TELSTAR[SM]

Via Electronic Filing
Ms. Marlene Dortch, Secretary
Office of the Secretary
Federal Communications Commission
Portals II
445 12th Street, S.W.
Suite TW-A325
Washington, D.C. 20554

October 30, 2002

RE: Petitions for Increase in the Payphone Dial-Around Compensation Rate
RM No. 10568

Dear Madam Secretary,

Telstar International, Inc., by its undersigned attorney hereby submits an electronic copy of its Comments filed in response to the Public Notice released by the Commission on September 30, 2002 in the above proceeding.

Thank you for your attention to this matter. Please contact me at the below phone number with any questions or concerns you may have regarding this submission.

Very truly yours,

Hope Halpern

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In re: APCC and RBOC Coalition	)	
Petitions for Increase in the Payphone	)	RM No. 10568
Dial-around Compensation Rate	)	

COMMENTS OF TELSTAR INTERNATIONAL, INC.

Telstar International, Inc. ("Telstar") by its undersigned attorney files these comments in response to the Federal Communications Commission's ("FCC" or "Commission") September 30, 2002 Public Notice requesting Comments on Petitions for Rulemaking filed by the American Public Communications Council ("APCC") and the RBOC Coalition in the above proceeding. Both the APCC and RBOC Coalition (collectively referred to herein as the "PSPs") urge the Commission to authorize a 100% increase in the dial-around compensation rate, raising the per call charge from $0.24 to $0.49. As discussed more fully below, Telstar opposes the proposed rate increase.

The PSPs assert that this extraordinary increase is needed because the current per call rate does not provide sufficient compensation to allow for the full recovery of payphone provider costs. Although PSPs concede that per-payphone costs have decreased, the rate is insufficient they say, because of a decrease in call volumes from payphones.[1] The PSPs further assert that this decline can be attributed almost entirely to competition from wireless and cellular services.[2] Specifically, the PSPs maintain that, "[t]he dramatic expansion of wireless services has had the effect of reducing the overall

[1] *RBOC Coalition Petition*, p. 1.
[2] *Id.*, see also, *APCC Petition*, p. 7

volume of calls made at payphones."[3] The PSPs claim that lower call volumes have driven PSPs to remove payphones, resulting in a 10.5% reduction in the number of payphones deployed since their highest penetration levels in deployment in 1998.[4]

Although Telstar has not conducted its own study, it does not dispute that the pay telephone market has changed dramatically in the six years since the Telecommunications Act was passed. In that time, cellular service has become widely affordable and flat rated calling plans have made cellular calling much less expensive than the same calls made from payphones. In addition, prepaid cellular has made it easy for consumers to obtain cellular service on demand, without a credit check and regardless of their credit history. According to the APCC, over 45% of the population has cellular service.[5] Cellular service has also become much more consistent and reliable throughout large portions of the country. Given these facts, it is likely that PSPs have lost footing in the transient telecommunications market [6]due at least in part to competitive forces from cellular providers.

Telstar does _not_ agree with the PSPs, however, that the fact that payphones have lost market share equates to a need to increase -- *let alone double*-- the per call compensation rate. If the Commission accepts the PSPs argument that the existing per call compensation rate can not compensate PSPs given competitive forces from cellular and wireless technologies, then increasing the per-call payphone rate will only exacerbate the problem, by accelerating a decline in payphone usage, leading to a further reduction in the number of payphones. At best, the proposed increase is a temporary panacea – the

[3] APCC Petition, p. 7.
[4] *Id.*, p. 8.
[5] *Id.*, p. 5.
[6] Telstar identifies the market in which payphones compete with cellular and wireless technologies the "transient telecommunications market."

PSPs themselves warn that doubling the existing payphone surcharge would be sufficient for at most a year or two.[7] Instead of "saving" the payphone industry, the proposed increase would likely hasten the payphone "death spiral" making payphone service even less attractive, resulting in payphone usage further declining and further pricing payphones out of the competitive marketplace. Such a result is not an effective means of assuring the public adequate access to payphones as articulated by Congress in enacting Section 276(b)(1) of the Act.

