

Cost Analysis of Inmate Calling Services
Provided by Pay Tel Communications, Inc.

Prepared to Support the FCC's
2014 Data Collection

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Executive Summary

Wood & Wood has prepared this cost study in order to support the cost-related elements of the 2014 Data Submission of Pay Tel Communications, Inc. (“Pay Tel”). In order to perform this analysis, Wood & Wood reviewed and analyzed data from Pay Tel’s financial statements, general ledger and supporting accounts, call detail recording systems, and internal tracking systems for assets and expenses in order to produce meaningful results to populate the Commission’s Data Collection Template. This process yields costs that differentiate in a meaningful way between confinement facilities of different sizes (based on the ADP groupings set forth in the Data Collection Template) and between different types of ICS calls (collect, prepaid, and debit calls). Costs are also reported based on the cost categories (Telecom, Equipment, Security, and Other) on the Data Collection Template. Finally, Direct and Common costs are reported separately for each facility size group and by call type. Because Pay Tel serves only jail facilities and does not serve prisons, these costs results apply only to the jail portion of the Data Collection Template.

The per-MOU cost results of this study are as follows:

2012 Per-MOU Summary

<u>ADP Group</u>	<u>All Calls per MOU</u>	<u>Collect per MOU</u>	<u>Prepaid per MOU</u>	<u>Debit per MOU</u>
0-99	\$0.2648	\$0.2904	\$0.2642	\$0.2279
100-349	\$0.2170	\$0.2277	\$0.2169	\$0.2008
350-999	\$0.1851	\$0.1961	\$0.1892	\$0.1565
1000+	\$0.1749	\$0.1916	\$0.1773	\$0.1654
All Locations	\$0.2006	\$0.2240	\$0.2036	\$0.1574

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2013 Per-MOU Summary

Per-MOU Cost Summary				
<u>ADP Group</u>	<u>All Calls per MOU</u>	<u>Collect per MOU</u>	<u>Prepaid per MOU</u>	<u>Debit per MOU</u>
0-99	\$0.2432	\$0.2674	\$0.2480	\$0.2052
100-349	\$0.2045	\$0.2182	\$0.2107	\$0.1758
350-999	\$0.1873	\$0.2028	\$0.1931	\$0.1678
1000+	\$0.1781	\$0.2052	\$0.1939	\$0.1575
All Locations	\$0.1967	\$0.2214	\$0.2047	\$0.1691

2014 Per-MOU Summary

Per-MOU Cost Summary				
<u>ADP Group</u>	<u>All Calls per MOU</u>	<u>Collect per MOU</u>	<u>Prepaid per MOU</u>	<u>Debit per MOU</u>
0-99	\$0.2135	\$0.2306	\$0.2204	\$0.1882
100-349	\$0.2066	\$0.2203	\$0.2162	\$0.1782
350-999	\$0.1975	\$0.2151	\$0.2054	\$0.1773
1000+	\$0.1903	\$0.2242	\$0.2181	\$0.1673
All Locations	\$0.2011	\$0.2205	\$0.2122	\$0.1757

Additional results, including costs by facility size group, call type, and cost category, are presented in the Results section below.

Purpose and Objectives

The purpose of this study is to provide the information needed to populate the Commission’s Data Collection Template with Pay Tel’s costs, and to provide the requested *Description and Justification* to explain how data was collected and costs were

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calculated.¹ Through the Data Collection Template and accompanying instructions, the Commission has expressed an interest in obtaining cost data that is delineated based on the following parameters: by facility size (based on four identified size groupings), by ICS call type (collect, prepaid, and debit), by cost category (telecommunications costs and interconnection fees, equipment investment costs, security costs for monitoring and call blocking, and other costs) and by facility type (jails versus prisons). The template also seeks the separate identification of Direct and Common costs.

