

- ♦ Marketplace Changes from 1994 to 1997: Mr. Robinson failed to acknowledge that the market conditions inherent in the Project Quintet study have changed dramatically over the past three years; instead, he used unadjusted figures from the 1994 study in his calculations. This is inappropriate in light of changes in the payphone market over the past three years. At a minimum, Mr. Robinson should have adjusted the Project Quintet data to compensate for the following:
 - Increases in access line tariffs
 - Increases in property owner rental expenses
 - Changes in financial reporting due to the deregulation of the payphone business

Taking all of these factors into account, we believe it is inappropriate to use the unadjusted Project Quintet figures to estimate the cost of providing payphone service today. We have therefore adjusted Mr. Robinson's cost calculation to compensate for his oversights and to illustrate the magnitude of his errors. The resultant per-call cost figure is \$0.363, compared to Mr. Robinson's estimate of \$0.195.¹

I. MR. ROBINSON'S COST CALCULATIONS OMIT MANY REASONABLE AND NECESSARY COSTS OF PROVIDING PAYPHONE SERVICE

It is clear that Mr. Robinson used the expense figures shown on page 19 of SBC's Project Quintet packet to calculate his per-call cost figure. However, Mr. Robinson both excluded certain costs that are

¹ See, Affidavit of David Robinson, AT&T Petition for Reconsideration (December 1, 1997), at 9 (hereinafter "Robinson Affidavit - Recon").

necessary for the provision of payphone service and failed to adjust for per-call costs that are clearly not representative of those experienced by Coalition members and the payphone industry as a whole.

- A. Return on Assets: In his earlier affidavits, Mr. Robinson has acknowledged that a cost-based calculation must include a component for return on assets.² He omits this factor from his most recent calculation, however, perhaps because he chose to rely exclusively upon the income statement included in the Project Quintet packet. In other words, the income statement included on page 19 of the Project Quintet packet did not include a calculation of "return on assets"³, and Mr. Robinson, in turn, ignored this factor. Including a factor for return on assets increases the per-call cost of providing payphone service.
- B. Common Costs: The Project Quintet valuation was not intended to be a fully distributed expense model. Rather, it was intended to represent the incremental revenues and expenses associated with operating a payphone business unit at arms-length. Consequently, the Project Quintet packet does not include any general and administrative service costs (frequently referred to as "common costs") provided by SBC to the payphone business unit. These types of costs (e.g., treasury, legal, real estate management, etc.) were assumed to be non-incremental to the Buyer and, therefore, excluded from the Project Quintet study. Because these costs were not specifically identified on page 19 of the Project Quintet packet, Mr. Robinson improperly omitted them from his cost calculation. Had Mr. Robinson appropriately included these costs, his per-call cost figure would have increased.

² See, Affidavit of David Robinson, AT&T Comments (August 26, 1997), at 10 and Appendix 1 (hereinafter "Robinson Affidavit - Comments").

³ Return on Assets is not a component of the income statement. Rather, it is a financial ratio that is commonly reported outside of the income statement to assess the overall return on a company's asset base.

- C. ANI ii Costs: Mr. Robinson failed to include costs associated with ANI ii digit tracking. As discussed in our earlier report, these costs will be borne by PSPs in the form of a line charge and are expected to approximate \$0.019 per call.⁴ Mr. Robinson, however, relied exclusively on the figures provided in Project Quintet and omitted such costs. Including ANI ii costs increases the per-call cost of providing payphone service.
- D. Uncollectible Costs: Despite Comments submitted by the Coalition, the APCC and several independent Payphone Service Providers ("PSPs") regarding bad debt and administrative costs associated with collecting PCC⁵, Mr. Robinson omitted these costs entirely from his calculation. In addition, Mr. Robinson omitted opportunity costs associated with delayed collections (which the FCC recognized in the Second Report and Order⁶). It is reasonable to assume that, in 1994, SBC did not anticipate the deregulation of their payphone business unit and, appropriately, did not include an expense line item for "PCC Collections Costs". Including uncollectible costs increases the per-call cost of providing payphone service.
- E. Depreciation Expenses: Through discussions with SBC personnel involved in preparing the Project Quintet packet, we learned that the preliminary data in version 7e of Project Quintet utilized a 5% annual depreciation rate.⁷ However, the annual depreciation rate used should

⁴ See, Petition for Reconsideration of the RBOC/GTE/SNET Payphone Coalition, "Report of Arthur Andersen LLP, Second Report and Order: Issues for Reconsideration", Carl R. Geppert (December 1, 1997), at pg. 10 (hereinafter "Arthur Andersen Recon").