Further, even if there has been attrition in the number of payphones as claimed by the PSPs, neither the RBOC Coalition nor APCC has demonstrated that the existing level of payphones is inadequate in relation to the public's needs or is in jeopardy of becoming so. Although APCC indicates that the number of payphones has declined from its high point in 1998, maintaining those levels may simply not be necessary given the changes in the marketplace and alternate technologies including wireless and paging. Accordingly, if the marketplace has changed as dramatically as PSPs claim, the Commission must re-examine not only whether the per-call compensation rate needs modification, but it must also examine the affect of the declining payphone market on the public. Factors the Commission must consider include:

- **What is the appropriate definition of "widespread deployment of payphones" given changes in the transient telecommunications marketplace and competition from cellular and wireless providers?**

Given changes in market conditions and the increased availability and affordability of alternative transient telecommunications options, the Commission must examine what is the necessary level of payphone deployment to meet the objectives of Congress.

[7] RBOC Coalition Petition, p. 6.

The Commission needs to determine what is the baseline level of deployment necessary to achieve Congress's goals of maintaining the "widespread deployment of payphones."

- **Does the public continue to have adequate access to payphones based on the needs of the public and in relation to current market conditions?**

Once the Commission has determined the definition of "widespread deployment of payphones" in today's environment, the Commission will then need to examine whether adequate payphones exist today to meet that standard. This determination should be based on not only the shear number of pay telephones, but also where those phones are deployed.

For example, although PSPs claim that the number of payphones has declined since 1998, the petitioners have provided no data to demonstrate the effect of this payphone removal on the public. For example, APCC points out that four of the original nine payphones have been removed from the Commission's lobby. [8] It would be helpful to understand whether the removal of those payphones has had any impact on the public -- such as long lines at the five remaining payphones, complaints regarding inadequate payphone service or request for additional payphones—to determine whether the pubic is underserved. Accordingly, more information is needed to determine where precisely payphones are being decommissioned (i.e. office building lobbies, airports, street corners, etc.) and in what parts of the country (i.e. rural areas, high traffic metropolitan areas, etc.) as well as empirical evidence regarding the impact on the public as a result of any decline

[8] APCC Comments, p. 8, footnote 16.

in payphones in the affected areas to fully understand how to best address any potential shortage of pay telephone stations.

- **The Commission should solicit information from states who have implemented public interest payphone programs regarding those programs**

As noted above, an increase in the per-call payphone rate – no matter how hefty— will only promote the more rapid demise of payphone deployment. Accordingly, if upon a thorough examination the Commission finds that the current marketplace is unable to assure the public's access to adequate telephones, the Commission will need to examine alternatives. Some states such as California, New York and Pennsylvania have implemented public interest payphone programs to assure adequate access to payphones. The Commission should solicit information from these states and others regarding such measures as well as seeking comment from interested parties on additional alternatives.

- **The Commission should re-examine the methodology adopted for determining the appropriate compensation rate.**

Any examination of appropriate per call compensation should consider all payphone revenue streams, not merely the costs of a marginal phone. Although payphones may be declining in number, it is not at all clear that existing payphones are not reaping adequate compensation. Indeed, payphone owners have been implementing alternative methods of earning revenue from their existing phones. For example, PSPs also earn revenues from the provision of Internet access services offered on pay telephone in areas including airports. Most notably, PSPs enjoy healthy income from advertising on payphone housing. Although the Commission declined to include advertising revenues when it adopted its original methodology for determining the per call compensation rate, the Commission should re-examine this decision in the current proceeding. Advertising provides a generous source of income for pay telephone providers. Indeed, in the 2002 issue of *Perspectives*, a magazine targeted to the pay telephone industry, PSPs reported strong increases in advertising revenues.[9] While pay telephone providers have always enjoyed significant advertising revenues in large metropolitan areas, Perspectives reports that PSPs all over the country including those serving small towns are finding opportunities to earn significant advertising revenues. These advertising revenues cannot be ignored when determining what constitutes adequate compensation to PSPs.

CONCLUSION

It is clear that increasing the payphone rate will do little to further the long-term benefit Congress sought to achieve in "promot[ing] the widespread deployment of payphone service to the general public."[10] Indeed, raising the payphone rate will likely only accelerate PSPs loss of market share in the transient telecommunications marketplace, necessitating additional cycles of equally exorbitant increases in the future. Further, the increase in the payphone rate will have the largest affect on those who need payphone services the most – those who cannot afford home telephone service or wireless alternatives. Accordingly, before the Commission acts to revise the existing payphone rate, it must address the core issue of the attrition in payphone deployment and initiate an investigation to determine the effect of that attrition on the public. As such, if the Commission perceives that the reduction in the number of payphones is an issue that

[9] See Stacey L. Bell, *The 'ad'-vantage of payphones*, Perspectives, April 2002 (attached hereto as Attachment A).
[10] 47 U.S.C. §276(b)(1)

needs to be addressed, it must do so via a more comprehensive proceeding as outlined above.