In order to provide meaningful information at this level of disaggregation, it is necessary to conduct a rigorous analysis of how costs are *caused* within the company to provide ICS. In order to identify costs associated with facilities within a given ADP Group, for example, it is necessary to collect data regarding equipment that is actually located *at those facilities*, time spent by technicians to service equipment *at those facilities*, and the extent to which the service demand *at those facilities* consumes the resources of equipment that is used to serve multiple facilities.² In direct contrast, simply allocating all costs to facilities and facility groups, without conducting the necessary analysis of cost causation, is likely to yield a reported cost that is *not* representative of a given facility group. An approach that identifies cost causation wherever possible has been taken in all elements of this cost study, in order to ensure that the disaggregated data produced is as representative as possible of how costs vary among facility sizes and call types.

¹ The Methodology section below describes in detail the sources of information used and how costs were calculated using this information.

² Workpapers showing the analysis of different categories of cost, for each call type, at each facility served by Pay Tel are attached for 2013. Location-specific workpapers for 2012 and 2014 are available to the Commission.

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The objective of this study is to produce meaningful cost data that can be used to inform the Commission regarding how costs vary by facility size and call type at jail locations,³ based on a rigorous analysis of the best information available.

Results

Costs were calculated for each cost category, for each call type, and identified as direct or common for each facility served by Pay Tel in 2012, 2013, and 2014. These facility-specific costs were then aggregated by the ADP Groups identified on the Data Collection Template, and further aggregated to a total-company basis. The resulting Per-MOU costs are reported above and in the attached workpapers.⁴ The ADP Group-specific and total-company results, used to populate the Pay Tel data on the template, are as follows:

³ Pay Tel focuses on providing service to jails and does not serve any prison facilities. For this reason, the results of this study can be used to better understand how costs vary by facility size, but an analysis of how costs vary between a jail facility and a prison facility of comparable size is beyond the scope of this study.

⁴ Workpapers have been provided for 2012, 2013, and 2014. Because 2013 represents the most recent year for which a complete data set is available, a complete set of workpapers for 2013 is provided, including (1) location-specific cost analysis, by call type and cost category, for each location served by Pay Tel in 2013; (2) group-specific cost analysis, for each identified ADP group, by call type and cost category; and (3) total-company cost analysis, by call type and cost category. For 2012 and 2014, workpapers to support the group-specific and total-company cost analysis are provided with this study. Workpapers to support the location-specific analysis for 2012 and 2014 are available to the Commission upon request, but have been omitted in order to keep the size of the filing manageable.

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2012, All Groups (Company Total)

Cost by Category

All Groups

<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
All Groups	179	Direct				
		Common				

<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
All Groups	179	Direct				
		Common				

<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
All Groups	179	Direct				
		Common				

<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
All Groups	179	Direct				
		Common				

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2012, Group A (0-99 ADP)

Cost by Category 0-99

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	63	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	63	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	63	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	63	Direct					
		Common					

2012, Group B (100-349 ADP)

Cost by Category 100-349

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	78	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	78	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	78	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	78	Direct					
		Common					

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2012, Group C (350-999 ADP)

Cost by Category 350-999

<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	32	Direct				
		Common				

<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	32	Direct				
		Common				

<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	32	Direct				
		Common				

<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	32	Direct				
		Common				

2012, Group D (1000+ ADP)

Cost by Category 1000+

<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	6	Direct				
		Common				

<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	6	Direct				
		Common				

<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	6	Direct				
		Common				

<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	6	Direct				
		Common				

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For 2013, the ADP Group-specific and total-company results, used to populate the Pay Tel data on the template, are as follows:

2013, All Groups (Company Total)

ADP Group Analysis		All Groups					
<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
All Groups	178	Direct					
		Common					
<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
All Groups	178	Direct					
		Common					
<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
All Groups	178	Direct					
		Common					
<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
All Groups	178	Direct					
		Common					

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2013, Group A (0-99 ADP)

ADP Group Analysis 0-99
Costs by Category

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	62	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	62	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	62	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	62	Direct					
		Common					

2013, Group B (100-349 ADP)

ADP Group Analysis 100-349

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	81	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	81	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	81	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	81	Direct					
		Common					

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2013, Group C (350-999 ADP)

ADP Group Analysis 350-999

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
350-999	30	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
350-999	30	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
350-999	30	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
350-999	30	Direct					
		Common					

