BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

In the Matter of	)	
	)	**CC Docket No. 99-249**
Low-Volume Long-Distance Users	)	

INITIAL COMMENTS OF

CONSUMER FEDERATION OF AMERICA,

CONSUMERS UNION

AND THE

TEXAS OFFICE OF PUBLIC UTILITY COUNSEL

Mark Cooper
Director of Research
Consumer Federation of America
504 Highgate Terrace
Silver Spring, MD 20904
(301) 384-2204 / (301) 236-0519 FAX

Olivia B. Wein, Research Fellow
Gene Kimmelman, Co-Director
Consumers Union (Washington, D.C.)
1666 Connecticut Avenue, N.W.
Washington, D.C. 20009
(202) 462-6262 / (202) 265-9548 FAX

Laurie Pappas
Deputy Public Counsel
Texas Office of Public Utility Counsel
1701 N. Congress Avenue, Suite 9-180
Austin, TX 78701
(512) 936-7500 / (512) 936-7520 FAX
Texas State Bar No. 12128690

September 22, 1999

Table of Contents

EXECUTIVE SUMMARY: LOW VOLUME CONSUMERS HAVE SUFFERED SUBSTANTIAL RATE INCREASES iii

I. LOWER INCOME CONSUMERS ARE SHOULDERING THE GREATEST BURDEN 1

II. THIS NOI IS BASED ON ERRONEOUS ARGUMENTS, INCORRECT CONCLUSIONS, AND NAÏVE QUESTIONS ABOUT THE STATE OF COMPETITION IN THE LONG DISTANCE INDUSTRY 2

A. The Commission Cannot Realistically Look to Competition to Alleviate the Burden of Price Discrimination in the Long Distance Market 2

B. During the Commission's Stewardship of Access Charge Reform, Most Consumers Have Not Benefited From Rate Restructuring 6

1. Claims About the Benefit of Long Distance Competition Are Dubious At Best 6
2. The Commission has Failed to Recognize Congressional Intentions to Protect Consumers from this Pricing Abuse 7

III. LOW-VOLUME LONG DISTANCE USERS ARE PAYING TOO MUCH 8

A. There is a Large Group of Customers Who Have Been the Victims of Price Discrimination 8

B. The Commission's Own Data Demonstrate the Dramatic Impact of Rate Restructuring on Low Volume Consumers 11

1. Introduction 11
2. Net Bill Impacts on Individual Consumers 13
3. The Increasing Cost of Connectivity 15
4. Total Impact on Customer Categories 15

IV. THE MARKETPLACE DOES NOT PROVIDE EFFECTIVE ALTERNATIVES FOR LOW VOLUME CONSUMERS 17

A. Low-Volume Users Currently Lack Comparable Alternatives for Affordable Long Distance Service 17

B. Dial-Around Plans are Risky Business 18

C. Prepaid Calling Cards Are Costly 20

D. RBOC Entry Into In Region, InterLATA Long Distance is Not Likely to Provide Relief for Low Volume Consumers 22

V. RECOMMENDATIONS 23

A. Consumers Are Outraged That They Are Being Gouged For An Essential Service 23

B. Immediate Action Is Required to Lower the Bills of Low Volume Long Distance Consumers.... 26

Exhibit 1: Price Discrimination Between Low and High Volume Long Distance Users....29

Exhibit 2: The Strong Correlation Between Income and Usage....30

Exhibit 3: Percent of Households Reporting No Long Distance Calls in the Previous Month....31

Exhibit 4: Monthly Long Distance Costs for Low Volume Users 32

Exhibit 5: Changes in the Cost of Having a Long Distance Company for Low Volume Consumers Since the Passage of the Telecommunications Act of 1996 33

Exhibit 6: Long Distance Use is Highly Skewed 34

Exhibit 7: The Impact of Federal/Long Distance Rate Restructuring on Low Volume Users 35

Exhibit 8: Sample of Rates for a 3 Minute, 20 Minute and 1 Hour Call in a Month on Various Dial Around Plans 36

EXECUTIVE SUMMARY: LOW VOLUME CONSUMERS HAVE SUFFERED SUBSTANTIAL RATE INCREASES

The Consumer Federation of America,[1]Consumers Union,[2] and the Texas Office of Public Utility Counsel[3] (hereafter Joint Commenters) respectfully submit these comments in response to the Notice of Inquiry on low volume long-distance users.[4]

The Commission, despite adopting this NOI, has failed to ensure that falling long distance costs are translated into fair prices and continues to postpone relief to over half of all residential long-distance consumers, especially those who make fewer than 50 minutes of interstate long distance calls in a month. While the Commission has acted to reduce access charges for the long distance carriers by over $4 billion since 1997 -- and by additional billions from earlier rounds of regulatory reductions in these charges -- it has passively watched the average per minute rates for low-volume callers rise time and time again.

---

[1] Consumer Federation of America is the nation's largest consumer advocacy group, founded in 1968. Composed of over 250 state and local affiliates representing consumer, senior citizen, low-income, labor, farm, public power, and cooperative organizations, CFA's purpose is to represent consumer interests before the congress and the federal agencies and to assist its state and local members in their activities in their local jurisdictions.

[2] Consumers Union is a nonprofit membership organization chartered in 1936 under the laws of the State of New York to provide consumers with information, education and counsel about good, services, health, and personal finance; and to initiate and cooperate with individual and group efforts to maintain and enhance the quality of life for consumers. Consumers Union's income is solely derived from the sale of *Consumer Reports*, its other publications and from noncommercial contributions, grants and fees. In addition to reports on consumers Union's own product testing, *Consumer Reports* with approximately 4.5 million paid circulation, regularly, carries articles on health, product safety, marketplace economics and legislative, judicial and regulatory actions which affect consumer welfare. Consumers Union's publications carry no advertising and receive no commercial support.

[3] The Texas Office of Public Utility Counsel is the Texas state consumer agency designated by law to represent residential and small business consumer interests of the State. The agency represents over 8 million residential customers and advocates consumer interests before Texas and Federal regulatory agencies as well as the courts.

We estimate that those households making less than 50 minutes of calls have been burdened with a net annual increase in long distance charges of about $2 billion. The majority of those increases have fallen on the backs of consumers who are least able to pay – lower income households.

The Commission's cost recovery formula for the loop has disproportionately increased costs for the end-user. In effect, the consumer bears the cost of the loop while IXCs get a free ride. The Commission requires consumers to pay for part of the loop costs directly though the Subscriber Line Charge (SLC) and long distance carriers are charged for the remainder of the costs through the Presubscribed Interexchange Carrier Charge (PICC). However, the Commission permitted long distance carriers to pass through their charges onto the consumer as a line-item fee. This loading of all loop costs onto the end user violates principles of joint and common cost allocation pursuant to the Telecommunications Act of 1996.

The Commission, in its regulatory proceedings to reduce access charges to the benefit of long distance carriers, had the opportunity to offset the impact of cost increases from the long distance carriers' pass through of the PICC and the federal universal service charges by requiring a dollar-for-dollar or *pro rata* pass-through of saving from access charge reductions. Instead, the Commission chose to rely on presumed "market forces" to compete these charges away. Unfortunately, those "market forces" are nonexistent in the low volume market segment. The major long distance carriers have chosen to play follow the leader by raising prices for consumers by the equivalent of their PICC and their universal services

---

[4] Federal Communications Commission, In the Matter of Low-Volume Long-Distance Users, CC Docket No. 99-249, July 20, 1999 (herein after, "NOI").

costs. Those making few long distance calls have been the hardest hit by these growing line-item charges.

Making matters much worse is the recent imposition of monthly minimum charges by the major carriers (see Exhibit 1). Now consumers are being billed even when they do not place a single long distance call during the billing cycle. This agency's own calculations estimate that up to 20 million consumers could be faced with monthly charges without ever placing a long distance call.[5] These minimum charges have substantially increased the cost of long distance for low-volume users – especially for low-income consumers. Recent data from a large survey of consumers in Florida shows that over half of all respondents who reported no calls in a given month had incomes below $20,000 and 75 percent had incomes below $30,000. These respondents represented about one quarter of the total. Thus, the burden of rising prices for low volume calling is falling disproportionately on lower income households.

The Commission's own data show that the average per minute rate for those making under 30 minutes of calls a month has skyrocketed to triple what they were in the fall of 1997. This is a distress flare in the sky to the Commission that low-volume users are being crushed by an avalanche of line-item charges and unfair pricing policies. To ensure that all consumers received their fair share of recent long distance cost reductions, the Commission must act expeditiously to remedy the pricing inequity in the bottom-half of the marketplace by reducing or eliminating the Subscriber Line Charge. The Commission could move quickly to provide this bottom-of-the-bill relief because it regulates this end-user charge. The

[5] Cindy Skrzycki, "When the Meek Inherit . . . a Surcharge," Washington Post, August 13, 1999, E1.

