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December 15, 1999

EX PARTE OR LATE FILED

VIA HAND DELIVERY

Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW, TW-A325
Washington, D.C. 20554

RECEIVED
DEC 15 1999
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: *Ex Parte Notice*
In the Matter of MCI Telecommunications Corporation
Petition for Rulemaking Concerning Billing and
Collection Services Provided By Local Exchange
Carriers for Non-Subscribed Interexchange Services
RM-9108

Dear Ms. Roman Salas:

On November 30, 1999, members of the Billing Reform Task Force ("BRTF") met with Larry Strickling, Chief of the Common Carrier Bureau, Robert Atkinson, Deputy Chief of the Common Carrier Bureau, and Darius Withers, Attorney Advisor with the Investigations and Hearings Division of the Enforcement Bureau. The BRTF was represented by its co-chairs, Albert Angel and Peter Brennan, as well as by its outside counsel, Edwin N. Lavergne. Also in attendance were approximately forty other individuals from industry and the Commission. The meeting was organized by the Common Carrier Bureau staff to consider local exchange carrier ("LEC") billing and collection practices.

At the meeting, Robert Atkinson requested that ex parte notices be filed by December 15, 1999. In response to that request, below is a summary of the points made by the BRTF at the meeting and a request for Commission action. The BRTF is in the process of compiling other data relevant to LEC billing and collection practices from its members. The BRTF intends to supplement this filing with that data within the next several weeks.

The BRTF is a non-profit organization that represents the interests of more than a dozen service bureaus, information providers and billing entities that provide 800, 900, voice mail, paging and Internet services. In almost all cases, these services have been billed through LECs on the monthly telephone bill.

Implementation of new LEC policies threaten continued access to the LEC telephone bill by members of the BRTF. For example, US West has terminated access to the local bill for all competing providers of ancillary telecommunications services, while continuing to bill for its own services. US West is not alone. GTE's standard billing services contract no longer includes billing for 900 number services. Ameritech has ceased billing for competitive voice mail and Internet service providers, and sets arbitrary thresholds for the third party services it does bill. Other LECs have imposed onerous contract terms and moratoria on third-party billing entities.

Continued access to the LEC bill is essential if competitive service providers are to survive. Consumers prefer the convenience of a single bill for telecommunications and ancillary services. Moreover, other means of billing and collection (for example, direct billing and credit card billing) are not economically viable alternatives. At the November 30th meeting, the BRTF submitted an economic study to the Commission staff which supports its claim that other alternatives to LEC billing and collection are not economically viable. A copy of that study, prepared by the Washington, D.C. consulting firm of Economists Incorporated, is attached as Exhibit A.

But mere access to the LEC bill, even under the current regime, is not enough because the LECs have demonstrated an unwillingness to provide services on a non-discriminatory basis. Time and again, one after another, LECs have used their local marketing clout to offer their own ancillary services to their customers. LECs have unique access to those customers because of their historical status as incumbent monopolists. In the interest of consumer choice and a competitive marketplace, all service providers should enjoy the same *non-discriminatory* access to American consumers.

In 1986, the Commission detariffed billing and collection services on the theory that there was adequate competition in the marketplace. The BRTF's economic study demonstrates that there is not adequate competition in the marketplace. Accordingly, there is an urgent need now for the Commission to take a second look at the assumptions underlying the 1986 detariffing order.

Past efforts to focus the Commission's attention on this important issue have failed. Although the above-referenced Petition For Rulemaking was filed by MCI nearly three years ago, the Commission has taken no action to date. Earlier this year, the BRTF requested that the Commission utilize its "rocket-docket" procedure to stop GTE from eliminating 900 number billing and collection services in violation of the Telephone Disclosure and Dispute Resolution Act. However, despite repeated requests to initiate a rocket docket proceeding, the Commission has taken no action. In addition, although US West announced that it would cease billing and collection for services not offered by itself or its affiliates effective December 1, 1999, the Commission staff has indicated that there is nothing they can do at the present time.