2013, Group D (1000+ ADP)

ADP Group Analysis 1000+

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
1000+	5	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
1000+	5	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
1000+	5	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
1000+	5	Direct					
		Common					

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For 2014, the ADP Group-specific and total-company results, used to populate the Pay Tel data on the template, are as follows:

2014, All Groups (Company Total)

Cost by Category		All Groups				
<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Total Cost</u>
All Groups	172	Direct				
		Common				
<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Total Cost</u>
All Groups	172	Direct				
		Common				
<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Total Cost</u>
All Groups	172	Direct				
		Common				
<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Total Cost</u>
All Groups	172	Direct				
		Common				

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2014, Group A (0-99 ADP)

Cost by Category 0-99

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	59	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	59	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	59	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
0-99	59	Direct					
		Common					

2014, Group B (100-349 ADP)

Cost by Category 100-349

<i>All Call Types</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	79	Direct					
		Common					

<i>Collect calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	79	Direct					
		Common					

<i>Prepaid Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	79	Direct					
		Common					

<i>Debit Calls</i>							
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>	<u>Total Cost</u>
100-349	79	Direct					
		Common					

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2014, Group C (350-999 ADP)

Cost by Category 350-999

<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	29	Direct				
		Common				

<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	29	Direct				
		Common				

<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	29	Direct				
		Common				

<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
350-999	29	Direct				
		Common				

2014, Group D (1000+ ADP)

Cost by Category 1000+

<i>All Call Types</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	5	Direct				
		Common				

<i>Collect calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	5	Direct				
		Common				

<i>Prepaid Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	5	Direct				
		Common				

<i>Debit Calls</i>						
<u>ADP Group</u>	<u>Number of Facilities</u>		<u>Telecom Cost</u>	<u>Equipment Cost</u>	<u>Security Cost</u>	<u>Other Cost</u>
1000+	5	Direct				
		Common				

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Methodology

This section describes the sources of the data used in the study and how costs have been calculated at the location, group, and total company level. Along with the remainder of the study and supporting workpapers, it is intended to provide the Description and Justification requested by the Commission in the Instructions to the Data Collection Template.

Notes on the Development of Disaggregated Cost Results

The construction of the Data Collection Template and accompanying Instructions suggest that the Commission is interested not only in the level of total company costs for each ICS provider, but also seeks to better understand how costs vary among confinement facilities of different sizes (based on the ADP groupings set forth in the Data Collection Template), and between different types of ICS calls (collect, prepaid, and debit calls). The Data Collection Template also suggests an interest in understanding the relative proportion of costs among a number of functional cost categories (Telecom, Equipment, Security, and Other) and an interest in the relative proportion of Direct and Common costs.

This study is designed to produce meaningful results in response to the Commission's inquiry. While some allocation of costs is inevitable, it is important to first identify costs that be directly tracked to a given facility location or call type. When allocations must be made, they should be made based on a narrow identification of the pool of costs to be allocated and on the best available allocation factor. This rigorous process can yield results that are meaningful at the level of disaggregation requested by the Commission.

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One caveat is in order when collecting data at this level of disaggregation. While disaggregated cost data can be produced, it is also possible to create the appearance of disaggregated data by foregoing the rigorous analysis and simply allocating large pools of costs to the categories identified on the Data Collection Template. Such a process creates the appearance of accuracy where none in fact exists, and reliance on “disaggregated” cost results developed in this manner can lead to a poor understanding of how ICS costs actually vary.

Methodology Used in this Study

In order to produce the results used to populate the Data Collection Template, the essential first step is to identify, within the total costs of a company, only those costs that are caused by offering ICS services. Non-ICS costs must be excluded before a study of ICS costs can be conducted. Because Pay Tel provides only ICS services, total costs included in the study tie directly to its audited financial statements. For an ICS provider that offers additional services beyond ICS, this would not be the case.

