Before the
FEDERAL COMMUNICATIONS COMMISSION   FCC 93-326
Washington, D.C. 20554

In the Matter of

Price Cap Performance Review For AT&T	))	CC Docket No. 92-134

FCC MAIL SECTION
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REPORT

Adopted: June 24, 1993 ; Released: July 23, 1993

By the Commission:

I. INTRODUCTION

1. With this Report, we conclude our review of AT&T's performance during the first four years of price cap regulation. This review largely confirms our expectations for price caps: that it represents an improvement over rate of return regulation, combining lower rates with effective incentives for improved efficiency and innovative services. Under price caps, for example, the long distance rates paid by AT&T's residential customers fell by 5.3 percent, despite overall inflation in the American economy of 16.1 percent. Based on the record developed through ongoing monitoring of AT&T and the comments responding to the Notice of Inquiry (NOI) that opened this docket,[1] we believe that the AT&T price cap plan should continue for the basic schedule long distance services.

2. The success of the AT&T price cap plan in achieving the goals the Commission envisioned for it argues persuasively that revisions to any major component are unnecessary. Indeed, such revisions could be counter-productive.[2] Nonetheless, the record suggests that some relatively minor adjustments might enhance the plan's effectiveness. For this reason, we are

generating benefits to the carrier, its customers, and society that might otherwise be lost under rate of return regulation. In place of the complex and difficult administrative oversight of costs and earnings needed to enforce a reasonable rate of return, price caps sets direct limits on a carrier's prices. The effect is to replicate the marketplace forces of competition. Prices are held to a reasonable level by the cap, much as they are by the rivalry among companies in competitive markets. The carrier gains the opportunity to earn higher profits, but may do so only by operating more efficiently or by developing new services that customers want, not by raising overall prices. Moreover, the carrier has little incentive to misallocate costs among services, because its prices are not based upon cost allocations. Rather, the carrier is encouraged to apply its resources in the most efficient manner, as a means of increasing its productivity, and thus its profitability.

4. Another part of the price cap plan is periodic review to assure that it is functioning as intended. We undertook this review for AT&T as originally scheduled, during the fourth year of price caps, through the Notice of Inquiry (NOI) that opened this Docket. As we discussed there, based on our ongoing monitoring of AT&T, price caps appeared to have worked well. Under price caps, rates have fallen, the plan's incentives appear to have helped generate improved efficiency and innovation, and regulatory burdens have declined.[3]

5. In the NOI, we presented monitoring data we have collected regarding AT&T's performance under price caps and requested comment on our assessment of that performance. We requested comments on five specific issues, while inviting commenters to propose other changes they believe would improve the price cap plan. At the same time, we reemphasized our belief that "any proposed modifications should be designed to enhance the plan's ability to achieve the original goals."[4] We also expressly requested that the comments include all relevant information, and that information submitted should be as specific and quantitative as possible, emphasizing that general claims unsupported by the best available hard evidence would likely receive little weight.[5] We specifically requested AT&T to provide additional information regarding its earnings and service quality.[6]

III. Information and Comments Filed in Response to the NOI

6. Eight parties filed comments, and thirteen filed replies (see Appendix A); two studies of the effects of price caps were submitted. As part of its comments, AT&T filed a study prepared by Richard Schmalensee and Jeffrey H.

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[3] NOI, 7 FCC Rcd at 5324.

[4] NOI, 7 FCC Rcd at 5326.

[5] Id.

[6] AT&T filed information in response to this request on July 31 and August 14, 1992. Letters from Joel E. Lubin to Donna Searcy, Secretary, July 31, 1992 and August 14, 1992.

Rohlfs (S-R Study)[7] which finds that "Price caps have been a big success in increasing efficiency and promoting consumer welfare."[8] The study concludes, as a preliminary estimate, that price caps yielded at least $1.8 billion in cumulative productivity gains from 1989 through 1991 in addition to gains in service quality. Moreover, although AT&T benefitted from increased profits, the study finds that the benefits from price caps largely flowed to customers in the form of lower rates. The study concludes that customer benefits in lower prices, apart from the historical productivity growth of 2.5 percent built into the plan, were over 10 times the benefits to AT&T in higher profits; when historical productivity growth is included, customer benefits were 20 times the benefit to AT&T.

7. The other study, filed by Bell Atlantic and Pacific Bell, was prepared by William Taylor. The Taylor study concludes that FCC regulations, combined with changes in prices, incomes, and population were responsible for interstate toll reductions and increased demand that have benefitted customers since the divestiture of AT&T in 1984, and that interstate competition was not responsible for these benefits.

8. In a related matter, on Sept. 1, 1992, shortly before the date for comments in this docket, AT&T requested that the Commission waive price cap regulations for services it classified as "commercial" within price cap Basket 1. AT&T's petition was opposed in comments filed by CompTel, IDCMA, LCI International, MCI, Pacific Bell, and Sprint.[9]

IV. AT&T'S PERFORMANCE UNDER PRICE CAPS

9. As we discussed in the NOI, the monitoring data we have collected under price caps indicates that the plan has worked well. Data updated through the end of 1992 further support this assessment, as illustrated in the charts in the Appendix to this Report. Rates have remained at or below the caps (Chart 1), and have fallen overall. The results are summarized in Chart 2 of the Appendix, displaying both the allowable rates, as measured by the Price Cap Indexes (PCIs), and the actual rates, as measured by the Actual Price Indexes (APIs) . For Basket 1 as a whole, rates have declined by 4.4 percent. For residential customers, the rate reductions have been even greater, 5.3 percent. These reductions were achieved during a period when overall inflation in the economy was 16.1 percent, as measured by the GNP Price Index. Thus, in real terms, at prices adjusted for inflation, residential customers benefitted from

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[7] R. Schmalensee and J. Rohlfs, "Productivity Gains Resulting From Interstate Price Caps For AT&T," September 3, 1992, filed as an attachment to AT&T's Comments.

[8] Id. at 27.

[9] The issues raised by the waiver petition, oppositions and comments will be addressed in the rulemaking proceeding we are initiating today. See Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, Notice of Proposed Rulemaking, FCC 93-197, adopted June 24, 1993.

a 21 percent reduction in AT&T's long distance rates. Overall consumer benefits, including the effect of the consumer product dividend and amounts by which AT&T priced below caps, totaled about $1.8 billion. Appendix, Chart 3.

