arrangements. As Ad Hoc has noted, in cases in which AT&T is the resp org (the large majority of interstate 800 accounts), it "could refuse to cooperate with an 800 Service customer's desire to implement Area of Service routing and other vertical features that would enhance the competitiveness of the 800 Service market."¹⁹ And, insofar as

¹⁷ AT&T recently increased the monthly charge for listing 800 numbers in its DA data base to \$13.40 (Transmittal No. 4236, filed June 30, 1992). The 800 DA rate hikes increased the 800 DA service band index value from 103.6 to 106.4. The upper SBI index value is 106.6.

¹⁸ See, e.g., Comments filed April 4, 1988 by Sprint (pp. 13-14), MCI (pp. 58-59), Teltec (p. 10), and ALC (p. 47).

¹⁹ Comments filed August 20, 1992, p. 2, in response to Sprint's Petition for Declaratory Ruling in CC Docket No. 86-10. See also comments filed March 31, 1992 in CC Docket (Footnote Continued)

Sprint is aware, AT&T has not unequivocally denied such reports. To the contrary, AT&T has committed to responding to customer demands for vertical features necessary for multicarrier routing arrangements, only "if it can do so in a reliable and cost-effective manner."²⁰ That AT&T would even consider refusing to participate in multicarrier routing arrangements is clear evidence of its market power.

IV. CONCLUSION.

Neither the residential/small business (Basket 1) nor the 800 (Basket 2) services market segments is yet fully competitive. AT&T retains certain monopoly-endowed competitive advantages and already has substantial regulatory flexibility even in the provision of Basket 1 and 2 services. Under these

(Footnote Continued)
86-10 by Ad Hoc (pp. 19-30, emphasizing the importance of the carrier selection by service area (CSSA) feature in stimulating competition in the 800 services market) and ICA (p. 8, also noting that without CSSA, "the basic pro-competitive purposes of the 800 data base may be entirely frustrated...").

²⁰ AT&T comments filed August 20, 1992, p. 2, in response to Sprint's Petition for Declaratory Ruling in CC Docket No. 86-10, p. 3, n. 2.

conditions, the Commission should at a minimum continue to apply price cap regulation to AT&T's Basket 1 and 2 services.

Respectfully submitted,

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Attachment 1

period in which they are introduced. These new services must be shown to be in compliance with a slightly modified version of the net revenue test used to evaluate optional calling plans (id. at paras. 518-529).

While a system of price cap regulation for AT&T is superior in many respects to rate of return regulation, the specific plan adopted in the instant Order needs to be amended so that it will more effectively promote consumer welfare. Specifically, US Sprint recommends that international MTS service be placed in its own separate basket; that standard tariff cost support and market rules rather than the net revenue test be used to evaluate new services (and that repriced services be subject to a separate cap); and that the average variable cost standard not be used to assess the reasonableness of below-band rates. In addition, US Sprint requests that the Commission clarify what costing methodology AT&T should use to ensure "reasonable" cost allocations for those services not subject to price cap regulation, and that the Commission direct AT&T to provide the revenue, expense and investment data used to justify non-price cap services in the same level of detail as is required for AT&T's ARMIS reports. Each of these topics is discussed below in greater detail.

II. INTERNATIONAL MTS SERVICE SHOULD BE PLACED IN A SEPARATE BASKET.

The system of baskets and bands adopted in the instant Order was designed to maximize economic efficiency and

"minimize the possibility of cross-subsidization and predation...and...foster competition that benefits all ratepayers" (id. at para. 359). In attempting to balance these public interest goals, the Commission relied upon three criteria in deciding which services would be included in which basket: substitutability (degree of cross-elasticity among services); degree of competition in the provision of component services; and ease of administration (i.e., services should be grouped so as to simplify administration of the allocation of adjustment factor changes).

By each of these criteria, international MTS ("IMTS") should be placed in its own separate basket rather than included in the residential/small business basket. First, IMTS is not a substitute for any of the other services contained in this basket. Obviously, a customer who wishes to place a call to an international location cannot achieve the same result (speak to the same party or send data to the same location) by instead placing an interstate call. Moreover, unlike the domestic services contained in the residential/small business basket--which, with the limited exception of operator assisted and credit card calls, are interchangeable services whose primary distinguishing characteristic is the difference in rates--IMTS has unique technical, financial and administrative characteristics. Provision of IMTS requires authorization from a foreign government agency, the granting of which is strictly limited; coordinated interconnection with a foreign carrier's network; the payment of international accounting rates; and the use of some facilities which are physically separate (e.g.,

transoceanic cables) from those facilities used to transport domestic calls. In addition, a customer calling an international location pays different rates, is subject to different time of day calling periods, and employs a different dialing pattern, than does a customer making a domestic call.