Commission should also prohibit minimum monthly charges, which greatly exacerbate the cost recovery burden of low volume customers.

I. LOWER INCOME CONSUMERS ARE SHOULDERING THE GREATEST BURDEN

The Commission asks a series of questions about the impact of price discrimination against low volume users and steps to mitigate those impacts. In particular, it asks whether low-income consumers are particularly burdened by these practices. Data indicate that the burden of price discrimination is borne by those least able to afford high rates.

The empirical evidence clearly suggests that low-income consumers are much more likely to be lower volume consumers. Exhibit 2 shows evidence on the correlation between income and usage. It shows that households with incomes below $5,000 have long distance bills that are between one-half and one-third of upper income households.

The data from a recent Florida Public Service Commission provides insight into the segment of the market that reports no long-distance charges. In the survey data, we find that 15 percent of the respondents report no long distance calls. Forty percent of the respondents with incomes below $10,000 report no long distance expenditures (see Exhibit 3). Twenty percent of respondents with incomes between $10,000 and $20,000 report no long distance expenditures. In this data set, 75 percent of all respondents who report no phone calls have incomes below $30,000.

II. THIS NOI IS BASED ON ERRONEOUS ARGUMENTS, INCORRECT CONCLUSIONS, AND NAÏVE QUESTIONS ABOUT THE STATE OF COMPETITION IN THE LONG DISTANCE INDUSTRY

The Commission repeatedly asserts that it is concerned that any action it takes not be in conflict with the pro-competitive and deregulatory public policy intentions of the Act and the actual development of competition in the market. We believe that these statements reflect a remarkable ignorance about what is going on in the marketplace.

A. THE COMMISSION CANNOT REALISTICALLY LOOK TO COMPETITION TO ALLEVIATE THE BURDEN OF PRICE DISCRIMINATION IN THE LONG DISTANCE MARKET

The Commission asks a series of questions about the nature of competition and its impact on low-volume consumers. For example:

> We also seek comment on whether, and the extent to which, government intervention despite the availability of competitive alternative choices may be in tension with the deregulatory emphasis of the Act. (NOI, para 18).
>
> Commenters should also address whether the introduction of flat rate charges or minimum usage requirements is the result of competitive market dynamics. (NOI, para 15).
>
> We also seek comment on where the entry of Bell Operating Companies (BOCs) into the long-distance market will mitigate the problems currently experience by low-volume long-distance users? (NOI, para 15).

The Commission just does not seem to understand what has happened to low volume consumers in the long distance market. There is no competition for low volume residential customers. They are overwhelmingly AT&T customers and these customers have not been the targets of any competitive offerings.

The introduction of minimum bill and flat rate charges is indicative of anticompetitive market dynamics. It is a result of the segmentation of the market into a competitive upper tier and a noncompetitive lower tier. In the lower tier, AT&T exercises market power and price leadership and is closely followed by all the other IXCs, including the affiliates of local companies that are offering long distance service.

Even more ominous for this market segment is the fact that there is very little prospect that competition for their business will ever take place. First, the local exchange companies that have entered the long distance market have engaged in the same price discrimination as the IXCs. Second, both the regional bell operating companies (RBOCs) and the IXCs have stated their intentions to pursue the same high-volume, high-value customers with a market discrimination strategy. They simply will not compete for low volume business.

As two of the joint commenters noted in January of this year:

> We present evidence that the market activities of the firms in the industry are creating a divide not on the basis of infrastructure, but on the basis of economics. The current infrastructure is more than adequate to generate a very high stream of revenue and meet the needs of virtually all consumers. The companies appear to be interested in competing for the business of a small segment of the market – intensive users of numerous telecommunications and TV services. The group of consumers who are attractive to companies is quite small. The drive to expand the infrastructure serves the needs of this small group and leaves the rest behind…
>
> Massive industry consolidation under a law that fails to differentiate areas of likely competitive opportunity from areas of persistent monopoly is leading to a new era of telecommunications haves and have-nots.

Long distance companies saved more than $1 billion in 1998 by adding new monthly fees on consumers' bills.[6] They enjoyed an additional cut in their costs in July of $700 million due to reduced access charges. This comes atop access charge reductions from prior years. In spite of these substantial reductions in costs and shifting of costs into monthly charges, the consumer price index for interstate long distance has been flat since the passage of the Act.[7] In fact, long distance companies have been increasing basic service rates, which may be paid by as many as one-half of all residential ratepayers. To the extent that discounts have been offered, they have gone to high volume users and those able to make purchases through the Internet. If the FCC does not require long distance companies to pass along regulatory cost savings proportionately to all customers; consumers will pay more that $3 billion in monthly fees in 1999 that are not offset by per-minute rate reductions.

The Digital Divide has become deeply embedded in long distance pricing. Rates for Internet-billed long distance service are less than one half the charges that basic service customers face. By Internet-billed service we mean long distance service that is provided over the traditional telephone network, but which is ordered over the Internet and paid for by credit card. The long distance companies have stumbled upon a price discrimination mechanism akin to the Saturday night stay in the airline industry. Someone who uses the Internet is likely to be a high volume consumer and, by accepting credit card billing, is low cost to serve.[8]

Recent developments in the industry only indicate that matters will become worse, as AT&T integrates cable TV and cable-based broadband Internet service into its ever expanding package of services. Consumers have to buy more and more to get any of the benefits of competition. As a CFA member group recently pointed out in a hearing over the transfer of cable TV licenses in Massachusetts:

---

[6] Footnote omitted.

[7] Footnote omitted.

[8] Cooper, Mark N. and Gene Kimmelman, *The Digital Divide Confronts the Telecommunications Act of 1996: Economic Reality vs. Public Policy,* (Consumer Federation of America and Consumers Union, February 1999), pp. 3-4, 9, 12.

> These anti-consumer pricing practices have already begun to spread to closed cable-based Internet services.
>
> As an example, I (P. Schlaver) pay MediaOne $78 per month to have cable TV and Internet service. If I try to lower my cable bill by about $20 by dropping a tier of cable TV service, MediaOne will raise my Internet service price by $10, without any improvement in the service.
>
> MediaOne offers to add telephone service to a big communications bundle for about $32, but my current local phone bill is only about $30. MediaOne hints that after the proposed merger with AT&T, bundling all services into one package, including long-distance, would provide me with additional discounts. Since I don't want all that cable programming, I am not much better off; and what about lower-income consumers, such as some seniors, who don't want or need many of these services? The tease of lower prices won't be realized unless consumers bundle many services together with one provider, adding up a combined monthly communications bill of well over $100.[9]

In short, as will be demonstrated in great detail below, low-volume users have not benefited from competition in long distance because there is no competition for the business of this market segment. On the contrary, as the FCC's own analysis shows, they have suffered a massive increase in their long distance bills and a significant increase in the cost of connectivity to the network.

[9] Letter from Massachusetts Consumers' Coalition and Consumer Federation of America to Ms. Alicia C. Matthews , Director, Cable Television Division, Massachusetts Department of Telecommunications and Energy, September 9, 1999.

B. DURING THE COMMISSION'S STEWARDSHIP OF ACCESS CHARGE REFORM, MOST CONSUMERS HAVE NOT BENEFITED FROM RATE RESTRUCTURING

1. Claims About The Benefit Of Long Distance Competition Are Dubious At Best

The Commission's analysis of the "benefits of competition" could not be farther off the mark.

> In any case, the Commission believed that, even if IXCs did pass on the modest initial PICCs as flat charges, most consumers would enjoy benefits in the form of lower long-distance rates, and that those benefits would outweigh the burden of a small, flat monthly charge. That belief has proven correct for some consumers, in that long-distance rates overall have continued to decline.[a/]
>
> [a/] The PICC first took effect in January 1998. The Consumer Price Index (CPI) for interstate toll service dropped from 75.2 in December 1997 to 74.6 in December 1998, or 0.8 percent in absolute terms and 2.4 percent once adjusted for inflation… the CPI dropped another 4.1 points to 72.5 between December 1998 and May 1999, making the total decline 3.6 percent from December 1997, without adjusting for inflation.[10]

First, the Commission's hope that most consumers would benefit and its admission that only some have benefits must be underscored. Most consumers have not benefited from rate restructuring. The Commission should flatly admit as much.

Moreover, even in the aggregate, its policies have not done consumers much good. The Commission's statement that the decline in the aggregate rates is a benefit of competition is debatable. The decline in rates in the aggregate appears to be equal to or only slightly larger than the decline in access costs. Because of the way those rates are reported it may be even smaller. At best, these data show that virtually all of the reduction in access costs – a regulatory act – has been passed through to some groups of users – most likely high

volume business and residential customers -- and there has been little improvement in efficiency in the production of long distance service generated by competition. In other words, the best that can be claimed for the Commission's stewardship of the long distance industry is that the long distance industry has passed through regulatory costs in a highly inequitable manner and added little of its own to consumer welfare.