10. AT&T also responded to the profit incentives generated by price caps. During this period, AT&T's earnings have risen somewhat, but appear to be relatively low for the services that currently remain under price caps. AT&T reports overall interstate earnings of 11.0, 13.7, 13.4, and 12.77 percent in the first four years of price caps, 1989, 1990, 1991, and 1992. Appendix, Chart 4. In response to our request in the NOI for additional information on earnings in the residential and small business services in Basket 1 during the first three years of price caps, AT&T reports returns of 7.0 percent in 1989, 10.0 in 1990, and 7.4 percent in 1991, an average of 8.1 percent.

11. According to the S-R Study, AT&T also did in fact achieve the productivity growth the price cap plan was intended to encourage. Under price caps, AT&T reversed an upward trend in real noncapital costs (labor, materials, rents, and services) while thoroughly modernizing its network. The Study estimates that AT&T's cumulative productivity gains for interstate services during the years 1989 to 1991 were at least $1.8 billion greater than during the pre-price cap years 1986 to 1988, despite slower demand growth caused by the general economic recession that began in mid-1990.[10] As noted above, the Study also concludes that customers enjoyed 10 times the benefits in lower rates, through actual rate reductions and migration to lower cost services, than AT&T did in increased profits. The Study also suggests that customers enjoyed additional benefits in improved quality of service from AT&T's conversion of its network from analog to digital.[11] None of the other comments or replies address the S-R Study or its results, and the assumptions underlying the Study and its methodology may not have been closely examined. The Study does, however, appear to confirm other evidence of the benefits of

and 6(D)). We are requesting further information and explanation of these corrections, and of AT&T's intention to revise the methodology for computing EB&F index figures, in the NPRM we are issuing today simultaneously with this Report.

13. AT&T has continued to introduce new price cap services. In addition to those discussed in the NOI, AT&T has recently introduced services such as: DIRECTory LINK (Tr. 4484), which permits completion of a call to the number provided by directory assistance without the need for a second long distance call; LDMTS Dial Station Access Control (Tr. 4553), which permits customers to control and restrict calling privileges from their telephones; and 800 Speech Recognition (Tr. 4841), which provides call routing options to 800 customers.

14. During this period, AT&T's share of the interstate market declined from 64.8 percent in its last quarter under rate of return regulation to 60.7 percent in 1992. Chart 7.

V. COMMENTS ON THE AT&T PRICE CAP PLAN

15. Most commenters agree with our assessment in the NOI that price cap regulation appears to have worked well, though they differ as to the reasons why. Aside from AT&T itself, the commenters generally propose changes only in details of the plan. In this section of the Order, we review major features of the AT&T price cap plan, as well as the advantages and disadvantages of possible revisions to those features of the plan.

A. Services Subject To Price Caps

1. Background

16. Initially, price cap regulation was applied to three baskets of AT&T's services. Basket 2 included 800 Services, which provide toll-free inbound calling, generally to businesses. Basket 3 included services used by large businesses, such as private network, private line, and data transmission services. In our Interexchange Proceeding,[13] we concluded that the level of competition enjoyed by customers for these services warranted an even simpler regulatory framework. Streamlined regulation was adopted for Basket 3 (except for analog private lines) effective in October 1991. Streamlining of Basket 2 took effect in May, 1993, following the successful deployment of the technology

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[13] Competition in the Interstate Interexchange Marketplace, CC Docket No. 90-132, Report and Order, 6 FCC Rcd 5880 (1991), (Interexchange Order), recon., 6 FCC Rcd 7569 (1991), (Sua Sponte Reconsideration Order), further recon., 7 FCC Rcd 2677 (1992) (Further Reconsideration Order), pets. for recon. pending; see Competition in the Interstate Interexchange Marketplace, Memorandum Opinion and Order on Reconsideration, 8 FCC Rcd 2659 (1993).

for 800 number portability.[14]

17. Basket 1 contains residential and small business services, including the general schedule of interstate and international per call long distance rates. In 1991, in the Interexchange Proceeding, we concluded that the level of competition in Basket 1 service did not warrant removing these services from price cap regulation. For example, AT&T had generally priced Basket 2 and 3 services below the PCIs, the index establishing maximum prices under price caps, evidence that AT&T was setting prices in response to competition, not regulation. In contrast, Basket 1 services had generally been kept at the PCI. This indicated that the price cap limits, rather than competition, constrained prices for these services.

2. Basket 1 Services Generally

18. In its comments, AT&T contends that the Commission should eliminate

B. Productivity Factor

20. In the AT&T Price Cap Order, we set AT&T's productivity growth target at 3 percent per year after inflation. This figure was based on data indicating that productivity growth in telecommunications had historically been 2.5 percent greater than the general economy. We then added a 0.5 percent Consumer Productivity Dividend to assure that AT&T customers benefited from productivity gains expected under the price cap incentives.

21. In weighing the need for change in the productivity factor, a major consideration is whether the carrier's profits are substantially different from its cost of capital, an indication that actual productivity growth is substantially different from the target. However, it is also crucial to avoid changes to the productivity factor that might undercut the incentives price caps seeks to create. Under price caps, the incentive is based on profitability. AT&T is rewarded with higher profits if it achieves productivity growth above the target, and penalized with lower profits if it falls short. For this incentive to work properly, the productivity factor should not be changed either to recapture all profits, or to increase relatively low profits retroactively.

22. AT&T's earnings in Basket 1, according to AT&T's cost allocations and calculations, have been somewhat below its overall earnings and those permitted in prior years under rate of return regulation. However, AT&T's capital costs have also declined during this period as interest rates fell to their lowest levels in many years and its share prices have generally increased. The recession in the national economy was also in part responsible for relatively low growth in long distance traffic during this period, a trend that is likely to be reversed as the economy enters an expansionary phase of the business cycle. As the economy recovers, AT&T's productivity and profitability are likely to increase. As we discussed above, AT&T also chose to price some of its Basket 1 services below the cap, notably OCPs such as ReachOut, which may have reduced earnings for the Basket. In addition, none of the comments propose any change in the productivity factor, or provide any evidence for such a change. In the present case, these considerations support continuing the present 3 percent productivity factor.

C. Service Quality and Network Reliability

23. In the NOI, we discussed the importance of service quality and network reliability in any review of AT&T's performance under price caps. To monitor service quality, we have required AT&T to report its Equipment Blockage and Failure (EB&F) twice a year. To monitor network reliability we have required AT&T (as well as other carriers) to report all significant network outages promptly [16] and we investigate all significant network failures. The Commission also reviews AT&T's requests for authorization to construct lines under Section

[16] Amendment of Part 63 of the Commission's Rules to Provide for Notification by Common Carriers of Service Disruptions, CC Docket No. 91-273, 7 FCC Rcd 2010 (1992).

214 of the Act.

