EX PARTE OR LATE FILED

Bell Atlantic

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MAR 23 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

March 23, 1995

EX PARTE

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

RE: CC Docket No. 94-1

Today, Bell Atlantic is filing the attached written Ex-Parte in the aforementioned proceeding. During recent conversations between Ray Smith and Reed Hundt several issues were raised. The attached letter addresses those concerns.

Please include this letter and the attached into this record as appropriate.

Sincerely,

Maureen Keenan

Attachment

cc: Commissioner Barrett
Commissioner Chong
Commissioner Ness
Commissioner Quello
Kathleen Wallman

No. of Copies rec'd 0+1
List A B C D E

Bell Atlantic

Bell Atlantic Corporation
One Bell Atlantic Plaza
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Arlington, Virginia 22201
703 974-3880

Raymond W. Smith
Chairman of the Board and
Chief Executive Officer

March 23, 1995

The Honorable Reed Hundt, Chairman
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C., 20554

Dear Mr. Chairman:

This letter follow-ups our discussion on price caps. I am concerned that the record has been distorted by some of the parties to this proceeding, and I want to share my views with you directly. Also, I want to respond to some of the specific claims made by the critics of price cap regulation.

I see this proceeding as presenting the Commission with a stark choice between two mutually exclusive paths.

One path leads to a progressive price cap scheme without sharing that will duplicate the incentives and benefits of a competitive market, promote investment in the nation's infrastructure, promote economic growth and job creation, and protect consumers from price increases. This is the path taken by this Commission for both the long distance and cable TV industry, and by an ever growing list of forward looking state regulators. This is the only path consistent with the record and is supported by some of the nation's leading economists -- including the world's preeminent regulatory economist, Professor Alfred Kahn.

Following the other path leads to a regressive plan that marks a return to discredited rate of return concepts that date back to the turn of the century. This path has all the pitfalls of a cost plus system of government that shares the worst traits that government regulation historically had to offer. This path leads to inefficiency, diminished investment, and delays in the introduction of new services. This path is supported by those whose interests are in pocketing the access reductions we provide and in hobbling the local telephone industry while they move aggressively to compete with us in the local telephone business. Their arguments do not stand the light of day.

1. **<u>The Commission Must Continue to Provide Incentives to Invest in the Network</u>**

With a plethora of alternative investment opportunities available, local telephone companies need the same incentives that are provided in a competitive market to make economically efficient investment in an advanced infrastructure, including an opportunity to earn a return commensurate with the risk involved. The duty we owe to our shareholders is to invest their money only in those ventures where this opportunity exists.

Critics ignore the fact that our customers today are paying less and getting more than they could possibly have hoped for under rate of return regulation. From 1991 to 1993 alone, Bell Atlantic's rates fell by $462 million. This is a real price reduction of a full <u>22 percent</u> even before taking the additional reductions for 1994 into account.

Contrary to the claims of our opponents, however, our ability to continue reducing prices while also investing in the network is not without limit.

An illustrative example helps to explain the trade-offs we face. Assume for the moment that the Commission were persuaded here to impose an up-front price reduction of 2 percent and to increase the productivity offset to 4 percent. Both these measures compound year over year, and in the first five years after they were imposed would reduce Bell Atlantic's revenues by over $400 million more than the already significant reductions required under the current plan. To those who would say good, let me point out that this is the equivalent of 100 digital switches or over 1,300 employees. This is exactly the type of stark choice that we confront.

2. **<u>The Commission Should Recognize Competition where it exists and Remove Those Services from Rate Regulation</u>**

It is during the transition to a fully competitive market that a pure price cap scheme is most critical. Bell Atlantic already faces significant and growing access and toll competition for the services regulated by the Commission. Attachment 1 provides quotes from analysts which support these facts. Because our competitors are not required to report market information it is difficult for us to measure the losses to competition. However, Quality Strategies, a consultant firm in telecommunications publishing and research, has extensively studied the state of competition in the Bell Atlantic region. Their study results are displayed in Attachment 2. As you can see the results show that in Philadelphia alone, our competitors have captured some 35% of the known market for DS1 service and their share is increasing. In addition, with the recent collocation rulings in federal and local jurisdictions, the switched access market is also subject to competitive risk. To date, Bell Atlantic has 232 switched access cross-connects.