⁵ See, Reply Comments of the RBOC/GTE/SNET Payphone Coalition, "Critique of Cost Studies and Other Issues", Carl R. Geppert (September 9, 1997), at pg. 13 (hereinafter "Arthur Andersen Reply"); Arthur Andersen Recon, at pg. 9; Comments of the American Public Communications Council (August 26, 1997), at pp. 14-15; Comments of Communications Central Inc. (August 26, 1997), at pg. 10 (hereinafter "CCI Comments"); Comments of Peoples Telephone Company, Inc. (August 26, 1997), at pg. 13 (hereinafter "Peoples Comments").

⁶ See, Second Report and Order In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, CC Docket No. 96-128 (October 9, 1997), at 59 (hereinafter "Second Report and Order").

⁷ See, Robinson Affidavit - Recon, at Attachment I, "Book Property, Plant, and Equipment/Depreciation Calculation".

have been in the range of 14% to 20% of average gross plant in service (i.e., to reflect five to seven year depreciable lives). This rate is comparable to the depreciation rate used by Coalition members and by the largest Independent Payphone Providers ("IPPs") who depreciate station equipment using 10% to 20% annual depreciation rates (i.e., five to ten year useful lives).⁸ Adjusting Mr. Robinson's calculations to reflect a more realistic annual depreciation rate increases per-call costs.

II. MR. ROBINSON'S COST CALCULATIONS DO NOT COMPENSATE FOR CHANGES IN THE MARKETPLACE FROM 1994 TO 1997

The payphone industry has changed rapidly over the past three years. Mr. Robinson, however, failed to adjust the figures provided in the Project Quintet packet for known marketplace changes. The following are several examples of known changes that have had a financial impact on PSPs' operating expenses.

- A. Increases in Access Line Charges: Mr. Robinson used the Project Quintet per-line access and local usage expense figure of \$34.05⁹ to calculate per-call costs, despite his earlier acknowledgement that current access line charges are significantly higher. For example, Appendix 2 to Mr. Robinson's August 26, 1997, affidavit shows that the flat rate, dumb set access line charge is \$53.98 per month.¹⁰ This is nearly 60% more than the figure used in his current calculation. In addition, it is our understanding that Project Quintet access line charges were rough predictions because SBC did not have a dumb set access line tariff in place in 1994. Mr. Robinson should have acknowledged these factors and adjusted his

⁸ See, Arthur Andersen Reply, at pg. 7; Arthur Andersen Recon, at pg. 10; CCI Comments, at pg. 10; Peoples Telephone Company, Inc. 10-K (December 31, 1996) at pg. 28.

⁹ See, Robinson Affidavit - Recon, at Attachment II: Access Line Public (\$20.19) + Access Line Semi-Pub (\$3.17) + Local Usage (\$10.69).

¹⁰ See, Robinson Affidavit - Comments, at pg. 12.

calculations appropriately. Adjusting for increases in access line charges increases the per-call cost of providing payphone service.

B. Increases in Property Owner Rental Expenses: Project Quintet assumed that the Buyer would pay approximately 16.65% of their revenue and/or intraLATA commissions to the property owner in the form of rental expense (i.e., commissions).¹¹ Since 1994, increased competition has resulted in a significant increase in the percent of revenue paid to property owners as commission. Additionally, SBC pays property owners a percentage of gross intraLATA revenues, not intraLATA commissions received by the PSP, as was reflected in Project Quintet at the Buyer's request.¹² Using current commission rates increases the per-call cost of providing payphone service.

C. Financial Reporting Changes Due to Deregulation: Prior to April 15, 1996, many Local Exchange Carrier ("LEC") PSPs recorded gross receipts taxes as a payphone business unit expense. After April 15, 1996, the regulated telecommunications company now records gross receipt taxes. The Project Quintet expense line item for "operating taxes" includes gross receipt taxes, which should be removed to reflect current operating tax expenses of the payphone business unit more accurately.

¹¹ See, Robinson Affidavit - Recon, at Attachment I, "Operating Expenses - Other Operating Expense".

¹² Determined from discussions with SBC.