24. In the NOI we requested comments on whether we should increase monitoring of AT&T's network reliability and service quality. In its comments, AT&T contends that additional monitoring is not necessary and argues that "Market forces and AT&T's long-standing commitment to maintaining the highest possible service standards ensure that AT&T's network is constantly upgraded to offer state-of-the-art reliability."[17] AT&T cites as evidence of its quality record the fact that on the busiest day of 1991, the AT&T network handled a record 157.8 million calls, with all but 211 getting through on the first try, a call completion ratio of 99.9999 percent.[18] AT&T also asserts that it has made substantial investment to improve network quality and reliability, including more than $3 billion overall in 1992 and $600 million during 1992 and 1993 on a range of network reliability projects. These include programs to reduce the risk and impact on customers of network cable cuts. AT&T also asserts that any new reporting requirements must apply to all facilities-based interexchange carriers.[19]

25. The Communications Workers of America urge active monitoring of "the adequacy of workforces for customers' demands" and adoption of service quality standards for all regulated carriers. CWA believes "that price cap regulation has been a contributing factor to excessive reductions in the workforce and consequent reduction in the quality of service provided to customers," including AT&T service disruptions such as the Thomas Street power outage. It notes that between 1984 and 1991 AT&T cut its workforce by almost a third.[20] AT&T replies that CWA's concerns are unfounded, agreeing with a Common Carrier Bureau investigation that found no evidence that the outage was attributable to price cap regulation. BellSouth contends that CWA's own statistics demonstrate that most of the downsizing of AT&T's workforce occurred prior to price cap

review.

27. As we discuss in the companion NPRM adopted today, AT&T's revisions to its EB&F Index data and methodology warrant additional scrutiny to assure that the Index serves its intended function.[23] The record in this NOI does not, in our view, present persuasive reasons to consider other changes in our monitoring or reporting of AT&T's service quality. CWA's proposal for monitoring of employment levels would seem to bear only a distant relationship, if any, to service quality or network reliability. Its citation of a one-third decline in AT&T employees since divestiture, for example, bears no obvious relationship to AT&T's service quality or network reliability during that period. The Common Carrier Bureau's thorough investigation of the Thomas Street outage also found no basis for believing that price cap regulation bore any relationship to the power outage there.

28. In addition to price cap service quality monitoring, the Commission has taken an active role in assuring network reliability by all carriers, including AT&T. The Commission's adoption of new rules last year requiring the reporting of significant outages by carriers has laid the foundation for systematic and comprehensive approaches to resolving outage problems.[24] On June 10, the Commission's federal advisory committee, the Network Reliability Council, released a 1,000 page document that analyzes the causes of telephone service outages and provides recommendations as to how outages can be avoided. We expect AT&T's network - as well as other carriers' networks - will become even more reliable as the Council's recommendations are implemented. Finally, the Bell Atlantic and Pacific Bell proposals are essentially requests that we impose new reporting requirements on the LECs' emerging competitors, an issue outside the scope of this review of AT&T's performance under price caps.

D. Treatment of LEC and Other Access Charges

29. Under the AT&T price cap plan, changes in the access charge rates AT&T pays to LECs are considered exogenous, and thus result in adjustments to the AT&T price cap indexes. These rates have generally been declining and have helped produce lower AT&T rates. In the <u>AT&T Price Cap</u> and <u>Reconsideration Orders</u>, we considered proposals by LECs that changes in charges by competing access providers (CAPs) and costs of bypass also be treated as exogenous. The LECs contended that all access costs should be treated alike and that excluding some forms of access from exogenous treatment creates a bias in favor of uneconomic bypass. The Commission rejected this contention. We considered, for example, that the small scale of CAP services and the competition among IXCs would prevent any actual bias, and that limiting exogenous treatment to LEC access cost changes created incentives for AT&T to negotiate efficient access

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23 Revisions to Price Cap Rules for AT&T, CC Docket No. 93-197, FCC 93-327 (adopted June 24, 1993), paras. 114-17. <u>See also</u>, para. 35, <u>infra</u>.

24 Section 63.100 of the Commission's Rules, 47 CFR Section 63.100.

arrangements.[25]

30. In the comments filed in this proceeding, several LECs again urge the Commission to change the AT&T price cap rules to treat LEC and other access charges similarly and to remove the bias that the current rules are said to create. They present several alternative proposals, including a requirement that all CAPs report the same data as LECs for inclusion in the AT&T price cap calculations (Pacific Bell),that the proportion of AT&T costs represented by LEC access costs be frozen at some fixed historical level (SW Bell), or that we eliminate exogenous treatment of LEC access charges (Ameritech).

31. AT&T urges rejections of these suggestions, contending that the LECs fail to show, and cannot show, changes in circumstances since the earlier Commission decisions and that they fail to address various rationales for the Commission's decisions. In addition, AT&T asserts that its services which use or permit its customers to use CAP access are not subject to price caps. It states that it obtains a small amount of dedicated, special access from CAPs for Tariff 12 services that have never been subject to price caps and for large business services that have been removed from price caps. Any switched access purchased by AT&T from CAPs is said to be de minimis.[26] MCI also contends that uniform treatment of LECs' and CAPs' is unnecessary, arguing that the LECs analysis of AT&T's incentives would hold true only if AT&T were a cost-plus monopoly provider, and thus interested only in holding its prices to the highest level allowable within the price cap formula. In the face of price competition, according to MCI, AT&T's prices would be disciplined by the marketplace, not the price cap.[27]

32. On the present record, we find no basis for changing our existing rule for computing AT&T's exogenous access costs. That rule has been effective in passing on actual access charge reductions to residential and small business customers. The only relevant major change in recent circumstances would appear to be our removal of almost all Basket 2 and 3 services from price cap regulation, a change that further reduces the likelihood that any actual bias exists. The services remaining under price caps are in Basket 1, and these services use LEC switched access almost exclusively, as AT&T points out. The LECs provide no evidence that including any de minimis CAP access in Basket 1 exogenous cost changes would affect AT&T's actual price cap indexes, and thus its incentives.

33. The Commission will be considering allowing interconnection to provide switched access in the near future. If switched interconnection occurs, the current method of calculating AT&T's exogenous access costs may create an actual bias, and any negative effects of this bias on competition among access

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[25] AT&T Price Cap Order, 4 FCC Rcd 2873, 3037 (1989), Reconsideration Order, 6 FCC Rcd 665, 673 (1991), remanded on other grounds, F.2d (D.C.

providers and on customers may outweigh the considerations that support the current rules. We anticipate reexamining this issue in connection with the development of switched access competition.