Clearly, services for which competitive alternatives exist should be removed immediately from any form of earnings or price regulation. As explained by Kahn and others, there can be no dispute that regulation is always a second best alternative to competition; where competition exists, regulation should end. Examples of such services are Interstate InterLATA (Corridor), Interstate IntraLATA, and High Capacity access services where we face established and well financed competition. In addition, our nascent video dialtone services that will compete with established cable TV incumbents, direct broadcast satellites, and others. Ironically, under current rules, cable TV incumbents escape rate regulation where they face competition from video dial tone, but our most competitive services remain subject to the most extensive regulation of any service we offer. These types of one sided regulatory constraints distort the market and jeopardize the very competition the Commission wants to promote.

3. **The Productivity Offset Should be based on sound theory and empirical evidence**

Both the Commission and these parties have long recognized that, if an offset is included in a price cap plan, the "superior productivity measure" for these purposes is total factor productivity.[1] Significantly, the only total factor productivity study in the record here demonstrates that an appropriate offset is 2.6 percent. The author of this study, Dr. Christensen, is the leading expert in the field, and is the same expert relied upon by the Commission to establish an offset for AT&T. You indicated that others have told you that this study relies on fifty year-old data. This is erroneous. For the record, Dr. Christensen's study only measures data from the post divestiture period. As the

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[1] In fact, both AT&T and MCI previously argued that the AT&T price cap plan should not contain any offset, and the Commission declined to apply an offset to the cable TV industry.

Commission has accepted, long term average total factor productivity avoids the swings in productivity that occur over shorter periods. Moreover, any potential changes from the historical pattern in total factor productivity growth are addressed by an industry proposal to adopt a rolling average that will automatically incorporate any changes in productivity levels, whether up or down.

Other parties submitted so called "productivity studies", which are based either explicitly or implicitly on archaic rate of return principles. The one common feature is a notion that the Commission should recapture the efficiency improvements telephone companies achieved under price caps by using earnings measurements to establish a new offset. The effect of doing so would be to negate the very incentives price caps are designed to create, and require cost reductions well in excess of efficient levels -- reductions that can only mean foregone infrastructure investment and further job cuts.

4. **<u>AT&T's True Math</u>**

During our conversation you noted that AT&T showed you numbers that suggest that they have flowed through all of our access charge reductions and more. This analysis is wrong and misleading because it is based on average revenues per minute and not on what customers actually pay. Using average revenue per minutes is like claiming that you never broke the speed limit because you averaged 55 mph during your trip. Attachment 3 is an explanation of why average revenues per minute cannot be used to determine what prices customers are being charged for service.

Attachment 4 is an article from the March 20, 1995 Wall Street Journal article that reports that two-thirds of U.S. households are not enrolled in any discount plan, and pay AT&T's higher and increasing tariffed rates. Attachment 5 is a summary of an analysis of long distance bills of 6,000 customers which confirms that nearly 70% of toll customers are not on a discount plan. Attachment 6 contains quotes of investment analysts regarding competition and pricing in the long distance industry.

5. **<u>Earnings</u>**

Our competitors have claimed local telephone companies are "overearning," and should be required to cut their prices across the board. If earnings are judged against a correct economic measure of returns, local telephone companies have been significantly "underearning" during the price cap period. As demonstrated by the expert economic testimony of Dr. Vander Weide, the average economic return earned by Bell Atlantic and other local telephone companies between 1991 and 1993 is only 8 percent -- well below the Commission's benchmark for the same period.