**III. ADJUSTING FOR MR. ROBINSON'S OMISSIONS AND
OVERSIGHTS SIGNIFICANTLY INCREASES THE PER-CALL COST OF PROVIDING
PAYPHONE SERVICE**

As we explain above, unadjusted Project Quintet figures are not an appropriate proxy for the cost of payphone operations. Mr. Robinson's use of the Project Quintet study to estimate the current cost of providing payphone service is flawed by his omission of certain necessary costs and his failure to adjust for marketplace and regulatory changes from 1994 to 1997. Below we have adjusted Mr. Robinson's calculations to correct for these errors:

COST PER CALL -- MR. ROBINSON		\$0.195
PLUS: OMISSIONS		
Return on Assets	\$0.009	
Common Costs	\$0.022	
ANI ii Costs	\$0.019	
Bad Debt and Collection Expenses	\$0.050	
Depreciation Expenses	\$0.017	\$0.117
PLUS: 1994 TO 1997 MARKETPLACE CHANGES		
Increases in Access Line Charges	\$0.042	
Increases in Property Owner Rental Expenses	\$0.017	
Changes in Financial Reporting Due to Deregulation	(\$0.008)	\$0.051
		\$0.363
FULLY LOADED COST PER CALL -- ADJUSTED		\$0.363

This calculation increases Mr. Robinson's estimate of per-call costs by more than 85% to \$0.363 per call. This figure is consistent with our earlier calculations of the fully distributed cost of providing payphone service.

We have performed a second calculation to assess the reasonableness of the results noted above and to compensate for the outdated and insufficient information contained in the Project Quintet

financial packet. Using the FCC's bottom-up cost methodology as described in the Second Report and Order¹³ coupled with SBC's recently projected 1997 costs for their payphone business unit, we calculated the per-call cost of providing payphone service to be \$0.37. This is consistent with the computation performed above.

ARTHUR ANDERSEN LLP

by 
Carl R. Geppert

¹³ See, Second Report and Order, at 47-50.

CERTIFICATE OF SERVICE

I hereby certify that on this 7th day of January, 1998, I caused copies of the foregoing RBOC/GTE/SNET Payphone Coalition's Opposition to Petitions for Reconsideration Stay to be served upon the parties on the attached service list by first-class mail; service by hand delivery or overnight courier is denoted by an asterisk.



Marilyn R. Leland
Marilyn R. Leland

FEDERAL COMMUNICATIONS COMMISSION
Implementation of the Pay Telephone Reclassification and
Compensation Provisions of the Telecommunications Act of 1996
CC Docket No. 96-128, Second Report and Order

SERVICE LIST

Federal Communications Commission	Christopher J. Wright Daniel M. Armstrong John E. Ingle Laurence N. Bourne Carl D. Lawson Federal Communications Commission 1919 M Street, N.W. Washington, DC 20554
Federal Communications Commission	Chief, Enforcement Division Common Carrier Bureau Stop 1600A, Room 6008 Federal Communications Commission 2025 M Street, N.W. Washington, DC 20554
International Transcription Service	ITS 1231 20 th Street, N.W. Washington, DC 20036
U.S. Department of Justice	Donald J. Russell Telecommunications Task Force Antitrust Division U.S. Department of Justice City Center Building, Suite 8000 1401 H Street, N.W. Washington DC 20001
U.S. Department of Justice	Robert B. Nicholson Robert J. Wiggers U.S. Department of Justice Antitrust Division, Appellate Section 950 Pennsylvania Avenue, N.W., Room 3224 Washington DC 20530-0001
Airtouch Paging	Mark A. Stachiw Airtouch Paging 12221 Merit Drive, Suite 800 Dallas, TX 75251

Airtouch Paging

Carl W. Northrop
E. Ashton Johnston
Paul, Hastings, Janofsky & Walker
1299 Pennsylvania Avenue, NW, Tenth Floor
Washington, DC 20004-2400

America's Carriers Telecommunications
Association

Charles H. Helein
Helein & Associates, P.C.
8180 Greensboro Drive, Suite 700
McLean, VA 22102

American Public Communications Council*

Albert H. Kramer
Robert F. Aldrich
Dickstein, Shapiro, Morin & Oshinsky, L.L.P.
2101 L Street, N.W.
Washington, D.C. 20037-1526

Arch Communications Group, Inc.

E. Ashton Johnston
Paul, Hastings, Janofsky
& Walker
1299 Pennsylvania Avenue, N.W.
10th Floor
Washington, DC 20004

Arch Communications Group, Inc.

