

# 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
<b>Key</b>								
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



2525 Charleston Road  
Mountain View, California 94043  
Tel 415.961.9800  
Fax 415.961.5842

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 conclusion 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.

FEB-27-1998 15:07

FEB 27 '98 16:32

98%

703 385 5301

P. 05  
PAGE. 09

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

## 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	\$ 6,562,550,000	\$ 150,650,000
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	\$ 4,334,738,000	\$ 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	\$ 5,137,800,000	0.07	\$ 359,632,000	\$ 29,969,333	\$ 5,377,351,667	\$ 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							<b>Total AT&amp;T Gains in 1997</b>	
(1) The AT&T rate increase was announced on 27 Feb 97, 10 months are assumed to be affected.							<b>\$ 641,549,614</b>	
(2) The AT&T rate increase was announced on 27 Feb 97 Market sizing: A business card call is equivalent to one 6 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 revenue 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								

Source: F. Sullivan



**ATTACHMENT 2**

**AT&T'S FCC TARIFF FILING FOR  
GENERAL RATE INCREASE EFFECTIVE FEBRUARY 1997**



Mary Peterson  
Administrator - Rates and Tariffs

Room 32D66  
55 Corporate Drive  
Bridgewater, NJ 08807  
908 658-8155

February 26, 1997

Transmittal No. 10639

Secretary  
Federal Communications Commission  
Washington, DC 20554

Attention: Common Carrier Bureau

The accompanying tariff material issued by AT&T Communications and bearing Tariff F.C.C. Nos. 1, 2, 13, 14 and 27, effective February 27, 1997 and March 1, 1997, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material consists of tariff pages as indicated on the following check sheet:

Tariff F.C.C. No. 1 - 4250th Revised Page 1  
Tariff F.C.C. No. 1 - 363rd Revised Page 1.4  
Tariff F.C.C. No. 1 - 282nd Revised Page 1.6  
Tariff F.C.C. No. 1 - 195th Revised Page 1.7  
Tariff F.C.C. No. 1 - 161st Revised Page 1.8  
Tariff F.C.C. No. 1 - 9th Revised Page 1.8.1  
Tariff F.C.C. No. 1 - 385th Revised Page 1.9  
Tariff F.C.C. No. 1 - 135th Revised Page 1.11  
Tariff F.C.C. No. 2 - 1339th Revised Page 1  
Tariff F.C.C. No. 2 - 320th Revised Page 1.1  
Tariff F.C.C. No. 2 - 49th Revised Page 1.3  
Tariff F.C.C. No. 14 - 89th Revised Page 1  
Tariff F.C.C. No. 27 - 520thth Revised Page 1  
Tariff F.C.C. No. 27 - 41st Revised Page 1.4  
Tariff F.C.C. No. 1 - 4251th Revised Page 1  
Tariff F.C.C. No. 1 - 77th Revised Page 1.10  
Tariff F.C.C. No. 1 - 85th Revised Page 1.10.1  
Tariff F.C.C. No. 1 - 27th Revised Page 1.11.1  
Tariff F.C.C. No. 13 - 655th Revised Page 1  
Tariff F.C.C. No. 13 - 51st Revised Page 1.1  
Tariff F.C.C. No. 27 - 521st Revised Page 1  
Tariff F.C.C. No. 27 - 62nd Revised Page 1.2  
Tariff F.C.C. No. 27 - 42nd Revised Page 1.3

In this filing, AT&T:

- restructures residential International Message Telecommunications Service rates for occasional international callers who are not subscribed to an international calling plan. The Dial Station rate schedules were changed to reduce the number of rate categories, per country, to two; Standard and Economy. The impact on individual Customers will depend on the Customer's calling patterns, and can be an increase or decrease in the cost of a specific call depending on both length of call and the time when it is placed;