E. Revisions to Price Cap Regulations

34. AT&T asserts that, if price cap regulation continues, the Commission

the market for Basket 1 services has changed substantially since that rulemaking was concluded in October 1991. For example, AT&T's overall market share has remained at about the same level. Moreover, the current regulations still appear to serve the public interest. Rate of return reporting permits monitoring of productivity performance. The current tariff filing rules permit effective review of filings to evaluate their conformance with the price cap rules and the Communications Act. The service band floors do not preclude AT&T from setting lower rates, but only trigger a requirement for additional support information to demonstrate the rates will not be anti-competitive. Overall, these procedures appear to serve the public interest for Basket 1 services, and to impose modest burdens on AT&T. In view of the apparent success of price cap regulation, we see no need or benefit to changing regulations governing these services remaining under price caps.[34]

F. Other Revisions to the Price Cap Plan

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view the change AT&T suggests as unnecessary, and also remain unconvinced that the "like service" test would prove a workable, beneficial replacement.

34 In the Interexchange Order, in recognition of the growth in effective

36. We do believe that the record in this proceeding, as well as changes in circumstances, suggest that relatively minor adjustments in four areas of the AT&T price cap plan may enhance its effectiveness. First, Optional Calling Plans such as ReachOut are currently included in Basket 1 but appear to be subject to more effective competition than other services in that Basket. If this is the case, the public interest may be better served by removing these offerings from the price cap basket and into streamlined regulation. Second, AT&T's waiver petition[35] seeking removal of services used by commercial customers from Basket 1 is based on evidence that these services are also subject to effective competition, and that customers would therefore benefit from moving the services to streamlined regulation. However, the petition raises significant issues, including its use of restrictions on the availability of services to residential and business customers and the reasonableness of the separate rates, terms, and conditions. Third, the Commission's recent decision to remove all 800 Services except for 800

indicate that such review would be useful or necessary.

VII. ORDERING CLAUSES

38. Accordingly, IT IS ORDERED, that the Inquiry in this docket, CC Docket No. 92-134 IS TERMINATED.

FEDERAL COMMUNICATIONS COMMISSION

William F. Caton

William F. Caton
Acting Secretary

APPENDIX A

Comments were filed by:

Aeronautical Radio (ARINC)
American Telephone and Telegraph Company (AT&T)
The Communications Workers of America (CWA)
The Interexchange Resellers Association and the Telecommunications Marketing Association (IRA/TMA)
MCI Communications, Inc. (MCI)
Southwestern Bell Telephone Company (SW Bell)
U.S. Sprint (Sprint)
The United States Telephone Association (USTA)
US WEST Communications, Inc. (US West)

Replies were filed by:

The Ameritech Operating Companies (Ameritech)
AT&T
The Bell Atlantic Telephone Companies (Bell Atlantic)
BellSouth Corporation (BellSouth)
The Competitive Telecommunications Association (CompTel)
The Independent Data Communications Manufacturers Association, Inc. (IDCMA)
MCI
Pacific Bell and Nevada Bell (Pacific Bell)
Sprint
SW Bell
USTA
US West
WilTel, Inc. (WilTel)

AT&T's Petition for Waiver of Price Cap Regulations for New Commercial Long Distance Service Classification

Oppositions were filed by:

CompTel
MCI

Comments were filed by:

IDCMA
LiTel Telecommunications Corporation (LCI)
Pacific Bell
Sprint

Appendix B

Chart 1

AT&T's Price Cap Indexes

(June 30, 1989 – June 30, 1993)

Index, by Basket and Band *	June 30, 1989	July 1, 1990	July 1, 1991	July 1, 1992	June 30, 1993
Basket 1					
Price Cap Index	96.6	94.3	94.1	94.4	94.7
Actual Price Index	98.4	94.3	93.6	94.3	94.1
Residential Index	98.8	94.5	94.1	94.5	93.6
Service Band Indexes :					
Day	95.7	91.8	89.2	91.9	90.3
Evening	99.5	91.4	90.9	89.8	86.9
Night / Weekend	99.6	99.9	102.2	102.2	99.7
International	99.2	94.6	94.5	94.7	95.9
Operator and Card	98.6	98.7	96.4	99.5	104.7
Reach Out America	97.1	88.5	88.4	86.9	83.3
Basket 2 **					
Price Cap Index	96.8	94.0	93.8	94.1	94.1
Actual Price Index	97.3	92.8	93.4	92.5	91.4
Service Band Indexes:					
AT&T 800	98.4	94.7	95.3	92.1	96.9
Directory 800	--	--	100.0	103.6	106.4
MEGACOM 800	92.3	85.3	85.8	85.2	83.3
Other 800	100.0	90.0	89.0	89.0	89.0
READYLINE 800	96.5	90.2	91.1	93.4	91.0
Former Basket 3 ***					
Price Cap Index	98.3	96.7	97.3	--	--
Actual Price Index	96.9	93.1	95.9	--	--
Service Band Indices :					
AT&T WATS	94.8	94.7	99.0	--	--
MEGACOM	92.8	88.6	90.4	--	--
Other Switched	100.2	99.0	97.1	--	--
Other Private Line	99.2	76.1	78.3	--	--
PRO WATS	96.1	91.1	92.8	--	--
SDN	81.9	76.8	77.8	--	--
Voice Grade Private Line	101.2	98.1	102.8	--	--
Restructured Basket 3 ***					
Price Cap Index	--	--	--	102.8	105.3
Actual Price Index	--	--	--	97.9	101.2

* Indexes on December 31, 1988 equal 100. Indexes on June 30, 1989 are those that immediately preceded price caps, which began July 1, 1989. Indexes in this chart for years 1990, 1991, and 1992 do not include promotional offerings.

** On May 21 1993, Basket 2 was restructured to remove all services except Directory 800. Indexes were reset as a result. For purposes of comparability, the Basket 2 indexes in this chart for June 30, 1993 are those immediately preceding the restructure.

