



Federal Communications Commission Common Carrier Bureau

Spring, 1995

Common Carrier Competition

This is the first in a series of periodic reviews of the state of the common carrier industry. Among the highlights of this report are:

- In 1994, those industries under the FCC's regulatory jurisdiction had revenues of nearly \$400 billion.
- Telecommunications common carriers reported revenues of \$170 billion for 1993.
- MCI, Sprint, and LDDS have all joined AT&T in the ranks of corporations with annual revenues of more than a billion dollars. Altogether, nineteen toll carriers have more than \$100 million per year in long distance revenues.
- Average prices continue to decline, as shown by the decrease in AT&T's average revenue per minute. However, prices no longer continue to decline for all customers.
- Not all Americans have benefited from the communications revolution. As this *Report* notes, subscribership has increased in recent years but has recently dipped slightly. While the reasons for this decline are still unclear, it raises important concerns.
- An examination of the nature of competition in the local market, both for direct local service and access service that allows long distance carriers to reach consumers in various local markets. The *Report* also outlines some of the steps the Commission has taken and will take to foster local competition.
- The *Report* details the impact to date of the Commission's video dialtone rules. Authorized and pending applications now have the potential to provide consumer choice to nearly 10 percent of all American homes.
- Finally, in looking at these telecommunications trends, the *Report* also examines the impact of communications competition in the Commission itself. The numbers of tariffs filed and complaints handled by the Commission have increased dramatically.