- adjusts the rates of its international calling plans, Reach Out<sup>®</sup>-World and Basic Value (from U.S. Mainland and Hawaii);
- adjusts the Hawaii - Canada Dial rates (Zones 1 and 2) and Hawaii - Mexico Dial rates.
- increases certain U.S. Mainland - Mexico Service rates (Schedule 2);
- makes other minor changes;
- adds Alaska-Mainland, Alaska-Hawaii and Alaska-Puerto Rico/U.S. Virgin Islands to Commercial and Consumer Prepaid Card Service;
- Increases AT&T International Message Telecommunications Service (IMTS) and AT&T Commercial Long Distance Service International Calling Card call transport rates for calls between the U.S. Mainland and all countries (except American Samoa, Guam, Saipan, and Wake);
- Increases AT&T USADirect<sup>®</sup> Service usage rates (except American Samoa, Guam, and Saipan) for calls that terminate in the U.S. Mainland, Hawaii, Puerto Rico or the U.S. Virgin Islands;
- Increases AT&T USADirect Service In-Language usage rates for calls that terminate in the U.S. Mainland, Hawaii, Puerto Rico or the U.S. Virgin Islands;
- Corrects Tariff Section references for AT&T Commercial Long Distance Service Mexico Service Rate Schedules;
- Changes the country name of Burma to Myanmar in the rate schedules for AT&T IMTS and AT&T Commercial Long Distance Service International Calling Card;
- Revises material for AT&T Commercial Prepaid Card Service and AT&T Prepaid Card Service by revising rates for selected countries;
- Revises the AT&T Commercial Prepaid Card Service-Dollar Option Cards Discounts. Customers' rates will increase as a result of this filing;
- Revises material for AT&T Commercial Long Distance Service and AT&T International Message Telecommunications Service by increasing the Service Charge for Operator Handled calls to the U.S. Mainland that originate in Mexico;
- Revises material for AT&T Commercial USADirect Service and AT&T USADirect Service by restructuring the Service Charge for Calling Card calls. This filing increases the Service Charge for Operator-Assisted Calling Card calls; and

- Increases PRO<sup>®</sup> WATS/Plan Q Domestic and International Calling Card Surcharges.
- This filing increases various domestic, international and card usage rates for the following AT&T Business Services: AT&T UNIPLAN<sup>®</sup> Service; AT&T UNIPLAN Basic Service Option; AT&T UNIPLAN Service Flat Rate Pricing Option; AT&T UNIPLAN Service International Card Service; AT&T Software Defined Network Service (SDN); AT&T MEGACOM<sup>®</sup> Service; AT&T CustomNet<sup>®</sup> Service; AT&T PRO<sup>™</sup> WATS/Plan Q Service; AT&T OPTIMUM Service; AT&T Clear Advantage<sup>™</sup> Service; AT&T 800 Service; AT&T 800 GOLD<sup>™</sup> Services; AT&T 800 READYLINE<sup>®</sup>; AT&T MEGACOM<sup>®</sup> 800 Service; AT&T USADirect 800 Service; and AT&T 800 Plan K.

Notification to Customers of rate restructure and other rate adjustments is being made through advertisements scheduled to appear in general circulation daily newspapers in major metropolitan areas throughout the country. These revisions were originally scheduled to be filed on February 25, 1997 and effective on February 26, 1997. Due to production difficulties the filing could not be made with the F.C.C. on February 25, 1997.

A continuing waiver of Sections 61.52(b) and 61.54(c)(1) of the Federal Communications Commission's Rules and Regulations was requested under Application No. 2741 and has been granted under Special Permission No. 95-1174. This permits AT&T to file new tariffs in the section page number format.

A continuing waiver of Section 61.74 of the Federal Communications Commission's Rules and Regulations was requested under Application No. 1528 and has been granted under Special Permission No. 93-88.

The revisions contained herein are scheduled to become effective on not less than one day's notice, pursuant to Section 61.23 of the Federal Communications Commission's Rules and Regulations.

A continuing waiver of Sections 61.20 (c), 61.22 (a) and (c) of the Federal Communications Commission's Rules and Regulations was requested under Application No. 2742 and has been granted under Special Permission No. 96-0709. This permits AT&T to file changed tariff pages only on CD-ROM utilizing Microsoft WORD<sup>®</sup> 6.0.