Magalie Roman Salas
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At the November 30th meeting, the BRTF presented a letter to the Commission staff signed by more than fifty service providers expressing their outrage over the US West action. A copy of that letter is attached as Exhibit B. While the BRTF appreciates the political appeal of the Commission's deregulatory stance, it believes the Commission has an obligation to ensure a competitive marketplace for competitive services billed and collected through the LEC billing envelope.

The BRTF urges the Commission to initiate a formal rulemaking to explore whether some form of regulatory intervention is warranted. In the meantime, the Commission must take some action to prevent discriminatory billing and collection policies from driving competitive service providers out-of-business.

We appreciate the opportunity to have participated in the November 30th meeting, and look forward to working with the Commission in an effort to find a successful solution to the problems discussed at the meeting.

Sincerely yours,



Edwin N. Lavergne
Counsel to the Billing Reform Task Force

cc Larry Strickling (w/ enclosures)
Robert Atkinson (w/ enclosures)

**BILLING AND COLLECTION
FOR 900-NUMBER CALLS:
A COMPETITIVE ANALYSIS**

September 7, 1999

**Prepared by
Stephen E. Siwek and Gale Mosteller,
Economists Incorporated
Washington, D.C.**

Billing and Collection for 900-Number Calls: A Competitive Analysis

by Stephen E. Siwek and Gale Mosteller¹

I. Introduction

Interstate 900 numbers are used to provide information and entertainment services to "casual" callers by telephone. Calls made to 900 numbers are priced on a per-call or per-minute basis and charged to the calling party. 900-number charges appear on the caller's local telephone bill, except in rare instances where they are direct billed. Applications for 900 numbers include consumer and business information such as weather, state lottery results, computer support services, promotional sweepstakes, classifieds, voice personals, sports results, horoscopes, and other entertainment. According to one analyst, in 1997, revenues for 900-number calls reportedly reached \$913.6 million.²

When consumers use 900-number services, they do not establish a business relationship and account with the service provider in advance. Moreover, they do not provide their credit history to the service provider, either directly or through a third-party such as a credit card company. These types of calls are commonly referred to as "casual calls." By contrast, for "pre-subscribed" telephone services such as local, long distance, and wireless services, consumers set up an account in advance and receive monthly bills. Service providers generally qualify their presubscribed customers in advance by checking their credit histories.

Casual calling, by its nature and purpose, does not lend itself to setting up an account in advance. Indeed, one of the advantages of 900 numbers is that consumers can decide to use 900-number services on the spur of the moment. Spontaneous and widespread availability to a wide range of telephone-based information and entertainment services are key characteristics that distinguish 900-number services offered by information providers to consumers.

II. Background and Purpose of Report

In 1992, Congress enacted the Telephone Disclosure and Dispute

¹ Our vitas are attached at Tabs A and B.

² "F&S Report Looks at 900/976 Challenges," *InfoText* [http://infotext.com/departments/national_news/frost-sullivan_report.htm]

Resolution Act (TDDRA) to regulate 900-number services. Among other things, Congress found that such services “provide valuable information, increase consumer choices, and stimulate innovative and responsive services.”³ The Federal Communications Commission (FCC) and the Federal Trade Commission (FTC) have adopted rules and policies to implement the TDDRA and to protect consumers of telephone information and entertainment services.

Virtually all 900-number calls are billed and collected through local exchange carriers (LECs). That is, the charges for such calls – whether presented on an interexchange carrier’s bill page or on a third-party billing entity’s bill page – are included in the LEC billing envelope. A company that has a billing contract with LECs, such as AT&T, MCI WorldCom, or a third party billing entity (sometimes called a “billing aggregator”), transmits information needed to bill 900-number calls to the LECs. The LECs add a separate page to the consumer’s telephone bill that lists the charges for 900-number calls. The attached affidavits from members of the Billing Reform Task Force reveal that LECs bill and collect for the vast majority of their 900-number calls.⁴ Alternatives to LEC billing and collection are rarely used for 900-number calls for the reasons discussed below.

Recently, members of the Billing Reform Task Force have informed us that some LECs have begun to eliminate billing and collection for 900-number calls. For example, GTE has refused to renew its billing and collection contracts with certain third-party billing entities. US WEST has stopped billing and collection for 900-number calls related to psychic programs and games of chance. Other LECs have also announced their intention to stop billing and collection for certain 900-number services.

