EXHIBIT 2

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Marie T. Breslin
Director
Government Relations - FCC

Bell Atlantic

EX PARTE OR LATE FILED

March 11, 1998

EX PARTE

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

Re: CC Docket 96-128, Pay Telephone Reclassification and Compensation

On March 10, 1998, Aaron Panner of Kellogg, Huber, Hansen, Todd and Evans and the undersigned, representing the RBOC/GTE/SNET Payphone Coalition, met with Glenn Reynolds of the Common Carrier Bureau.

The purpose of the meeting was to explain the attached materials developed by the Payphone Communications Alliance. Also provided were the attached study materials prepared by Frost and Sullivan to quantify IXC rate increases, savings in payphone commission payments and payphone-related access charge reductions.

Please call me if you have any questions concerning this material.

Sincerely,

Marie Breslin

Attachments

cc: G. Reynolds

The Toll-Free Truth:

Long Distance Companies Overcharge for Payphone Calls

Long distance companies are charging consumers hundreds of millions of dollars more than necessary to compensate payphone providers for toll-free and dial around calls. Here's the breakdown:

$$$ - In 1997, AT&T, MCI, Sprint and other long distance companies began imposing millions of dollars in surcharges -- up to 30 cents per call -- on all dial around and toll-free calls made from payphones. These surcharges alone will recover any amounts paid to payphone providers.

$$$ - Amount gained by MCI, Sprint and some other long distance companies from rate increases attributed to payphone compensation.

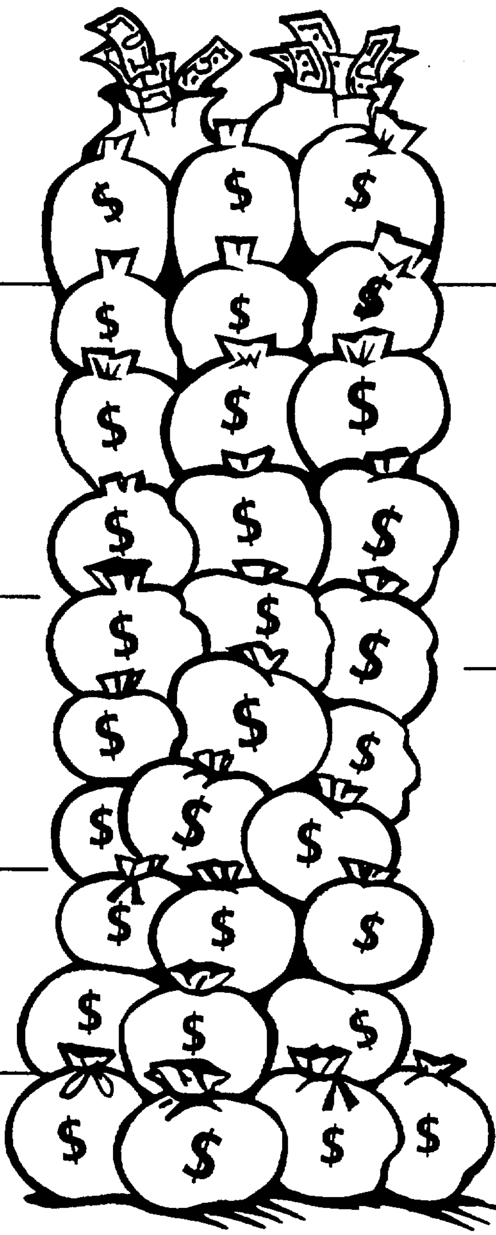
$$$

$641.6 million - Amount gained *by AT&T alone* in 1997 from rate increases on toll-free, business long distance and credit-card calls. AT&T imposed the hikes explicitly to compensate payphone providers.[1]

$371.5 million - Amount saved by long distance companies in 1997 in commission payments to location owners and payphone service providers.[2]

$250 million - Annual amount saved by long distance companies from elimination of interstate subsidies for payphone services provided by local phone companies[3]

$1.26 Billion



what long distance companies are getting

$992 million - Annual amount long distance industry needs to cover compensation charges of 28.4 cents for each toll-free and dial around call made from a payphone.[4]

what they need

Sources:

1. *Frost & Sullivan. Total amount is for AT&T rate hikes in February and May and does not include rate increases imposed by MCI, Sprint and other long distance carriers in 1997. On an annualized basis, the AT&T increases would exceed $900 million.*
2. *Based on public data and data submitted by payphone providers and independently verified and validated by Frost & Sullivan*
3. *Federal Communications Commission*
4. *Frost & Sullivan analysis based on FCC data*

Payphone Communication Alliance

1-800-605-7417

Payphone
Communication
Alliance

THE TOLL-FREE TRUTH

The Situation

- Section 276 of the Telecommunications Act of 1996 requires that payphone service providers (PSPs) be *"fairly compensated for each and every completed... call"* made from a payphone. This provision ended the free ride that long distance companies enjoyed, paying little or nothing for millions of calls made from payphones.