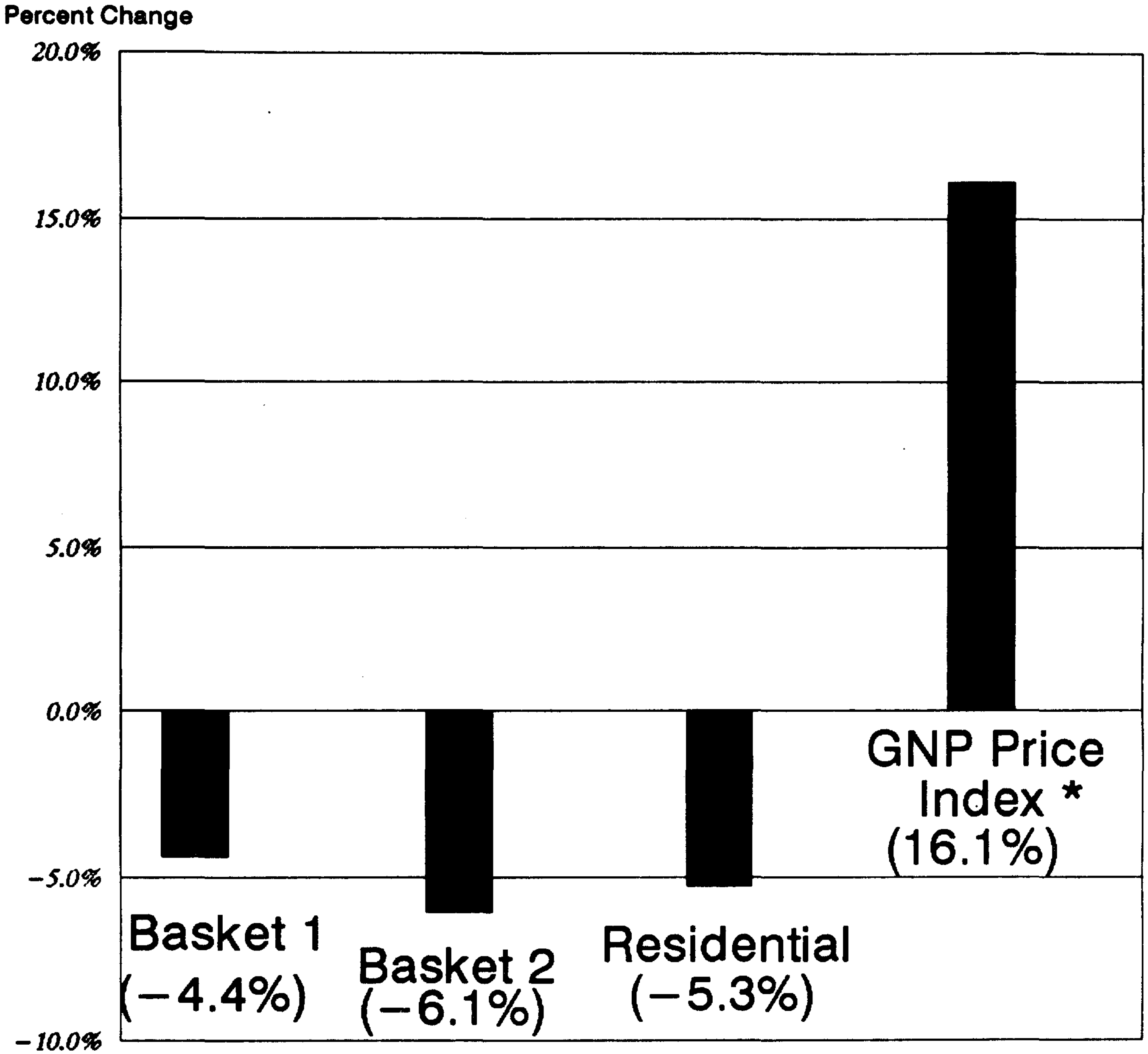
*** In November 1991, Basket 3 was restructured to remove all services except private line analog and indexes were reset to August 1, 1991 equals 100.0.

Source: FCC, Common Carrier Bureau, Tariff Division.

Chart 2

4-Year Change in AT&T's Prices Compared to GNP Price Index

(June 30, 1989 - June 30, 1993)



* This figure compares the first quarters of 1989 and 1993 and thus lags the basket figures by 3 months. More recent data for the GNP Price Index are not yet available.

Sources: AT&T prices are the Actual Price Indexes and the Residential Index from Chart 1. The GNP Price Index is from the Bureau of Economic Analysis, Department of Commerce, Survey of Current Business.

Chart 3

Consumer Benefits from
Below–Cap Pricing and Consumer Dividends

(Dollars in Millions)

Row	Item	Price Cap Year				Total **
		1st	2nd	3rd	4th	
1.	Amount by which AT&T has exceeded regulatory requirements by pricing below the cap	$337	$196	$134	$224	$891
2.	Consumer Productivity Dividend	$86	$169	$265	$369	$889
3.	TOTAL CONSUMER BENEFIT *	$423	$365	$399	$593	$1,780

* Equals Row 1 plus Row 2.
** Equals the sum of the years.

Notes:

1) Earlier versions of this table reflect consumer benefits at a single point during the year. This table has been revised to reflect quarterly data for the price cap indexes and the actual price indexes.
2) For purposes of comparability, Basket 3 benefits incude Basket 3 services, through the fourth price cap year, based on data at the time of the Basket 3 restructure.
3) Promotional offerings are included under price caps beginning in the first quarter 1993 and thus are included in consumer benefits afterwards.
4) Price Cap Years are as follows:
   1st Price Cap Year is July 1, 1989 through June 30, 1990.
   2rd Price Cap Year is July 1, 1990 through June 30, 1991.
   3th Price Cap Year is July 1, 1991 through June 30, 1992.
   4th Price Cap Year is July 1, 1992 through June 30, 1993.

Source: FCC, Common Carrier Bureau, Tariff Division.

Chart 4

AT&T's Interstate Rate of Return

(Dollars in Thousands)

Row	Item	1989	1990	1991	1992
1	Total Revenues	$25,945,517	$25,204,356	$25,672,542	$26,587,150
2	Total Expense & Taxes	$24,719,988	$23,666,092	$24,177,121	$24,988,303
3	Net Earnings	$1,225,529	$1,538,264	$1,495,420	$1,598,846
4	Rate Base (Average Net Investment)	$11,145,915	$11,207,433	$11,151,312	$12,520,508
5	Rate of Return (Percent)	11.00%	13.73%	13.41%	12.77%