Some parties argue that the local telephone companies have overpowering financial strength because their Earnings Before Interest, Taxes, Depreciation, and Amortization ("EBITDA") are larger than the EBITDA of other industries. This is simply not true, as any competent financial analyst would attest. EBITDA is not a measure of profitability because it ignores a number of significant operating expenses, most notably, depreciation and amortization expenses. Because local telephone companies are highly capital intensive, our depreciation and amortization expenses are very high, and ignoring them would be very misleading.

If you take all these expenses into account by looking at shareowners' annual returns, the Bell companies' returns have been consistently lower at 6.4 percent than the long distance carriers at 16.9 percent or even the Standard & Poors' 500 at 11.7 percent, as information from the Bloomberg financial database shows.

6. Pure Price Caps Will Lead to Less Regulation

In addition, adopting pure price caps will allow the Commission to take significant steps to streamline the regulatory process and to truly reinvent government. For example, pure price caps eliminate the need for a variety of regulatory requirements designed to counter the distorted incentives created by rate of return regulation in the first place. These range from an archaic three year depreciation prescription process to burdensome cost accounting and allocation requirements that distort the incentives that would be provided by a competitive market.

Like the weary traveler in Robert Frost's famous poem, the Commission is standing at a crossroads with a choice between two paths before it. One path leads forward to a progressive regulatory scheme that will benefit consumers and the economy, and is the only path consistent with concrete economic evidence and with sound policy considerations. The other path leads backward to a regressive regulatory scheme that benefits a few long distance carriers at the expense of consumers and the economy.

Like that weary traveler, the choice made here by the Commission will make all the difference. I firmly believe you share our vision and will lead us forward toward the next century.

Sincerely,

Ray Smith

Attachments

cc: Commissioner Barrett
Commissioner Chong
Commissioner Ness
Commissioner Quello
Kathleen Wallman

12/8/94 Paine Webber Richard Klugman

The flip side however, is that regulators are becoming increasingly friendly to telco competitors. Regulators (especially at the FCC and in large Northern states such as New York and Illinois) believe local competition is "manifest destiny" and are tilting the rules away from the 99+% market share telcos in favor of fledgling competitors. We are skeptical that the upside of a potentially looser regulatory environment will more than offset the painful impact of competition, which will result in market share losses and compressed margins.

We see five potential competitors to the telephone industry: Competitive Access Providers (CAPs); cable companies; long distance carriers; wireless; electric utilities. Of these, only CAPs and CAP affiliates of cable companies are competing today for basic local telephone service. Cable companies, with high capacity wires installed in 60% (and passing 95%) of U.S. homes, have the potential to be major competitors in the residential segment, although they are likely to face many technical and regulatory hurdles and business plans will be difficult to justify since residential telephony is a low margin business.

Long distance carriers, which currently spend $27 billion to telcos for local access, are natural competitors to telcos and vertically integrating into local service and can capitalize on strong brand recognition. Cellular, with $15 billion in annual revenues and a high pricing premium for portability, is today a complementary service rater than a competing one to landline telephone; we expect wireless to cannibalize landline in the long run, as the premium price of portability diminishes.

As telco's core business becomes more competitive, regulators will give more leeway to fight back, but it is our belief that telcos will need to bleed significantly (roughly 10-15% market share loss) before regulators give them any band-aids.

2/10/95 Merrill Lynch Dan Reingold/Jessica Reif

Base case (model) of Sprint/cable entry into telephony) assumes wired cable telephony achieves 20% residential household penetration and PCS achieves 5% population penetration by 2004.

2/23/95 Salomon Jack Grubman

Although the joint venture [Sprint and cable] does have some downside potential, it could become profitable within five years providing the following factors fall into place: (1) over the next five years wireline penetration progresses at a rate of 15% of the cable homes that are telephone ready (we assume 80% of the cable homes will be telephone ready); (2) PCSA penetration is approximately 2%-3%; (3) revenue per residential wireline customer is $45 per month; and 94) revenue per wireless customer is $60 per month. Further, over a ten-year period we believe that the venture can approach EBITDA margins in the low 30's with wireline penetration of nearly 25% wireless penetration approaching 6%-7%.