Faced with LEC refusal to continue billing and collection for 900-number services, the Billing Reform Task Force asked Economists Incorporated to determine whether there are competitive alternatives to LEC billing and collection for information and entertainment services offered through 900 numbers. In

³ See *Telephone Disclosure and Dispute Resolution Act*, Pub. L. No. 102-556 (1992) § 1(b).

⁴ See Tab C. In the attached affidavits, American Telnet, ICN Ltd., Micro Voice, Telecompute, and The TPI Group state that all of their 900-number programs are billed and collected by LECs. Network Telephone Services states that most of its 900-number programs are billed and collected by LECs. Integretel, Inc. states that at least 95% of its 900-number programs have been billed and collected by LECs. Mirage Marketing, Inc. states that about 70% of its 900-number programs are billed and collected by LECs.

preparing this report, Economists Incorporated reviewed FCC and FTC comments and orders, searched public databases for information, and conducted telephone and personal interviews with members of the Billing Reform Task Force and other industry participants, including representatives from AT&T. We have concluded that direct and credit card billing and collection are *not* competitive alternatives to LEC billing and collection for 900-number services.

III. The Relevant Market

This report focuses on the market for billing and collection of 900-number services on a nationwide basis. In 1986, the FCC declined to regulate LEC billing and collection services in order to protect interexchange carriers, finding that "there is sufficient competition to allow market forces to respond to excessive rates or unreasonable billing and collection practices."⁵ To determine whether there are competitive alternatives to LEC billing and collection for 900-number calls, we use the same analytic framework used by federal antitrust authorities to define a market.⁶ When federal antitrust authorities analyze a merger or joint venture, they must determine the likelihood that the transaction would facilitate the exercise of market power. One or more firms have market power if, for example, they can raise price (relative to cost) by restricting their output. For firms to succeed in exercising market power, buyers must lack good alternatives. If buyers had good alternatives, the firms attempting to exercise market power would lose so much business that their profits would decline. In an appropriately defined antitrust market, firms could successfully and profitably exercise market power assuming they could coordinate their actions. An antitrust analysis determines which products and which geographic areas should be included in the market.

The two primary alternatives to LEC billing and collection for 900-number calls are (1) direct billing and collection and (2) credit card billing and collection. If direct billing and collection or credit card billing and collection were competitive alternatives to LEC billing and collection, then hypothetically a small but significant and non-transitory rise in the price of LEC billing and collection would cause substantial switching to direct and credit card billing and collection. Or, if LEC billing and collection were withdrawn from the relevant market, one would

⁵ *Detariffing Order*, 102 FCC 2d 1150, 1170.

⁶ Department of Justice and Federal Trade Commission, *Horizontal Merger Guidelines*, revised April 8, 1997.

expect competitive alternatives to be utilized – if they were truly competitive substitutes. As discussed more fully below, neither of these alternatives competes with LEC billing and collection for 900-number calls.

IV. Direct Billing and Collection for 900-Number Calls

A. Casual Calling Does Not Lend Itself to Direct Billing

For many services, direct billing and collection is commonplace, and typically takes place on a recurring basis. Consumers receive direct bills for local telephone service; electric, water, and gas service; mortgage payments; rent; insurance premiums; cable television service; wireless telephone service; and Internet service. When service providers set up an account to bill a consumer directly, they often qualify the consumer by checking his or her credit history. Consumers with a history of nonpayment may be refused service. Service providers may also require a deposit in advance of service. The success of direct billing and collection depends on the ability of the service provider to protect itself from nonpayment and the desire by the consumer to continue service. The consumer has greater incentive to pay, when he or she desires future service.