- These calls fall into two categories: (1) "access code," or "dial around," calls that give the caller the ability to choose a particular long distance service (these include, for example, 10XXX calls such as "10321," as well as 1-800-COLLECT and 1-800-CALLATT); or (2) "subscriber-800," or "toll-free," calls that permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

- In April of 1997, the local telephone companies reduced their federal access charges to long distance carriers (the fees long distance companies pay to originate and/or terminate long distance calls on local telephone networks) by more than $250 million per year, specifically to reflect the reduction in costs from the elimination of payphone subsidies as directed by Congress in Section 276 of the Act.

- In October of 1997, the FCC established a charge of 28.4 cents per call for dial around and toll-free calls made from payphones. *Long distance companies, not end users, are responsible for paying the PSPs this charge.*

- The FCC set the per-call charge for these calls based on the prevailing deregulated rate for a local call made from a payphone (local coin call), less the costs the FCC identified as avoided when a caller places a dial around or toll-free call from a payphone.

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THE FACTS

✓ Despite some recent reports to the contrary, payphone <u>users</u> are not charged at the payphone for toll-free and dial around calls.

✓ *In a recent consumer information bulletin, the Commission said, "Long distance companies have significant leeway on how to compensate PSPs. The FCC left it to each long distance company to determine how it will recover the cost of compensating PSPs."*

✓ The truth is that some long distance companies have used the FCC's payphone proceeding as an excuse to overcharge their customers.

✓ The total benefit accrued by long distance companies from rate increases, access charge and commission savings reductions is more than enough to cover payphone compensation.

⇒ Over the last year, long distance companies have imposed several across-the-board increases in their toll-free rates, each time asserting that the increase was for the explicit purpose of covering PSP compensation for toll-free and dial around calls from payphones.

⇒ Long distance companies have pocketed more than $250 million a year in recurring savings, specifically due to elimination of payphone subsidies.

⇒ Long distance companies have saved tens of millions of dollars in commissions to PSPs and payphone location owners as a result of the massive shift from 0+ calls to dial around calls made possible by changes in federal law in 1992, the Telephone Operator Service Improvement Act ("TOCSIA"). For example, AT&T paid commissions of up to 95 cents per call for each 0+ call received from a payphone. By shifting 0+ calls to the heavily advertised "1-800-CALL ATT," AT&T used the technological loophole to reap huge savings and profit.

✓ The new per-call charge that long distance companies imposed last fall (AT&T - 28 cents; MCI and Sprint - 30 cents) on their toll-free and credit card subscribers is entirely unjustified since these companies have already more than recovered the cost of the FCC's payphone decision. These new, additional per-call charges are creating a windfall for long distance companies and a backlash from toll-free subscribers and consumers against a proper and fair decision by the FCC.

Payphone
Communication
Alliance

BRIEF BACKGROUND

General

On February 8, 1996, the President signed into law the Telecommunications Act of 1996 ("Act"). Passage of the Act was critical to the future success and growth of the U.S. payphone industry. For decades, government regulation kept the price of a local payphone call artificially low.

Section 276 of the Telecommunications Act of 1996 was designed to level the playing field in the payphone industry to promote competition among all payphone service providers (PSPs), telephone companies and independents, and the widespread deployment of payphone services.[1] It requires that all PSPs be *"fairly compensated for each and every completed... call"* made from their payphones, and it gives the FCC the responsibility of ensuring that this requirement is met. This compensation requirement is particularly important since as much as one-half to two-thirds of long distance calls from payphones have shifted to dial around and toll-free calls.[2] Section 276 also directs the FCC to ensure that all payphone subsidies are eliminated.