3/11/95 Legg Mason Ted Alexander

We expect Bell Atlantic to face intense competition in its region before many of the other RBOCs or GTE.

In view of a weaker-than-national average economic climate an increasingly competitive operating environment, less-than-group average cash flow growth, and limited potential for upside share appreciation relative to our $53 price target, we lowered our investment rating from own-2 to neutral-3.

QUALITY STRATEGIES

Telecommunications Publishing, Research and Consulting

Telephone (202) 333-0300 *Facsimile* (202) 333-0441

March 22, 1995

Mr. Mark Henry
Bell Atlantic
1320 N. Courthouse Road
Arlington, VA 22201

Dear Mr. Henry,

Last year, QUALITY STRATEGIES performed analysis which indicated that in competitive metropolitan areas of Philadelphia, Pittsburgh, Baltimore, and Washington, D.C., Bell Atlantic's DS1 equivalent market share among end-users was as follows:

BELL ATLANTIC MARKET SHARE (First Quarter, 1994):

	1994 Results
Philadelphia	65.9%
Pittsburgh	70.6%
Baltimore	75.3%
Washington, D.C.	72.9%

While 1995 analysis is currently in process, preliminary results indicate that Bell Atlantic's losses are increasing over last year in each of these four competitive metropolitan areas.

I am available to discuss these results at your convenience. Please contact me on (202) 333-0300.

Very truly yours,

Douglas N. Young

Douglas N. Young

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COMPETITION IN THE INTERSTATE LONG-DISTANCE MARKETS: RECENT EVIDENCE FROM AT&T PRICE CHANGES

An Examination of AT&T's Methodology and Conclusions Regarding Interstate Long Distance Prices

National Economic Research Associates, Inc.
One Main Street
Cambridge, Massachusetts 02142

William E. Taylor
Study Director

March 23, 1995

An Examination of AT&T's Methodology and Conclusions
Regarding Interstate Long Distance Prices

AT&T's method is critically flawed and no useful conclusions can be drawn from the calculations described in its March 20 and March 21, 1995 presentations. AT&T's analysis focuses on changes in its average revenue per minute (ARPM) rather than changes in its price. AT&T has acknowledged that it is the shift in the mix of services that has caused the reduction in its ARPM:

> Although we raised prices on basic services over the past two years, the shift in the mix of services that customers selected reduced average per-minute revenues in 1994 and 1993.[1]

Thus, ARPM can change for reasons unrelated to price changes or competitive pressure such as changes in the mix of products sold.

Suppose, for example, on Monday, the Celtics are in Portland, and 10 interstate toll calls of identical duration originate in Boston.

9 calls to Portland at $0.30 per minute
1 call to New York at $0.10 per minute
Revenue = (9 x $0.30) + (1 x $0.10) = $2.80 Total Minutes = 9 + 1 = 10
ARPM = $2.80/10 = $0.28

On Tuesday, the Celtics play the Knicks and the calling distribution changes:

1 call to Portland at $0.30 per minute
9 calls to New York at $0.10 per minute
Revenue = (1 x $0.30) + (9 x $0.10) = $1.20 Total Minutes = 9 + 1 = 10
ARPM = $1.20/10 = $0.12

Average revenue per minute drops by more than 50 percent from Monday to Tuesday. No price changed, and it was the basketball schedule--not interstate toll competition--that caused the reduction in ARPM.

Changes in ARPM are simply not valid measures of changes in price. A comparison of ARPM and a traditional price index is presented in some detail in our recent United States Telephone Association (USTA) *ex parte*.[2] The fact that ARPM does not measure price changes should be clear from the Bureau of Labor Statistics' Consumer Price Index which shows that prices consumers pay for interstate toll service are increasing sharply in recent years, not

[1] *AT&T Annual Report* 1994, p. 24.