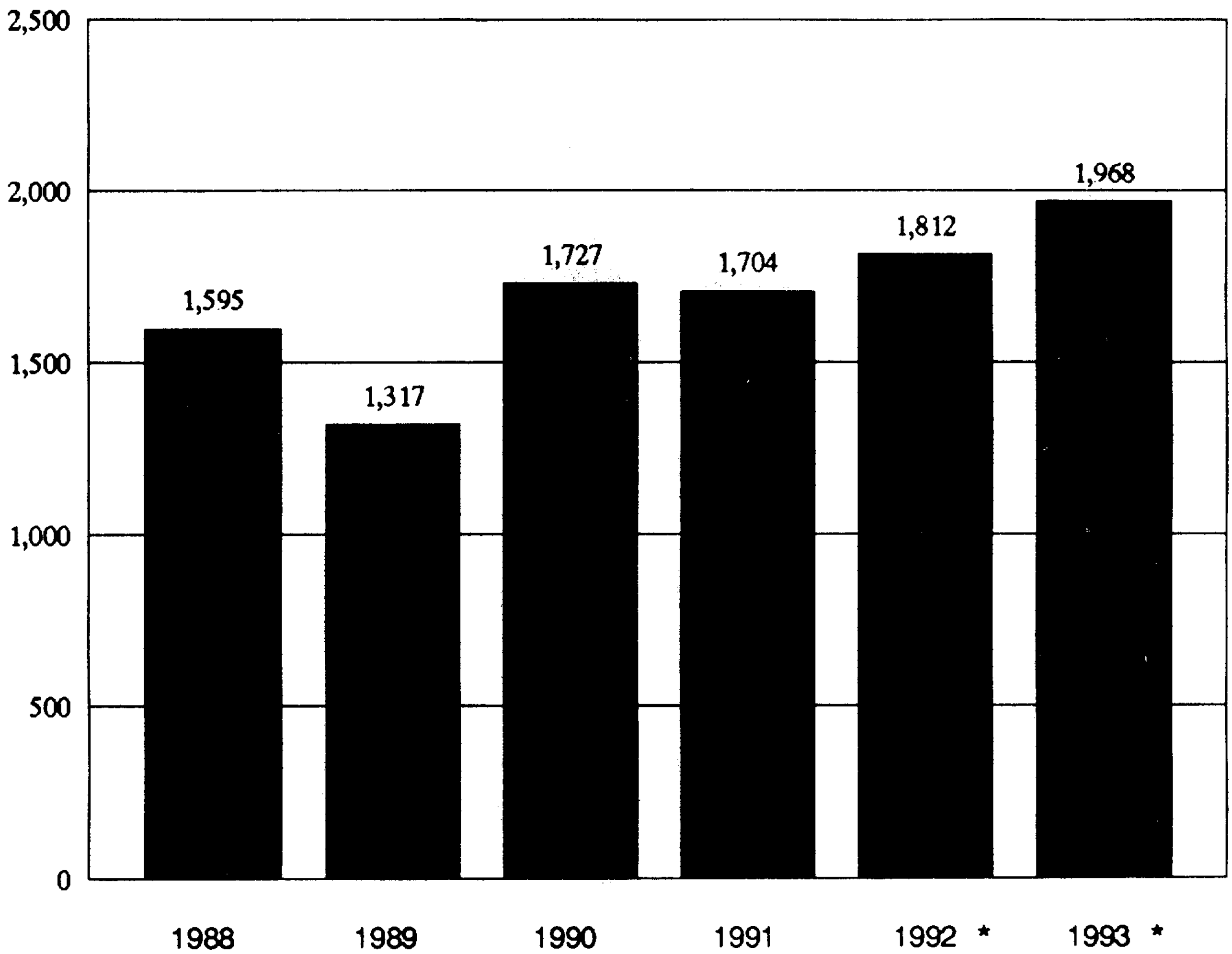
Notes:
Row 3: Row 1 minus Row 2.
Row 5: Row 3 divided by Row 4.

Source: FCC, Common Carrier Bureau, AT&T's Interstate Rate of Return Reports.

Chart 5

AT&T's Circuit Counts

(Thousands)



* Estimate.

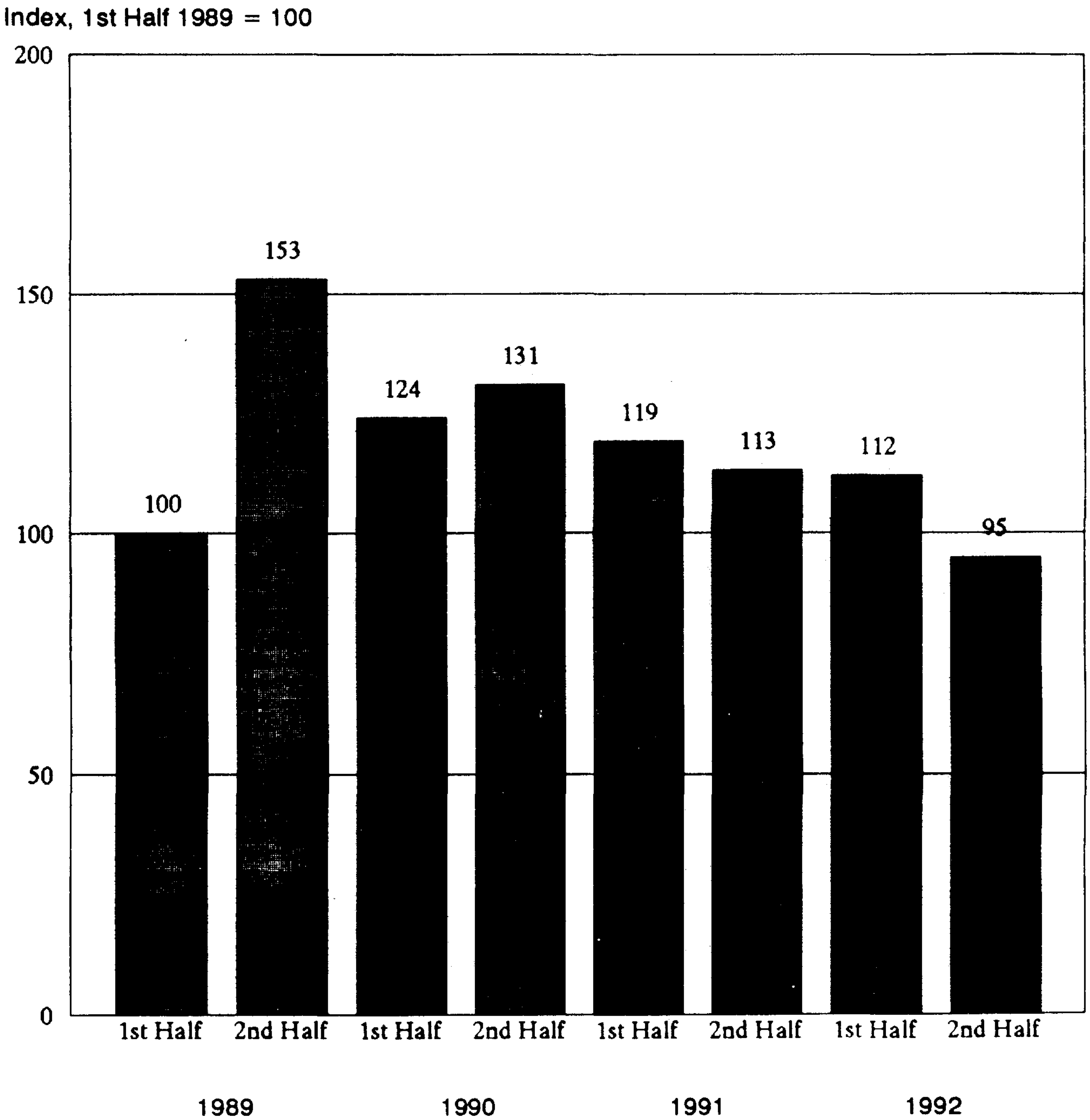
Note: Includes message plus private circuits.