Kenneth D. Patrich
Carolyn W. Malanga
Wilkinson, Barker,
Knauer & Quinn
1735 New York Avenue, NW
Suite 600
Washington, DC 20006

AT&T*

Mark C. Rosenblum
Richard H. Rubin
Jodie Donovan-May
AT&T
295 North Maple Avenue
Room 325213
Basking Ridge, NJ 07920

AT&T*

David Carpenter
Joseph D. Kearney
Sidley & Austin
One First National Plaza
Chicago, IL 60603

Cable & Wireless, Inc.

Rachel J. Rothstein
Cable & Wireless, Inc.
8219 Leesburg Pike
Vienna, VA 22182

Communications Central Inc.

Barry E. Selvidge
Communications Central Inc.
1150 Northmeadow Parkway, Suite 118
Roswell, GA 30076

Competition Policy Institute

John Windhausen, Jr.
Competition Policy Institute
1156 15th Street, N.W., Suite 310
Washington, DC 20005

Competitive Telecommunications Association

Danny E. Adams
Steven A. Augustino
Kelley, Drye, & Warren, LLP
1200 19th Street, N.W., Suite 500
Washington, DC 20036

Competitive Telecommunications Association

Genevieve Morelli
Competitive Telecommunications Association
1900 M Street, N.W., Suite 800
Washington, DC 20036

The Consumer-Business Coalition for Fair
Payphone-800 Fees*

Howard J. Symons
Sara F. Seidman
Yaron Dori
Mintz, Levin, Cohn, Ferris, Glovsky
and Popeo, PC
701 Pennsylvania Avenue, N.W.
Washington, DC 20004-2608

The Consumer-Business Coalition for Fair
Payphone-800 Fees*

Daniel R. Barney
Robert Digges, Jr.
ATA Litigation Center
2200 Mill Road
Alexandria, VA 22314

Consumer Federation of America

Mark Cooper
Consumer Federation of America
1424 16th Street, N.W.
Washington, DC 20036

Direct Marketing Association*

Ian D. Volner
Heather L. McDowell
Veneable, Baetjer, Howard & Civiletti, LLP
1201 New York Avenue, NW, Suite 1000
Washington, DC 20005

Dispatching Parties* (American Alpha Dispatch Services, Inc., Absolute Best Monitoring, Inc., Affordable Message Center, Inc., Procommunications, Inc., National Dispatch Center, Inc., Abacus, Inc., United Cellular Paging, Inc., Dispatch America, Inc., Alphanet, Inc., All Office Support, Inc.)

Alan S. Tilles
Meyer, Faller, Weisman & Rosenberg, PC
4400 Jenifer Street, N.W., Suite 380
Washington, DC 20015

Excel Telecommunications, Inc.

Dana Frix
Pamela S. Arluk
Swidler & Berlin, Chtd.
3000 K Street, N.W, Suite 300
Washington, DC 20007

Frontier Corporation

Michael Shortley
Frontier Corporation
180 South Clinton Avenue
Rochester, NY 14646

GE Capital Communication Services Corporation

Meredith Gifford
GE Capital Communication Services Corp.
6540 Powers Ferry Road
Atlanta, GA 30339

GE Capital Communication Services Corporation

Colleen Boothby
Janine F. Goodman
Levine, Blaszak, Block & Boothby, LLP
1300 Connecticut Avenue, NW, Suite 500
Washington, DC 20036

General Communication Inc.

Kathy L. Shobert
General Communication Inc.
901 15th Street, N.W., Suite 900
Washington, DC 20005

Illinois Public Telecommunications
Association

Michael W. Ward
John F. Ward, Jr.
Henry T. Kelly
O'Keefe, Ashenden, Lyons & Ward
30 N. LaSalle Street, Suite 4100
Chicago, IL 60602

Inmate Calling Service Providers Coalition

Albert H. Kramer
Robert F. Aldrich
Jacob S. Farber
Dickstein, Shapiro, Morin & Oshinsky, LLP
2101 L Street, N.W.
Washington, D.C. 20037-1526

International Teletcard Association*

Glenn B. Manishin
Michael D. Specht
Blumenfeld & Cohen - Technology Law Group
1615 M Street, N.W., Suite 700
Washington, DC 20036

IPSP Ad Hoc Committee for Consumer Choice

Charles H. Helein
Helein & Associates, P.C.
8180 Greensboro Drive, Suite 700
McLean, VA 22102

LCI International Telecom Corp.

