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May 10, 1994

Mr. William F. Caton
 Secretary
 Federal Communications Commission
 Room 222
 1919 M Street NW
 Washington, D.C. 20554

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MAY 10 1994

FEDERAL COMMUNICATIONS COMMISSION
 OFFICE OF THE SECRETARY

Re: CC Docket No. 92-77

Dear Mr. Caton:

Today, Michael Cahill and I met with Rudy Baca of Commissioner Quello's office. The purpose of the meeting was to review MCI's position in this proceeding. In particular, we examined the public interest benefits of billed party preference (BPP) versus its cost. The points discussed are already covered on the record. The attached articles were discussed at the meeting. One article recounts the need for billed party preference and the other reports on the sale of a major payphone provider, apparently unaffected by the prospect of BPP.

Sincerely,

Leonard S. Sawicki
 Leonard S. Sawicki

Attachments

cc: Mr. Baca

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Billed Party Preference: The Ultimate Advocate For The American Public

By Mario J. McCash

For the past couple of years, I have had the opportunity to learn a great deal about the OSP/payphone business through employment at a major operator service provider in a fraud prevention capacity. In working for the company's revenue assurance department, I had gained unique insights and understandings regarding post billing adjustments, customer comments/complaints and investigating claims or requests for credit. With the experience I was acquiring in this capacity, I then had a solid background for analyzing and researching the billed party preference proposal. I studied the merits of BPP carefully and thoroughly. Interestingly enough, virtually all of the OSP/payphone industry opposes BPP, yet I know by direct association that most of the more vocal opponents of BPP have never taken the time to study or read the proposal itself. The more I learned and understood, the more I realized BPP is the strongest advocate for the consumer and for EVERYBODY in the telecom industry. I would now like to outline why and how I came to this conclusion, while working for and in the heart of those who oppose it most.

issue of BPP. Billed party preference is the protective mechanism from alternative service providers that charge excessive prices for basic 0+ services. The general public does not know the rate difference OSPs charge versus the rates from the major carriers. If they did, they would simply not use the OSP network to complete a call, they would all dial around. If this is not true, then why do trade associations claim BPP will put many OSPs and COCOTs out of business?

Examples

I know some independents charge more than \$9 per minute for local calls on BOC calling cards of Illinois. In Texas and New Jersey, rates vary from \$6 to \$8 per minute. In one OSP network that I am familiar with, the average 0+ call on a BOC card is approximately \$5 per minute. I have seen customer bills with eight calls for a total of 12 minutes for local traffic on a local exchange calling card in excess of \$80.

In the OSP, prices are set by BOTH the customer-owned coin-operated telephone company or client company and the OSP. OSPs have defended themselves by asserting it is the COCOT that set the rates. That is entirely untrue.

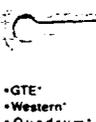
The rate structure is designed in concern by the COCOT

Rates

Rates, in my estimation, is the largest and most important

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and OSP so that the profit margins enjoyed by the OSP and the COCOT is acceptable by both parties. There are other factors in determining rates, but rates are not decided solely by one party or another.

Personally, it was very difficult to explain, justify, rationalize and defend company rates to the irate customer, who was convinced that he was being taken by the OSP/COCOT. How do you calm a customer down when they were charged \$9.37 a minute (plus tax) for a local call on a LEC card?

BPP will reduce (and perhaps eliminate) the anger, frustration, emotional/mental/financial hardships customers face when they are forced to deal with the problems these excessive rates cause them. Many customers pay their bill, although bitterly. The excessive rates have caused an avalanche of burden to the PUC/PSCs and the FCC in dealing with the magnitude of consumer complaints regarding rates from OSPs. OSP/payphone customer service and billing centers spend a great deal of their time dealing with requests for rate adjustments. In fact, some OSP/COCOT companies offer one-time rate adjustments as a matter of permanent policy because of the excessive amount of customer complaints. In some cases, as post billing adjustments, rate adjustments (in terms of dollar amounts) are the number one adjustment the OSP suffers, even more than fraud or deny all knowledge adjustments. Another noteworthy issue is that many customers don't know that OSPs offer one-time rate adjustments, and being financially unable to pay their artificially high phone bill, they DAK the call, or falsely state

the OSP traffic on their bill is fraud.

Billed party preference will provide a great deal of relief to the state and federal regulatory agencies as well as billing customer service centers as the volume of customer complaints and the intensive labor needed to deal with rate adjustments that will significantly diminish under BPP.

Competition

BPP will bring about TRUE competition in the industry. BPP is a pro-competition proposal. The competition will lie with those carriers that customers choose. It will force alternative billing service providers to improve service and offer fairer, competitive rates in order to survive, win and retain a customer base. OSP/payphone companies simply don't have repeat customers. If the OSPs and COCOTs go out of business under BPP, it will be due to their failure to adapt and change to meet the demands of the ever evolving telecom marketplace. Independent telephone service providers will need to provide the kind of quality service and pricing customers would CHOOSE, after being fully informed about the company, its products, services and rates.

Equal Access

There is still a great deal of confusion among customers regarding access codes, dial around and the difference between a major carrier and the OSPs. BPP will eliminate the need to dial 800 access number, 950 numbers and 10XXX dialing in

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order to route their call to the carrier of their choice. Many customers do not know to do this or do not know how to dial around. That's why there is still traffic on these smaller networks and the rate-gouging complaints continue to grow. Obviously customers would prefer to simply dial 0+ and get the carrier of their choice without having to memorize access codes or dial around numbers. The customer would enjoy peace of mind knowing the rates will be what they choose, accepted and agreed upon. As a result, BPP will restore confidence back into the telecom industry from many consumers, especially those who have been angered by alternative service provider rates.

