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Vice President - Federal Government Affairs

MAY - 1 1998

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

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May 1, 1998

A. Richard Metzger, Jr., Chief  
Common Carrier Bureau  
Federal Communications Commission  
1919 M Street, NW, Room 500  
Washington, D.C. 20554

Re: CC Docket No. 96-262  
Access Charge Reform

Dear Mr. Metzger:

In accordance with AT&T's May 3, 1997 letter to FCC Chairman Reed E. Hundt, this is to notify the Commission that AT&T has incurred, and continues to experience, a significant and material loss of revenue from its residential basic schedule customers to dial around services.

The dial around industry has grown enormously over the past few years. It was a \$1 billion industry in 1996; it grew to a \$1.5 billion industry in 1997; and it is projected to generate revenues in excess of \$2 billion in 1998.<sup>1</sup> Some of the larger dial around companies have had particularly high annual growth rates that reflect the success of this relatively new industry segment.<sup>2</sup> To gain customers, dial around companies usually target AT&T's residential customers, "compar[ing] themselves to AT&T's most

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<sup>1</sup> "10XXX Sticker Shock," The Yankee Group Report, Vol. 15, No. 3 (February 1998), p. 2; "Management: Sought by the Bell," Brandweek (April 13, 1998); "AT&T Toughens Tone Against Dial-Around Phone Rivals," USA Today (April 7, 1998), p. 1B; "Dial-Arounds May Not Cut Your Phone Bills," Pittsburgh Post-Gazette (June 30, 1997), p. A-9.

<sup>2</sup> For instance, the annual revenues for VarTec Telecom Inc., which provides predominantly dial around services, increased from \$125 million in 1995 to more than \$850 million in 1997. "Dial-Around Do-Si-Do," Telephony (January 26, 1998).

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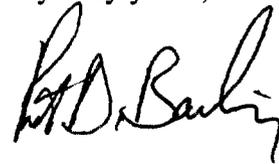
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expensive Dial-1 basic rates.”<sup>3</sup> For instance, one of the largest and most visible dial around service companies, MCI’s Telecom USA subsidiary, employs an advertising strategy that focuses almost exclusively on the comparison of its dial around rates to AT&T’s residential basic schedule rates. Indeed, Telecom USA has publicly claimed that “more than 80% of 10-321 users subscribe to AT&T.”<sup>4</sup>

The success of the dial around companies’ marketing tactics is confirmed by the revenue erosion that AT&T has experienced within its residential basic rate schedule customer segment. These revenue losses, moreover, understate the full adverse impact to AT&T. That is because, with respect to basic schedule customers who primarily use dial around services, AT&T loses not only the usage revenue, but also incurs a monthly PICC expense payable to the LECs.

AT&T’s competitors in the long distance industry currently assess line item charges on their residential basic schedule customers to recover primary and non-primary line PICC expenses. AT&T also intends to implement a separate charge to recover its PICC expenses attributable to residential basic schedule customers commencing with bill cycles beginning July 1, 1998.

Very truly yours,



Rick D. Bailey

cc: The Honorable William E. Kennard  
The Honorable Susan Ness  
The Honorable Harold Furchtgott-Roth  
The Honorable Michael Powell  
The Honorable Gloria Tristani

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<sup>3</sup> “No Easy Call in Dialing for Discounts,” The Boston Globe (June 1, 1997), p. B2.

<sup>4</sup> Quote from John Donoghue, MCI VP-Advertising, in “MCI Touts Success of 10-321 Service: Claims Subsidiary’s Dial-Around Ads Reaching AT&T’s Customer Base,” Advertising Age (November 10, 1997), p. 47.