Danny E. Adams
Steven A. Augustino
John J. Heitmann
Kelley Drye & Warren LLP
1200 19th Street, N.W., Suite 500
Washington, DC 20036

MCI

Mary J. Sisak
Mary L. Brown
MCI Telecommunications
1801 Pennsylvania Avenue, N.W.
Washington, DC 20006

MCI

Donald B. Verrilli, Jr.
John B. Morris, Jr.
Jenner & Block
601 13th Street, N.W.
Washington, DC 20005

Midcom Communications Inc.

Steven P. Goldman
Midcom Communications Inc.
26913 Northwestern Highway, Suite 165
Smithfield, MI 48034

Midcom Communications Inc.

Bradley D. Toney
Midcom Communications Inc.
1111 Third Avenue, Suite 1600
Seattle, WA 98101

Midcom Communications Inc.

Laura H. Phillips
Loretta J. Garcia
Dow, Lohnes & Albertson, PLLC
1200 New Hampshire Avenue, NW, Suite 800
Washington, DC 20036-6802

Mobile Telecommunications Technologies Corp.*

Thomas Gutierrez
J. Justin McClure
Lukas, McGowan, Nace & Gutierrez
1111 19th Street, N.W., Suite 1200
Washington, DC 20036

NATSO

Lisa Mullings
NATSO, Inc.
1199 North Fairfax Street, Suite 801
Alexandria, VA 22314-1492

Oncor Communications, Inc.

Mitchell F. Brecher
Fleischman and Walsh, LLP
1400 16th Street NW
Washington, DC 20036

PageMart Wireless, Inc.*

Phillip L. Spector
Patrick S. Campbell
Paul, Weiss, Rifkind, Wharton & Garrison
1615 L Street, N.W., Suite 1300
Washington, DC 20036

Paging Network, Inc.*

Judith St. Ledger-Roty
Wendy I. Kirchick
Kelley, Drye & Warren, LLP
1200 19th Street, N.W., Suite 500
Washington, DC 20036

Peoples Telephone Company, Inc.*

**Eric L. Bernthal
Michael S. Wroblewski
Latham & Watkins
1001 Pennsylvania Avenue NW, Suite 1300
Washington, DC 20004**

Peoples Telephone Company, Inc.*

**Bruce W. Renard
Peoples Telephone Company, Inc.
2300 N.W. 89th Place
Miami, FL 33172**

Personal Communications Industry Association

**Robert L. Hogarth
Personal Communications Industry Association
500 Montgomery Street, Suite 700
Alexandria, VA 22314**

Personal Communications Industry Association

**Scott Blake Harris
Kent D. Bressie
Gibson, Dunn & Crutcher, LLP
1050 Connecticut Avenue, N.W.
Washington, DC 20036-5303**

RCN Telecom Services, Inc.

**Dana Frix
William B. Wilhelm, Jr.
Swidler & Berlin, Chtd.
3000 K Street, N.W., Suite 300
Washington, DC 20007**

Source One Wireless II, LLC*

**David L. Hill
Audrey P. Rasmussen
O'Connor & Hannan, LLP
1919 Pennsylvania Avenue, NW, Suite 800
Washington, DC 20006**

Sprint Corporation

**Leon M. Kestenbaum
Jay C. Keithley
H. Richard Juhnke
Sprint Corporation
1850 M Street, N.W., 11th Floor
Washington, DC 20036**

Telaleasing Enterprises, Inc.

**Theodore C. Rammelkamp, Jr.
Telaleasing Enterprises, Inc.
601 West Morgan
Jacksonville, IL 62650**

Telecommunications Resellers
Association

Charles C. Hunter
Catherine M. Hannan
Hunter Communications Law Group
1620 I Street, NW, Suite 701
Washington, DC 20006

Teleport Communications Group Inc.

Teresa Marrero
Teleport Communications Group Inc.
Two Teleport Drive
Staten Island, NY 10311

United States Army

SPC Jason M. Kane
United States Army
2/82nd AVN
P.O. Box 70687
Fort Bragg, NC 28307

United States Telephone Association*

Mary McDermott
Linda Kent
Keith Townsend
Hance Haney
USTA
1401 H Street, N.W., Suite 600
Washington, DC 20005

WorldCom Inc.

Richard S. Whitt
WorldCom Inc.
1120 Connecticut Avenue, NW. Suite 400
Washington, DC 20036

WorldCom Inc.

Douglas F. Brent
WorldCom Inc.
9300 Shelbyville Road, Suite 700
Louisville, KY 40222

January 7, 1998