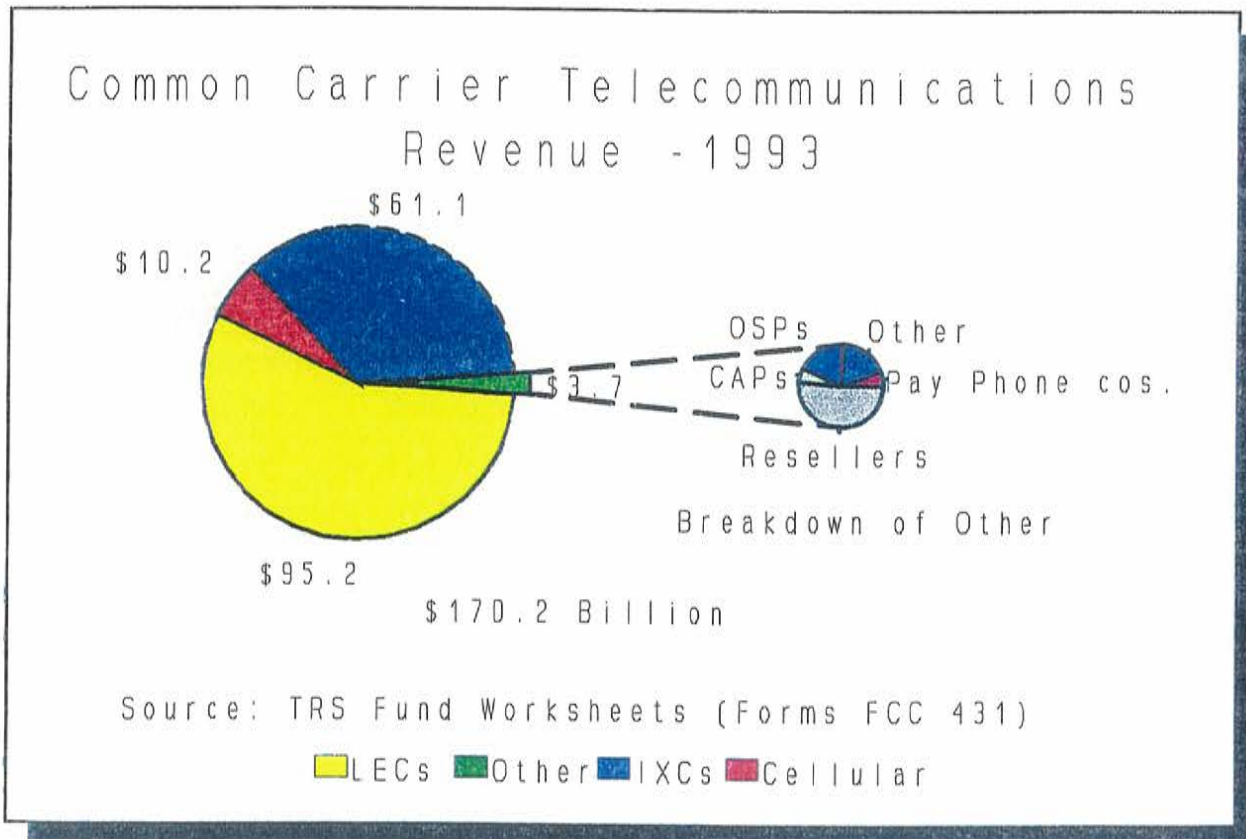
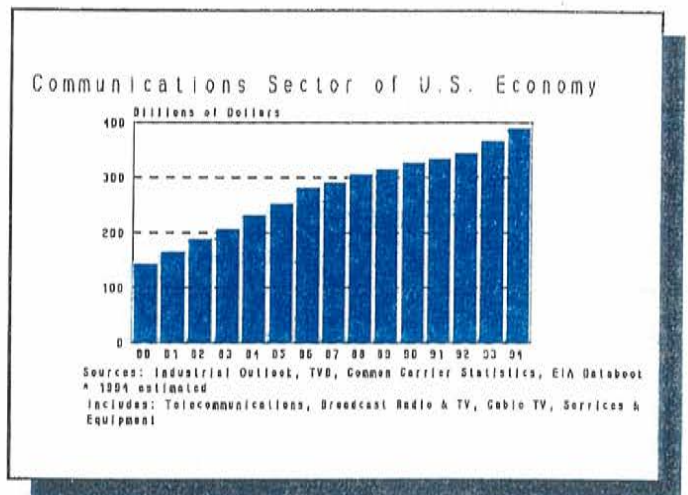
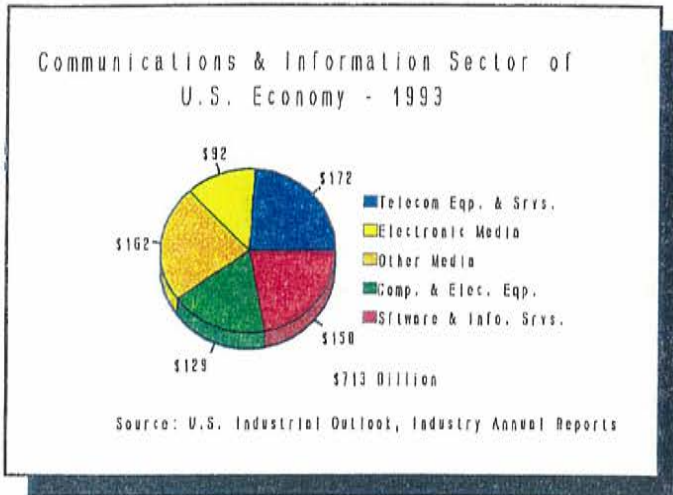
Common Carrier Competition is a periodic report prepared by the Common Carrier Bureau. It regularly monitors a broad range of topics, including telephone industry trends, the effects of regulation on the industry and consumers, and the status of specific projects within the Common Carrier Bureau.

Kathleen M.H. Wallman, Bureau Chief
Information and Comments - (202) 418-0940

Overview

More than half of the information sector is composed of those industries covered by the Communications Act of 1934. In 1994, industries under the FCC's regulatory jurisdiction had revenues of nearly \$400 billion -- an amount that has increased rapidly during the last decade

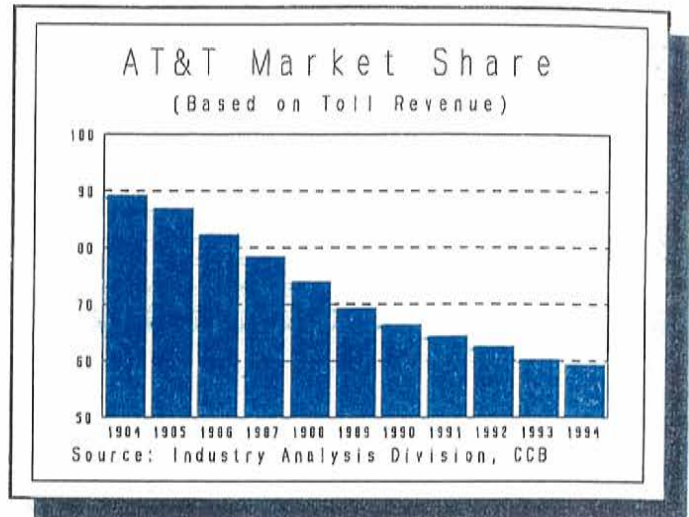
despite sharply falling unit costs in many areas. The largest single economic activity subject to the FCC's regulatory domain is that of common carrier telecommunications. In 1993, telecommunications common carriers reported revenues of \$170.2 billion.