2. The Commission has Failed to Recognize Congressional Intentions to Protect Consumers from this Pricing Abuse

The Commission's confusion goes beyond a failure to recognize what is happening in the real world. It extends to confusion about the intent of the 1996 Act. For example, the Commission asks

> whether it is reasonable to assume that implicit subsidies could be eliminated and competition introduced into previously regulated markets without some customers (those previously subsidized) paying more. (NOI, para 15).

Not only is it possible to eliminate subsidies without raising rates, but that is clearly what Congress intended. We cannot find one statement in the legislative record which indicates that any member of Congress individually or the body as a whole suggested that bills would increase for a significant number of people. On the other hand, we find a mountain of evidence that Congress expected bills to go down.

The mechanisms by which this can be accomplished are straightforward.

- Gains from productivity increases should be used to compensate for any increase that is threatened by the reduction of subsidies.

[10] NOI para 10.

- ♦ Congress mandated, "to the extent" possible that implicit subsidies be made explicit, it did not mandate the elimination of subsidies. Those who bore implicit subsidies can be made to bear explicit subsidies without raising rates for other consumers.

Instead of lowering IXC costs and allowing them to decide how to apply those costs, the Commission should have taken the productivity gains and applied them to rate restructuring. By allowing the IXCs to put the money in their pockets first and decide what to do with it, the Commission has triggered the largest long distance rate increase in the history of the industry for a substantial segment of the population.

III. LOW-VOLUME LONG DISTANCE USERS ARE PAYING TOO MUCH

A. THERE IS A LARGE GROUP OF CUSTOMERS WHO HAVE BEEN THE VICTIMS OF PRICE DISCRIMINATION

Recent calculations from the Industry Analysis Division of the Common Carrier Bureau show that residential long distance customers making 30 minutes or less in calls in a month have faced almost a 300% increase in per minute rates and total bills since July 1997, when the FCC last required the long distance carriers to pass through savings from access charge reductions (see Exhibit 4).[11] Even those residential long distance users who made approximately one hour of calls a month experienced about a 20 percent increase in per

---

[11]Phil Chelik, Reference Book of Rates, Price Indices and Expenditures for Telephone Service, Table 2.4 "Average Charge per Billed Minute for Price-Sensitive Residential Callers", Industry Analysis Division, Common Carrier Bureau, FCC, June 1999. Table 2.4 doesn't calculate the rate for July 1997, but the next nearest date is October 1997. The per minute rate for interlata-interstate calls of 30 minutes or less was $.1279 and it held steady until AT&T started to pass through its PICC charge. This is reflected in the increased rate of $.1747 for April 1998. The rate increased again to $.2615 when AT&T began passing through the Universal Service charge. The last increase charted in this table accounts for the $3.00 minimum charge AT&T began assessing on new customers. This is reflected in the September 1998 per minute rate of $.3691.

minute rates and total bills – over 15 times the increase in the CPI for this period.[12] Using the most recent Commission data available, we estimate that the median amount of monthly residential interLATA-interstate calls in 1997 was around 44 minutes a month.[13] Thus, well over half of all consumers make less than an hour of long distance calls in a given month. A review of this data establishes that most consumers are worse off.

In contrast, those making around two hours of interstate long distance calls a month are getting an average per minute rate that is one third as much as those making 30 minutes or less in calls (see Exhibit 1). Those making over eight hours of interstate calls a month are getting an average rate that is closer to one fourth as much as those making 30 minutes or less in calls.[14] The recent round of "nickel-a-minute" plans by MCI and Sprint have a monthly minimum of $5.00 or monthly charge of $5.95. AT&T's follow-up 7-cents One Rate plan has a monthly charge of $4.95 to $5.95. This leaves the low-volume user on one of these new "low-rate" plans who makes no calls in a given month with a long distance bill of $6.82 to $8.45.[15] It is clear that these new "nickel and cents" rates are not targeted to the low-volume user.[16] Indeed these plans highlight the market segmentation that has existed in

---

[12] According to the Bureau of Labor Statistics' Consumer Price Index for All Urban Customers, the CPI for October 1997 was 161.6 and the CPI for November 1998 was 164.0, a 1.5% increase.

[13] According to the 2/99 Trends, in 1997 the median household had 88 minutes of toll calling and 50% of residential toll call minutes were interstate. Using these figures, we estimate that in 1997 about half the households made around 44 minutes of interstate calls.

[14] Phil Chelik, Reference Book of Rates, Price Indices and Expenditures for Telephone Service, Table 2.4 "Average Charge per Billed Minute for Price-Sensitive Residential Callers", Industry Analysis Division, Common Carrier Bureau, FCC, June 1999.

[15] This includes the PICC and federal universal service charges.

[16] Another shortcoming of these new five cent plus plans has been highlighted by the Washington State Utilities and Transportation Commission. The in-state long distance rates under these plans are sometimes double the advertised low rate for the state-to-state calls. Washington Utilities and Transportation Commission Press

the long distance market, with the top one-quarter of high-volume callers receiving the competitive rates and the three-quarters of the market getting squeezed.

This past year, long distance companies have shifted over $2.3 billion in costs from usage based rates to fixed rates by passing through their PICC and universal service charges to residential consumers.[17] In the upcoming year, long distance carriers look forward to shifting over $3.3 billion since the charges for the PICC and universal services have increased this summer due to the actions of this Commission.[18] These rising line item costs have not been offset by the over $4 billion that long distance companies saved in access charge reductions since 1997 and the additional billions of dollars long distance companies have saved from earlier reductions in access charges.

Around the same time the PICC and universal service charges began appearing on consumers' bills, the long distance companies began imposing monthly minimum charges on customers. These charges vary from $3.00 a month to $5.00 a month. These ballooning flat-fee charges are flashing warning lights indicating that over half of the residential long distance market is not competitive, and is thus being squeezed for more profits. The response from the long distance industry is to push these consumers into the arms of the dial-arounds.[19]

Release, "State regulator urges toll companies to charge advertised rates for all calls" September 8, 1999. AT&T's One Rate 7 Cents plan charges 10 cents per minute for in-state long distance, Sprint's Nickel Nights charges 10 cents a minute and MCIWorldcom's 5 Cents Everyday charges 11 cents a minute.

[17] Based on mid-year 1999 estimates for line counts and AT&T's line item charges for the PICC and Universal Services since AT&T has the vast majority of residential accounts.

[18] Increasing the ceilings on the PICC and increasing the funding of the e-rate program to $2.25 billion.

[19] Cindy Skrzycki, "When the Meek Inherit . . . a Surcharge," Washington Post, August 13, 1999, E1:

B. THE COMMISSION'S OWN DATA DEMONSTRATE THE DRAMATIC IMPACT OF RATE RESTRUCTURING ON LOW VOLUME CONSUMERS

1. Introduction

Since the passage of the Telecommunications Act of 1996, the Federal Communications Commission has conducted a vigorous campaign to restructure long distance rates and to fund new programs mandated by the Act.

Rate restructuring includes new charges primarily for the E-rate program, shifting of universal service costs from implicit charges to explicit charges, and a shift in recovery of loop costs from usage based charges to fixed fees. Taken together, the FCC has dramatically lowered the per minute charges that long distance companies pay to local companies for the use of their facilities. These usage charges have been replaced by fixed monthly charges. The FCC did not order long distance companies to put these charges on the customers' bills, but it did not prevent them from doing so. Subsequently, the long distance companies have put these charges on the bill.

Paragraph 14 of the NOI contains a short recitation of various claims and counterclaims by IXCs and LECs about the impact of line items on consumers' bills. The Commission ends with a series of requests for data and specific questions about the nature of the analysis.

Bradford Burns, spokesperson for MCI WorldCom, said customers who want to avoid the minimum can use "dial-around" services, some of which are owned by MCI, that allow them to pay by the minute and disassociate themselves from a long-distance carrier.

> Commenters evaluating these arguments and the amount being imposed should do so with specificity, including whatever data or calculations are necessary to support or refute these arguments. We also seek comment on whether, for purposes of assessing the impact of carriers' actions on consumers, we should consider consumers as a whole, or low-volume consumers relative to high-volume consumers. In addition, we seek comment on whether the impacts on any subset of consumers, or consumers generally, are sufficiently significant, unanticipated, inequitable and/or uneconomic to warrant regulatory intervention.[20]

The Commission is correct to note that detailed data regarding the impact of rate changes on specific customers have been virtually absent from federal proceedings. IXCs and LECs hide behind aggregates and averages in describing the impact of rate restructuring on consumers. Joint Commenters believe that companies should be required to provide data at a disaggregated level to demonstrate their claims not only on average basis but also for various categories of consumers.