FCC's First Set of Rules

Per-Call Compensation Set at 35 Cents

On September 20, 1996, the FCC adopted its first set of rules implementing Section 276 of the Act. It deregulated local coin rates in all 50 states, effective October 7, 1997, and it directed the local telephone

[1] There are about 2 million payphones in the United States. Approximately 80 percent are owned by local telephone companies or their affiliates. Independent payphone companies own the rest.
[2] "Access code," or "dial around" calls give the caller the ability to choose a particular long distance service (these include, for example, 10XXX, such as "10321," as well as 1-800-COLLECT and 1-800-CALLATT). Subscriber-800," or "toll-free," calls permit a caller to reach a toll-free number obtained from a long distance company ("800" or "888").

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companies to eliminate payphone subsidies by April 15, 1997. For the first period – November 1996 to October 1997 – the FCC required that long distance companies with more than $100 million in revenues pay each PSP a flat rate per phone, apportioned among long distance companies by market share. In the second 12-month period (which has already begun), when per-call tracking is widely available, the FCC initially set a compensation rate of 35 cents per call, the prevailing rate for local coin calls in states where the rate for such calls is not regulated. The FCC reasoned that a long distance company should ultimately negotiate with PSPs for a per-call compensation rate.

FCC's Second Set of Rules
Per-Call Compensation Reduced to 28.4 Cents

On July 1, 1997, the U.S. Court of Appeals for the DC Circuit remanded the payphone compensation rate to the FCC for further consideration. On October 9, 1997, the FCC adopted a second set of rules, reducing the per-call compensation from 35 cents per call to 28.4 cents, over the objections of the PSPs. The FCC again concluded that "a market-based rate best responds to the competitive marketplace for payphones consistent with the deregulatory scheme...pursuant to Section 276, and will also effectively advance the statutory goals of encouraging competition and promoting the deployment of payphones."

Long Distance Companies Raise Rates
Using the FCC Rules as an Excuse to Overcharge Customers

Several long distance companies have asked the FCC to reconsider its October 9 decision. A decision from the FCC is anticipated by the spring of 1998.

These long distance companies are challenging the FCC rules despite the significant reduction in the per-call rate from 35 cents to 28.4 cents (nearly 20 percent). In the meantime, the long distance companies have repeatedly raised their toll-free rates purportedly to cover payphone compensation, added per-call surcharges (to cover the same payphone compensation) and pocketed in excess of $250 million in savings from the elimination of payphone subsidies.

AT&T, for example, raised its 800 rates at least three times in 1997 to pay for the new compensation rate.

- On February 27, AT&T raised rates for all toll-free calls by 3 percent and imposed a charge of 15 cents per call for business credit card calls.
- On May 1, AT&T raised its interstate toll-free rates by 7 percent and business international and interstate outbound services by 2 percent.
- *On June 1, AT&T added another 35-cent per-call charge for operator handled calls, including calling card calls "to offset payments to payphone owners."* This charge was reduced to 28 cents only after the FCC reduced the per-call charge in October 1997. The new 28 cent per call surcharge was expanded to include toll free calls.

MCI and Sprint have repeatedly raised their rates as well.

- *MCI raised its 800 rates twice in 1997*, each time by more than three percent.
- *Sprint also raised its 800 rates twice*, by two percent in November 1996, and again by about five percent in 1997.
- *MCI and Sprint also announced last year that they will impose $0.30 per call surcharge for payphone use.*

Even though AT&T, MCI and Sprint announced per-call rate hikes to cover the 28.4 cents, none have rolled back the substantial across-the-board rate increases they made earlier, specifically to cover payphone compensation.

Finally, since April 15, 1997 the long distance companies have also pocketed in excess of $250 million as a result of the elimination of payphone subsidies historically included in local telephone company access charges.[3] None of these savings have been passed on to consumers or to 800 service customers.

[3] Access charges are the charges long distance companies pay to local telephone companies for the origination and termination of long distance calls on the local telephone network.

FROST & SULLIVAN

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To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance
Vince Sandusky, Co-Chair of the Payphone Communications Alliance
From: Brian Cotton
Date: February 26, 1998
Subject: Long-distance company commission savings

Dear Mr. Hawkins and Mr. Sandusky:

Please find attached a spreadsheet model depicting the long-distance companies' savings in commissions to Payphone Service Providers (PSPs) due to the shift from 0+ dialing to dial-around calling from payphones since 1993. This model assumes that the average number of 0+ calls from a payphone would have remained constant had the 1990 law which mandated equal access from payphones, not passed. *Our conclusion is that the long-distance companies, industry-wide, have saved a minimum of $371.5 million in commission payments in 1997 alone from paying less in commissions to PSPs, due to a shift from 0+ to dial-around calls from payphones.*

The estimate of the number of payphones installed in the U.S. market (1993-1997) is based on Local Exchange Carrier (LEC) reports to the Federal Communications Commission (1,694,000 in 1997), and an estimate of the number of independent payphones and payphones from LECs not required to be reported to the FCC (529,000 payphones in 1997). Note that our results for the industry-wide commission savings are conservative, since we used a conservative estimate of the number of payphones from independent and non-reporting LECs.