Long Distance Market

In 1984, AT&T accounted for 90% of the toll revenue market. Following the AT&T divestiture and the implementation of equal access, the number of firms offering long distance service mushroomed. AT&T's market share fell rapidly, and by 1990 it accounted for less than two-thirds of the market; however its market share seems to have stabilized at about 60%.

MCI, Sprint, and LDDS have all joined AT&T in the ranks of corporations with annual revenues of more than a billion dollars. Altogether, nineteen toll carriers have annual long distance revenues of more than \$100 million.

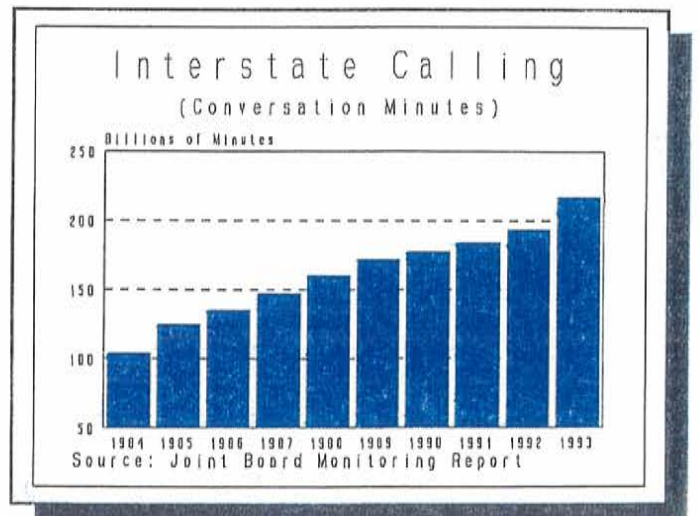


Toll Carriers with over \$100 million in 1994 Revenue (Shown in Millions of Dollars)

\$37,166	AT&T	\$306	Frontier
11,715	MCI	172	Oncor
6,805	Sprint	156	Excel Telecommunications
2,221	LDDS	144	West Coast Telecom.
917	Wiltel	136	U.S. Long Distance
655	Cable & Wireless	123	American Sharecom
568	Allnet	109	American Network Exchange
453	LCI International	109	Midcom Communications
329	Alascom	107	Vartec
		106	General Communication