Federal Communications Commission -4-  
Transmittal No. 10639

Payment in the amount of \$600.00, along with FCC Form 159, was sent to the Federal Communications Commission, Tariff filings, c/o Mellon Bank, P.O. Box 358150, Pittsburgh, PA. 15251-5150, for delivery this date. Acknowledgment and date of receipt of this filing are requested to the address below. A duplicate letter of transmittal is attached for this purpose. Please address any inquiries concerning this filing to the attention of Ms. M. Peterson, Administrator - Rates and Tariffs, AT&T Communications, 55 Corporate Drive, Room 32D66, Bridgewater, NJ 08807.

(Original Signed By M. Peterson)  
Administrator - Rates and Tariffs

Duplicate Letter

Attachment:

Tariff Pages (250)

Copy of Letter, with attachment, concurrently sent to:  
Commercial Contractor  
Chief, Tariff Review Branch, Public Reference Copy



**ATTACHMENT 3**

**USA TODAY ARTICLE ON IXC RATE INCREASES**

itation  
 ~/26/97 USATD 01A  
 2/26/97 USA TODAY 01A  
 1997 WL 6995505

Search Result

Rank(R) 5 of 116

Database  
 USATD

USA Today  
 Copyright 1997

Wednesday, February 26, 1997

NEWS

Carriers hit with \$1 billion **pay phone** bill  
 Steve Rosenbush

A little-known wrinkle in the telecommunications law will **cost** major long-distance carriers more than \$1 billion a year, and they are passing the expense along to the public.

Twenty-two major long-distance carriers must pay \$45.85 a month for each of the 2.2 million **pay phones** in the country, USA TODAY has learned.

The fees cover the **cost** of toll-free and calling-card calls for which **pay phone** owners historically were not repaid.

The year-old telecommunications law required the Federal Communications Commission to come up with a system of compensation.

Long-distance carriers already have started paying the fee for the 350,000 **pay phones** not owned by phone companies. In April, they'll start paying for the 1.8 million **pay phones** owned by local phone companies. Monthly fees will be replaced in October with a 35-a-call charge carriers will pay to **pay phone** owners.

Long-distance carriers have asked the federal appeals court in Washington to overturn the compensation plan. But in the meantime they are raising rates. AT&T, for example, has hiked the rate it charges businesses for toll-free service by 3%, effective today.

The expense will eventually be passed along to consumers.

"If a telemarketing operator's expenses suddenly go up 3% a month, eventually that makes its way into the consumer's pocket," says Daniel Briere of the industry consulting group TeleChoice. "It's one of the hidden taxes of the Telecommunications Act."

MCI and Sprint weren't immediately available to comment. "I would expect more rate increases," Briere says. "It's just too much for the carriers to eat."

---- INDEX REFERENCES ----

Copr. (C) West 1997 No Claim to Orig. U.S. Govt. Works





**ATTACHMENT 4**

**AT&T'S FCC TARIFF FILING FOR  
GENERAL RATE INCREASE EFFECTIVE MAY 1997**



Mary Peterson  
Administrator - Rates and Tariffs

Room 32D66  
55 Corporate Drive  
Bridgewater, NJ 08807  
908 658-8155

April 30, 1997

Transmittal No. 10709

Secretary  
Federal Communications Commission  
Washington, DC 20554

Attention: Common Carrier Bureau

The accompanying tariff material issued by AT&T Communications and bearing Tariff F.C.C. Nos. 1, 2, 4, 13 and 14, effective May 1, 1997, is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended. This material consists of tariff pages as indicated on the following check sheets:

