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September 14, 1998

EXHIBIT FILED

RECEIVED

SEP 14 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ex Parte Filing

Magalie Salas, Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D.C. 20554

In re Matter of the Pay Telephone Reclassification
and Compensation Provisions of the Telecommunications
Act of 1996, **CC Docket No. 96-128**

Dear Ms. Salas:

Enclosed for filing in this docket are the original and one copy of a letter to Craig Stroup. I sent this letter to Mr. Stroup on behalf of the RBOC/GTE/SNET Coalition. I would ask that you include the letter in the record of this proceeding in compliance with 47 C.F.R. § 1.1206(a)(2).

If you have any questions concerning this matter, please contact me at (202) 326-7902.

Yours sincerely,



Michael K. Kellogg

Enclosure

021

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September 14, 1998

Mr. Craig Stroup
Federal Communications Commission
2033 M Street, N.W., Suite 500
Washington, D.C. 20554

Re: Pay Telephone Reclassification and Compensation
Provisions of Telecommunications Act of 1996,
CC Docket No. 96-128

Dear Mr. Stroup:

I am writing on behalf of the RBOC/GTE/SNET Coalition to communicate information recently gathered regarding the weighted average, per-payphone costs of line charges, and local transport and termination charges.

As the attached letter explains in detail, Arthur Andersen determined that the weighted average per-payphone line charge, exclusive of transport and termination charges, is \$28.54 per payphone per month. In addition, there is an additional average subscriber line charge of \$5.11 per month.

Andersen has also determined that earlier data submitted by the Coalition did not attribute any portion of flat-rated lines to transport and termination charges. If, as has been argued by certain parties, some portion of the flat-rated line charge should be attributed to local transport and termination where measured local service is available, this results in an adjustment to the Coalition data submitted on July 13, 1998, of \$.002 per call, i.e., local transport and termination charges of \$.027 to \$.032 per call.

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Andersen has also calculated a weighted average transport charge using Coalition data concerning applicable tariff charges and the number of Coalition and IPP phones purchasing various types of service. This calculation yielded average local transport and termination charges of \$.034 per call, and weighted average transport and termination charges of \$.043 per call. Andersen explains that this last number is probably too high because of certain assumptions Andersen was forced to make in its calculation.

The data are summarized by Coalition member in the table below.

<u>Company</u>	<u>Local Line Charge</u>	<u>Subscriber Line Charge</u>	<u>Local Transport and Termination</u>
Company A	\$21.26	\$5.29	\$.079
Company B	\$21.32	\$5.28	\$.068
Company C	\$23.14	\$6.21	\$.050
Company D	\$24.99	\$6.00	\$.000
Company E	\$28.80	\$9.14	\$.017
Company F	\$35.13	\$0	\$.019
Company G	\$39.97	\$5.72	\$.008
Simple Average	\$27.80	\$5.38	\$.034
Weighted Average	\$28.54	\$5.11	\$.043

In addition, Andersen has examined the calculation of maintenance expenses included in MCI's July 13, 1998, cost study. Andersen explains why that calculation would tend to understate actual RBOC expenses.

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If I can provide further information or clarification,
please call me at (202) 326-7902.

Yours sincerely,

A handwritten signature in black ink that reads "Michael K Kellogg" with a stylized flourish at the end.

Michael K. Kellogg

ARTHUR ANDERSEN

Arthur Andersen LLP

September 14, 1998

Michael K. Kellogg, Esquire
Kellogg, Huber, Hansen, Todd & Evans, P.L.L.C.
1301 K Street, N.W.
Suite 1000 West
Washington, D.C. 20005

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Writer's Direct Dial

Re: Request for Data Regarding Average Line and Local Transport Charges

Dear Mr. Kellogg:

As requested, we have gathered data from the RBOC/GTE/SNET Payphone Coalition ("the Coalition") necessary to quantify the average monthly access and subscriber line charges and the average per-call local transport charge for Coalition members and independent payphone providers ("IPPs"). Based upon this data and the assumptions outlined in greater detail below, we computed the average monthly access line charge (excluding any portion of the line charge attributable to local transport) to be \$28.54 with an additional subscriber line charge of \$5.11. We have also recomputed the per-call local transport charge for all Coalition members, which results in an increase from our earlier findings of \$0.002 per call.

The following descriptions provide insight into how we calculated the average line and local transport charges.

Average Per-Call Local Transport Charge:

With the goal of quantifying the per-call local transport charge for all public and semi-public coin phones for Coalition members and IPPs, we asked each Coalition member to provide the following information for the year ended December 31, 1997:

- The number of local and semi-public coin phones per state, for each class of service (e.g., dumpline, smartline).
- The per-call or per-period (initial and subsequent) local transport charge for phones subscribing to measured service.
- The per-line charge for phones subscribing to flat rated access, which includes local transport charges.

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- For phones subscribing to flat rated access, we determined whether measured access is available for the same class of service.
- Certain Coalition members were unable to quantify the average number of local calls per IPP payphone. Consequently, we estimated the number of IPP calls by applying the ratio of Coalition average coin calls to the coin call counts provided by the APCC in their August 26, 1997 comments (356 Coalition coin calls to 511 IPP coin calls = 143.5%).