To explain this model in more detail, we first estimated the average number of 0+ calls made from a payphone in a month in a given year (C1), and multiplied it by the average commission paid for each 0+ call (M). We then multiplied this monthly figure by 12 months, and multiplied this result by the estimated number of payphones installed in the U.S. market in a given year (Q) to arrive at the total payphone commission paid by the long-distance companies (TC1).

Next, we assumed that the 1990 law had not been enacted. We conservatively estimated that the average number of 0+ calls from payphones remained constant at 51.02 for the analysis period (C2), and calculated the total payphone commission paid by the long-distance companies had the 1990 law not passed (TC2).

Finally, to calculate the amount of payphone commissions that the long-distance companies saved each year since the 1990 law was enacted (Savings), we subtracted the actual commission payments (TC1) from the baseline commissions (TC2). Thus in 1997 alone, the long-distance companies saved $371.5 million in payphone commissions.

To extrapolate from these figures, if the number of payphones installed continues to grow past 1997, the long-distance companies' savings should grow significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

Brian Cotton

Long Distance Company Commission Savings (since 1993)

Y	C1	C2	M	Months	Q	TC1	TC2	Savings
1997	16.20	51.02	$0.40	12	2,223,000	$172,860,480	$544,403,808	$371,543,328
1996	19.13	51.02	$0.40	12	2,111,000	$193,840,464	$516,975,456	$323,134,992
1995	25.21	51.02	$0.40	12	2,056,000	$248,792,448	$503,506,176	$254,713,728
1994	38.75	51.02	$0.40	12	2,091,000	$388,926,000	$512,077,536	$123,151,536
1993	51.02	51.02	$0.40	12	2,032,000	$497,628,672	$497,628,672	$0

Key

Y = Year

C1 = Average number of 0 + Calls made from Payphones each month

C2 = Estimated average number of 0+ calls, if 1992 law had not passed

M = Average Commission PIC pays to PSP for each 0 + Call,
based on FCC imposed compensation of $0.40 per call

Months = # of Months in a Year

Q = Number of Payphones installed in the U.S. in the given year

TC1 = Total yearly Commissions PIC pays PSP for 0 + Calls

TC2 = Total yearly commissions paid if 1992 law had not passed

Savings = savings in compensation between baseline (TC2) and actual commissions (TC1)

Source: Frost Sullivan

FROST & SULLIVAN

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To: Jim Hawkins, Co-Chair of the Payphone Communications Alliance
Vince Sandusky, Co-Chair of the Payphone Communications Alliance
From: Brian Cotton
Date: February 26, 1998
Subject: Impact of AT&T rate increases for payphone compensation

Dear Mr. Hawkins and Mr. Sandusky:

This memo is intended to present our analyses of the quantitative impact on AT&T of their rate increases to cover payphone compensation for dial-around and toll free calls. *Our conculsion is that the rate increases allowed AT&T to gain approximately $641.6 million in 1997. As you will see from this document, the rate increases were in effect for only part of the year in 1997, and whereas they were relatively significant, the figures for 1998 are likely to be even higher.*

The methods by which we performed these analyses involved taking the public statements made by AT&T on January 21, 1998 about their rate increases, estimating AT&T's share of that market, and multiplying them to arrive at AT&T's annual expected revenue from that market prior to any of the announced rate increases. Next, we multiplied the rate increase by the revenue to arrive at an estimate of the annual added revenues from the rate increases. We then divided this annualized figure by 12 months to arrive at an average monthly figure for these added revenues, and then multiplied this monthly figure by the number of months in 1997 which were subject to the rate increases. We then added this figure to the expected revenue figure prior to the rate increases to arrive at the total 1997 revenue. The final calculation involved subtracting the pre-rate increase revenue from the total post-rate increase revenue to give us the quantitative impact of the rate increases on each service.

I will explain the impact of each rate increase, as generated by our analyses, below.

The first analysis, entitled "Total Toll Free Market," quantifies the gain AT&T would realize in 1997 from a 3 percent increase in toll free rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Total Toll Free section, shows that AT&T would gain $160.6 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for toll free including both pre- and post-increase revenues.

