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December 8, 1998

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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Magalie Salas, Secretary
Federal Communications Commission
445 Twelfth Street, N.W.
12th Street Lobby, Room TW-A325
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 I sent to Craig 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,

Aaron M. Panner

Aaron M. Panner

Enclosure

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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:

You requested data from the RBOC/GTE/SNET Payphone Coalition concerning the number of calls the various members of the Coalition require at a given location to place a public payphone – which is placed without charge to the location provider (and which usually generates commissions for that location provider) – as opposed to a semi-public phone – for which a fee is imposed on the location provider and for which no commissions are paid. In addition, you requested the call volume that serves as a cut-off for the payment of commissions at public payphones.

The Coalition has done its best to respond to this request, despite short notice. Six of the seven members of the Coalition have provided data, and we report the results, in the form of a weighted average, below. Several caveats are required. No member of the Coalition makes a decision about whether to place a public payphone based on call volume. In general, the criterion for placement of a public phone is either expected daily average revenue, or expected margin. The daily average revenue of course depends not only on call volume, but also on the mix of calls. And the margin depends not only on call mix, but also on expected expenses. For example, a payphone placed in an outdoor urban location would be expected to have far higher maintenance costs than a payphone placed in an indoor location.

In addition, no single number will accurately represent the decisionmaking process that a Coalition member goes through in determining whether to provide a public payphone. For large, well-established accounts, a payphone may be placed in a location with a low call volume at no charge to the location provider, because the overall account is still profitable. The Coalition member might even pay commission on all such calls, even where an individual location making up part of the account did not cover its costs. Conversely, when making a decision about whether to place a payphone at a new, untested location, the Coalition member might place the "floor" for payment of commissions higher than for its average account.

In short, there is no such thing as an average payphone at an average location, and the single weighted average figure provided below obscures this. Indeed, the Coalition has pointed out all along that a bottom-up approach to setting the per-call compensation rate would be arbitrary in part because it would depend so significantly on what the Commission determines "should be" the call volume at a marginal payphone. Ironically, MCI has (in a last-minute ex parte) finally conceded this fact.[1] At the same time, MCI seems to believe that the marginal payphone "should have" a call volume well in excess of 500 calls. The Coalition hastens to emphasize that the <u>average</u> Coalition payphone has a call volume of 478 calls.[2] If the Commission were to heed MCI's advice, a significant percentage of all public payphones in the United States will be rendered unprofitable. This will lead to the elimination of many of these payphones, directly in contravention of the congressional mandate.

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[1]<u>See</u> Letter of George S. Ford to Magalie Roman Salas, Dec. 2, 1998.

[2]<u>See</u> Letter of Michael K. Kellogg to Craig Stroup, Sept. 3, 1998.

One of the principal advantages of the avoided cost methodology, as properly applied, is that all avoided costs are marginal costs, which do not depend on call volumes. In the Second Report and Order,[3] the Commission treated coin mechanism capital costs, coin collection costs, local transport, Flex ANI, and interest as avoidable or additional costs. As the Coalition has demonstrated and economic analysis proves, coin collection costs, local transport, interest, and bad debt and administrative costs for per-call compensation (a category of costs that the Commission has wrongly ignored in the past) – but not coin mechanism capital costs or Flex ANI charges – are properly considered avoidable or additional costs. All of these avoidable or additional costs are genuinely marginal costs, and therefore can properly be quantified on a per-call basis. Thus the Commission need not determine, by administrative fiat, which payphones will remain economically viable. The determination will be left to the market.

In any event, in an effort to provide the information the Commission requested, Coalition members have generally followed something like the following methodology. They have attempted to determine the typical average daily revenue required to place a public phone in a new location; they have also attempted to determine the typical average daily revenue required for payment of commissions on such a phone. They have then determined what calls will on average produce the required daily average revenue, based on the average break-down of calls on their payphones. The number reported here is a weighted average of the reported values. In some cases, a range of values was reported; the midpoint of the range was used to calculated the weighted average. It should be emphasized that the specific value for each member is highly sensitive proprietary information; it

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[3]Second Report and Order, Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, 13 FCC Rcd 1778 (1997).

should also be noted that the spread of reported values among the Coalition members was large.[4]

Keeping all the foregoing qualifications in mind, the projected "average call volume" required by Coalition members for placement of a public payphone is 414 calls per month. The projected "average call volume" required for payment of commissions to the location provider is 464 calls per month.

I hope that this information is helpful. If I can provide further information or clarification, please call me at (202) 326-7921.

Yours sincerely,

Aaron M. Panner

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[4]An additional difficulty in accounting for per-call compensation calls is that the final value of compensation for such calls has of course not yet been determined; in addition, collections of per-call compensation are running in the range of 70-80 percent of expected revenue.