B. Lack of BNA

Even if casual calling services did lend themselves to direct billing (which they do not), as a practical matter, service providers may not be able to direct bill for 900-number services because of the difficulty of obtaining the caller's billing name and address ("BNA"). When a consumer calls a 900 number, the service provider knows the calling party's telephone number. However, in order to bill for the call, the service provider must also know the calling party's name and address. While LECs have this information with respect to calls originating within their service areas, recent testimony before the Federal Trade Commission (attached as Tab E) indicates that BNA is not universally available to other parties.⁷ Moreover, even when BNA is available, service providers have found it to be expensive, untimely, and incomplete in terms of covering all areas of the United States.⁸

⁷ See transcript from Pay-Per-Call Workshop before the Federal Trade Commission, May 20, 1999, pp. 237-238, 241.

⁸ See transcript from Pay-Per-Call Workshop before the Federal Trade Commission, May 20, 1999, pp. 235-242, 270-272, attached as Tab E.

C. Chargebacks

Another reason that direct billing and collection is not a competitive alternative to LEC billing and collection for 900-number services is that chargebacks are extraordinarily high when such services are direct billed. One company interviewed by Economists Incorporated provided information on two 900-number programs. Each program was tried with LEC billing and collection and separately with direct billing and collection. With LEC billing and collection, these two programs collected 50% to 55% of the gross billed amounts after chargebacks and fees. By contrast, with direct billing, the programs collected 18% to 23% of the gross billed amounts after chargebacks and nonpayment. In a third 900-number program, the company collected 46% of the gross billed amounts through LEC billing after chargebacks and fees but only 35% of the gross billed amounts through direct billing after chargebacks and nonpayment.⁹

Another company contacted by Economists Incorporated as part of this analysis made attempts at direct billing 900-number calls in 1993 and in 1998. In both attempts, collections were less than 40% after chargebacks. By contrast, collections on LEC-billed 900-number services ran between 65% and 75% after chargebacks.¹⁰ These experiences have deterred the company from using direct billing. These examples illustrate that LEC billing and collection is more effective than direct billing and collection for 900-number calls.

There are several reasons that chargebacks are higher for direct billing and collection than for LEC billing and collection. First, direct billed telephone services may be difficult for consumers to recognize and verify because billing cycles are not synchronized with LEC bills. In comments filed with the FCC, GTE stated that consumers "have repeatedly indicated their preference for a single bill consolidating their telecommunications services."¹¹ It appears that consumers find it irritating to receive several different telephone bills from carriers or providers with whom they do not regularly do business. Indeed, the FCC has

⁹ In preparing this report, Economists Incorporated agreed to keep all information provided confidential and to present any data in aggregate form or in a manner that would not reveal the identities of individual companies.

¹⁰ Affidavit of Richard J. Gordon in Support of Plaintiffs' Application for Preliminary Injunction, American Telnet, Inc. and Olympic Telecommunications, Inc. v. GTE Corporation et al., U.S. District Court, Northern District of Texas, Dallas Division, Civil Action No. 3-99-CV-0280-D, March 5, 1999, attached at Tab D.

¹¹ Comments of GTE Service Corporation, In the Matter of Pay-Per-Call Rule Review, FTC File No. R611016, March 10, 1999, section II.C.5.

found that "most consumers continue to have both their local and long distance service billed together by their local exchange company (and indeed, consumers have generally expressed a preference for a single bill)."¹²

Second, when consumers use 900-number services infrequently, they may be unaware of the name of the service provider that will later bill them. Hence, when a bill arrives from an unknown company for a service that the consumer does not use routinely, the consumer may disregard the bill or think it is a sham. For example, one member of the Billing Reform Task Force recently attempted direct billing in GTE's territory. However, GTE immediately began receiving complaints because consumers had never heard of the company and thought the billing was fraudulent.

In sum, direct billing and collection for 900-number services imposes costs on consumers who pay their bills because they must spend extra time and money replying to bills from multiple service providers. All other things equal, if consumers' costs of paying bills are increased, it follows logically that consumers will pay fewer bills and chargebacks will increase.