Source: Industry Analysis Division, CCB

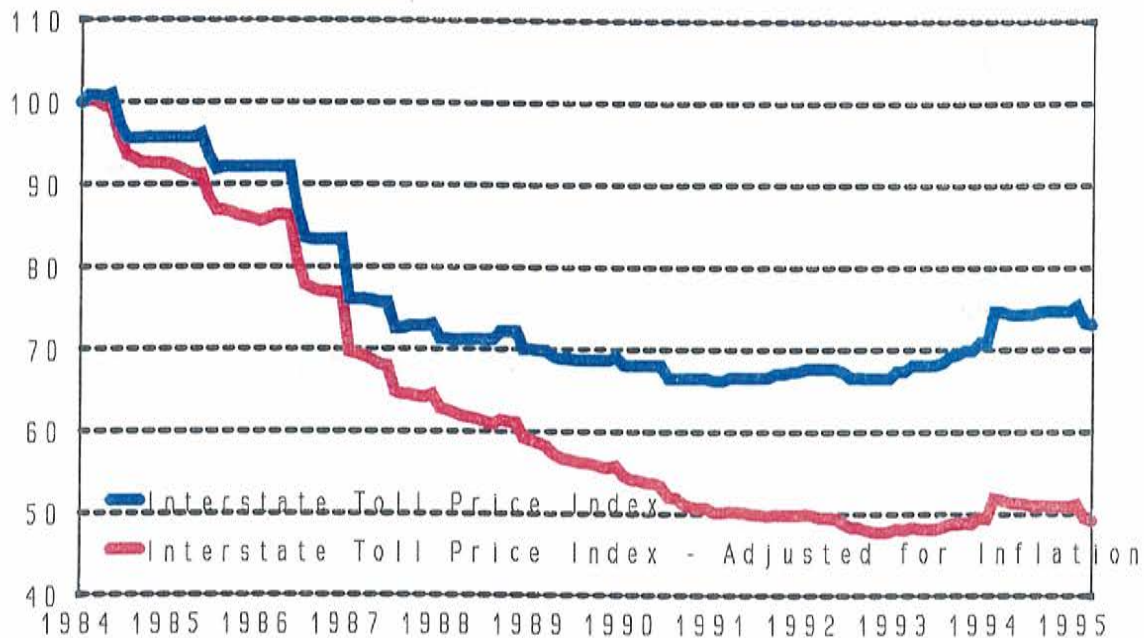
Fueled by lower long distance prices, the volume of interstate calling grew dramatically, especially during the late 1980's. Indeed, the volume of interstate calling doubled during the past ten years.



Telephone Call Prices

The price of interstate calling fell rapidly in the late 1980's. By 1992, the price of direct-dial, long distance calls, in real terms, had dropped nearly two-thirds. Overall interstate toll prices decreased 50 percent. Since then, the price decline has been less rapid and the nature of competition has shifted.

Interstate Toll Prices January 1984 = 100

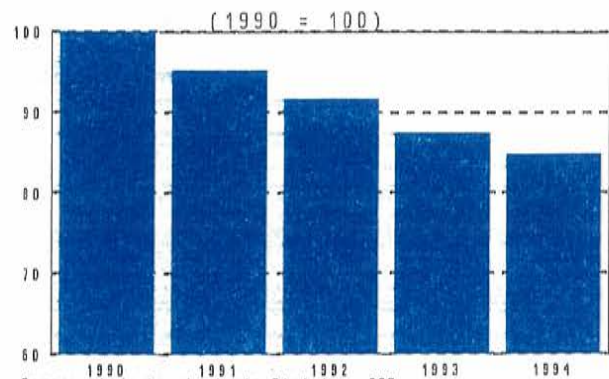


Source: Bureau of Labor Statistics

Consumer Price Index for Interstate Toll Calls

Average prices, as measured by AT&T's average revenue per minute (ARPM), continue to decline. However, prices no longer continue to decline for all customers. While many customers have experienced substantial savings from discounts and optional calling plans, customers who remain on the basic rate schedule have seen their rates increase. The increased subscribership to discount plans is not fully reflected in the Consumer Price Index (CPI), which primarily reflects prices paid by residential customers who do not participate in discount calling plans. As a result, the CPI is now less reflective of overall pricing trends than in prior years. The Bureau of Labor Statistics is aware of this disparity and is in the process of updating the series.

AT&T's Average Revenue Per Minute



Source: Industry Analysis Division, CCD
Derived from AT&T Stockholder Reports

Local Competition/Interstate Access

Local Exchange Carriers (LECs) continue to account for 97% of access revenues--a level roughly comparable to the Bell System's share of toll revenues in 1981. Thus, it may be argued that the development of competition in local services is roughly a dozen years behind the development of competition in long distance.

Nevertheless, the seeds of local competition are widespread. Competitive Access Providers (CAPs) have built systems in each of the nation's 20 largest metropolitan markets. Cellular and PCS providers also represent important potential competitors.

The Commission has taken several actions to foster local competition - for example, requiring LECs to interconnect with other local exchange carriers. The Common Carrier Bureau is also considering a variety of initiatives to improve its understanding of the state of local competition and ways to make local markets more competitive.

The Bureau is planning a proceeding on local number portability. The staff is also developing a proposal for improved information collection from local competitors and working with state regulators to explore the many differences among state regulatory jurisdictions that may impede competition. Many states are in the process of changing their regulatory requirements, and state regulators worked with NRRI to prepare the following summary.