It has been argued that a portion of a flat rated access line charge should be treated as "local transport". Using the data described above, we incorporated these costs to the extent that measured service was an alternative for the same class of service. In summary, we found the average per-call local transport costs increased by \$0.002 if the local transport portion of the flat rated line charge is treated as a separate cost. The following assumptions were used to calculate the impact:

- **Measured Access Lines:** We assumed an average call length of 2.5 minutes when computing the local transport charge (where transport charges are assessed based upon initial and subsequent minutes). If transport charges varied by the distance of the call, we attempted to quantify the relative number of calls per distance band. If the information was not available, we used a simple average. We multiplied the per-call transport charge by the average number of local sent paid calls.
- **Flat Rated Access Lines - No Measured Access Line Available:** We assumed the local transport charge was \$0 if the payphone(s) subscribed to a flat rated service where measured service was not available for the same class of service (i.e., there is no alternative).
- **Flat Rated Access Line - Measured Access Line Available:** In cases where the line was flat rated but measured access was available for the same class of service, we assumed that the local transport portion of the flat rated line was the difference between the recurring measured line charge and the flat rated charge. We multiplied the local portion of the line charge by the total number of lines to arrive at the total local transport charges.
- We divided the total local transport charges by the total number of local sent paid calls to arrive at an overall average per-call local transport charge.

Using the assumptions above, we calculated the simple average local transport charge, including implicit local transport charges for flat rated lines, to be \$0.034 per call (weighted average of \$0.043). We then compared this figure to the simple average local transport

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charge, assuming that all flat rated lines have no local transport, of \$0.032 per call (weighted average of \$0.041). The difference is \$0.002.

While we believe that the \$0.002 amount noted above fairly represents the per-call impact of including a portion of flat rated line charges as local transport, we do not believe that our overall simple average result of \$0.034 (or the weighted average of \$0.043) accurately represents the amounts that Coalition members pay for local transport. As discussed in our July 13, 1998 report, we concluded that the Coalition's average per-call local transport charge approximated the figure presented by the FCC in its Second Report and Order (i.e., \$0.025 - \$0.030). Our original calculations were based upon information provided by the Coalition's financial departments, which represented the actual (or imputed) expenses of each Coalition member for local transport charges for the 8.5 months ended December 31, 1997.

The calculation of local transport charges using actual (or imputed) expenses appears more accurate than the methodology followed to compute the \$0.043 noted above. For example, in our most recent calculation, several Coalition members were unable to identify the relative number of local calls made in each call band (i.e., distance of call) or the number of calls made during peak and off-peak periods. In one instance, the tariffed transport rates ranged from \$0.02 (calls less than 1 mile) to \$0.18 (local calls in excess of 56 miles). We are fairly certain that these two figures should not be given equal weight when computing the local transport charge. Using a more reasonable per-minute charge reduced the Coalition member's overall per-call transport charges by \$0.002. Similarly, our assumption regarding call durations is less accurate than using the actual expenses paid. If our assumed call duration of 2.5 minutes is overstated, our local transport charge would also be inflated.

Lastly, incorporating IPP payphones tends to overstate the local transport charges paid by Coalition members. For example, nearly 100% of all Coalition payphones operating in California subscribe to a flat rated access line, for which there is no alternative measured service available for the same class of service. IPPs, however, operate approximately 70,000 payphones in California, which subscribe to measured service. The same holds true with two other Coalition members (which handle approximately 30% of all Coalition local calls). Neither Coalition member subscribes to measured access service. In addition, measured access lines are not available for their class of service (i.e., their local transport charge is \$0). Including IPPs in their overall local transport calculation increases their per-call local transport from \$0 to approximately \$0.01.

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If we exclude IPPs from our calculation, the simple average per-call local transport charge is \$0.032 (including local transport on flat rated access lines). This figure is reasonable in comparison to our earlier findings.

Weighted Average Access Line Charge

We asked each Coalition member to provide the following information for the year ended December 31, 1997:

- The number of Coalition and IPP payphones per state, per type of payphone (e.g., coin, coinless) and per class of service.
- The access line charge for each payphone type, state and class of service, with indications of whether the access line charge included local transport charges.
- In cases where the line was flat rated, we asked the Coalition members to indicate whether measured service was available.
- The total subscriber line charges for the 8.5 months ending December 31, 1997.

Based upon the information provided, we quantified the weighted average access line charge as follows:

- **Measured Access Lines:** We multiplied the line charge by the total number of related payphones.
- **Flat Rated Access Lines - Measured Access Line Available:** So as to not include the local transport portion of the line charge, we assumed that the line charge was the recurring measured line charge for the same class of service.
- **Flat Rated Access Lines - No Measured Access Line Available:** We assumed the average line charge was the flat rated line amount.
- Some Coalition members were unable to provide the line counts as of December 31, 1997 by state, by class of service. We used the information provided in response to an earlier data request to allocate the difference in total line counts to the appropriate states.
- Some Coalition members were unable to segregate IPP lines by type of phone. In these instances we assumed all payphones were public coin lines.

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- We summarized all of the amounts above and divided the total access line charge amount by the total number of lines to arrive at \$28.54 per phone.
- We performed a similar calculation for subscriber line charges. The average subscriber line charge for the Coalition in total was \$5.11 per phone.

As requested, we have reviewed MCI's method of computing station maintenance expenses as described in their July 13, 1998 report. Please note that the expense account used by MCI in calculating the expense/asset ratio (account 6351) does not include all expenses related to station maintenance. For example, Coalition members treat accounts 6533 and 6534 as station maintenance expenses. Consequently, MCI's calculation of station maintenance may be understated.

If you have any questions regarding the above calculations, please contact me at (303) 295-1900.

Very truly yours,

ARTHUR ANDERSEN LLP

By 
Carl R. Geppert