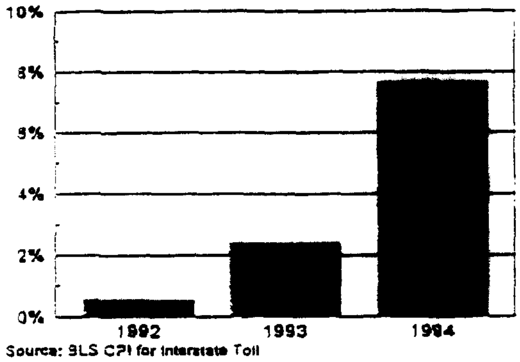
[2] USTA *ex parte*, filed March 16, 1995, pp. 8-14.

decreasing. See Figure 1. Moreover, these price increases are not limited to the basic tariff rate:

> Residential users in almost every category have been hit: Those who don't subscribe to a special discount plan, many who do, and those who use special services such as calling cards, operator assistance and other long-distance features now pay more...A study by the Telecommunications Research and Action Center, a Washington-based consumer group, shows the average price of 23 leading discount calling plans rose 5% in January from last August.[3]

Thus changes in ARPM are different from changes in price. Which is the proper measure to determine if access charge reductions have been passed through to customers?

Figure 1
Average Increases in Interstate Toll Prices



The AT&T method is wrong because changes in ARPM are not the relevant measure of (i) the effectiveness of competition in the market or (ii) the degree to which reductions in access charges are passed through to consumers. Competition is ineffective because a large portion of the long-distance market experiences increases in the prices they actually pay for service, despite the reduction in AT&T's ARPM. Reductions in access charges have not been passed through to a large portion of the long-distance market (despite AT&T's claimed reduction in ARPM net of access charges) because--as the NERA studies show--the reductions in AT&T tariff rates have not equaled the reductions in its access charges, and most customers simply pay tariff rates.[4]

Thus AT&T's assertion that reductions in its ARPM exceed reductions in its access charges misses the point. Roughly two-thirds of U.S. households pay tariff rates for long-distance service, and these customers have not benefitted from AT&T's ARPM reductions. For these customers, the relevant comparison is the one presented in the NERA study which shows that reductions in interstate tariff rates have not passed through reductions in interstate carrier access charges.

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[3]Gautam Naik, "Costs of Control: Long-distance rates, after falling for many years, have started heading higher," *Wall Street Journal*, March 20, 1995.

[4]According to the Wall Street Journal, "only one-third of U.S. households have enrolled [in discount plans]. The other two-thirds pay basic rates." [*Ibid.*] Similarly, in a random sample of customer bills from approximately 9000 households throughout the U.S., PNR and Associates found that "*over two-thirds* of long distance calls carried by the IXCs were billed at non-discount or tariffed rates." [PNR and Associates, Bill Harvesting Study].

COSTS OF CONTROL

Long-distance rates, after falling for many years, have started heading higher

By GAUTAM NAIK

JUDGING FROM the fierce marketing wars being waged by long-distance companies, you'd think it's getting cheaper to make a domestic long-distance call, right?

Dream on.

Sure, competition has arrived. In the past decade, 300 players have emerged to challenge the dominance of AT&T Corp. But the long-distance industry remains very much an old boys' club, now dominated by three giants—AT&T (with a 60% share), MCI Communications Corp. (with roughly 20%) and Sprint Corp. (with about 10%)—which together have the power to raise or lower prices almost at whim.

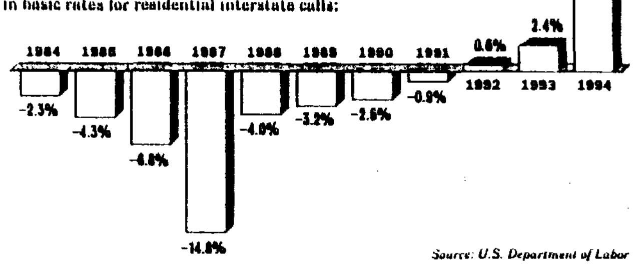
And after years of declines as competition increased, basic rates for interstate calls have been rising lately: 0.6% in 1992, 2.4% in 1993 and 8% in 1994, according to the U.S. Department of Labor. Carriers are expected to increase rates an additional 3% to 4% once or twice annually over the next few years, probably until the Baby Bells win permission to offer long-distance service, says Jeffrey A. Kagan, president of Kagan Telecom Associates in Marietta, Ga.