Our second step was to identify and evaluate the available sources of information. In addition to the company’s financial statements and general ledger accounts for each study year, these sources included call detail records, systems for tracking the location of assets, and systems for tracking how and where expenses were incurred. The third step was to identify how costs could be attributed to specific locations, call types, and cost categories in the most meaningful way. For example, a given asset may be known to be located at a given facility, or technician expenses may be recorded based on work at a given location. Similarly, certain costs apply to certain calls types but not to others (billing and collection costs apply to collect calls but not to debit calls, for example). In

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addition, certain assets or expenses may be associated with a given call type, but not tracked by location. These costs must be assigned based on the most meaningful factor available. Finally, Common costs are – by definition – not identifiable with any direct cost category (such as the Telecom, Equipment, Security, and Other categories shown on the Data Collection Template); if such a category assignment could be made in a meaningful way, the cost under consideration would be properly characterized as Direct rather than Common. For this reason, this study identifies and reports Common costs at the level of the ADP Group, but does not arbitrarily allocate these costs to the Direct cost categories on the template. Common costs are instead reported in total for each ADP Group.

Consistent with the Commission’s determination in FCC13-113, no commissions paid to facility operators have been included in this study.

Because Pay Tel serves only jail facilities and does not serve prisons, these costs results apply only to the jail portion of the Data Collection Template. The results can provide insight into how costs vary among jail locations of different sizes, but do not reflect the difference between the costs of serving a jail and the costs of serving a prison, even if the facilities are of comparable size.

Expenses

Expenses have been analyzed and divided into four categories:

Direct Expenses – Tracked. These expenses represent those that are known, based on internal tracking systems, to be specific to a given location, call type, and cost category. Direct Expenses – Tracked included the following: The cost of technicians (salary and benefits) to service equipment at a given location, based on task time tracking

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systems; the costs to set up voice biometric monitoring at a given location (if applicable for that location); the costs to set up the programming interfaces to allow for debit payments (applicable only to debit calls and to locations that permit debit calling); telecommunications expenses, including local and long distance services, based on invoices for specific location; bandwidth and SIP usage associated with providing telecommunications services over data circuits, based on invoices for a specific location; supplies and repairs, based on parts used to repair equipment at a specific facility and third-party labor costs associated with repairs at a specific facility, payphone expenses, associated with the operation of payphones required by contract at a specific location; bad debt expenses, as tracked by location and by call type (not applicable to debit calls); billing and collections costs associated with in-house customer service, external call center, and LEC billing and collection fees associated with the LEC serving that area (not applicable to debit calls); and sales costs, associated with the contract for a specific facility. Direct Expenses – Tracked are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Direct Expenses – Assigned. In some cases, expenses in the categories described above are identified but have not been tracked by internal systems to a specific location within a group.⁵ These direct expenses have been assigned based on each location's relative contribution to the total demand for these resources. Direct Expenses – Assigned are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

⁵ Here, the relevant group of locations for cost assignment may be different than the ADP Groups identified on the Data Collection Template. Assignments are made to individual locations based on the process described above, and locations are then aggregated into the ADP Groups requested by the Commission.

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Direct Expenses – Product Support. A number of departments within Pay Tel are in direct contact with either the end user customers of Pay Tel services or the facility customers who enter into the service contract with Pay Tel. These departments include Customer Service, Information Systems, and Technical Support and Sales. Expenses associated with the operation of these departments include salaries/wages and benefits, travel expenses, software licenses and maintenance, consulting, outside labor, supplies, legal fees directly associated with contract administration, and disaster recovery. The portion of insurance and building expenses associated with these departments has also been included in this category. These expenses are then assigned to locations based on each location's demand on these resources. Direct Expenses – Product Support are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Common Expenses – G&A. Some categories of expenses have been identified as caused by the operation of the total company, with no identifiable subset of these costs caused by a subset of operations (locations, call types, or cost categories). These expenses have been reported as Common, and include costs associated with the Administration, Accounting, and Regulatory departments. In addition to salary/wages and benefits, these costs include fees for accounting audits, banking charges, legal expenses associated with regulatory and general business issues but not directly associated with contract administration. Common Expenses – G&A are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

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Based on the categorization process, expenses have been identified and reported for each location served by Pay Tel in each study year. The level of expenses reported ties directly to Pay Tel's general ledger and to its audited financial statements for each year.