Because of the lack of available detailed data, estimates of the impact cannot be made with great precision. However, as demonstrated below, Joint Commenters show that the negative effect of rate restructuring on low volume users is so large that the lack of precision does not detract from the central conclusion, *the little guy has been clobbered and the little guy is likely to be a lower income consumer.* The burden is "sufficiently significant, inequitable and uneconomic to warrant regulatory intervention." It is not unanticipated, however, because the IXCs knew exactly what they were doing and who would pay the price.

---

[20] NOI para 14.

2. Net Bill Impacts on Individual Consumers

AT&T continues to dominate the residential market, with about two-thirds of all customers. AT&T customers, now pay about $2.50 per month more in fixed charges to cover costs in the federal jurisdiction than they did at the passage of the Act (see Exhibit 5). With slight variation, other long distance companies have imposed similar charges. The most significant difference across the companies is the fact that MCI and Sprint impose universal service charges on a percentage of bill basis, which places a smaller burden on low volume consumers.

Moreover, AT&T and the other long distance companies have imposed minimum bill charges or fixed fee charges. As a result, the fixed cost of having a long distance carrier has gone up substantially. The fixed charges are spread over lower volumes, so the average cost per minute goes up. This minimum bill charge is the primary cause of the very large increase in per minute rates at low volumes of usage.

The long distance industry has offered a variety of discount plans, but these are structured in such a way as to attract and be restricted to high volume users. Through minimum bill requirements or minimum fees, the long distance companies segment the market and price discriminate. These plans do low volume users no good.

The net effect of federal and industry rate restructuring is to shift costs from high volume users to low volume users and from high-income consumers to lower income consumers. In fact, the shift in cost recovery has been so dramatic that low volume users have experienced a substantial increase in their net long distance bill.

Exhibit 5 presents calculations that show the impact of the rate restructuring on low volume user bills. It identifies five categories of customers based on the amount of monthly usage. The categories are no calls, 25 minutes of calls, 50 minutes of calls and 100 minutes of calls, and AT&T's most recent promotional plan (100 minutes at 7 cents/min). We include the latter to underscore how sharply the rate structure has tilted in favor of high volume users.

In all cases, we assume a single line customer, since low volume customers are likely to be single line customers. Multi-line customers have experienced even larger increases in their bills (an additional $3.50). We have also not included the local number portability charge in this analysis. It is an additional $.24 to $.36 a month which will phase out in a few years.

Those who make no calls in a given month have borne an increase of over $5 because of fixed charges on their bill. For consumers making less than 50 minutes of calls, the increase has been about $2.00. These consumers escape the minimum bill charge, but cannot avail themselves of sufficiently attractive calling plans to save money. Customers making 100 minutes of calls have suffered a small increase. Customers at this level of consumption can probably break even by shifting calling plans. Those above 100 minutes have come out ahead.

AT&T's new $.07 per minute plan is shown to be a very expensive plan for low volume users. Because of the high monthly fee, the consumer pays almost $12.00 before he or she even picks up the phone. At 100 minutes the new plan is still more expensive than existing plans.

3. The Increasing Cost of Connectivity

The increase in the cost of having a long distance company for low volume consumers constitutes a substantial increase for telephone service. In a month when a household makes no calls, it constitutes a 150 percent increase. At 25 minutes of calling, it constitutes a 27 percent increase. At 50 minutes, it constitutes an 18 percent increase.

Even looked at from the perspective of the broader telephone bill, it is a substantial increase. In 1996, charges for basic service were approximately $16.50, exclusive of the subscriber line charge which is included in the above analysis. Including the SLC, rates were about $20 per month. A $5.50 increase is over 20 percent accretion and a $2.00 increase is 10 percent.

4. Total Impact on Customer Categories

These are individual bill impacts. Are they 'sufficiently significant to warrant' attention? Absolutely. These monthly increases borne by low volume users add up to big dollar totals because there are a lot of them, according to bill sampling and other data published by the FCC.

As a point of reference, the national average residential usage is 149 minutes for all toll calls – interLATA, intraLATA and international (see Exhibit 6). The median is lower, about 88 minutes. Only about half of the toll minutes are interLATA minutes. Thus, as a first approximation, we might estimate that the national average is 75 minutes of interLATA toll and the national median is 44 minutes. In any given month, approximately 12 percent of customers place no toll calls. The percentage of customers that place no interLATA long distance calls would be larger. Thus, about 38 percent have between 1 and 42 minutes of use. By this reasoning, considerably more than half of the population has endured a substantial increase in their bills over the last two years.

Converting these percentages to households, and evaluating only with very low volume users – i.e., less than 50 minutes of calls – we conclude that low volume users have suffered a net increase in the long distance bills of about $2 billion a year (see Exhibit 7). Assuming that 15 percent of households make no interLATA long distance calls in a given month, we conclude that 14 million households per month suffered an increase of $5.50. This is extremely conservative since, as noted above, one FCC official has stated that as many as 20 million consumers may not place an interLATA call in a given month. Assuming that an additional 45 percent make between 1 and 50 minutes per month, we estimate that 42 million households have suffered an increase of approximately $2.125 per month. Those placing calls suffered an increase of just under a billion dollars. Those placing fewer than 50 minutes of calls suffered an increase of just over a billion dollars.

IV. THE MARKETPLACE DOES NOT PROVIDE EFFECTIVE ALTERNATIVES FOR LOW VOLUME CONSUMERS

A. LOW-VOLUME USERS CURRENTLY LACK COMPARABLE ALTERNATIVES FOR AFFORDABLE LONG DISTANCE SERVICE

Some may say that the reality is more complex than this simple bill calculation. Indeed, the Commission, in this NOI, asks if the availability of dial-around address the needs of low-volume users:

> ... We seek comment on whether the availability of the dial-around services means that we do not need to take special measures to protect low-volume users. ... (NOI, para 16).

Before examining the difficulties of consumers trying to save money with these devices, several observations are in order. First, it is ironic that the Commission would suggest that low volume consumers resort to 10-10-XXX dialing to save money when they have so recently been saddled with the costs of ensuring 1-plus dialing. Having helped to pay for the convenience of 1-plus dialing, which high volume consumers enjoy – low volume consumers are highly inconvenienced and, as we show below, likely to suffer higher prices too.

Although about one in eight households does not make a call in a given month, that does not mean they are dormant every month. Most households are more likely than not to place a call, so having a long distance company is convenient.

Additionally, many customers are already pre-subscribed to a carrier because they were encouraged to do so at a time when minimum charge penalties were not in place. Because it is convenient to have a phone company and because many customers are pre-subscribed, most consumers face the reality of minimum charges, a dizzying array of rate

elements that are constantly changing, and rate plans that are "available" in the marketplace but useless for low volume consumers. The bottom line for low volume consumers is quite simple. When all is said and done, the reality may be as simple as saying low-volume callers have incurred a substantial increase in their bills.

The alternatives to obtaining long distance service through a pre-subscribed long distance carrier are fraught with pitfalls and inconvenience. The Commission should not rely on the existence of dial-around long distance services and pre-paid calling cards to temper the chilling effect of the high cost of long distance service on the low-volume caller. While it may be possible for some to get affordable long distance service using a dial-around service, without access to the Internet, research into the rates, terms and conditions for the various plans is an unwieldy if not totally impractical option for consumers.

B. DIAL-AROUND PLANS ARE RISKY BUSINESS

Many low-volume long-distance users new to the world of dial-around long-distance services will be playing roulette with rates, especially with the complex pricing and additional fees that many dial-arounds charge. Without access to the web, it is difficult to learn about the various dial-around services available. Some of the larger dial-arounds aggressively advertise on television or send around flyers in the mail, however these do not necessarily translate into competitive rates for a particular consumer's calling pattern. Some of the less advertised plans offer lower rates, but some of these less advertised plans also charge high monthly fees. In no case are consumers able to escape the PICC, since it will be billed to them through their local carrier.

A cursory survey of the variation in rates for a single three minute call[21] in one month reveals costs ranging from $1.29 to $7.69, almost a 600% difference (see Exhibit 8).[22] This translates into a per minute rate that ranges from $.43 per minute to $2.56 per minute, hardly equivalent to the more competitive rates offered to the high volume users. The variation in price for a twenty-minute call ranged from $2.68 to $8.88, about a 300% difference. Even for an hour-long call, which is almost 7 times longer than the average duration of residential long distance calls, there was almost a 200% difference in cost. In the complex world of dial-around plans, one size does not fit all; the plans providing the best rates for shorter calls were not necessarily the plans providing the better rates for the longer calls. But getting to the bottom line requires careful navigation through the wide-array of pricing plans[23] with the caveat that some plans charge additional monthly fees and universal service charges.[24] The largest variation in price was for the shorter calls, which, according to this Commission's own analysis, make up half of all long distance calls.[25]

---

[21] According to the FCC's February 1999 Trends, the median duration for a residential long distance call in 1996 and 1997 was three minutes; the average was about 9 minutes.