D. Other Difficulties with Direct Billing -- Costs

Another problem with direct billing and collection for 900-number calls is that the costs for direct billing and collection are higher than LEC billing and collection. AT&T generally charges 10% of the price of the call for LEC billing and collection and offers volume discounts. By contrast, one billing and collection company charges \$1.20 per invoice solely to render direct invoices. The company also has minimum monthly fees and one-time setup charges. Another billing and collection company quoted its rate as 10% of the total price to the caller, with a \$1.50 per call minimum for billing and collection.¹³ For low-priced information services or telephone polling applications billed under \$2.00 per call, the cost of direct billing and collection becomes a huge share of call revenue.

E. Direct Billing and Collection is Not a Competitive Alternative

Economic analysis strongly supports our conclusion that direct billing and collection does not compete with LEC billing and collection for 900-number calls.

¹² FCC, First Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 98-170, Released May 11, 1999, Par. 6.

¹³ Prefiled Rebuttal Testimony of Richard Cohen, p. 4, attached as Tab F.

As discussed above, in evaluating whether one service competes with another, the federal antitrust authorities consider hypothetically whether a 5% price increase in one service would cause substantial switching to the other service.¹⁴ In the case of direct and LEC billing and collection services for 900-number calls, the impact of chargebacks swamps the prices paid for the billing and collection services.

If LEC billing and collection costs 10% of gross revenue, then a 5% price increase will raise billing and collection costs to 10.5% of gross revenue. Yet our data indicate that information providers receive about 50% or more of gross revenue from LEC billing and collection after chargebacks and fees but only 18% to 35% of gross revenue from direct billing and collection after chargebacks and nonpayment. Under the circumstances, information providers would not be willing to switch from LEC billing and collection to direct billing and collection, despite an increase in the cost of LEC billing and collection. Moreover, switching would not be attractive, even if there were a much smaller differential in chargebacks between LEC and direct billing and collection for 900-number calls because the hypothetical increase in the price of LEC billing and collection is such a small part of gross revenue (0.5%). For these reasons, if hypothetically LECs raised their prices for billing and collection by 5%, this price increase would not offset the benefits of lower chargebacks associated with LEC billing and collection for 900-number calls. As a result, despite a 5% increase in the prices of LEC billing and collection, substantial switching to direct billing and collection for 900-number calls would not occur. Hence, direct billing and collection does not compete with LEC billing and collection for most casual 900-number calls.

F. Market Outcomes are Consistent with Lack of Competitive Alternatives

Outcomes in the marketplace are also consistent with our conclusion that direct billing and collection does not compete with LEC billing and collection for 900-number calls. In practice, direct billing and collection for 900-number calls occurs to a very limited extent. If direct billing and collection for 900-number calls actually competed with LEC billing and collection, information providers would want to switch to direct billing and collection. This is particularly true because the

¹⁴Department of Justice and Federal Trade Commission, *Horizontal Merger Guidelines*, revised April 8, 1997, section 1.11.

federally-mandated notices required on LEC bills invite chargebacks on 900-number calls.¹⁵ Information providers stick with LEC billing and collection for 900-number calls because they do not have competitive alternatives.

In 1998, there was a real-world test of whether competitive alternatives to billing and collection for 900-number calls exist. US WEST announced that it would no longer bill for 900-number calls related to psychic programs and games of chance. In the 11 states where US WEST operates, AT&T now will not bill 900 numbers to psychic programs and games of chance. Despite this opportunity for direct billing and collection in US WEST territory, no one has stepped in to fill the void, and these 900 number services no longer exist in US WEST territory. This market outcome supports the conclusion that there are not competitive alternatives to LEC billing and collection for 900-number calls.

V. Credit Card Billing and Collection for 900-Number Calls

A. Background

When consumers lack a formal relationship with a retailer, they typically pay cash or use a form of credit (such as credit cards) where they have established a business relationship and account with the credit provider in advance. The retailer is able to confirm the credit worthiness of the consumer by screening the credit card. Consumers who use 900-number services don't pay cash; instead they use credit extended by the information provider.

B. Credit Card Billing Is Not Compatible with 900 Numbers

900-number calls are not typically billed and collected on credit cards because if information providers want to offer credit card billing and collection today,¹⁶ it is cheaper to do so using 800 numbers than 900 numbers due to lower transmission fees. The lower transmission fees help to offset the higher billing and collection fees of the banks and credit card companies (relative to LEC billing and collection). Hence, switching from LEC billing and collection to credit card billing and collection would also likely change the dialing pattern from 900 to 800.