Capital Costs

The assets underlying Pay Tel's Capital Costs have been identified and divided into four categories:

Direct Capital Costs – Tracked. This category consists of assets that are known, based on internal tracking systems, to be in service at a specific location and that are used to provide ICS at that location. Direct Capital Costs – Tracked are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Direct Capital Costs – Assigned. This category consists of assets that are used to provide ICS, but whose specific location cannot be identified through internal tracking systems. These direct drivers of capital costs have been assigned based on each location's relative contribution to the total demand for these resources. Direct Capital Costs – Assigned are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Direct Capital Costs – Product Support. This category consists of assets utilized to provide ICS by the departments who are in direct contact with either the end user customers of Pay Tel services or the facility customers who enter into the service contract with Pay Tel (including Customer Service, Information Systems, and Technical Support and Sales). These direct drivers of capital costs have been assigned based on each location's relative contribution to the total demand for these resources. Direct

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Capital Costs – Product Support are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Common Capital Costs – G&A. These assets have been identified as caused by the operation of the total company, with no identifiable subset of the resulting capital costs caused by a subset of operations (locations, call types, or cost categories). These capital costs have been reported as Common, and include costs associated with the Administration, Accounting, and Regulatory departments. Common Capital Costs – G&A are reported as a separate line item for each facility location, as shown in the accompanying Workpapers.

Based on this categorization process, assets have been identified and reported for each location served by Pay Tel in each study year. Asset values are based directly on the acquisition cost of the asset and any capitalized installation costs. Booked assets have been converted into annual costs based on the expected useful life of the asset and an 11.25% overall cost of capital.⁶ The resulting annual costs, by location and cost category, are shown on the accompanying Workpapers.

Identification of Cost Categories

The Data Collection Form seeks direct cost data disaggregated into four functional categories: (1) telecommunications costs and interconnection fees, (2)

⁶ In FCC 13-113, the Commission accepted, but did not endorse, the 11.25% cost of capital that it previously adopted for use by incumbent local exchange companies (“ILECs”). This cost of capital was adopted approximately twenty-five years ago during a period of industry stability in which ILECs faced stable revenues, no direct competition, regulatory stability, and correspondingly low business risk. In direct contrast, ICS Providers operate in a highly competitive marketplace with regulatory uncertainty that results in higher business risk. This suggests that a higher rate of return would be reasonable for ICS Providers in order to establish rates that are “just, reasonable, and fair.” By utilizing the 11.25% overall cost of capital, this study produces cost results that are likely to be conservatively low.

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equipment investment costs, (3) security costs for monitoring and call blocking, and (4) other costs.

Telecommunications Costs. Costs directly associated with carrying ICS calls on either circuit-switched or IP-based networks have been identified and reported in the Direct Expenses – Tracked and Direct Expenses – Assigned categories described above, and have been reported on a location-specific basis.

Equipment Costs. Reported Equipment costs are limited to those costs directly associated with the provision of ICS service, and have been identified and reported in the Direct Expenses – Tracked, Direct Expenses – Assigned, Direct Capital Costs – Tracked, and Direct Capital Costs – Assigned categories described above.

Security Costs. In general, costs to provide numerous security features are intrinsic in a number of the assets and expenses reported in other categories, but are difficult to disaggregate in a meaningful way. The costs associated with setting up continuous voice biometric identification at a given location have been tracked separately, however (and fall within the Direct Expenses – Tracked category). In this study, we have reported these costs in the Security category for those locations where continuous voice biometric identification has been implemented.

Other Costs. In this study, we have reported as Other those components of the Direct Expenses – Tracked, Direct Expenses – Assigned, Direct Expenses – Product Support, and Direct Capital Costs – Product Support that do not fall within the definitions of the Telecommunications Costs, Equipment Costs, and Security Costs categories described above.