STATE REGULATORY COMMISSION TREATMENT OF COMPETITION IN SWITCHED LOCAL SERVICE (as of April 1995)

	Decision made: competition is allowed	Allowing competition under formal consideration	Allowing competition being considered informally	Allowing competition not being considered
No statutory or generic regulatory barrier	CT,GA,IL,IA, MD,MA,MI,MT, NM, ^a NY,OR, PA,UT,VA,WA, WI,WY	HI,IN,KS,ME, NV,NC,OH,OK, SC,TX	MN,NE,NJ,RI	DE,NH,ND,VT, WV
Statutory barrier		CO,DC,FL, KY,NC,TN		AR,ID, ^b LA, MO,SD
Generic policy or order is barrier		AZ,CA		AL,AK,MS

^a Competition is allowed in U.S. West service area.

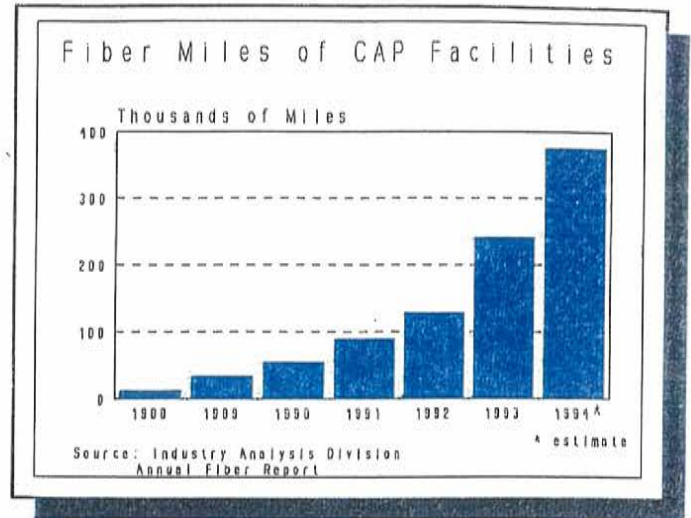
^b Companies may deregulate local service for business customers with over five lines.

SOURCE: The National Regulatory Research Institute (NRRI), presentation to 1995 NASUCA Telecommunications Conference, May 4, 1995