The second analysis, entitled "Business Calling Cards," quantifies the gain AT&T would realize in 1997 from a $0.15 per call increase in business calling card rates to cover its payphone liability, effective February 27, 1997. This figure, highlighted in the last column of the Business Card section, shows that AT&T would gain $46.7 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business calling card calls including both pre- and post-increase revenues.

The third analysis, entitled "Business International," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in business international rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Business International section, shows that AT&T would gain $57.0 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for business international including both pre- and post-increase revenues.

The fourth analysis, entitled "Inbound Interstate Toll Free," quantifies the gain AT&T would realize in 1997 from a 7 percent increase in interstate toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the Inbound Interstate Toll Free section, shows that AT&T would gain $239.8 million from the rate increase in May through December 1997. The column before this shows the total AT&T revenues in 1997 for inbound interstate toll free including both pre- and post-increase revenues.

The final analysis, entitled "U.S. Business Interstate Outbound Long Distance Service," quantifies the gain AT&T would realize in 1997 from a 2 percent increase in toll free rates to cover its payphone liability, effective May 1, 1997. This figure, highlighted in the last column of the U.S. Business Interstate Outbound Long Distance Service section, shows that AT&T would gain $137.5 million from the rate increase in March through December 1997. The column before this shows the total AT&T revenues in 1997 for business interstate outbound long distance including both pre- and post-increase revenues.

Please note that we found AT&T's statements to be unclear for the final analysis, in that one could read the statement "...prices for business international and interstate outbound services by 2 percent (point #5 of the release)," in two ways. The increases could be construed to apply to all interstate outbound services (business plus residential), or it could be read to apply to only business outbound interstate services. We chose a conservative approach by focusing the analysis on only the business outbound interstate interpretation. Including the residential segment with this analysis would increase AT&T's gains significantly.

Please do not hesitate to call me on my direct line (650-237-4315) if you have any questions about this material.

Sincerely,

Brian Cotton

Brian Cotton

Impact of ATT rate increases for payphone compensation (1997)

Total Toll Free Market (1)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenues (post increase)	Total AT&T toll free revenues	1997 Gains
1997	$ 12,350,000,000	0.52	$ 6,422,000,000	0.03	$ 192,660,000	$ 16,055,000	$ 6,582,550,000	$ 160,550,000
Business Calling Cards (2)								
Year	Market Size (calls)	AT&T Share (est)	AT&T business calling card calls	Rate increase (per call)	ave. monthly revenues (due to increase)	total revenue increase (after rate increase)	Total market revenues	AT&T business card revenues (post-increase)
1997	868,500,000	0.43	373,455,000	$ 0.15	$ 4,668,188	$ 46,681,875	$ 5,060,000,000	$ 2,175,800,000
							Total AT&T business calling card revenues	1997 Gains
							$ 2,222,481,875	$ 46,681,875
Business International (3)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	added revenues	Ave. monthly revenue increase (after rate increase)	Total AT&T business international revenues	1997 Gains
1997	$ 8,730,000,000.00	0.49	$ 4,277,700,000	0.02	$ 85,554,000	$ 7,129,500	$ 4,334,736,000	$ 57,036,000
Inbound interstate toll-free (4)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	revenue increase	Ave monthly increase	Total AT&T inbound interstate toll free revenues	1997 Gains
1997	$ 9,880,000,000	0.52	$ 5,137,600,000	0.07	$ 359,632,000	$ 29,969,333	$ 5,377,354,667	$ 239,754,667
U.S. Business Interstate Outbound Long Distance Services (5)								
Year	Market Size	AT&T Share (est)	AT&T revenue	Rate increase (%)	AT&T rev increase	Ave monthly increase	Total business interstate outbound revenues	1997 Gains
1997	$ 23,178,720,000	0.445	$ 10,314,530,400	0.02	$ 206,290,608	$ 17,190,884	$ 10,452,057,472	$ 137,527,072

Notes

(1) The AT&T rate increase was announced on 27 Feb 97, 10 months are assumed to be affected.

(2) The AT&T rate increase was announced on 27 Feb 97

Market sizing: A business card call is equivalent to one 5 minute call

(3) Business international rates increases effective 1 May 97

(4) Inbound interstate toll free revenues are assumed to be 80 percent of the total toll free market revenues in 1997.