Residential users in almost every category have been hit: Those who don't subscribe to a special discount plan, many who do, and those who use special services such as calling cards, operator assistance and other long-distance features now pay more. AT&T raised fees on special services twice last year, and in January followed up with another rate increase for calling-card, operator-handled, international direct-dialed and certain overseas calls to the U.S.

The basic rate is more than a benchmark. Despite the hundreds of millions of advertising dollars long-distance carriers have spent extolling the economic advantages of residential discount-calling plans with names like True Savings and Friends & Family, only one-third of U.S. households have enrolled. The other two-thirds pay basic rates; they aren't eligible or interested in the plans, or don't know about them.

Dialing Up

Consistent declines in long-distance rates in the years following deregulation have given way to recent increases. Annual changes in basic rates for residential interstate calls:



Source: U.S. Department of Labor

Tapping 'Low-End' Users

Why should the basic rate increase even as competition does? Because carriers need the extra revenue from "low-end" consumers, mainly those who aren't on calling plans, to help finance their ever-more-lavish discount plans and promotional gimmicks aimed at more-profitable customers.

"The industry is being controlled by the Big Three, and they want to offer discounts without jeopardizing their margins," says Brian Adamik, an industry analyst at Yankee Group Inc. in Boston. The Big Three don't deem everyone eligible for discount pricing: Many discount plans apply only to callers who run up bills of $10 or more a month. That leaves out low-volume customers.

Long-distance carriers argue that while the basic rate has been rising, they now offer greater discounts for those who subscribe to calling plans. And yet, because the bigger discounts they advertise are calculated based on their now-higher basic rates, a good chunk of the actual savings vanishes.

A study by the Telecommunications Research and Action Center, a Washington-based consumer group, shows the average price of 23 leading discount calling plans rose 5% in January from last August. For a customer who made 15 calls at various times of the day using AT&T's True USA Savings plan, the nation's most widely used discount plan, the cost climbed 4.8% to $26.15 in January from $24.95 in August. Those who subscribed to Sprint's The Most II plan similarly paid an average of 4.8% more (though the AT&T customer would have paid less than the Sprint customer in dollar terms because its plan's rates are lower for this use pattern). Subscribers to MCI's Anytime plan saw no change in their average $23.37 price.

Rates may have edged down since January for some discount callers. Sprint has introduced a new discount plan, Sprint Sense, that offers a flat rate to all customers—22 cents a minute during peak hours and 10 cents a minute at all other times. MCI and AT&T have made matching moves to reduce their calling-plan rates.

Public Pricing

But two recent court rulings make it less likely that competitive pressure will keep prices heading down. Under a 1934 law, AT&T must publicly file a detailed list of its rates with the Federal Communications Commission; competitors, naturally, have used the information in setting their own rates. Last June, the U.S. Supreme Court agreed with AT&T that its competitors should also be required to disclose their rates and pricing changes. And in January, the federal appeals court in Washington further ordered the FCC to require other long-distance carriers to file detailed rate schedules, not just vague ranges.

As a result of these decisions, AT&T and its two largest rivals will know just how much—or how little—their smaller competitors are undercutting their prices, giving them data that can help them decide when to change their rates and how to stay competitive.

Residential users in almost every category have been hit, including those who don't subscribe to a special discount plan and many of those who do

The big companies now can also woo their smaller rivals' customers "in a very specific manner," by aiming promotions at particular geographic areas, says David Goodtree, a telecommunications analyst at Forrester Research Inc., a consulting firm in Cambridge, Mass. Smaller companies may find it difficult to compete with AT&T, MCI and Sprint, and consumers could end up paying the Big Three's higher rates, he adds.