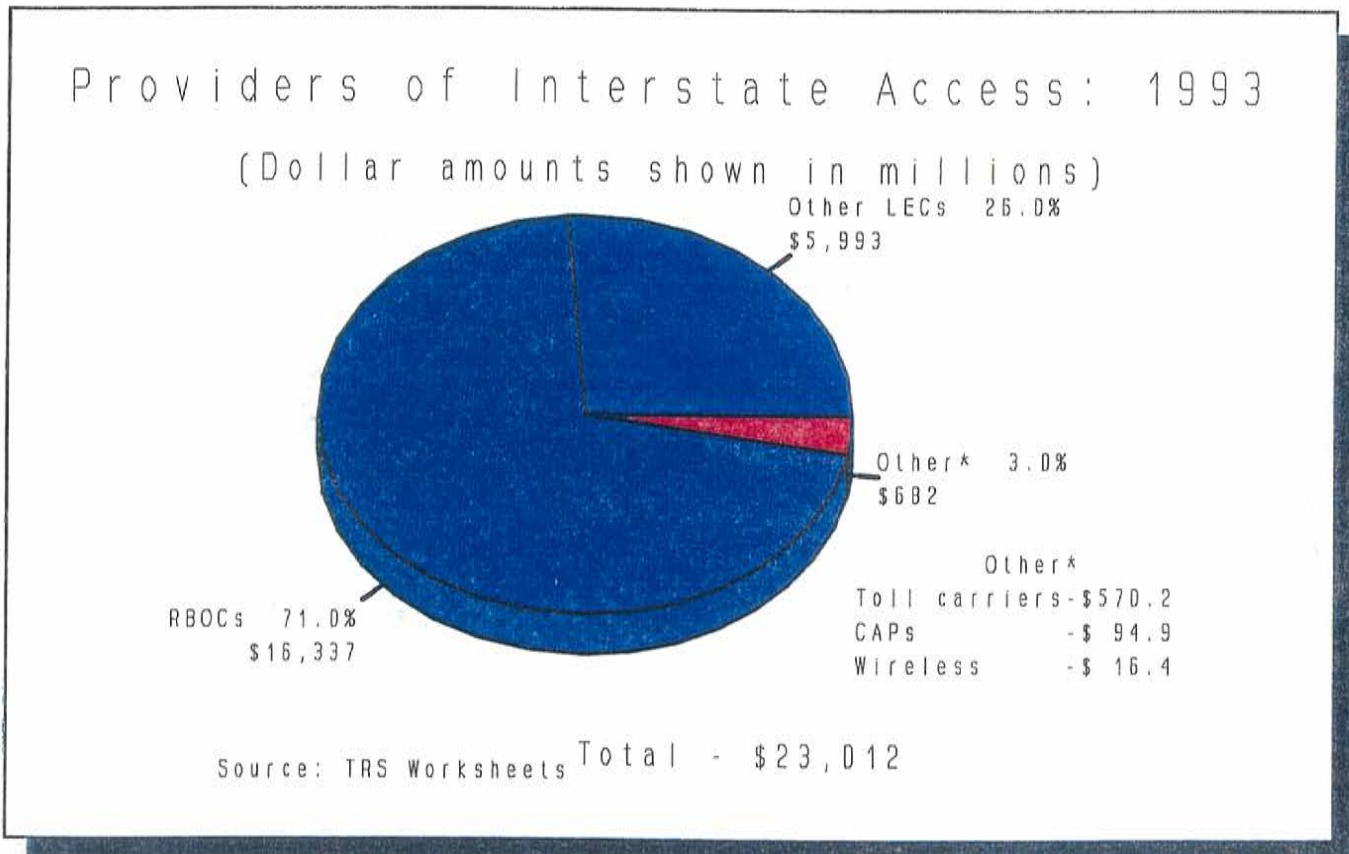
Alternative Local Service Providers

One of the most exciting and dynamic segments of the telecommunications industry is alternative local service providers. The firms in this market segment started out as CAPs. They began by building high-capacity fiber optic facilities for customers with large volumes of communications traffic.

The initial fiber facilities -- usually in the form of a ring or loop through a central business district -- connected customers to a hub where traffic could be concentrated and turned over to interexchange carriers. The industry experienced incredible growth, nearly doubling in size each year for the last five years.



As the industry continues to develop, the CAPs are beginning to offer new services in some areas and are now beginning to be called alternative local service providers, although providing access to high-volume customers remains the mainstay of their business. Despite their incredible growth, these firms remain tiny compared to the local exchange carrier industry. Indeed, alternative local service providers still account for less than one percent of access revenues.