[22] Calculations assume that the consumer has discontinued having a long distance carrier. Thus the monthly charge includes the $1.04 PICC that consumers will still have to pay, although it will be billed through the local carrier. Consumers that opt to use dial arounds while still maintaining traditional long distance service run the risk of paying double universal service and monthly fees.

[23] For example as of September 1999, MCI's Telecom USA has two plans: (1) 10-10-220, $.99 for 20 min or less, then $.09 for each additional minute (so a 1 minute call is still $.99) and (2) 10-10-321, the rate for calls 10 minutes or less is $.16/min while calls over 10 minutes are calculated at an $.08 per minute rate. AT&T's dial-around, Lucky Dog charges $.10/min and a $.10 fee per call. Excel's 10-10-399 charges $.90 for a call 10 minutes or less (so a 2 minute call is still 90 cents), longer calls are billed at an additional 6 cents per minute.

[24] For example, as of September 1999, MCI's 10-10-321 charges a monthly 7.2% universal service charge. Startec's 10-10-719 charges a flat $1.00 per month universal service charge. WorldXChange's Talk Cents Take Five (10-10-275) charges a $1.49 per month universal service fee and a $4.95 monthly charge.

[25]According to the FCC's February 1999 Trends, the median duration for a residential long distance call in 1996 and 1997 was three minutes.

In addition to the huge variation in prices, consumers without Internet access face great challenges in keeping abreast of the rates, terms and conditions of the various dial-around plans. Although the dial-around plans may have toll free numbers for additional information on the services, calling one or several dial around information lines for the latest rates, terms and conditions before actually making a long distance call is onerous and time consuming. There are websites that track dial-around services. However, according to the U.S Department of Commerce's recent study, *Falling Through the Net,* around three-quarters of Americans do not have access to the Internet at home and these households cite cost as a leading reason for not having the service or for discontinuing the service.[26] The study also found that those living in rural areas lagged behind in Internet access at home, even when income was held constant.[27] Thus, reliance on disclosure of rates, terms and conditions on the Internet overlooks the lack of convenient access for a vast number of consumers.

C. PREPAID CALLING CARDS ARE COSTLY

Prepaid calling cards offer convenience and mobility, but also have many drawbacks that prevent them from being a comparable alternative to an affordable long-distance plan. One enormous drawback for households on tight budgets is that the prepaid card is essentially a debit card and thus requires the consumer to pay for a block of calling time

[26] U.S. Department of Commerce, National Telecommunications and Information Administration, *Falling Through the Net: A report on the telecommunications and information technology gap in America*, July 1999, pp. 5, 33.

[27] U.S. Department of Commerce, National Telecommunications and Information Administration, *Falling Through the Net: A report on the telecommunications and information technology gap in America*, July 1999, Chart I-21, pp. 5, 25

before a call is placed. This makes the calling card an inferior product to traditional long distance service where consumers are given credit for calls and billed later.

An even greater drawback to prepaid cards is the difficulty consumers face in determining the actual rate per minute. Many cards do not state the cost per minute and oftentimes there are an array of surcharges that eat up additional minutes.[28] Some cards advertise a low per minute rate, but have high surcharges that attach to each call, thus raising the actual price of the call. *Consumer Reports* has cautioned prepaid calling card users that it is difficult to determine the number of minutes a prepaid card will cover because of these various surcharges.[29] One of the prepaid cards reviewed stated it was a 30 minute card, but due to surcharges totaling 50 cent per call for each of the four calls made at a payphone, only yielded around 13 actual minutes of calling time. A 1997 survey of phone cards by the New York Attorney General's Office found similar difficulty determining the rate per minute. Their conclusion was that the only way for a consumer to really determine the rate per minute is to use a stopwatch and calculator with each call to get a rough estimate of cost per minute. To make matters more confusing, prepaid calling card companies can also raise rates without notice. In the New York Attorney General's Office's survey, the calculated per minute rates for its sample of working prepaid cards ranged from 9 cents a minute to 57 cents a minute, with the average around 31 cents a minute.

---

[28] A survey of prepaid calling cards by the NY Attorney General's Office found surcharges ranging from $.40 to $.90 per call. Eliot Spitzer, Attorney General of the State of New York, Bureau of Consumer Frauds and Protection, "Pre-Paid Phone Cards: The Facts" Table 5. Available on the web at: www.oag.state.ny.us/family/kids/finance/phonecrd.html.

[29] Consumer Reports, "Your Money: Dial Smart – Ways to save when you call from the road", June 1998, p.56.

Other potential pitfalls with calling cards include unsubstantiated or untrue claims about savings, problems with call connection, charges for uncompleted calls, stranded costs near the end of the card, expiration dates, limitation on international calls, limited or no recourse if there are problems with the card, and lost value if the company folds.

D. RBOC ENTRY INTO IN REGION, INTERLATA LONG DISTANCE IS NOT LIKELY TO PROVIDE RELIEF FOR LOW VOLUME CONSUMERS

The Commission expresses the hope that local exchange carriers entering the long distance market will not engage in the price discrimination that IXCs have. We doubt that this will be the case.

The basis of the Commission's interest in the possibility that RBOCs might not impose minimum fees is interesting.

> We also observe that, as mentioned above, some of the costs presubscribed IXCs claim users impose on them even when they make no calls may be attributable to account and billing maintenance. The customer's LEC, on the other hand, already incur that kind of cost in providing local exchange service to the customers, and would presumably experience little incremental costs if they became the customer's presubscribed IXCs as well. (NOI, para. 17).

The IXCs blame the customers for causing costs that are entirely within the control of the IXCs. The IXCs need incur no billing costs for a customer in any month when that customer makes no calls. They should simply not send the customer a bill. To the extent that they have failed over a 15 year period to develop their own billing systems or to negotiate billing arrangements that do not require them to send a bill when no service has been used, that is their fault, not the customers. To turn around and blame those costs on the customer is absurd. To assume that the local companies, who have market power in billing services,

would pass the benefits of low incremental costs to low-volume consumers is contrary to observed behavior in the marketplace.

V. RECOMMENDATIONS

A. CONSUMERS ARE OUTRAGED THAT THEY ARE BEING GOUGED FOR AN ESSENTIAL SERVICE

For most consumers, especially older long-distance users, long distance service is an essential service. A 1998 AARP survey of almost 2,000 long-distance users found that roughly two-thirds of respondents over age 50 and a little over half of the respondents between ages 18 to 49 would not reduce use of long-distance calling if they needed to cut back on expenses.[30] Unfortunately the Commission has failed to ensure that the bottom half of the market benefits from competitive rates for a service that a majority of consumers treat as essential.

The increasing cost of this service to the modest user of long-distance service runs contrary to the fairness principle that you should pay for what you use. A recent letter to the editor in the Washington Post illustrates the absurdity these new charges in light of the amount of calls made:

> . . . On the long-distance side, my calls added up to $2.90. Add to that my Partial Minimum Usage Fee, the National Access Fee, the Federal Universal Service Fee, the federal excise tax and the federal, state and local surcharges, and my long distance costs me $6.78 – or 130 percent more.

[30] Christopher Baker, AARP PPI, AARP Survey on Long-Distance Callers' Awareness and Use of Various Telephone-Related Options, Winter 1997 – 1998, October 1998, "Long Distance Calling: An Essential Service", page 16.

> So out of a total bill [local and long distance] of $28.19, $10.62, or 38 percent, was taxes and fees, Where's the savings?[31]

Consumers' anger and disgust over increased telephone bills is not simply a localized event. Rather, there is widespread frustration over rising bills and the imposition of new fees and charges, especially the monthly minimum charge assessed against low volume users:

> The phone companies are scamming us again. Last month my long-distance carrier charged me a service charge for not making any long-distance calls on their service. When I complained, I was informed that this is recent legislation.
>
> The politicians snuck that one in.
>
> I wonder which politicians at what level got what for their activities? [It is] Certainly not in the best interests of their constituents.[32]

The Commission's own data indicate that over half of residential long-distance users are no better off, or are worse off than they were in 1997 when the Commission pressured the long-distance carriers to lower basic rates as a part of access charge reductions. The Commission's own data should be a wake up call that the long-distance market is not fully competitive. The Commission's cost recovery mechanism for the local loop combined with its failure to ensure that savings from access charge reductions are equitably passed through have resulted in long-distance charges that are gouging the bottom half of the market.