¹⁵ See Comments of Billing Reform Task Force in FTC 900 Number Workshop (File No. R611016) March 10, 1999 at 10-14, attached as Tab G.

¹⁶ Some callers may have a preference for using credit cards for casual calls for information and entertainment because they do not want the charge to appear on their telephone bill or because they want to track their spending.

C. Credit Card Billing Conflicts with Casual Calling Services

Credit card utilization also conflicts with the nature and purpose of casual calling because, when credit cards are used, information and entertainment is no longer spontaneously available to callers. Instead, callers must spend several minutes giving credit card numbers and undergoing authentication procedures. Using credit cards undermines one of the key characteristics that information providers offer to consumers, spontaneity, and in some cases anonymity. As a result, credit card utilization changes the nature and quality of 900-number calls.

D. Limited Accessibility

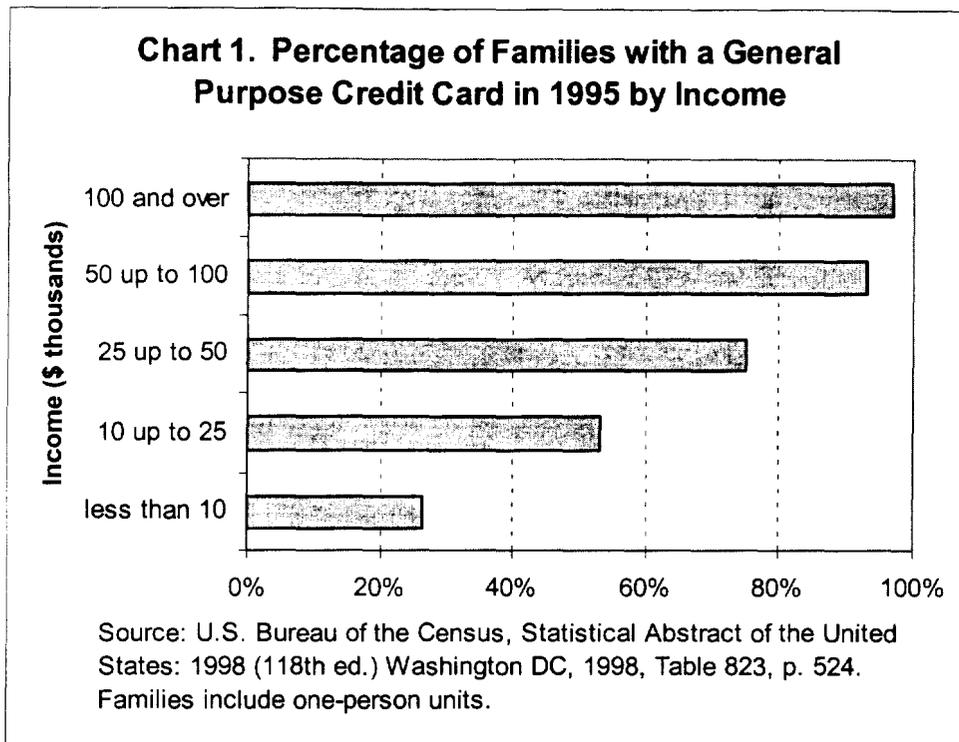
Heavy reliance on credit cards for access to telephone information and entertainment services would undermine the FCC's objective of encouraging the widespread availability of 900-number services to the public.¹⁷ 900 numbers provide a means for ordinary consumers, including consumers without computers or other advanced information tools, to obtain access to information services. As noted above, both Congress and the FCC have found such access to be in the public interest. Limiting such access to persons with credit cards would seriously limit the pool of persons who can participate in 900-number calling.

Although 94% of households have telephone service,¹⁸ only 66% of households have credit cards.¹⁹ Thus, about one-third of the existing pool of potential 900-number callers would be eliminated if information providers relied solely on credit cards. In particular, lower income households would be most likely to lose access because they are less likely to have credit cards than higher income households. See Chart 1 below. The income demographics of callers varies with the type of 900-number service. Callers on sports lines tend to be middle to higher income men. Callers on psychic lines tend to be middle to lower income women. For personals, the income demographics of the callers reflect the income demographics of the newspapers where the personals appear.