Increases effective 1 May 97

(5) Rate increases effective 1 May 97

Business interstate outbound long distance services account for approximately 43% of total market

AT&T's market share for business long distance services is less than residential share

Interstate interLATA toll calls are somewhat more expensive than interLATA intrastate calls

Total AT&T Gains in 1997

$ 641,549,614

EXHIBIT 3

A5691.543 B

STAMP & RETURN

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RECEIVED

MAR 17 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

March 16, 1998

VIA COURIER

EX PARTE PRESENTATION

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

Re: **CC Docket No. 96-128**

Dear Ms. Salas:

On March 13, 1998, the undersigned counsel and co-counsel of this law firm, on behalf of the American Public Communications Council, Inc. ("APCC"), met with Commissioner Gloria Tristani, Paul Gallant, Legal Advisor to Commissioner Tristani, and Greg Lipscomb and Jennifer Myers of the of the Common Carrier Bureau's Enforcement Division.

During the meeting, we presented an historical overview of payphone regulation to date. Our discussions were limited to matters related to payphone regulation from an historical perspective, and the information contained in the presentation materials enclosed herewith.

If you desire any further information, please contact the undersigned.

Sincerely yours,

Albert Kramer

Albert H. Kramer

AHK/rw
Enclosure
cc: Gloria Tristani
Paul Gallant
Greg Lipscomb
Jennifer Myers

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A History of Payphone Compensation

Presented by the American Public Communications Council

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM?

Annual Cost of Payphone Compensation for Dial-Around Calls

- Using the Commission's conservative, somewhat out-of-date average of 131 dial-around calls per payphone per month multiplied by 28.4¢ per call, yields \$37.20 per payphone per month

- \$37.20 multiplied by the 12 months of the year is \$446.45

- For the approximately 2.223 million payphones nationwide, annual compensation is approximately \$992 million (\$446.45 x 2,223,000 payphones)

- Using 152 dial-around calls per payphone per month, as proposed by APCC, the total cost of annual compensation would be approximately \$1.15 billion

Corresponds with Slides 36 - 37

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Recovery Method #1: Raise Rates

- The IXCs, most notably AT&T, MCI, and Sprint have raised their rates for subscriber 800 and some interstate and international services
- These rate increases were, as acknowledged by the carriers themselves, a specific response to the Payphone Orders
- Calculations performed by Frost & Sullivan, based on AT&T public statements, valued these rate increases, for AT&T alone, at $642 million in just 1997 (annualized to about $900 million)

Recovery Method #2: Pay Less in Access Charges

- The Commission's rules terminated all subsidies for payphone operations, which has amounted to a payphone-specific reduction in access charges paid by IXCs to LECs of over $250 million
  - This reduction is distinct from reductions associated with CC Docket No. 96-262
- Additional subsidies were terminated at the state level
- The IXCs have not passed on any portion of these significant intrastate and interstate access charge cost reductions on to their customers, which is contrary to the pledge they made in the Commission's access charge reform proceeding

Corresponds with Slides 38 - 39

Recovery Method #3: **Savings in Commissions Due to Migrating 0+ Traffic to Access Code Calls**

- o Pursuant to individual contracts, IXCs pay commissions to PSPs for 0+ calls
  - -- The Commission estimated in 1992 that AT&T's average commission payment on a 0+ call was about 40¢
- o IXCs have trained their customers to dial an access number to reach the carrier (such as 1-800-CALL-ATT), even when the payphone is already presubscribed to the same carrier
  - -- Dialing-around by callers allows the carrier to bypass 0+ commission payments, which reduces its overall costs for payphone-originated calls
- o In 1993, according to APCC data, the average IPP *originated 51 commissionable 0+ calls*
- o By 1997, the same data show that this IPP average had *fallen to 16 commissionable 0+ calls!*
  - -- This *69 % reduction in commissionable 0+ calls* has dramatically lowered an IXC's costs -- directly out of the pockets of the PSPs
  - -- The monthly 35 call shortfall at each payphone translates into *annual 0+ commission savings for the IXCs of approximately $372 million*[1]
- o Once again, the IXCs have not passed on these savings to their customers

Corresponds with Slides 40 - 41

[1] 35 calls per month x 40¢ per call x 12 months of the year x 2.223 million payphones = approximately $372 million

WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

Recovery Method #4: **Impose Per-Call Surcharges on Callers and Subscribers**

- o Almost all of the IXCs place a surcharge on callers who originate calls from payphones and on 800 subscribers who receive such calls

- o The amount of these surcharges often exceeds the 28.4¢ per call default rate established by the Commission

