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July 28, 1995

1995

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

Re: CC Docket No. 92-77
<u>Billed Party Preference for 0+ InterLATA Calls</u>

Dear Mr. Caton:

Genevieve Morelli and Jim Smith of CompTel, Danny Adams and I met with Mary Beth Richards of the Common Carrier Bureau today to discuss CompTel's support for the Coalition Rate Ceiling Proposal. The attached materials were distributed at the meeting.

In accordance with Section 1.1206 of the Commission's rules, an original and one copy of this notice and attachments are provided for inclusion in the public record.

Sincerely,

Steven A. Augustino

SAA/llh
enclosure
cc: Mary Beth Richards

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CC Docket No. 92-77
July 28, 1995

CONSUMER SAVINGS FROM THE COALITION RATE CEILING PROPOSAL

On March 8, 1995, a broad Coalition of industry participants proposed an operator services rate ceiling as an alternative to billed party preference.[1] The Competitive Telecommunications Association ("CompTel"), a member of the Coalition, has undertaken a study to estimate the amount consumers would save if operator assisted calls were billed at or below the rates proposed by the Coalition. Based upon the attached study, CompTel estimates that consumers would save more than $200 million annually if the Coalition Rate Ceiling Proposal is adopted by the Commission.

This estimate is derived from sample data obtained from two large billing clearinghouses consisting entirely of calls placed in May 1995. Collectively, these entities account for an estimated 70 percent of all calls billed by OSPs other than AT&T, MCI or Sprint.[2] A detailed description of the study and its results is attached to this presentation.

If the Coalition proposal had been in effect during the study period, consumers would have saved an average of $3.34 on each call currently billed at a rate exceeding the Coalition's proposed maximums. These consumer savings exceed $10.9 million for the month surveyed, or

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[1] Ex parte notice from Genevieve Morelli, et al., CC Docket No. 92-77, Mar. 8, 1995.

[2] The most significant omission from the study was the single largest OSP, Oncor Communications, Inc. In addition, the study does not include calls billed by MCI or Sprint subsidiaries, such as Telcom*USA or ASC Telecom.

more than 25 percent of all charges billed in the study period, whether above or below the proposed maximums.

In order to evaluate the Coalition proposal from a cost-benefit perspective, the annual impact of these savings should be compared to the potential savings asserted in the FNPRM to result from BPP. Using the Commission's estimate of 1995 revenues for OSPs other than the three largest carriers,[3] consumers would receive annualized savings of at least $209 million in 1995 if the Coalition's proposal were adopted.[4] By contrast, the FNPRM estimated BPP savings of $280 million in 1997,[5] which, if adjusted to exclude the growth projected by the Commission between 1995 and 1997, would yield 1995 savings of $259 million.[6] The

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[3] See Billed Party Preference for 0+ InterLATA Calls, Further Notice of Proposed Rulemaking, 9 FCC Rcd. 3320, 3323 n.24 (1994). Although CompTel and others criticized the assumptions underlying the methodology followed in footnote 24, they are used here to give the Commission an "apples to apples" comparison of the potential savings from each alternative. If other assumptions are used, the relative savings between the two alternatives should remain the same.

[4] This amount was derived as follows: The Commission's estimate of an average annual growth of 4.3% results in an OSP market of $1.42 billion. Second, CompTel assumed OSPs would experience a constant annual decline leading to the Commission's projected 1/3 market share loss. Therefore, OSP market share should have declined 22.2% by 1995, leaving OSP revenues of $1.1 billion. Next, subtracting 23.8% for intraLATA calls, and multiplying the result by the 25.04% reduction in revenues experienced in the study, yields a total savings of $209.9 million. This methodology obviously assumes that the savings rations for the 30 percent of OSP calls not included in the study would be the same as those for which data was obtained.

[5] 9 FCC Rcd at 3323.

[6] This figure was calculated by determining the size of the 1995 OSP market, using the Commission's estimate of an average annual growth rate of 4.3 % per year, and applying the remainder of the Commission's analysis in footnote 24 of the FNPRM. This figure also (continued...)

Coalition proposal achieves nearly all of these savings, without the cost, delay or disruption of BPP.

A few other results of the study bear on the administration and effectiveness of a rate ceiling. The study revealed that the majority of interstate calls already are billed at or below the Coalition's proposed maximum rates. In addition, calls billed at rates above the proposed maximums significantly exceeded levels that would be presumed reasonable under the Coalition's proposal, with an average billed charge of $9.22 (compared to an average of $3.38 for calls billed at rates below the proposed maximums). Thus, the largest portion of high OSP charges -- and therefore the greatest consumer savings from a rate ceiling -- are the result of this minority of calls. An approach, like the rate ceiling, which targets only these calls, while leaving the larger number of low price calls unaffected, can lead to significant consumer gains without relying on excessive regulatory intrusion into the marketplace. Moreover, because the below-benchmark calls average only about $3 per call, they are not a likely source of consumer dissatisfaction with OSP rates, and, in any event, few additional savings would be generated by adopting a rate ceiling at lower rates.