¹⁷ See *South Carolina Blocking Order*, 8 FCC Rcd 698, 700-701 (1993).

¹⁸ U.S. Bureau of the Census, *Statistical Abstract of the United States: 1998* (118th ed.) Washington, DC, 1998, Table 915, p. 573.

¹⁹ U.S. Bureau of the Census, *Statistical Abstract of the United States: 1998* (118th ed.) Washington, DC, 1998, Table 823, p. 524.



E. Other Consumer Concerns with Credit Cards

Another drawback of credit cards is that some consumers have concerns about giving credit card information over the telephone to companies that are not well-known to them. Some consumers fear that their credit card information may be stolen and fraudulent charges made to their cards. Other consumers prefer to use information and entertainment services anonymously, which is possible when they are billed through their LECs and pay promptly. With billing through LECs, the information provider need never have personal information about callers who pay their bills promptly.

F. Credit Card Companies Strictly Limit Chargebacks

Even callers who have credit cards may be denied access to information services due to the nature of the credit card industry. Credit card companies strictly limit the percentage of chargebacks that merchant accounts may incur. Information providers who violate the limits lose their merchant accounts. Over time, credit card associations have reduced the limit on chargebacks. In the early 1990s, the limit was 6%. In 1996, Visa's limit was 3% total chargebacks and 1% consumer-disputed chargebacks, while Mastercard's limit was 2.5% total chargebacks.²⁰ In other words, collections after chargebacks had to reach 97%

or higher. To ensure that chargebacks stay under the limit, service providers screen credit cards through telephone service bureaus to assess the risk of chargebacks. Service bureaus may subscribe to databases of consumer credit profiles that offer risk scores. After assessing the risk of chargebacks, the service bureau can accept or block the call.

To keep chargebacks under the limit, service bureaus reject a substantial number of calls using credit cards. The strict chargeback limit prevents information providers from serving some callers who have good credit and who may want to use their credit cards.

G. Credit Cards are Not Competitive Alternatives to LEC Billing and Collection for 900-Number Calls

In evaluating whether one service competes with another, the federal antitrust authorities consider hypothetically whether a 5% price increase in one service would cause substantial switching to the other service.²¹ In the case of credit cards and LEC billing and collection services for 900-number calls, the impact of tightened chargeback limits swamps the prices paid for the billing and collection services.

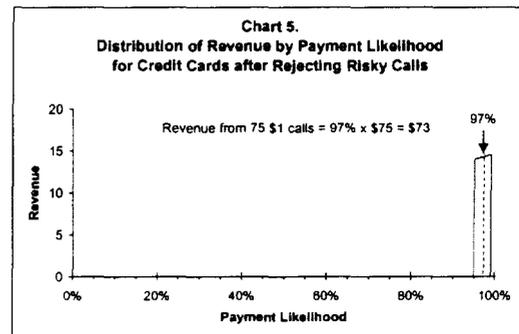
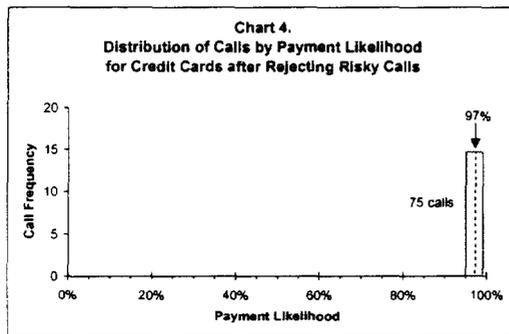
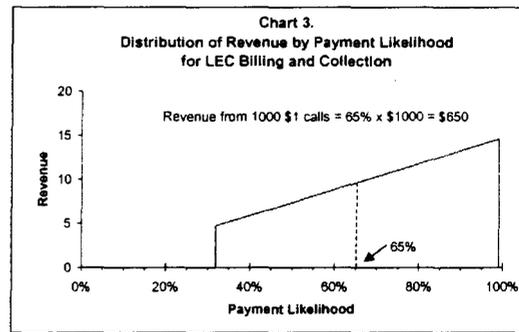
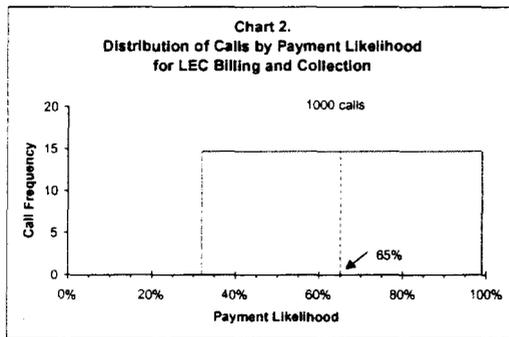
Callers have different likelihoods of paying their bills, and the range of likelihoods under LEC billing is broader than under credit card billing. If information providers were prevented from using LEC billing and collection and forced to switch to credit card billing and collection, many callers would no longer be able to make 900-number calls. With LEC billing and collection, collections reach about 65% of gross revenue from 900-number calls after chargebacks. By contrast, with credit cards, collections must reach 97% or higher to satisfy the requirements of credit card companies. In order to move the collections percentage from 65% to 97%, a substantial number of callers must be rejected.