Today as productivity continues to exceed the rate of inflation by a substantial margin, rates should be going down for all consumers. Instead, those at the bottom end of the market are seeing their costs skyrocket. Consumers are frustrated and outraged by the

[31] Washington Post, Letters to the Editor, "Bring Back Ma Bell," Robert D. Falk, August, 31, 1999.

growing line-item charges on their bills. The Commission is justified and overdue in taking immediate action to undo to harm caused in part by its failure to ensure equitable pass through of access charge reductions and its regressive method for recovering the joint and common costs of the loop.

The Commission should ensure that all consumers, not just the high volume business and residential users, benefit from the reduction in access charges. The recent pricing history of the long distance carriers demonstrates the inadequacy of market forces to ensure these savings are passed through to all consumers.

For the three-quarters of the households in the country without Internet access, the dial-around alternative is onerous and not necessarily affordable or practical. Prepaid calling cards are also fraught with the same drawbacks. Thus primarily relying on education of the consumer will not address the larger problem of lack of competitive rates.

Much attention is paid to the digital divide regarding Internet access, but at the same time the bottom half of the market, especially those making few long distance calls are facing an economic divide regarding essential long distance service. We strongly urge the Commission to take decisive action to reverse the upward trend in rates for the low-volume residential long-distance users who are not benefiting from a competitive market.

---

[32] Austin American Statesman, Letters to the Editor, “Scammed Again," W. Lee Ambroze, September 17, 1999, A14.

B. IMMEDIATE ACTION IS REQUIRED TO LOWER THE BILLS OF LOW VOLUME LONG DISTANCE CONSUMERS

The Commission asks what it can do, if it finds that regulatory intervention is necessary to protect consumers, without direct regulation of the IXCs.

> In the event we determine based on the record that regulatory intervention is warranted to protect consumers from some of the actions described above, we seek comment on the scope, method, and our jurisdiction for such intervention. Are there measures we can take that do not require direct regulation of IXCs, but that would give this Commission greater control over the manner in which access charges are passed on to the consumer? (NOI, para 18).

The Commission seems to have lost sight of its primary purpose, which is to protect the public interest. In markets and market segments where competition is not sufficient to protect consumers from abuse, regulators must step in. Low volume and lower income consumers have experienced a substantial increase in their costs of telephone service, which is directly contrary to the clear goals of the Act. The Commission can no longer sit on its hands while rates increase for those least able to afford the increases.

1. Prohibit monthly minimum charges: Relief can be targeted to the bottom-half of the market by requiring that the reductions in access charges be passed-through equitably. The Commission could also target relief to the highest rates by ensuring that all reductions in access charges are passed through to basic service rates. However, reduced rates can easily be side-stepped through the use of monthly minimum charges. Thus, the only way to ensure meaningful rate reduction is to require long distance carriers offer to low-volume calling plans that include a reasonable share of access cost reductions and no monthly minimums.

2. Eliminate or lower the SLC: There is one clear and simple way in which the Commission can gain greater confidence that consumers are not harmed by access charge reform. It can reduce and/or eliminate the subscriber line charge. It has clear authority to provide for recovery of the costs allocated to the federal jurisdiction. The elimination or reduction of the SLC would provide immediate bottom-line relief to consumers.

Joint Commenters have already demonstrated in earlier comments that this reduction of the subscriber line charge is justified not only on equity grounds, but economic grounds as well. Based on the FCC's own Synthesis Proxy Cost Model, there is already an overrecovery of loop costs allocated to the federal jurisdiction. As our earlier comments noted:

> If the Commission implements its decision to utilize forward looking economic costs and treat the loop as a common cost, it must conclude that fixed end-user charges (*i.e.*, the subscriber line charge and the PICC) should not be increased. Based up the results of the default runs of the Synthesis Cost Proxy Model for Texas, we conclude that at least 80 percent of residential lines in Texas are covering 100 percent of the forward looking economic costs of loops and ports (*i.e.*, the non-traffic sensitive portion of costs) that are allocated to the Federal jurisdiction.
>
> Based upon this analysis, we conclude that the intention of the FCC to increase the fixed cost recovery, all of which has been loaded onto end users in the form of line items on the bill, is unjustified. The elimination of the CCL, which is the ultimate objective of a policy to increase fixed charges, violates section 254 (k) of the Act. That is, the IXCs would be using a facility that is shared, without paying for it. It is unreasonable to allow the IXCs to have what is essentially a free ride.[33]

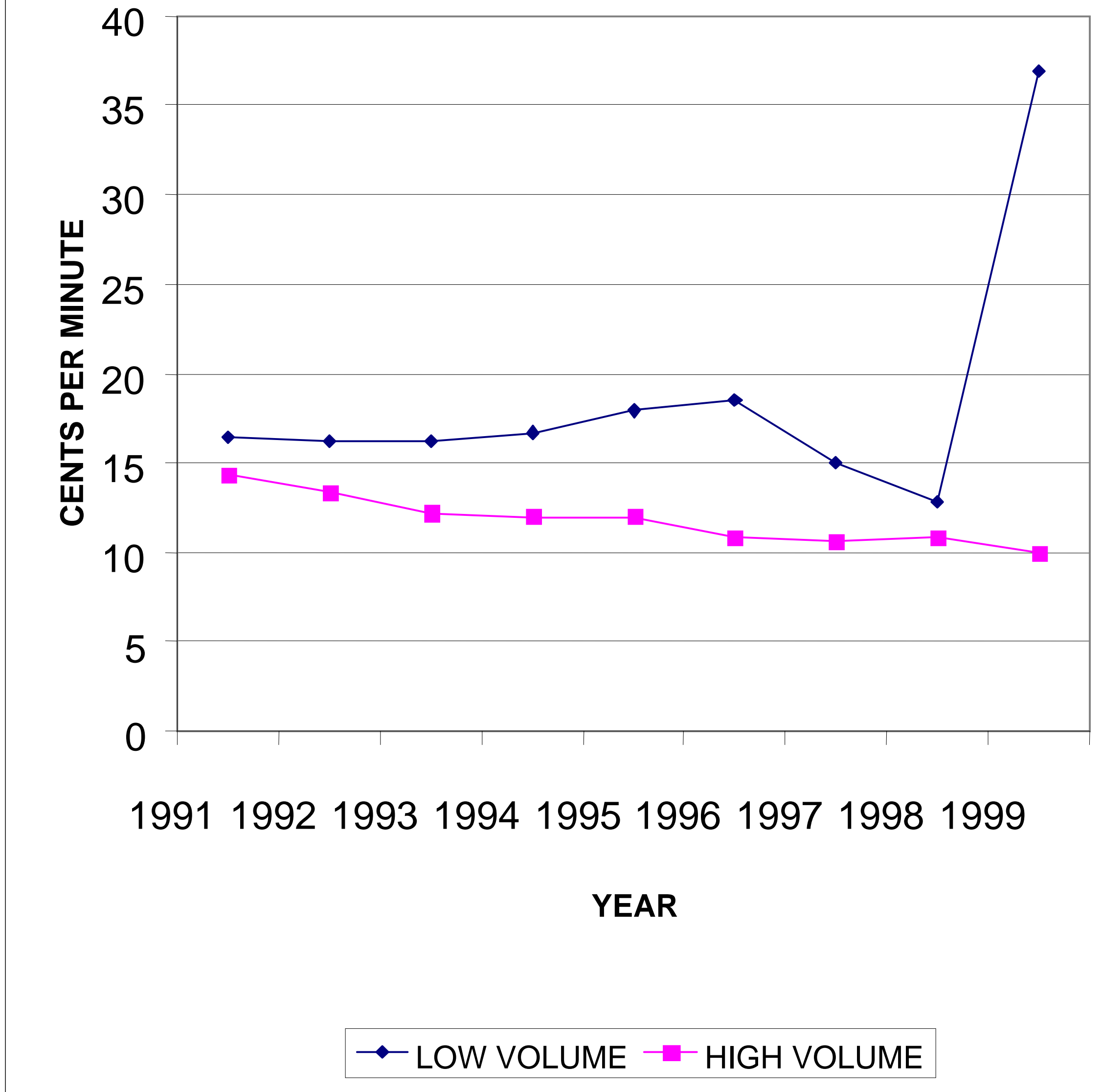
[33] Joint Comments Of the Texas Office Of Public Utility Counsel, Consumer Federation Of America, National Association Of State Utility Consumer Advocates, and Consumers Union, Before The Federal Communications Commission In the Matter of Federal-State Joint Board On Universal Service, Access Charge Reform, CC Docket No. 96-45, CC Docket No. 96-262, p. 7 (July 23, 1999).