  - -- At present, IXCs can track all dial-around calls (with "27" ANI coding digits) from 60% of payphones

  - -- IXCs can also track all access code calls (which are roughly one third of all dial-around calls) from the remaining 40% of the payphones

  - -- Thus, IXCs can currently track about 70% of all dial-around calls and are passing on the per-call compensation costs for these calls directly to the end users in the form of a surcharge

  - -- Once the ANI coding digit waivers expire, IXCs should be able to track all, or virtually all, dial-around calls and will impose a surcharge for them

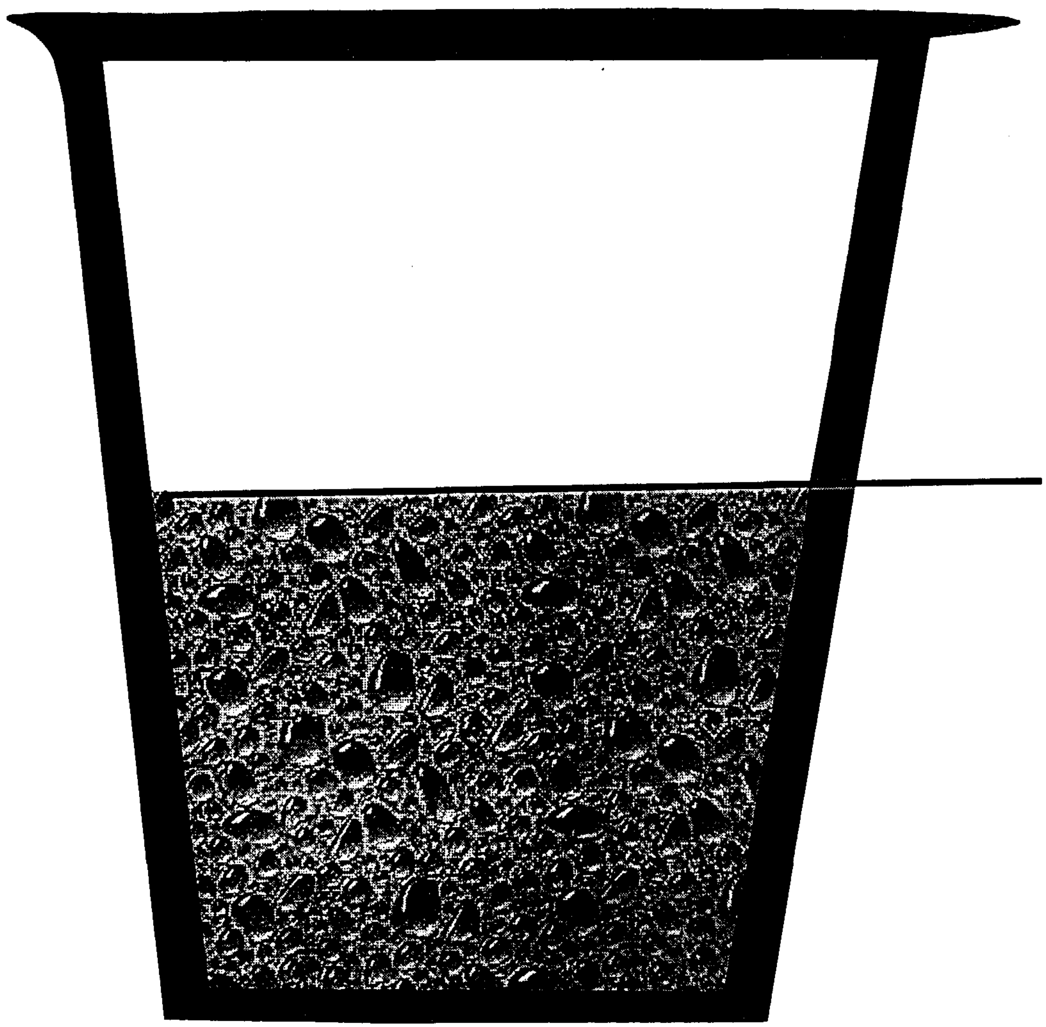
WHERE DOES THE PAYPHONE COMPENSATION MONEY COME FROM? (continued)

<u>Quadruple Dipping</u>?