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ICS Usage and Call Volumes

This study relies on actual call volumes, by call type and by location, as contained in Pay Tel’s call detail records (“CDRs”). Call volume and usage data have been used, where appropriate, to identify resource demand caused by providing ICS to specific locations or by specific call types. Total annual volumes, by call type and consolidated by ADP Group, were used to calculate the per-MOU costs reported in this study and shown on the accompanying Workpapers.

For study years 2012 and 2013, actual annual CDRs were available and were used. For 2014, a projection of total annual volume was made based on five months of available CDR data and a consideration of the number of locations being served.

Conclusions

This study provides an analysis of how the cost to provide ICS varies based on location size and call type. The results are based on hundreds of thousands of available data points that in many cases reflect direct tracking of where and how expenses were incurred and where assets are located. For expenses or assets that are not directly tracked, costs have been calculated based on how the provision of ICS calling of a particular call type or at a particular location contributes to the consumption of available resources, providing additional data that is consistent with the fundamental principle of cost causation. As a result, the study provides meaningful data regarding how ICS costs vary across locations of different sizes and across call types.

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Description of Workpapers

The following workpapers have been prepared and included in Attachment A.

For 2013, the most recent year for which a complete data set is available, group-specific and location-specific workpapers are provided:

2013 Total Company (All-Location) Analysis, providing costs by call type and by cost category (2 pages).

2013 Group A (0-99 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2013 Group B (100-349 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (9 pages).

2013 Group C (350-999 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2013 Group D (1000 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2013 Group A (0-99 ADP) Location Analysis, providing costs by call type and by cost category at the location-specific level (124 pages).

2013 Group B (100-349 ADP) Location Analysis, providing costs by call type and by cost category at the location-specific level (162 pages).

2013 Group C (350-999 ADP) Location Analysis, providing costs by call type and by cost category at the location-specific level (60 pages).

2013 Group D (1000 ADP) Location Analysis, providing costs by call type and by cost category at the location-specific level (10 pages).

For 2012, the following workpapers are provided (location-specific workpapers are available to the Commission upon request):

2012 Total Company (All-Location) Analysis, providing costs by call type and by cost category (2 pages).

2012 Group A (0-99 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

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2012 Group B (100-349 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (9 pages).

2012 Group C (350-999 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2012 Group D (1000 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

For 2014, the following workpapers are provided (location-specific workpapers are available to the Commission upon request):

2014 Total Company (All-Location) Analysis, providing costs by call type and by cost category (2 pages).

2014 Group A (0-99 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2014 Group B (100-349 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (9 pages).

2014 Group C (350-999 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

2014 Group D (1000 ADP) Analysis, providing costs by call type and by cost category at the group-specific level (5 pages).

Qualifications of Analysts

Mr. Wood

Don J. Wood is a principal in the firm of Wood & Wood. He provides economic, financial, and regulatory analysis services in technology-driven industries, specializing in economic policy related to the development of competitive markets, cost of service issues, and the calculation of financial damages. In addition, Mr. Wood advises industry

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associations on regulatory and economic policy and assists investors in their evaluation of investment opportunities.

In the area of administrative law, Mr. Wood has presented testimony before the regulatory bodies of forty-three states, the District of Columbia, and Puerto Rico, and has prepared comments and testimony for filing with the Federal Communications Commission. The subject matter of his testimony has ranged from broad policy issues to detailed cost and rate analysis.

Mr. Wood has also presented testimony in state, federal, and overseas courts regarding business plans and strategies, competition policy, intercarrier compensation disputes, and cost of service issues. He has presented studies of the damages incurred by plaintiffs and has provided rebuttal testimony to damage calculations performed by others. Mr. Wood has also testified in alternative dispute resolution proceedings conducted pursuant to both AAA and CPR rules.

Mr. Wood prepared the 2013 Pay Tel Cost Study and the 2008 APCC Cost Study referenced and relied upon by the Commission in FCC 13-113. A copy of his Curriculum Vitae is provided as Attachment B.

Ms. Reeves

Amy Reeves serves as the Vice president of Finance at Pay Tel Communications, Inc., where she previously served as Controller. She has over thirty years of experience in the areas of finance and accounting, including employment at both public and private industries and at government agencies.