Adding insult to injury, low volume consumers have suffered increased costs without even the efficiency justification that the Commission claims. While the Commission has rushed to restructure rates in the name of promoting efficiency, it has failed to show similar haste in taking steps that would promote efficiency even more effectively, by lowering the recovery of costs to their forward looking economic level. Surely in the face of the overwhelming evidence that the burden of rate restructuring has fallen inequitably on low volume and lower income consumers the Commission can find the courage to implement the real cuts in recovery of costs it identified early on as necessary to promote efficiency. The Commission's decision to await the arrival of market forces to squeeze out excess costs for access charge is not working in the market in general, and it most certainly is not working for low volume consumers.

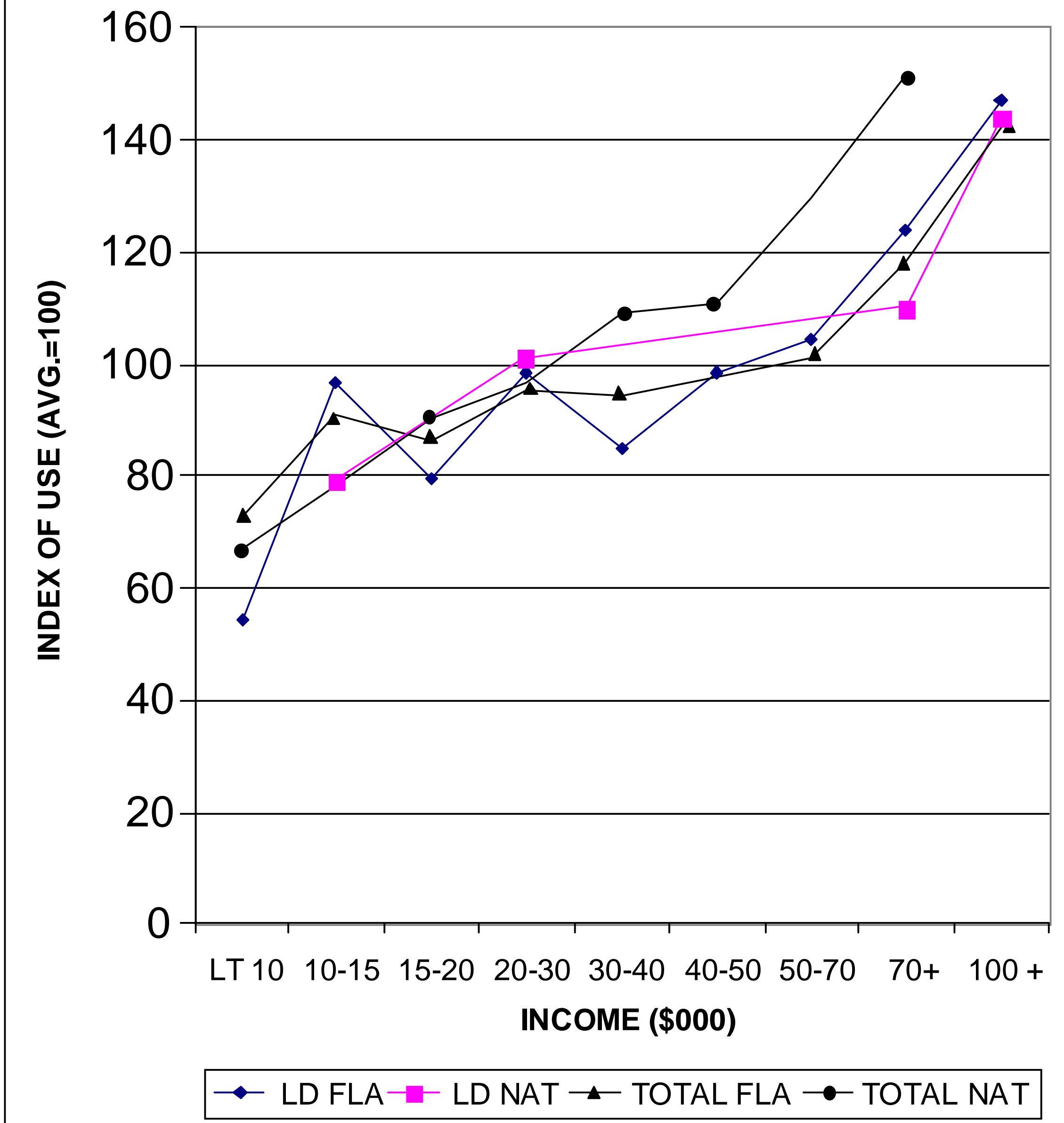
Dated: September 21, 1999

Respectfully submitted,

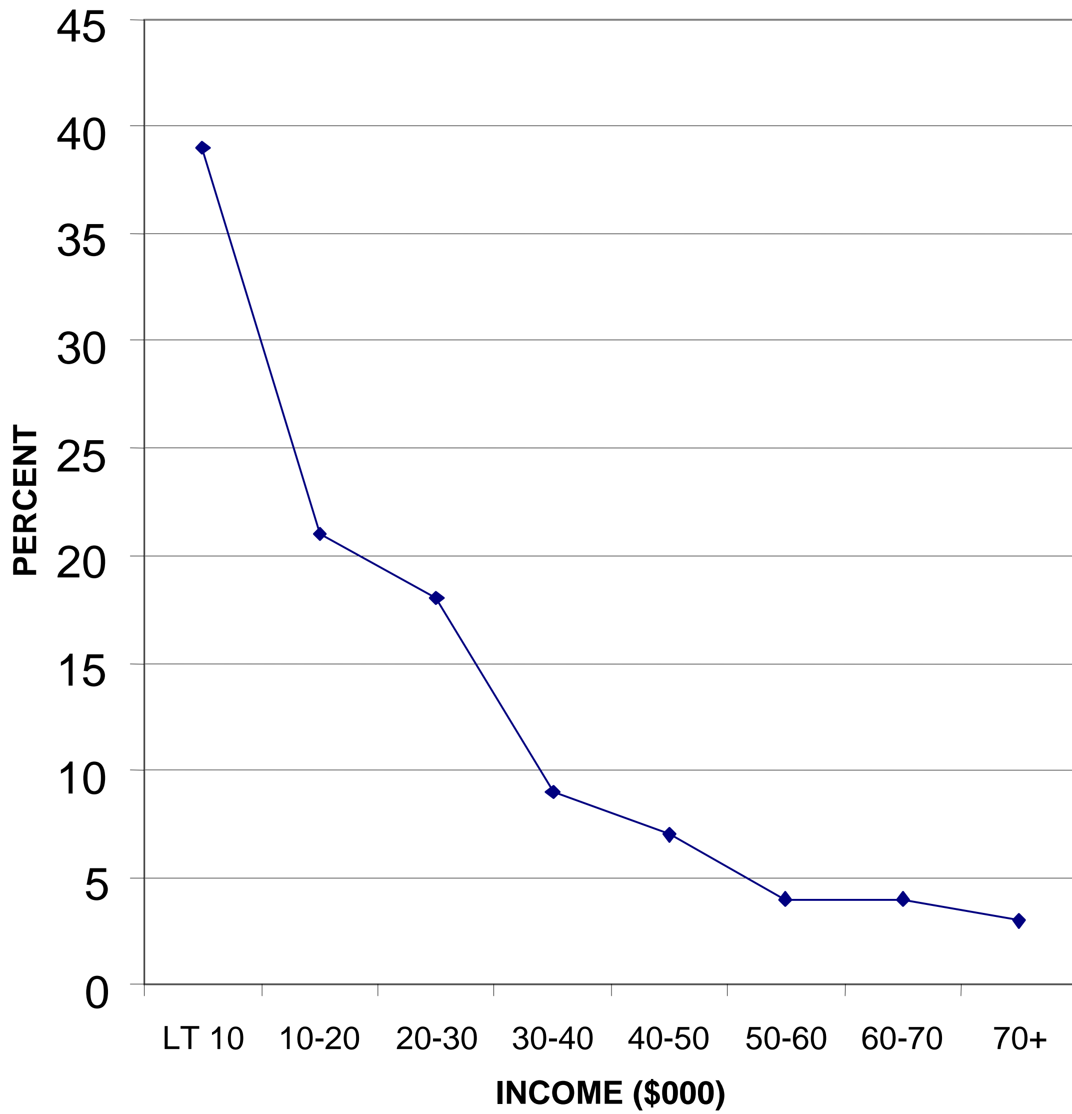
Consumer Federation of America
Consumers Union (Washington, D.C. Regional Office)
Texas Office of Public Utility Counsel