Respectfully submitted,

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October 30, 2002

Attachment A

by Stacey L. Bell

The 'ad'- vantage of payphones

With regional and national advertisers getting involved, payphone advertising has reached a turning point

What a difference a year makes. Last April when *Perspectives* updated payphone service providers (PSPs) on the state of the payphone advertising business, the U.S. economy seemed to be thriving, and payphone providers hoped to cash in on advertisers' expanding budgets. Since then, the country has entered a recession, suffered terrorist attacks and gone to war.

Even in the face of difficulty and double digit falls in advertising sales in traditional media like broadcast and cable TV, newspapers, magazines, and radio, payphone advertising sales have achieved a turning point. Advertisers and their agencies have caught on to the value of the medium, and some have started to embrace it as part of their core advertising campaigns. At the same time, new technologies offer a different twist for both companies and consumers.

Going up

In fact, while most media witnessed strong declines in advertising revenues in 2001, outdoor signage sales, which include payphone advertising, are expected to be up by 4 to 7 percent, according to Karen Robinson, president and CEO of Atlanta's Prime Point Media (formerly National Public Communication Media).

"Advertising on payphones makes more sense than ever," Robinson says. "Since the economy has faltered, people are looking for more value. Payphone advertising provides a microtargeted solution in a unique medium that is right at the point of purchase. We can put ads at face level in front of the very demographic advertisers are targeting."

"For example, if a company hopes to sell a new soft drink to 15- to 24-year-old Hispanics who live in upper income households, our database allows us to overlay those three demographic requirements along with particular locations the company may want to target — like convenience stores — to find the perfect places for those ads. That's a powerful sales tool," adds Barry Selvidge, chief administrative officer and general counsel for Prime Point Media.

National advertising agencies have gotten the message now.

Procter & Gamble advertised Tide on a couple hundred payphone panels in New Orleans during the Super Bowl and Mardi Gras.

A Washington, D.C. distributor for Dish TV has been running these ads at a couple hundred locations in the DC area for the past six months.

"Phone enclosures are a perfect venue for our clients because we can pinpoint locations by demographics and place multiple, eye-level images prominently in high-trafficked areas," says Joel Babbit, CEO of 360 Thinc, an advertising agency in Atlanta that represents accounts like Home Depot, Philip Morris USA and The Coca-Cola Co. "In addition, it allows us to place brand-selling messages at many points of purchase. It's a hot new medium."

Several large national and regional names have turned to this new medium to maximize their advertising dollars. Among Prime Point Media's clients are Procter & Gamble, Coca-Cola, Dasani water and AOL Time Warner's Turner South Cable Network.

"Turner South actually created a campaign around the concept of advertising on payphones," Robinson explains. "They were advertising themselves as 'The Southern Style Network,' and they wanted to advertise in small towns throughout the Southeast — particularly in historic old town squares where billboards are often prohibited. We were able to fill an important niche."

Payphone advertising "reinforces our nostalgic image of the South and shows that we're different," says Irene Foran, marketing manager at Turner South. "The ads are intimate because they are human-scale, not bigger than life, and our community sees them where they live and hang out."

More than 100 ads were displayed on payphones from July through October, and Robinson expects that another campaign will follow.

New Orleans debut

Procter & Gamble advertised Tide on several hundred payphone panels throughout New Orleans from December through March to pitch its laundry detergent to revelers at the Super Bowl and Mardi Gras.

"In the past, and even now to a certain extent, payphone advertising has been event-driven," Robinson says. "But there's a shift now toward targeting lifestyles and neighborhoods, too. For example, one company selling a new type of isotonic drink wants its ads on payphones outside of health and fitness clubs. A pet food company is targeting payphones at pet stores, running tracks, parks and other places people take their pets. Another company wants payphones at grocery stores in towns that have populations under 25,000."