Tariff F.C.C. No. 1	-	4287th Revised Page 1
Tariff F.C.C. No. 1	-	372nd Revised Page 1.4
Tariff F.C.C. No. 1	-	402nd Revised Page 1.5
Tariff F.C.C. No. 1	-	284th Revised Page 1.6
Tariff F.C.C. No. 1	-	199th Revised Page 1.7
Tariff F.C.C. No. 1	-	164th Revised Page 1.8
Tariff F.C.C. No. 1	-	11th Revised Page 1.8.1
Tariff F.C.C. No. 1	-	387th Revised Page 1.9
Tariff F.C.C. No. 1	-	78th Revised Page 1.10
Tariff F.C.C. No. 1	-	137th Revised Page 1.11
Tariff F.C.C. No. 1	-	33rd Revised Page 1.11.1
Tariff F.C.C. No. 2	-	1347th Revised Page 1
Tariff F.C.C. No. 2	-	324th Revised Page 1.1
Tariff F.C.C. No. 2	-	54th Revised Page 1.3
Tariff F.C.C. No. 4	-	460th Revised Page 1
Tariff F.C.C. No. 4	-	88th Revised Page 1.1
Tariff F.C.C. No. 13	-	662nd Revised Page 1
Tariff F.C.C. No. 13	-	54th Revised Page 1.1
Tariff F.C.C. No. 14	-	90th Revised Page 1

In this filing, AT&T:

- Increases the usage rates for various inbound and outbound Business Services contained in the aforementioned F.C.C. Tariffs.

The material contained herein is scheduled to become effective on not less than one day's notice, pursuant to Section 61.23 of the Federal Communications Commission's Rules and Regulations.

Federal Communications Commission -2-  
Transmittal No. 10709

A continuing waiver of Sections 61.20 (c), 61.22 (a) and (c) of the Federal Communications Commission's Rules and Regulations was requested under Application No. 2742 and has been granted under Special Permission No. 96-0709. This permits AT&T to file changed tariff pages only on CD-ROM utilizing Microsoft WORD® 6.0.

Payment in the amount of \$600.00, along with FCC Form 159, was sent to the Federal Communications Commission, Tariff filings, c/o Mellon Bank, P.O. Box 358150, Pittsburgh, PA. 15251-5150, for delivery this date. Acknowledgment and date of receipt of this filing are requested to the address below. A duplicate letter of transmittal is attached for this purpose. Please address any inquiries concerning this filing to the attention of Ms. M. Peterson, Administrator - Rates and Tariffs, AT&T Communications, 55 Corporate Drive, Room 32D66, Bridgewater, NJ 08807.

(Original Signed By M. Peterson)  
Administrator - Rates and Tariffs

Duplicate Letter

Attachment:

Tariff Pages (1305)

Copy of Letter, with attachment, concurrently sent to:  
Commercial Contractor  
Chief, Tariff Review Branch, Public Reference Copy



**ATTACHMENT 5**

**AT&T PRESS RELEASE DESCRIBING GENERAL RATE  
INCREASES EFFECTIVE MAY 1997**



## News Release

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FOR RELEASE WEDNESDAY, APRIL 30, 1997

### **AT&T adjusts business long-distance prices to offset new payphone costs**

BASKING RIDGE, N.J. -- AT&T said today it would adjust prices May 1 on a range of business long-distance services to offset payments to payphone owners required under a plan established by the Federal Communications Commission.

The FCC plan requires long-distance carriers to compensate payphone owners for coinless calls - typically calling card and toll-free calls. Effective April 15, AT&T expects local telephone companies to begin billing it and other long-distance companies for the 1.8 million payphones the local companies operate. AT&T's share of the new costs is \$26.21 per phone per month.

To recover this cost, AT&T will increase prices for interstate toll-free services by 7 percent and prices for business international and interstate outbound services by 2 percent.

"While payphone owners should be fairly compensated for the cost of providing coinless calls, we believe the compensation levels set by the FCC are unreasonably high - which is why we're challenging them in court," said Ken Sichau, AT&T vice president for business network services. AT&T pledged to roll back the price increases if the company succeeds in efforts to reduce the level of payments to payphone owners.

AT&T, other long-distance carriers and state regulators have appealed the FCC order. The case is scheduled to be heard in mid-May by the Court of Appeals in Washington, D.C.