Increasing the collection percentage reduces the total revenue collected. An illustrative example will show why. Suppose that a 900 number receives calls that have payment likelihoods of 32%, 33%, 34%, ... 99%. Each percentage point has about 15 calls (giving a total of 1000 calls), and the middle of the

²⁰ Khali Henderson, "Chargeback Levels for Credit Card-based Programs Still Under Scrutiny" InfoText, May/June 1996, pp. 40, 48.

²¹Department of Justice and Federal Trade Commission, *Horizontal Merger Guidelines*, revised April 8, 1997, section 1.11.

distribution is about 65%. See Chart 2 below. If each call costs \$1, then the expected value of collections will be \$650 [= 65% x 1000 calls x \$1/call], or 65% of gross revenue. See Chart 3 below. If the collections percentage must rise to 97%, calls with low payment likelihoods must be rejected. By rejecting all calls with payment likelihoods below 95%, the collections percentage can be raised to 97%. The accepted calls will have payment likelihoods of 95%, 96%, 97%, 98%, and 99%. Each percentage point has about 15 calls (giving a total of 75 calls), and the middle of the distribution is about 97%. See Chart 4 below. The expected value of collections on these 75 calls will be \$73 [= 97% x 75 calls x \$1/call], or 97% of gross revenue. See Chart 5 below. In this illustration, raising the collection threshold from 65% to 97% reduced total revenue dramatically from \$650 to \$73.



If hypothetically LECs raised their prices for billing and collection for 900-number calls by 5%, and if LEC billing and collection costs 10% of gross revenue, then billing and collection costs would rise to 10.5% of gross revenue. Yet based on the information we have collected, a switch to credit cards would cause a substantial decline in gross revenue to meet the requirements of credit card companies. As a result, despite a 5% increase in the prices of LEC billing and collection, information providers would not be willing to switch from LEC

billing and collection to credit card billing and collection for 900-number calls. Hence, credit card billing and collection does not compete with LEC billing and collection for 900-number calls.

VI. Conclusion

In 1986, the FCC declined to regulate LEC billing and collection services in order to protect interexchange carriers. The FCC concluded that there was "sufficient competition to allow market forces to respond to excessive rates or unreasonable billing and collection practices on the part of exchange carriers [and] no statutory purpose would be served by continuing to regulate billing and collection service" ²² The issue we were asked to analyze in this Report is whether there are competitive alternatives to LEC billing and collection for information and entertainment offered through 900 numbers. As discussed above, direct and credit card billing and collection are not competitive alternatives to LEC billing and collection for 900-number services. Thus, unlike the market studied by the FCC in the Detariffing Order, the market for billing and collection for 900-number services does not have competitive alternatives.

²² *Detariffing Order* at 1170.