"PSPs anywhere in the country have an opportunity to earn meaningful revenue by allowing their payphones to be used for advertising," Selvidge says. "PSPs provide data on their payphone installations, including exact location and placement details. We enter this information into our database, and let them know when we have a match with an advertiser's needs. We can use virtually any type of enclosure as a place to display the ads; there's no need to replace or upgrade existing enclosures. The extra revenue payphone advertising provides over the long run can allow a payphone to remain in place for public use rather than being removed."

Both Prime Point Media and AdsOnPhones handle all the elements of advertising sales for PSPs. Payphone providers simply put up the ads, take photos proving that they're in place, send the photos back to the companies, then collect their fees. AdsOnPhones provides frames for ads to its PSP clients.

Mason Harris, president of Washington, D.C.-based AdsOnPhones, also has seen increased interest from larger advertisers despite the setbacks caused by September 11. For Harris, one of these setbacks occurred when a major advertising show, originally scheduled for Sept. 11 in New York City, was canceled.

"A lot of advertising budgets for the coming year for national and regional groups are planned in the

Kia renewed its contract after a three-month trial period in the Rockville, Md. area. The ads appear at about 100 different locations.

This anti-smoking campaign was conducted by the Alabama Tobacco-Free Families organization, which is a joint effort of the University of Alabama and the state's health department. The campaign ran for six months in small markets that couldn't be reached via traditional radio and TV advertising.

fourth quarter, and we were going to debut a new lenticular, or 3-D [three-dimensional], technology at this major show in September, which likely would have led to significant contracts," Harris says. "When the show was canceled, we missed that opportunity."

3-D and LED

Opportunity often knocks more than once, though, and Harris is now demonstrating that 3-D technology to enthusiastic audiences at a handful of other major trade shows.

The technique shows passersby a three-dimensional image even though they aren't wearing "special" glasses. For example, a local vegetable mart ad might feature one image showing a picture of the store and the words "Joe's Veggie Mart." As one moves closer to the ad, the image changes to "Peas on Earth" with appropriate art.

"It's a clever technology that allows advertisers to create two ads in one. They can do a setup and a punch line," Harris notes. "Studies have shown that these ads are 10 times more effective in capturing someone's attention than a stationary image."

Among AdsOnPhones' current clients that may incorporate lenticular technology into future campaigns is TalkAmerica, a competitive local exchange carrier in Detroit that is advertising on about 100 independent payphones in that area.

AdsOnPhones also is working with clients to integrate rolling electronic messages into payphone ads. "We've had requests for ads that have an LED line running along the top that can be changed from a modem rather than by sending people to the site," Harris explains. "For example, the message might read, 'Ohio Lottery today at $36 million,' and tomorrow it would read, 'Ohio Lottery today at $42 million.'" Harris expects to have that technology available by the end of the year.

Harris agrees with Selvidge that PSPs will see increasing revenue from payphone advertising in the coming years. "AdsOnPhones is finding that advertisers increasingly are looking to use different media to break through the clutter to reinforce their message and brand," Harris says. "For example, McDonald's might like potential customers to hear its jingle on the radio, then see its ad on a payphone, then notice its new location on the corner. Consumers are more likely to hear a message and make a connection with a company

Advertisers like the idea of reaching consumers directly in their communities.

when they're getting repeated messages across different media."

Harris offers some advice to PSPs who plan to take advantage of the advertising opportunity:

- **Make sure your payphones are clean and in good operating condition.** Nothing detracts from the attractiveness of an ad faster for both consumers and advertisers than a phone that is dirty or in disrepair.
- **Keep advertising opportunities in mind when placing phones.** Don't hide a phone in the corner or put it right up against the wall. Place it centrally so that more views will be available for ads.
- **Get a firm handle on exactly where your phones are located at a site and provide that information in your database.** "Too often, we can't tell exactly how many advertising sites a PSP has," Harris says. "The database will say that there are three payphones on the property, but that may mean two advertising opportunities if it's a bank of three payphones, or it may represent six opportunities if the three phones are spread throughout the location."
- **Get started now.** Even if an ad hasn't been sold for your location, by placing a public service announcement in the space, it lets potential advertisers in your area know that you have space available. "It's just like Kevin Costner said in 'Field of Dreams,'" Harris concludes. "'If you build it, they will come.'" P

Stacey L. Bell is a freelance writer who specializes in business and marketing issues.