Second, it is clear that there is currently only limited competition for the provision of IMTS. As noted above, foreign PTTs grant only a limited number of operating agreements to US carriers, and only AT&T has operating agreements with all foreign governments to provide service between the United States and other countries--a situation which the Commission readily acknowledges constitutes an important barrier to full competition in the provision of international services (Order at para. 371). US Sprint and other carriers lack these agreements to a large number of foreign countries and must resell AT&T's services in order to offer universal international calling. The existence of resellers is not dispositive of true competition since the reseller must rely upon the underlying carrier for facilities, and the reseller's rates and earnings depend on the rates charged by the underlying carrier.¹ However, unlike the situation for

¹Even proponents of the full deregulation of AT&T argue that services which are not fully competitive should be
(Footnote Continued)

provision of residential MTS services, where AT&T's first-in advantages provide it with an entrenched market position, the factors limiting IMTS competition may be expected to diminish over time. If, as expected, IMTS becomes increasingly competitive, it should be placed in a separate basket to prevent its cross-subsidization with revenues from the less competitive residential MTS services.²

Third, IMTS should be placed in a separate basket because such action would enhance the visibility of cost change flowthroughs. The Commission and other interested parties have emphasized the importance of allocating cost changes to the appropriate service on a cost-causative basis to protect against excessively high rates on less competitive services being used to finance unreasonably low rates for more competitive services (see, e.g., Order at paras. 259,

(Footnote Continued)

placed in a separate basket. For example, Haring and Levitz state that "[a]pplying the regulatory scheme adopted in the price cap docket to our proposal would require each "core" service [i.e., those which are not fully competitive] to be in its own basket, that is, each core service would be individually capped." (See "What Makes the Dominant Firm Dominant?" by John Haring and Kathleen Levitz, Office of Plans and Policy Working Paper No. 25 released April 27, 1989 at p. 23.) Under this logic, international MTS should be placed in its own basket, since it is neither subject to full competition nor a substitute for other services contained in the residential/small business basket.

²It is generally accepted that services facing some, or potentially some, competition should not be placed in the same basket as noncompetitive services, and it is logical to expect that baskets may have to be redesigned to accommodate changes in the degree of competition over time. See "Price Caps in Telecommunications Regulatory Reform," by Leland L. Johnson, Rand Note N-2894-MF/RC, January 1989, at pp. 23, 29.

319, 366, 384). If IMTS were to be placed in a separate basket, it would be simpler (or at least more obvious) to ascertain whether IMTS consumers are receiving their proper share of any cost savings and bearing their fair portion of any cost increases. In contrast, under the existing basket configuration, there is no guarantee that AT&T will properly allocate to IMTS even those costs, such as accounting rate payments, which would appear to be directly and solely attributable to IMTS. That the Commission was concerned about such a situation is evidenced by its statements about the possibility that AT&T might not flow through "windfall profits" resulting from negotiated decreases in international accounting rates, and about "whether foreign administrations would be willing to consider reductions in accounting rates without the assurance that reduced accounting rates would be translated into reduced IMTS rates and thus into increased demand" (id. at para. 259).

The main reason for including IMTS in the residential/small business basket appears to be that the majority of IMTS calls are charged to residential phones.³ The

³Id. at para. 373, citing a letter from G. Morlan, AT&T, to Legal Assistant to Chief, Common Carrier Bureau. While 67 percent of all IMTS calls may be charged to residential phones, it is unclear what percentage of IMTS revenues and minutes of use are associated with these calls. It is also unclear whether this 67 percent figure includes traffic to Canada and Mexico, and whether it has been adjusted to account for business calls made from residential phones because of the time of day differences. If the analysis of IMTS traffic were to include these other factors, residential
(Footnote Continued)

Commission has concluded that, since the other MTS services contained in this basket are used primarily by residential and small business customers, "the sets of customers for each of the services in this basket thus overlap to a substantial degree" (id. at para. 373). In the case of IMTS, this may not be accurate. It seems very likely that a relatively small percentage of residential and small business customers account for a disproportionately large percentage of IMTS usage. Therefore, including IMTS in the residential/small business basket would generate only limited benefits and, as discussed above, increases the likelihood of harm from cross-subsidization.

Even if residential users are the primary users of IMTS, and even if there is "substantial overlap" among users of IMTS and domestic MTS services, the most efficacious way to protect these customers against overcharges on domestic MTS is to establish a separate IMTS basket. This action would minimize the opportunity for the dominant carrier to engage in cross-subsidization and thereby best assure--at little or no additional cost or effort--that IMTS rates are just and reasonable. And, placement of IMTS in a separate basket should have virtually no effect on AT&T's ability to comply with the 1 percent average residential rate limit.⁴

(Footnote Continued)
usage of IMTS services may be considerably lower than 67 percent.

⁴See §61.47(g) of the Commission's Rules (47 C.F.R.)
(Footnote Continued)