

MEMORANDUM

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TO: APCC Board of Directors
APCC Legal Committee

FROM: Albert H. Kramer
Robert F. Aldrich

DATE: August 12, 2004

RE: FCC's Compensation Rate Order

The Commission has released an order prescribing a new dial-around compensation rate of \$.494 per call – more than double the current \$.24 rate. The new rate will become effective 30 days after publication of the order in the Federal Register. Publication normally occurs with two or three weeks of release of the order; therefore, the order is likely to take effect in late September or early October.

In the order, the Commission found that payphone deployment is declining dramatically and that the current level of payphone deployment is insufficient to serve the public interest. The Commission rejected carriers' claims that the current level of payphone deployment is adequate to meet declining demand for payphone calling. The Commission also rejected carriers' arguments that increasing the rate would suppress demand for dial-around calling to the point of reducing revenues. Finally, the Commission rejected carriers' requests to switch to a caller-pays (coin drop) approach to dial-around compensation.

To prescribe a new rate, the Commission utilized the same "marginal payphone" methodology it had used to set the \$.24 rate in 1999. The Commission found that the APCC and RBOC cost studies generally adhered to this methodology. Under the "marginal payphone" methodology, the Commission determined the joint and common costs of a payphone (i.e., those costs that are not attributable solely to dial-around calling or solely to coin calling), and divided those costs by the total volume of calls at a

marginal payphone, defined as a payphone that just barely recovers its costs, including a normal return on investment. This calculation yielded the per-call joint and common costs of a marginal payphone. The Commission then added per-call dial-around specific costs to per-call joint and common costs in order to arrive at the per-call compensation rate.

The Commission's only significant adjustment to the PSP cost studies was to adjust the PSPs' determinations of equipment costs, finding that a lower estimate of these costs was necessary to fully reflect the availability of used equipment. In addition, based on RBOC data, the Commission subtracted \$.74 per month per phone from total costs because of offsetting "incidental" revenue (advertising revenue) of \$.74 per phone. The Commission found that monthly joint and common costs averaged \$85.60, lower than the \$101.29 it calculated in 1999. The Commission found that monthly call volume at a marginal payphone had declined dramatically from 439 in 1999 to 191 at present, which, divided into monthly joint and common costs, amounts to \$.45 per call. The Commission added \$.0494 in dial-around specific costs, including collection costs and an allowance for bad debt, neither of which had been included in the 1999 rate order.