Those who oppose BPP have not been entirely honest in their assertions. Some independents still block all or some types of equal access dialing and rate gouging continues unabated. Nobody in the OSP/COCOT industry will admit this. They claim customers are sufficiently educated about equal access. How can that be true when it's obvious nobody would choose an OSP with the attendant price structure over a major carrier? The difference in rates is so dramatic that the migration from the OSPs and independents to the major carriers would be virtually 100 percent.

Am I advocating the entire OSP/COCOT industry should vanish? Certainly not. I do think the independents need to become more realistic. BPP will out of necessity improve the OSPs and COCOTs that will be best for the American consumer. In the post BPP environment, equal access blocking no

longer will be a problem, excessive rates will cease and the less than upright telecom entrepreneurs will be forced out of business, which will benefit all of us, especially in terms of industry reputation and consumer confidence.

OSP and independent payphone providers need not leave the telecom business in the post BPP world. They would need to adapt and improve services and products, while providing competitive rates and survival and growth will still be realistic and obtainable. Innovation, creativity, perseverance and hard work will ensure any business' success.

BPP Implementation

Opponents of BPP have argued against this proposal in part because of the cost of implementation. In my opinion, this argument is ridiculous. If telecom companies can afford to make multi-billion dollar deals in purchasing stock for merger aspirations, the cost argument becomes a hypocritical double-standard. BPP cost is not excessive in relation to the revenue earned throughout the telecom industry. I believe the absorption of the cost will be achieved with little or no pain to the companies and its customer. The cost of not implementing BPP is significantly more than the cost of implementing BPP as the benefits of BPP certainly make the investment worthwhile to everyone, especially to the telecom customer.

The BPP implementation project will be good for the industry. It provides an opportunity to telecom companies to work together in an united effort to offer better service to our cus-

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tomers. BPP will improve service and enhance protection for the customers while reducing the risks of fraud, especially in the prison environment.

BPP And Fraud

Certain COCOT companies and OSPs have argued BPP will cause massive amounts of fraud. This is a desperate, pathetic, last-ditch attempt to derail the BPP proposal by those who choose not to improve their service and reduce their inflated rates. By not exercising creative thinking and innovation, they feel unable to adapt and make the necessary changes for improvement in the BPP area. Thus they devote all their energies to defeat BPP while they continue to rate gouge. BPP is not, has not, nor ever will be a fraud issue. It was made a fraud issue by the OSP/COCOT trade associations in hopes of influencing the FCC to rule against the proposal. Last summer an OSP/payphone trade association official presented an issue to a national fraud prevention committee about the potential fraud impacts of BPP in the prison environment. The committee did not agree with this official that there was sufficient evidence of BPP causing fraud problems in the prison environment. The issue was killed. However, this BPP opponent successfully convinced the fraud committee to continue a fraud issue with BPP by modifying the original issue to examine the potential fraud impacts of BPP in general. To this date, the anti-BPP lobby has been unable to articulate legitimate fraud concerns regarding the implementation of BPP to the satisfac-

tion or consensus of this national fraud prevention committee. Every perceived fraud problem presented by the lobbying organizations to this national fraud committee was not accepted, as an answer or solution was immediately identified by the fraud committee members. I believe the OSP/COCOT industry and their trade associations are aware there are no LEGITIMATE fraud concerns associated with BPP, including prisons. The fraud issue was created solely as another vehicle for anti-BPP lobby to promulgate their position. The integrity of some individuals opposed to BPP is suspect by virtue of the actions and deeds they have done in their attempts to kill BPP and influence the FCC.

Summary

It has been shameful the way these opponents have conducted themselves in their determination to continue the status quo. They have chosen not to compete honestly and fairly and as a result, have an enormous volume of customer complaints, which essentially gave birth to the BPP proposals. The OSP/COCOT industry is opposed to BPP, but ironically it is their business practices that created the need for BPP.

Mario McCash is an independent consultant for the telecommunications industry, specializing in fraud prevention.

Editor's note: The viewpoint in this column does not necessarily reflect the opinion of Phone+. Phone+ welcomes your opinion on billed party preference. If you would like to submit an article, please call (602) 990-1101, ext. 128 or 141.



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IDB Communications Agrees to Acquisition Of Peoples Telephone

LOS ANGELES - IDB Communications Group Inc. said it signed a letter of intent to acquire Peoples Telephone Co. in a stock swap valued at up to \$312 million.

Shareholders of Miami-based Peoples, an independent operator of public pay telephones, will receive 1.1 shares of IDB common for each Peoples share they hold. Peoples has 15.8 million common shares outstanding, with an additional 3.1 million shares issuable upon the exercise of outstanding warrants and options; if all are exercised, a total of 20.8 million IDB shares would be issued in the swap.

On the Nasdaq Stock Market yesterday, IDB shares fell 50 cents to \$15, while Peoples shares surged \$3.125, or 32%, to \$12.875.

IDB, the nation's fourth-largest international long-distance carrier with 1993 revenue of \$310.7 million, said the acquisition will allow it to increase its presence domestically. Peoples, which had 1993 revenue of \$121.8 million, has an installed base of 50,000 pay telephones in 46 states, and generates more than 500 million minutes of long distance traffic a year.

"They are also in a number of niches we see ourselves evolving into," said IDB President Edward R. Cheramy. In recent years, Peoples has expanded its business to including correctional-facility telephones, cellular-telephone rentals and pre-paid calling cards.

IDB said it expects the transaction to be completed by the end of the year, pending regulatory and shareholder approvals.