In summary, the attached study confirms that substantial consumer savings can be achieved by adopting the maximum rates proposed by the Coalition and abandoning billed party preference. Limiting OSP rates to the proposed levels will save consumers over $200 million

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[6](...continued)
assumes, for proposes of analysis, that there would be no implementation period for BPP, thereby permitting the benefits of BPP to be received in 1995. Of course, the record clearly shows that, on the most optimistic projections, BPP would take at least three years to implement.

per year, starting immediately and with almost no implementation costs or risk. Further, by adopting the Coalition's proposal, the Commission will protect consumers without the anti-competitive and over-regulatory intrusion into the marketplace represented by BPP. BPP is an expensive redesign of the operator services infrastructure which, if there is <u>any</u> error in the Commission's assumptions underlying its savings analysis, will <u>cost</u> consumers more money than it could save. By finally terminating the BPP investigation, the Commission also will reduce the incentives for short-term profit maximization by aggregators or OSPs and allow their business and financial relationships to take a longer term view. Accordingly, CompTel urges the Commission to adopt the Coalition Rate Ceiling Proposal and to reject BPP, once and for all.

THE COALITION RATE CEILING ALTERNATIVE TO BILLED PARTY PREFERENCE

A Study of Consumer Savings Resulting from the Coalition Rate Ceiling

Prepared By:
The Competitive Telecommunications Association
1140 Connecticut Avenue, N.W.
Suite 220
Washington, D.C. 20036

July 28, 1995

I. Methodology

This study is based upon data obtained from two large billing clearinghouses, which process operator assisted call records for billing through local telephone companies. The companies providing data for this study bill or process an estimated 70 percent of operator assisted calls completed by OSPs other than AT&T, MCI or Sprint.

The study sample consisted of interstate operator assisted calls placed during the month of May 1995 and billed thereafter. Each billed call of 15 minutes or less in duration was compared to the non-person-to-person maximum rates proposed by the Coalition.[1] Billed calls with durations longer than 15 minutes were not included in the study. Calls were then divided into two categories: (1) those billed at or below the proposed maximum rates and (2) those billed at rates exceeding the proposed maximums. Billed calls exceeding the proposed maximums were then re-rated to the Coalition's proposed rates and the difference between the billed charge and the re-rated charge was calculated.

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[1] Ex parte notice from Genevieve Morelli, et al., CC Docket No. 92-77, March 8, 1995.

II. Results

The following tables summarize the results of the study:

Table 1: Summary of All Calls Before Re-Rating

Total Number of Calls Studied	Total Billed Charges	Number of Calls at or Below the Coalition Maximum Rates	Billed Charges for Calls at or Below the Coalition Maximum Rates	Number of Calls Exceeding the Coalition Maximum Rates	Billed Charges for Calls Exceeding the Coalition Maximum Rates
7,252,954	$43,602,614	3,986,196	$13,478,413	3,266,758	$30,124,201

Table 2: Re-Rating of Calls Billed at Rates Exceeding the Maximum

Number of Calls	Original Billed Amount	Amount Billed if Re-rated to the Coalition Maximum Rates	Consumer Savings	Average Savings Per Call
3,266,758	$30,124,201	$19,205,583	$10,918,618	$3.34

Table 3: Total Consumer Savings

Total Amount Originally Billed (all calls)	Amount Billed for Calls Originally at or Below the Coalition Maximum Rates	Re-rated Charges for Calls Originally Exceeding the Coalition Maximum Rates	Consumer Savings (Column 1 minus Columns 2 & 3)	Consumer Savings as a Percentage of Billed Charges
$43,602,614	$13,478,413	$19,205,583	$10,918,618	25.04%

III. Estimate of Annual Savings

Using the assumptions relied upon by the Commission in its FNPRM[2] annual savings from the Coalition Rate Ceiling Proposal is projected as follows:

1. 1991 Third Tier OSP revenues:	$1.2 billion.
2. 1995 revenues, assuming an average annual growth rate of 4.3%:	$1.42 billion.
3. 1995 revenues with assumed 22% loss of market share by third tier OSPs (assuming third tier OSPs will lose 1/3 of 1991 market share by 1997, at a constant annual rate):	$1.10 billion.
4. 1995 revenues from interLATA calls (76.2% of #3):	$838 million.
5. Consumer savings from Coalition Rate Ceiling, as a percentage of interstate revenue:	25.04%.
6. Annual consumer savings on interLATA calls (#4 x #5):	$209.8 million

2 Billed Party Preference for 0+ InterLATA Calls, Further Notice of Proposed Rulemaking, 9 FCC Rcd. 3320, 3323 n. 24 (1994).