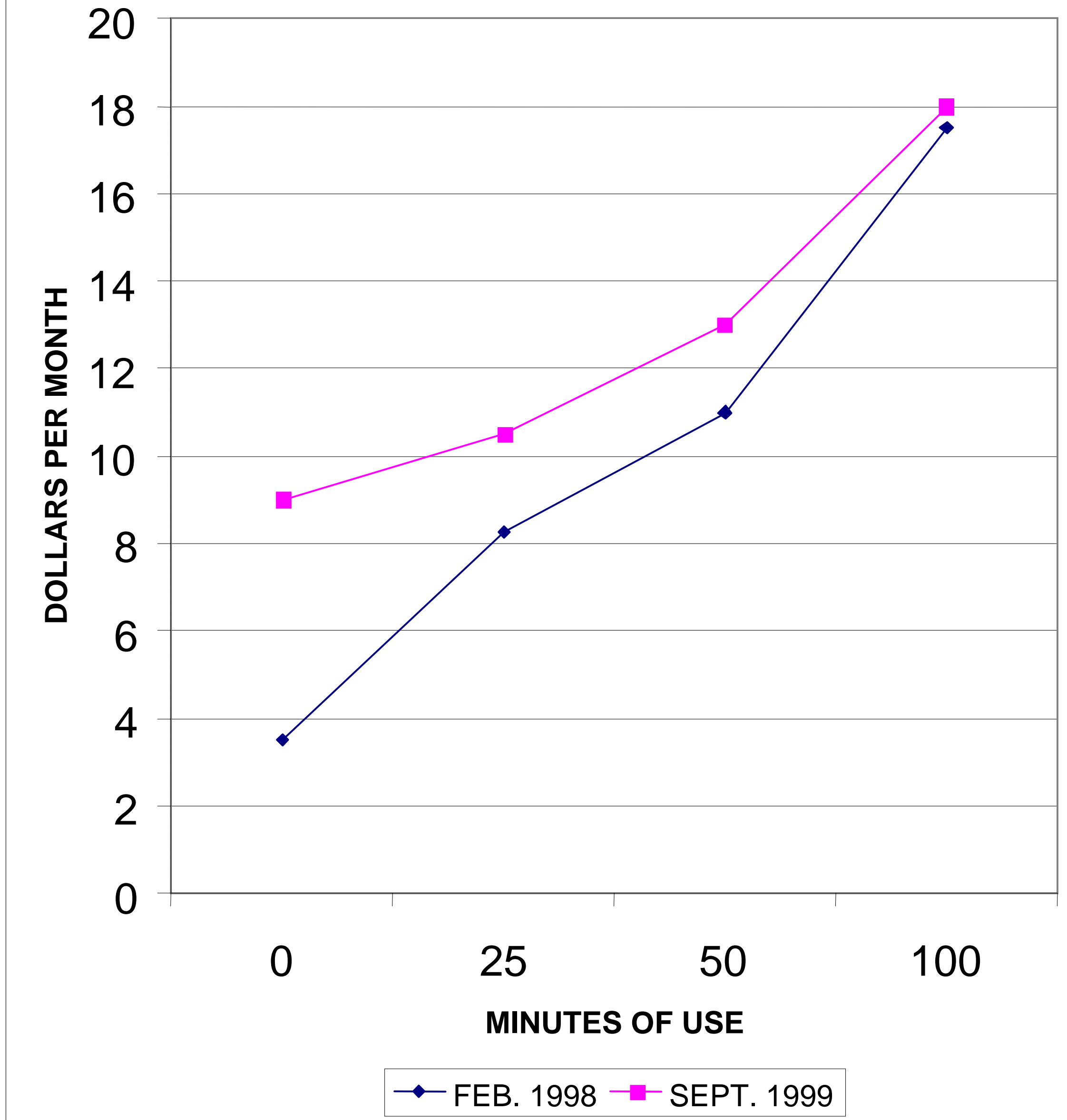
SOURCE: Phil Chelik, Reference Book of Rates, Price Indices and Expenditures for Telephone Service, Table 2.4 "Average Charge per Billed Minute for Price-Sensitive Residential Callers", Industry Analysis Division, Common Carrier Bureau, FCC, June 1999. Table 2.4



SOURCE: Florida PSC Survey; Bureau of Labor Statistics, *Consumer Expenditure Survey: 1997*; The Yankee Group, *Understanding Consumer Spending on Communications*, December, 1998.



SOURCE: Florida Public Service Commission Survey



SOURCE: See Exhibit 5.

EXHIBIT 5
CHANGES IN THE COST OF HAVING A LONG DISTANCE COMPANY FOR LOW VOLUME CONSUMERS SINCE THE PASSAGE OF THE TELECOMMUNICATIONS ACT OF 1996

(FEDERAL JURISDICTIONAL CHARGES AND AT&T IMPOSED BILL ELEMENTS)

	MONTHLY USAGE								
	NO CALLS		25 MINUTES OF CALLS		50 MINUTES OF CALLS		100 MINUTES OF CALLS		NEW AT&T .07 @ 100 MIN.
	PERIOD		PERIOD		PERIOD		PERIOD		PERIOD
BILL ELEMENT	2/96	9/99	2/96	9/99	2/96	9/99	2/96	9/99	9/99
SLC	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.50
PICC	0	1.50	0	1.50	0	1.50	0	1.50	1.50
USF	0	1.00	0	1.00	0	1.00	0	1.00	1.00
MINIMUM BILL/FEE	0	3.00	0	0	0	0	0	0	5.95
TOTAL FIXED FIXED	3.50	9.00	0	6.00	0	6.00	3.50	6.00	11.95
USAGE	0	0	4.75	4.50	7.50	7.00	14.00	12.00	7.00
TOTAL LD BILL	3.50	9.00	8.25	10.50	11.00	13.00	17.50	18.00	18.95
BILL CHANGE	+5.50		+2.25		+2.00		+.50		

Sources: Federal Communications Commission, *Reference Book of Rates Price Indices and Expenditures for Telephone Service,* June 1999, Table 2.4; “Notice of Inquiry,” *In the Matter of Low Volume Long Distance Users,* July 8, 1999, para

EXHIBIT 6

LONG DISTANCE USE IS HIGHLY SKEWED

STATISTIC	MINUTES OF USE	
	ALL TOLL	INTERLATA ONLY
AVERAGE USE	149	75
MEDIAN USAGE	88	44

SOURCE: Federal Communications Commission, *Trends in Telephone Service: 1998*, Chapter 16.

EXHIBIT 7
THE IMPACT OF FEDERAL/LONG DISTANCE RATE
RESTRUCTURING ON LOW VOLUME USERS

	CUSTOMERS		INCREASE IN COST	
	% of TOTAL	NUMBER (000,000)	MONTHLY	ANNUAL (000,000)
NO CALLS	15	14	$5.40	$ 924
LESS THAN 50 MINUTES	60	42	2.125	1,071
TOTAL				1,995

SOURCE: See text for derivation of estimates.

EXHIBIT 8
SAMPLE OF RATES FOR A 3 MINUTE, 20 MINUTE AND 1 HOUR CALL
IN A MONTH ON VARIOUS DIAL AROUND PLANS

10-10 Plan	#	Owner	3 min w/PICC	20 Min w/ PICC	1 hour w/PICC	ppm 3 min w/ picc	ppm 20 min w/ picc	ppm 1 hour w/ picc
PT-1	101-6868	Star Telecom	$1.29	$2.68	$5.96	$0.43	$0.13	$0.09
Penny Plan	10-10-629	WorldXChange	$1.31	$2.84	$6.44	$0.44	$0.14	$0.11
Lucky Dog	10-10-345	AT&T	$1.44	$3.14	$7.14	$0.48	$0.16	$0.12
TelecomUSA	10-10-321	MCI-World Com	$1.52	$2.64	$5.84	$0.51	$0.13	$0.10
Five Line	10-10-811	VarTec	$1.56	$2.09	$4.19	$0.52	$0.10	$0.07
TelecoComm	10-10-399	Excel	$1.94	$2.54	$4.94	$0.65	$0.13	$0.08
TelecomUSA	10-10-220	MCI-World Com	$2.03	$2.03	$5.63	$0.68	$0.10	$0.09
TelecoComm	10-10-297	Excel	$2.03	$3.73	$7.73	$0.68	$0.19	$0.13
Qwest (eve/weekend)	10-10-432	Qwest	$2.31	$3.84	$7.44	$0.77	$0.19	$0.12
10-10-719	10-10-719	Startec	$2.44	$3.62	$6.78	$0.81	$0.18	$0.11
Qwest (weekday 8-5)	10-10-432	Qwest	$2.64	$6.04	$14.04	$0.88	$0.30	$0.23
TalkCents Take 5	10-10-275	WorldXChange	$7.69	$8.88	$11.68	$2.56	$0.44	$0.19