Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Request To Update Default	)	RM No. 10568
Compensation Rate for Dial-Around	)	
Calls from Payphones	)	

REPLY COMMENTS
ARCH WIRELESS OPERATING COMPANY, INC.

Arch Wireless Operating Company, Inc. ("Arch")[1] hereby respectfully submits reply comments in the above-captioned proceeding.[2] For the reasons set forth below, Arch agrees with the unanimous opinion of commenting parties in this proceeding that the Commission should reject the Petitioners' request to double the current default compensation rate as an offset to declining demand and revenue in the payphone industry.[3] If the Commission nonetheless wishes to revisit the appropriate default compensation rate in light of perceived changes in the payphone

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[1] Arch is a leading provider of wireless messaging and information services in the U.S., conducting business in each of the 50 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and Canada, and currently serves more than 6.5 million subscribers.

[2] *Wireline Competition Bureau Seeks Comment on Petitions for Rulemaking Regarding Payphone Dial-Around Compensation Rate*, Public Notice, DA 02-2381, RM No. 10568 (Sept. 30, 2002).

[3] *Request that the Commission Issue a Notice of Proposed Rulemaking (or in the Alternative, Petition for Rulemaking) to Update Dial-Around Compensation Rate* of the American Public Communications Council, RM No. 10568 (Aug. 30, 2002) ("APCC Petition"); *Petition for Rulemaking of the RBOC Payphone Coalition*, RM No. 19568 (Sept. 4, 2002) ("RBOC Petition").

industry, it should do so only on the basis of a more complete record, and thus should initiate a Notice of Inquiry as recommended by numerous commenters.[4]

Arch agrees with several commenters that it is unclear how the proposed rate increase serves the objectives of Section 276 to make pay telephone services cheaper and more widely available.[5] Indeed, the opposite is more likely to occur. As Global Crossing rightly observes, basic economic principles of supply and demand suggest that: "(1) as the cost of a good increases, demand for the good decreases and, if demand is elastic, total revenues will also decrease in response to a price increase; and (2) as the price of the good increases, other goods will be substituted for the good subject to the price increase."[6] For example, Arch provides a wide range of messaging services to its customers, including the ability to initiate a page and/or access voice mail messages from public pay telephones using a toll free 800 number.[7] Any increase in the default compensation rate, however, would likely make it economically infeasible to continue providing such toll free access to the detriment of Arch's customers, many of whom rely on messaging as the low cost option for telecommunications services. In sum, rather than increasing revenue over the long term, raising prices in response to falling demand is likely to hasten what Telstar International aptly describes as the payphone "death spiral" in which service

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[4] Comments of AT&T Corp. at 4-10 (Oct. 30, 2002) ("AT&T"); Comments of ATX Communications, Inc. et al. at 4 (Oct. 30, 2002) ("ATX"); Comments of IDT Corporation at 3-4 (Oct. 30, 2002) ("IDT"); Comments of Sprint Corporation at 7-9 (Oct. 30, 2002) ("Sprint"); Comments of WorldCom, Inc. at 2-18 (Oct. 30, 2002) ("WorldCom").

[5] 47 U.S.C. § 276(b)(1).

[6] Comments of Global Crossing North America, Inc. at 3 (Oct. 30, 2002) (citations omitted) ("Global Crossing").

[7] Arch obtains toll free numbers from various interexchange carriers, who in turn bill Arch at the default compensation rate for each payphone call made to such numbers.

becomes increasingly uneconomical, resulting in further volume and revenue declines to the point where the industry eventually prices itself out of the marketplace.[8]

Even assuming the underlying objectives of Section 276 warrant adjusting the current default compensation rate, Arch believes that it would be unreasonable for the Commission to reach any conclusions regarding appropriate adjustments based on the record evidence in this proceeding. As a number of commenters correctly point out, the Petitioners' request is based on erroneous assumptions, self-serving data, and flawed methodology.[9] For example, one of the underlying assumptions on which the proposed rate increase is premised is the erroneous view that Section 276 requires that a certain number of payphones be deployed.[10] While it is true that the Commission sought to initially preserve the overall number of payphones when it established the current default rate in 1999,[11] Arch submits that Section 276 has never been viewed to mandate the deployment of an arbitrary number of payphones in perpetuity irrespective of public demand or benefit. As such, Arch agrees with AT&T that there can be no rational basis for increasing (let alone doubling) the current default rate in order to preserve a static number of payphones given that – by the Petitioners' own admissions – public demand for payphone services is declining.[12]

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[8] Comments of Telstar International, Inc. at 3 (Oct. 30, 2002).

[9] Comments of the Attorney General of the State of Texas at 1-2 (Oct. 30, 2002); AT&T at 10-23; ATX at 8-15; WorldCom at 2-8.

[10] APCC Petition at 8; RBOC Petition at 4.

[11] *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, Third Report and Order, and Order on Reconsideration of the Second Report and Order, 14 FCC Rcd 2545 at ¶ 15 (1999)(calculation of default compensation amount intended to ensure the continued deployment of existing payphones to the greatest practical extent).

[12] AT&T at 7.

In addition, as WorldCom observes, there is nothing in the record suggesting that payphones no longer remain available on a widespread basis.[13] It is also unclear from the record the extent to which other factors – such as increased rates, poor maintenance and poor customer service – have contributed to declining profitability and deployment rates in the payphone industry.[14] In sum, to the extent the Commission wishes to entertain potential solutions to the economic decline of the payphone industry, it must do so on the basis of a complete record which explores all relevant factors, including the potential loss of services made available to consumers should the default compensation rate be raised.

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[13] As WorldCom argues, since payphones are typically deployed in locations near other payphones, the removal of one or more payphones does not mean that all payphones have been removed or that public access to other payphones has been foreclosed. WorldCom at 5-8. *See also* IDT at 7.

[14] AT&T at 5-6 ("Of course, the decline in the demand for payphone service cannot be separated from the dramatic rate increases . . . ."); Sprint at 3-5 ("payphones have acquired the often-justified reputation for poor service, poor maintenance, and inflated rates); WorldCom at 11, Attachments 2-3.

In light of the foregoing, Arch urges the Commission to deny the default compensation rate increase requested by the Petitioners and, to the extent it deems necessary, launch a Notice of Inquiry.

Respectfully submitted,

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November 14, 2002

CERTIFICATE OF SERVICE

I, Dennis M. Doyle, hereby certify that on this 14th day of November 2002, copies of the foregoing "Reply Comments Arch Wireless Operating Company, Inc." was served via first class United States mail, postage prepaid, on the following:

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