Source: FCC, Common Carrier Bureau, Domestic Facilities Division.

Chart 6 (A)

AT&T's
Equipment Blockage and Failure Index

(AT&T Only, as Originally Reported)



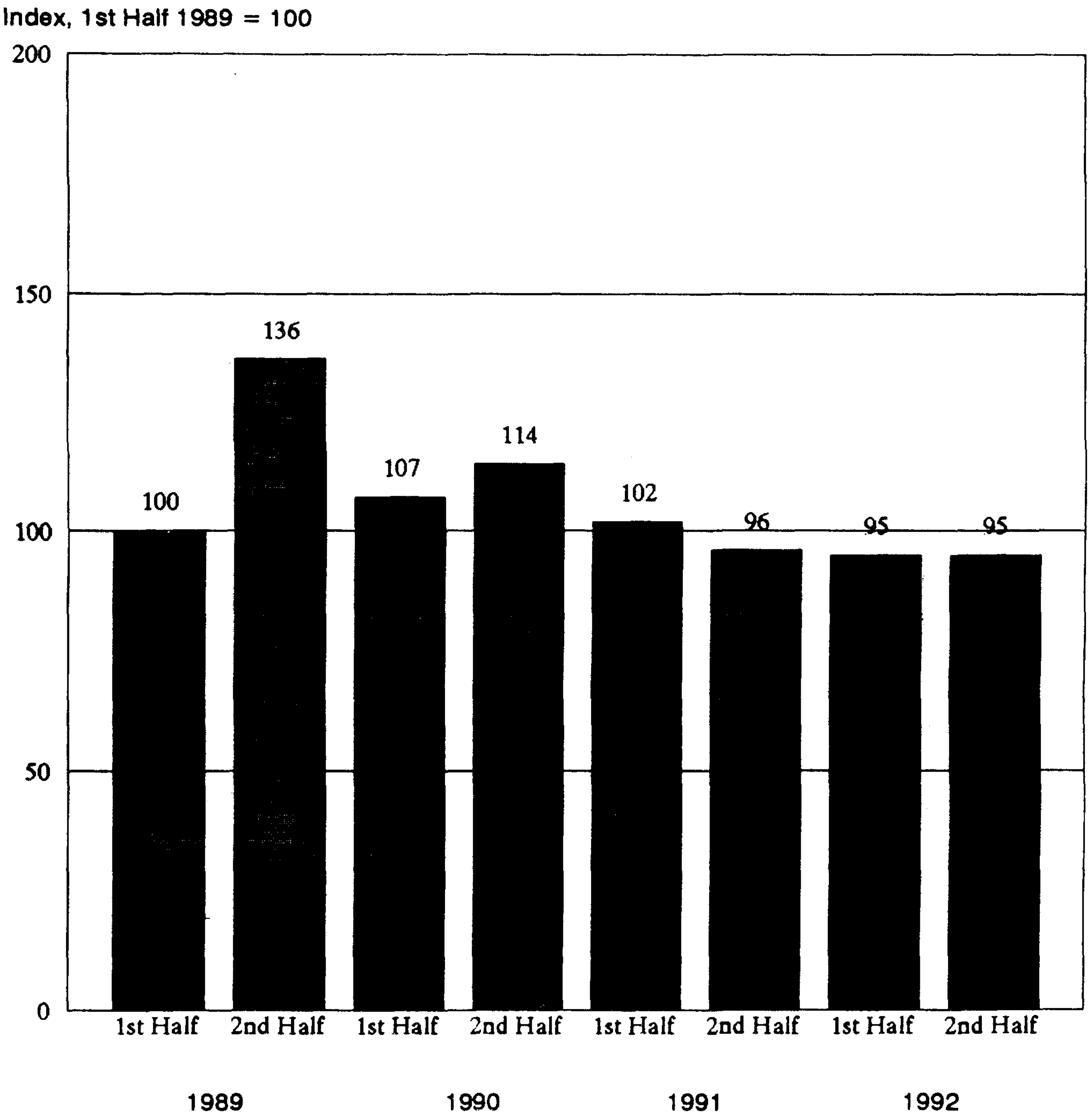
Note: For equal access offices.

Source: AT&T.

Chart 6 (B)

AT&T's
Equipment Blockage and Failure Index

(AT&T Only, as Revised)

