total conversation minutes, including any minutes provided for free as part of calling plans or block-of-time services. (Exclude internal IXC "official" revenues and minutes. Also exclude all employee "concession" revenues and minutes. For comparability, exclude access charges attributable to official and concession service as well.) Segment the revenue and demand quantities between business and residential customer segments. Document the data sources, and include copies of the (proprietary) internal company reports from which the data are drawn.

- By customer segment, calculate what revenues those same quantities would generate at the rates in effect after January 1, 1998. Itemize the portion of those revenues obtained from PICC charges and from USF charges. (If the IXC plans significant revisions in its PICC/USF recovery process before June 1998, then document those plans—on a proprietary basis—and their estimated revenue impact.) Report the calculation using two methods, using two alternative assumptions: (a) customers subscribe to the same calling plans and services they had in 4Q97, so a pure "rate change" effect can be visible; and (b) assume some well-documented migration pattern among services and calling plans (but holding each customer's demand constant), explicitly based on historical, documented migration patterns. (The historical data must not be more than two years old.) Include tariff or other price schedule pages and documentation of the calculation method. Show the calculation procedure in a PC-readable format such as Lotus 1-2-3, Microsoft Excel, *etc*.

- If, under method (b) above, an IXC assumes an increase in the proportion of residential customers who subscribe to calling plans, then reconcile that assumption with the Yankee Group data showing a decrease in the percentage of residential customers subscribing to calling plans from 1996 to 1997.

V. CONCLUSIONS

33. To summarize, I have shown the following:

- AT&T, MCI, and Sprint have failed to present data that answer Chairman Kennard's questions.

- The three IXCs present data that are inconsistent with one another and, in MCI's case, are inconsistent with FCC data.

- MCI, AT&T and Sprint have failed to pass through access charge reductions in lower prices as customers would expect in an effectively competitive market.

- The IXCs attempt to hide the issue by claiming that changes in ARPM that occurred before January 1, 1998 should be included in the calculations. To the contrary, I have shown that, in an effectively competitive market, the only relevant data are the price changes on or after that date.

- All three IXCs use ARPM to measure rate changes, yet ARPM violates the required properties of a measure of rate changes.

- For residential customers, AT&T raised its rates relative to access charges.

- Using AT&T's and MCI's own data, my assessment is that these IXCs' new revenues from their PICC and USF charges far exceed the net change in the various components of their access costs.

- Sprint clearly states that it excluded fixed monthly charges from its calculations of ARPM, so AT&T and MCI might have done the same. This exclusion would bias the results.

- I have described the data that the FCC would need to assess the extent to which the IXCs did pass though the PICC, USF costs, the elimination of the High Cost Fund, the special access trunking charge, and reductions in per-minute access charges.

William E. Taylor

William E. Taylor

Subscribed and sworn to before me this
13th day of March, 1998

Christiana Olsen

Notary Public

My Commission expires
September 18, 2003