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**For more information, reporters may contact:**

Mike Cuno  
908 221-5563  
[mcuno@attmail.com](mailto:mcuno@attmail.com)

Janet Wyles  
908 221-8790  
[jwyles@attmail.com](mailto:jwyles@attmail.com)

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**[Click here](#) to learn more about the services AT&T offers for businesses.**

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**KEYWORDS:** coinless, toll-free, calling\_card, fcc

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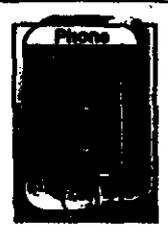


**ATTACHMENT 6**

**TRADE PRESS ARTICLE ON AT&T'S  
AND SPRINT'S RATE INCREASES**

**ATTACHMENT 7**

**TRADE PRESS ARTICLE ON AT&T'S  
AND SPRINT'S RATE INCREASES**



# The Price of Compensation

## IXCs Pass On Payphone Payment



a grocery store was told it had to pay its employees several times more than it had previously, one would expect to see the amount of the raises reflected in the cost of bread, milk, produce and other items.

It's a simple business model: The amount of money coming in has to at least equal the amount going out.

Well, that's exactly where the interexchange carriers (IXC) are as their number crunchers contemplate how to account for the hundreds of millions of dollars they are now paying payphone service providers (PSPs) under terms expressed in the Federal Communications Commission's (FCC's) Order regarding payphone compensation. AT&T, which stands to pay the most, on April 30 announced its plans for recouping compensation. Beginning May 1, AT&T increased the prices for interstate toll-free services by 7 percent and prices for business international and interstate outbound services by 2 percent.

"While payphone owners should be fairly compensated for the cost of providing coinless calls, we believe the compensation levels set by the FCC are unreasonably high, which is why we're challenging them in court," Ken Sichau, AT&T vice president for business network services, said in making the announcement.

AT&T isn't alone in this regard. Eight of the 22 IXCs—those with revenues of at least \$100 million—ordered to pay the PSPs spent the middle of May in Washington testifying before the U.S. Court of Appeals with the hope of getting the compensation order reduced. A ruling could come down sometime this summer, but for now, the Order is in effect, and the IXCs will have to find ways to pay up.

"All the long distance companies are going to be incurring a huge, new expense," says Jeff Kagan, an industry consultant and president of Kagan Telecom Associates. "Now, when any business passes on a huge, new expense to the cost of providing the service, the price of the service goes up."

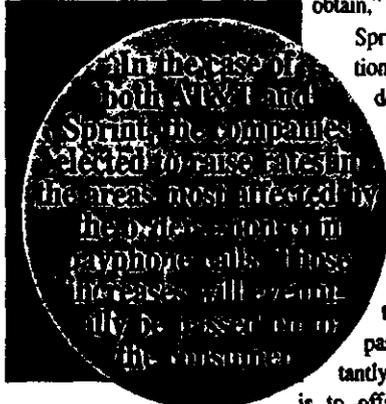
For AT&T, that expense is really huge. Of the \$45.85 per phone per month that the IXCs must dole out to the PSPs, AT&T is responsible for \$26.21. (The rest of the carriers fall in line proportionate to their share of the interexchange market.) AT&T expects local telephone companies to begin billing it and other long distance companies for the approximately 1.8 million payphones the local companies operate. Add in the estimate of 400,000 privately owned payphones already figured into the order, multiply that number by the \$26.21; and you can envision AT&T's monthly payphone bill.

But as much as AT&T is attempting to recover the money it is paying to the payphone providers, Kagan believes the company is making a statement. "AT&T is choosing to make a stand," Kagan says. "If they were accepting this as the cost of doing business, they would be working it in as transparently as possible. But they're not doing that. They are saying, 'We don't think this is fair, and we're going to make a stand here, and we're going to make it as visible as possible.'" Like AT&T, Sprint recently raised some of its rates "largely to compensate for the Order," according to Larry McDonald, Sprint's manager of national media relations. In April, Sprint levied an increase of just less than 5 percent for a range of products that include business toll-free, 800- and 888-related services. "It's not something that's necessarily sudden, but it is something that needed to be developed rather quickly because, frankly, the order didn't give us a great amount of flexibility in terms of time. It was a plan that was developed quickly and implemented to offset this extremely large surcharge."

MCI, on the other hand, hasn't addressed its rates, rather putting its energy into the appeal, according to the Michael Lewis, a spokesman for

the company. "We're just putting more effort into seeing if we can stop this thing," he says. "I can tell you that we estimate we will have to pay \$100 million a year in compensation. I'm sure AT&T is double, triple, even more. So you can sort of understand why they would want to do (raise prices) in order to compensate for their costs."