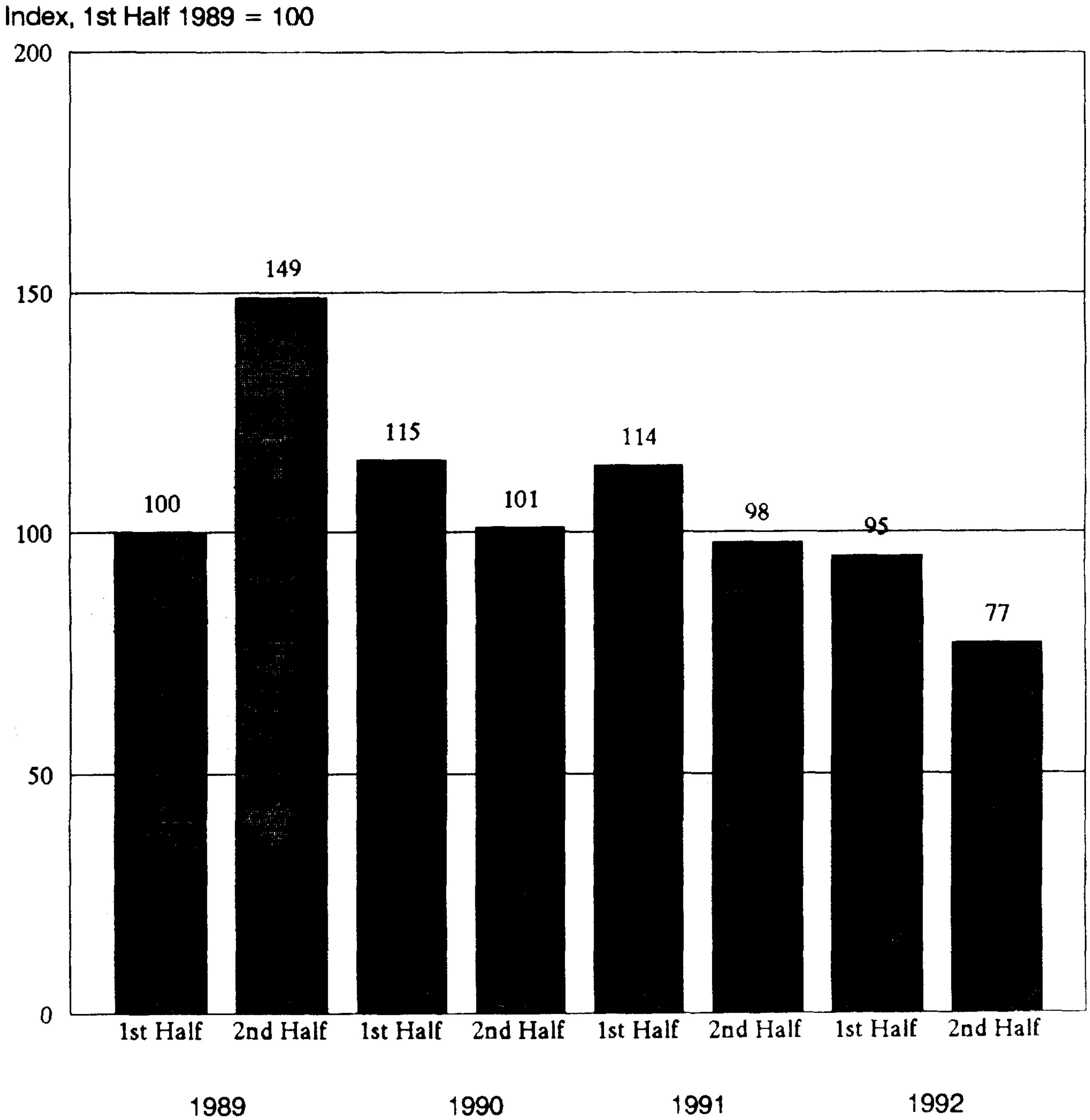


Note: For equal access offices

Chart 6 (C)

AT&T's
Equipment Blockage and Failure Index

(All Factors, as Originally Reported)



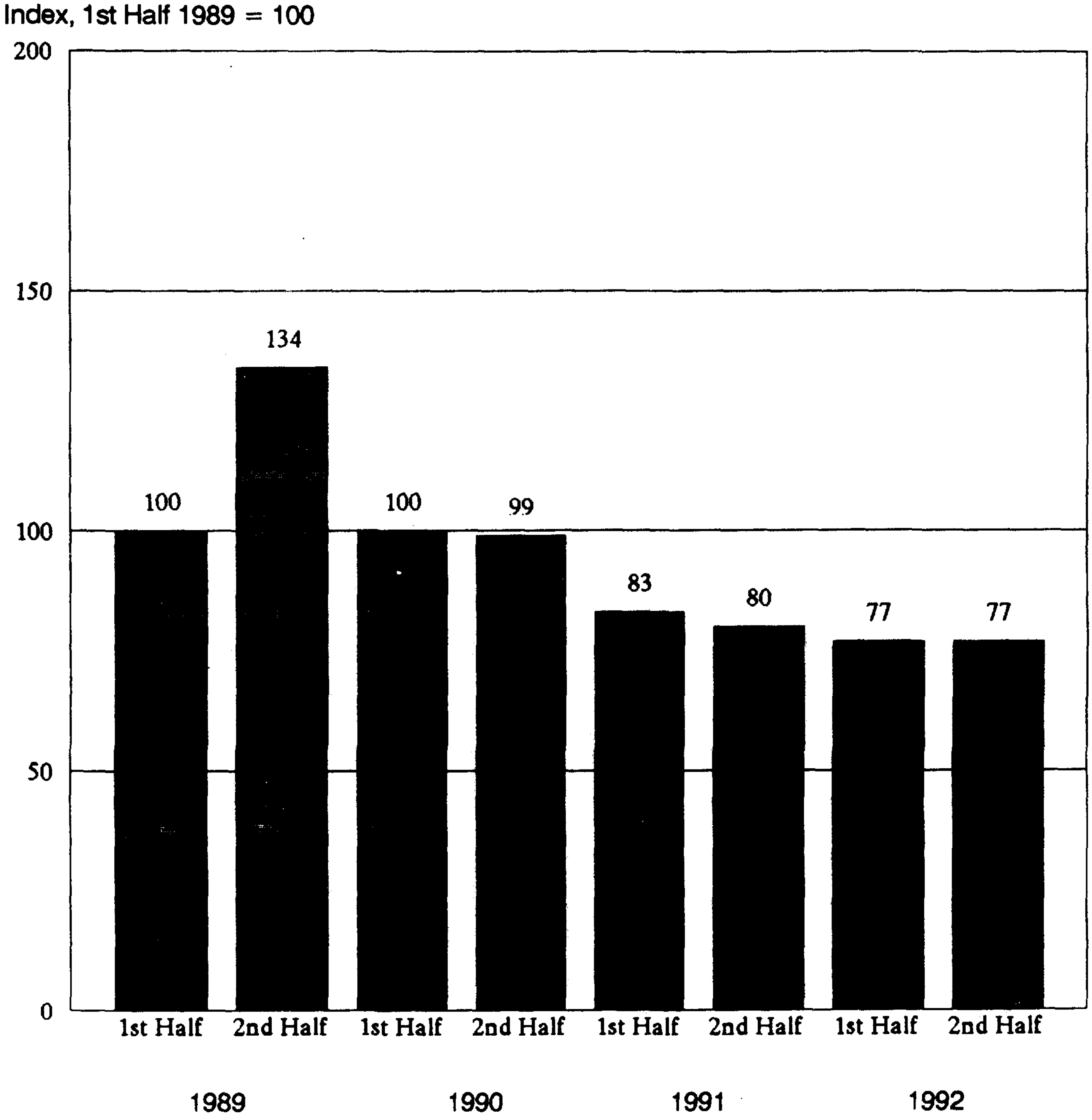
Note: For equal access offices.

Source: AT&T.

Chart 6 (D)

AT&T's
Equipment Blockage and Failure Index

(All Factors, as Revised)



Note: For equal access offices.

Source: AT&T.