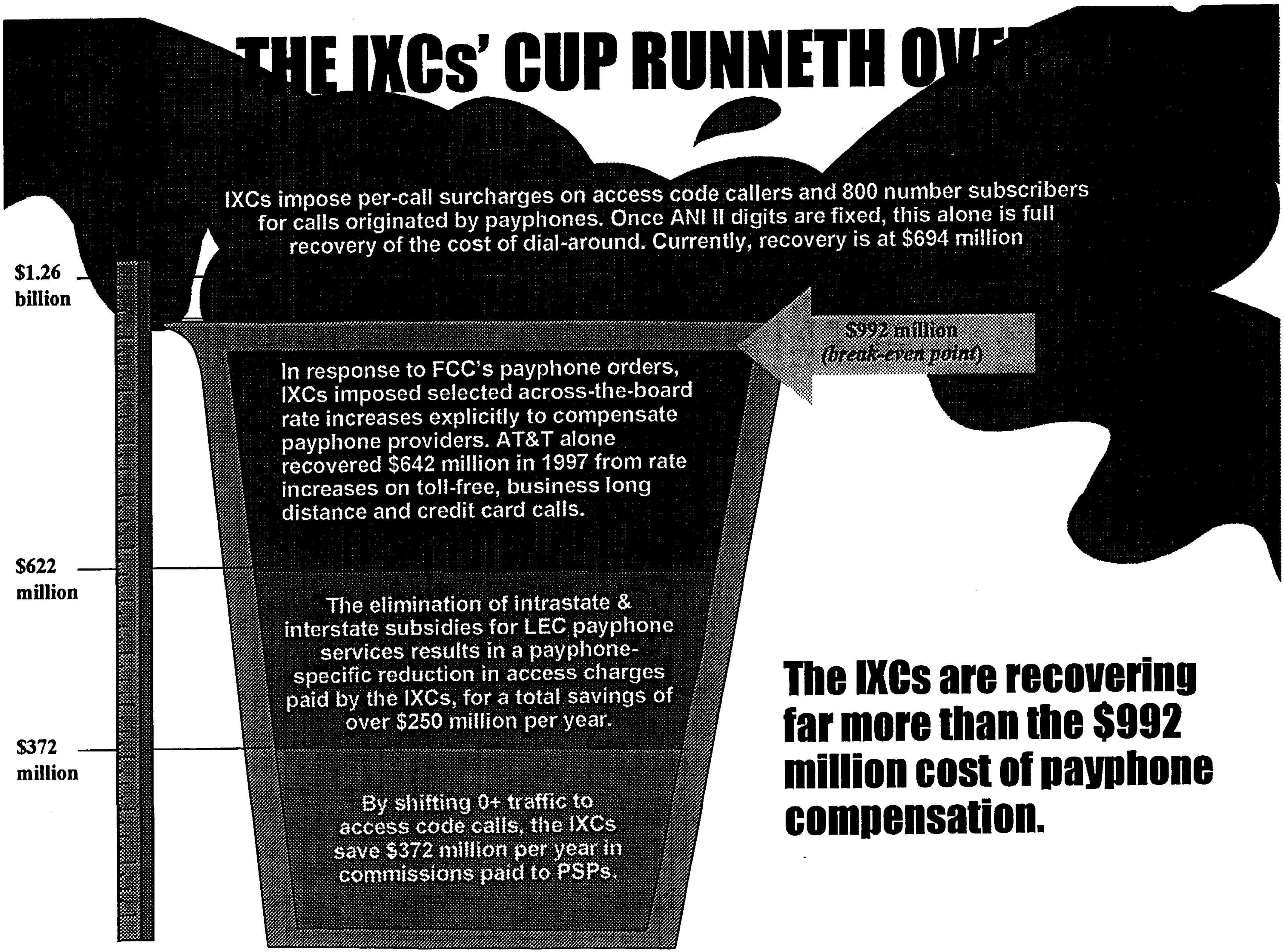
- o *These four strategies to recover the costs of payphone compensation have been applied by the IXCs simultaneously*
- o "Quadruple dipping" by the IXCs has netted far more than the "costs" of payphone compensation payments to the PSPs
- o Despite their claims of financial injury, the IXCs have converted the payphone compensation mechanism as an opportunity to *increase* their revenues

Corresponds with Slide 44

BREAKING EVEN



By recovering $992 million dollars per year, the IXCs break even on payphone compensation costs.



The IXCs are recovering far more than the $992 million cost of payphone compensation.

CERTIFICATE OF SERVICE

I, Kimberly Dunmire, hereby certify that on April 21, 1999, a true and complete copy of the foregoing Petition of the Colorado Payphone Association for Partial Reconsideration was sent by first claim mail, postage prepaid, or by hand-delivery (*), to the following parties:

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