The appeals court acknowledged the new rules' likely impact on competition. In his ruling, Judge Harry T. Edwards noted that tariff filings raise anticompetitive barriers and lead to "parallel pricing" and reduced competition. Reduced competition will inevitably result in larger rate increases. So far, however, no one in the long-distance business has mounted a crusade to dismantle the system. ■

MR. NAIK IS A STAFF REPORTER IN THE WALL STREET JOURNAL'S NEW YORK BUREAU.

ATTACHMENT 4

PNR and Associates Bill Harvesting Study

Long Distance Company Call Plans

Introduction

During the spring and summer of 1994, PNR and Associates, a market research firm headquarted in Philadelphia, PA, collected local telephone, long distance, cable TV and cellular telephone bills from approximately 9,000 households throughout the US. In addition to providing their bills, respondents were asked to complete a brief questionnaire concerning their attitudes towards competition in the telecommunications and cable TV industries. From this information. two databases have been constructed. The *Aggregate Database* contains aggregate bill information for over 8,700 households. The *Call Detail Database* contains call detail information on all long distance calls made by over 6,000 households. Only those households that made long distance calls and provided complete long distance bills were included in the Call Detail database.

Aggregate Database

The Aggregate Database and associated software provides a quick view of average bill information by customer demographic segment, local exchange provider, long distance carrier, geographic location, etc. In addition, the software containing the database allows an almost instantaneous view of all potential cross-tabulations. For example, the database can be used to examine the average local and long distance bills and associated demographic characteristics of any RBOC's customers that use AT&T as their primary carrier and who are in favor of competition. In addition, the database will provide valuable market intelligence such as estimates of total expenditures on telecommunications services and cable TV by age, income, family size and location of customer.

Call Detail Database

The Call Detail Database links the aggregate bill information to a customer's call detail information. The database contains information *for each call.* This database can be used to examine the long distance calling characteristics of specific household segments including time-of-day, duration, carrier, type of call (e.g., calling card), call plan (e.g., Friends and Family), and charge per call. Since the database includes the terminating NPA and NXX of each call, it can also be used to quickly determine for any location the percent of toll calling that is interLATA versus intraLATA or to determine the percent of toll calling that terminates outside a local company's serving area as opposed to the toll calling that terminates inside the company's calling area. In addition, valuable market information can be obtained by examining calling patterns such as call concentration in terms of the number of people called or the number of NPA NXXs that are called.

Long Distance Calling

Of the 8,731 households in the Aggregate database, 7,431 provided long distance bill information including their long distance company. Table 1 summarizes, in quartiles, how much individual households spend on long distance service during a given month.

Table 1
% Distribution of Monthly Expenditures

Carrier	less than $6.24	$6.24 to $15.56	$15.57 to $32.89	More than $32.89	Household Count
AT&T	27.75%	25.41%	24.92%	21.92%	4955
MCI	19.39	24.50	25.54	30.57	1253
Sprint	17.88	19.54	25.16	37.42	481
Other	23.99	6.01	23.45	26.55	742
Total					7431

Use of Long Distance Company Call Plans

While the use of long distance company call plans (e.g., "True USA" and "Friends and Family") has grown, the Call Detail database indicates that during 1994, call plans were used by less than one-third of the households in the US and accounted for less than one-third of the total long distance company calls.

Table 2 shows that of the 5,785 households that made long distance calls using an IXC (intraLATA calls made using the local telephone company were not included), 30.8% used a long distance company call plan. Also, Table 2 shows that 32.35% of the long distance calls made were part of a long distance company call plan.

Table 2 shows, for example, that call plans account for 31.58% of *all* residential domestic calls. Not shown in the table, however, is call plan use by each of the major IXCs. The Bill Harvesting study results show that AT&T call plan calls account for 35.88% of all of AT&T's residential domestic MTS calling. Similiarly, MCI call plan calls account for 30.47% of MCI's total residential domestic MTS calling, while Sprint call plan calls account for 20.91% of Sprint's residential domestic MTS calling. Slightly more than 50% of international calls were made using call plans.