In the same press release that AT&T announced its rate increases, the company also pledged to roll back those increases should the Court of Appeals take some action against the compensation order. "We're on record as saying if we receive relief from this order, we'll return to our customers any measure of relief that we obtain," Cuno says.



Sprint's McDonald says speculation about what his company might do with its rate increases down the road would be inappropriate because it would be based on yet more speculation. "That is such a wildly hypothetical issue that it's hard to come up with a hypothetical answer," he says. "We passed this (rate increase) reluctantly. This is not a profit for us. This is to offset a charge, and this is an extremely competitive market."

The fact that AT&T, Sprint and others are increasing prices at all should surprise few. When the compensation order was announced last September, independent payphone providers celebrated what they believed was the end of years of inequity. Prior to the order, payphone providers had received just \$6 per phone per month. The increase to \$45.85 represents a jump of 764 percent in IXC payout. Almost immediately, AT&T began planning how it was going to account for that hefty expenditure.

"When the order was implemented, the first thing we did was seek a rehearing, which was denied," says Cuno of AT&T. "And we have filed suit against the order, and the case is being heard now. Our hope all along was that the order would not be implemented the way it has

been, because we don't feel it's appropriate. We knew that if it was implemented, we were going to have to recover this money. In effect, we were being taxed, and we have to recover that money from somewhere."

In the case of both AT&T and Sprint, the companies elected to raise rates in the areas most affected by the order—non-coin payphone calls. Those increases will eventually be passed on to the consumer. "The issue is simple, the solution is hard," Kagan says. "The issue is the phones themselves are expensive to keep up, and part of the cost of upkeep is when the customer pops a quarter in, he pays for the use of the phone."

However, when the consumer makes a collect call, a toll-free call or a debit card call, he really is not paying directly for use of the phone. That's the whole impetus behind the order. The FCC based its \$45.85 on an estimate of 131 non-coin payphone calls per month at a rate of 35 cents per call. For now, the IXCs know exactly how much they have to pay each month. However, come Oct. 7, that amount may very well change when per-call compensation kicks in. IXCs still will be expected to pay 35 cents per call to the PSPs, but the amount will

be per actual call made. If the amount the IXCs are paying out then differs greatly from what they are paying now, any rate increases may have to be adjusted.

"I think we have told customers, and I think customers understand that when the FCC made this decision, the FCC anticipated that the bulk of this surcharge would be passed through to the customers," Sprint's McDonald says. "It totaled over a billion dollars for the industry. Even the FCC and people in business would not expect an industry to take a billion-dollar hit on a surcharge and not have that sort of cost—an enormously large number—offset somewhere. This business is too competitive for anyone to take a charge of that nature and not build it into their business plan. It's just too large."

But what about MCI? If the carrier isn't raising its prices to make up for compensation paid in the order, it is putting itself at a great advantage over competitors who have raised some of their rates by 5 percent or more. Conversely, how will MCI absorb an \$8.26 per phone per month payment without a fiscal adjustment somewhere? Both matters, MCI's Lewis says, haven't necessarily been addressed

because MCI is concentrating on the appeal.

Which leads to the next logical question. Just how hopeful is MCI that an appeal will be successful? "We're optimistic," Cuno says. "I don't think we'd be really pressing if we didn't think there was some kind of possibility. Of course it looks tough, but we're still optimistic that something can be done on behalf of the customers."

Historically, Kagan says, the regional Bell operating companies (RBOCs) have had a better lobbying force than the IXCs. However, the IXCs have had some time to contemplate the order and will likely point out that because payphone compensation has to come from somewhere, ultimately it will be passed on to the consumer. "I hear arguments on both sides and it really depends on who's believable to the people who are making that decision," Kagan says.

For now, though, AT&T, Sprint, MCI and most of the other IXCs have complied with the order, albeit grudgingly. If and when the order is adjusted—or at least finalized—the market may very well face adjustments yet again. "It's part of the struggle of the industry," Kagan says. "The industry's struggling to reinvent itself—and it's messy." ■

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