Table 2
Long Distance Calling Plans

	Households	*Calls*
Domestic Calls	29.08%	31.58%
International Calls	1.30%	0.56%
Other IXC Rate Plans	0.46%	0.21%
Total Rate Plan Calls	**30.84%**	**32.35%**
Non-Rate Plan Calls	**69.16%**	**67.65%**
Total	100.00%	100.00%

These results indicate that for this sample of customers, *over two-thirds* of long distance calls carried by the IXCs were billed at non-discount or tariffed rates. PNR and Associates will be conducting a second Bill Harvesting study in the Spring of 1995 in which it will examine changes in calling plan participation as well as other behaviors.

The View From Wall Street: Competition in the Long Distance Telephone Market

AT&T and its rivals are pushing some prices up after almost 10 years of steady discounting. This gives AT&T more room to grow profits, and it creates an umbrella over MCI and Sprint, allowing them to raise prices, too. *(Kenneth Leon, Bear Stearns, 10/20/92)*

AT&T, MCI, and Sprint all have high-quality earnings because they operate in a stable, oligopolistic industry. . .without serious price competition. [T]he only real threat [is] posed by the Regional phone companies which are unlikely to gain regulatory freedom to enter this business for at least 3-5 years. *(Philip A. Managieri, Cowen, 8/23/93)*

Margins improved for all four [long distance] carriers, reflecting an impact from price increases and steady declines in access costs. *(Daniel P. Reingold and Richard C.Toole, Merrill Lynch, 2/10/94)*

The combination of a cozy oligopoly that wishes to avoid price wars and falling operating expenses primarily due to [exchange] access cost reductions is an unbeatable environment in which to do business. *(Timothy N. Weller and Nick Frelinghuysen, Donaldson, Lufkin & Jenrette, 6/1/94)*

The long distance industry is one of today's premier growth industries. Where else can you find: (1) double-digit unit volume growth, (2) declining unit costs, on a nominal as well as real basis, (3) a $10 billion barrier to entry, (4) a benign, stable oligopoly where the price leader [AT&T] is looking to generate cash to fund other ventures, and (5) a prohibition on competition. . . It is rare to see a full-fledged price war in an oligopolistic market, witness soft drinks. The same holds true in the long distance market. *(G.W. Woodlief and E. Strumingher, Dean Witter, 10/28/94)*

Many investors still seem to believe that there has been some sort of "price war" among the major interexchange carriers. The fact is that although interstate telephone rates have come down by about 50% over the past decade, the entire decline has been "funded" by decreases in the amounts paid by interexchange carriers to the local exchange carriers for "access." *(John Bain, Raymond James & Assoc., 1/12/95)*

Overall, MCI's new Friends & Family program looks like just another round of discounting funded by previously announced increases in the base rates. By focusing on the discount instead of the rate, the industry has been able to quietly raise base rates while spending millions of dollars promoting ever-increasing discounts. *(D. Reingold and M. Kastan, Merrill Lynch, 1/20/95)*

Regardless of your carrier, you are paying higher and higher rates if you are among the tens of millions of Americans who have not signed up for a discount calling plan. The person paying the retail rate is bearing the disproportionate burden. And these are probably the people who can't afford to make a lot of phone calls and therefore [do not] qualify for those cheaper plans. *(D. Briere, Tele-Choice Inc., 1/21/95)*

AT&T now has the same revenues as the entire Bell system just before the break up in 1984, when they spun off about 85 percent of their assets. *(John Bain, Raymond James & Assoc., 1/24/95)*

MCI. . . filed for a 3.9% across-the-board rate increase. We fully expect AT&T, Sprint, and the second tier carriers to follow suit. This move by MCI is extremely bullish for the long distance stocks since it sends a clear message to the investment community that the long distance industry will practice 'safe pricing' which will lead to stable revenue per minute trends. *(Jack B. Grubman, Salomon Brothers, 2/6/95)