Tariff Filings

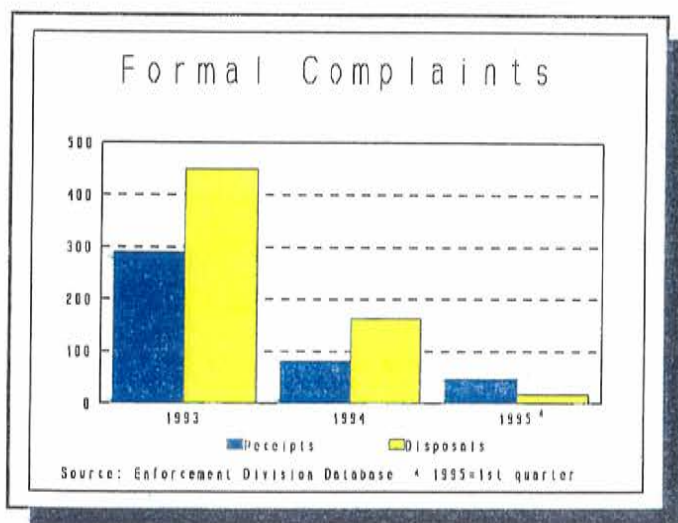
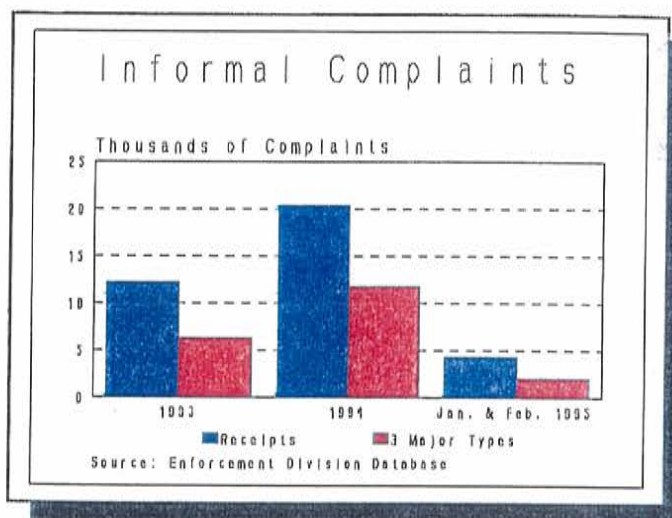
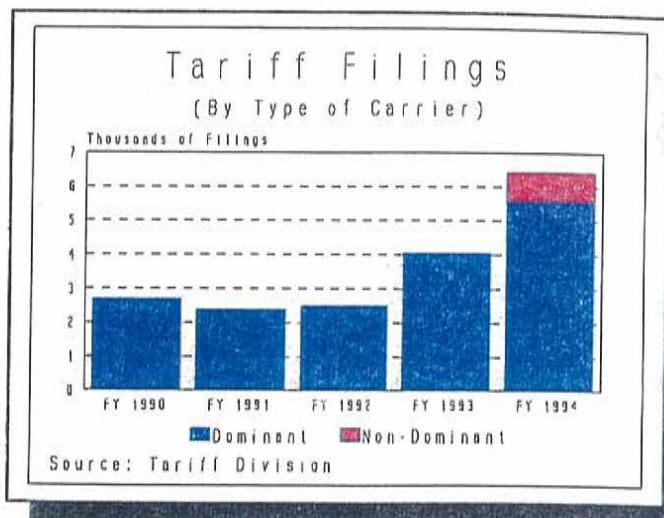
There has been a very large increase in tariff filings over the last few years due in large part to court decisions that have invalidated the Commission's forbearance policies for non-dominant carriers. Also, dominant carrier filings are up because of a large number of new offerings of promotion plans. The Commission has sought and continues to seek a change in its legislative authority, specifically to permit forbearance of non-dominant carriers. The Commission has requested that Congress authorize the Commission to abstain from regulating classes of telecommunications carriers or services where unnecessary to protect the public interest.

Informal Complaints

During 1994, the volume of informal consumer complaints received increased dramatically from 12,000 to 20,000 (67%). The most significant reason for this growth was the increased volume in three major categories: alleged unauthorized conversion of long distance service ("slamming"); operator service provider (OSP) services and rates; and 800 information services where the initial "free" call turns into a billable call. The Commission has taken a number of steps to reduce consumer complaints in these categories including: proposing rules to protect consumers from misleading inducements included on forms used to change long distance service; taking enforcement actions for apparent violation of the Commission's Rules and Orders concerning conversions of long distance service; initiating investigations of OSP rates; and tightening up the Commission's Rules for 800 information services.

Formal Complaints

Over the last three years the Bureau reduced the number of pending formal complaints filed against common carriers from over 1,000 to approximately 500 as of March 31, 1995, including initial complaints, applications for review, and petitions for reconsideration. The complaints involve disputes over domestic and international service offerings, including allegations of unjust, unreasonable and discriminatory rates and practices, tariff filing violations, unlawful restrictions on resale, failure to provide reasonable interconnection, and other categories. The Bureau continues to promote the use of the Commission's Alternative Dispute Resolution (ADR) program as an alternative to costly and time-consuming formal complaint adjudication.



Area Codes

This year, a new format for area codes was introduced. While conventional area codes all use a "0" or a "1" as the middle digit, the new codes use other number combinations. Using the new format will permit up to 640 new area codes, making up to 5 billion new numbers available.

The need for a new area-code format was brought about by explosive growth in the demand for telephone numbers (about 10,000,000 new numbers are needed every year) and the fact that there were no more old style codes available. In early 1994, the last area code in the old format (610) was placed in service in Philadelphia.

New Area Codes in 1995

334	Alabama - Southern
520	Arizona
441	Bermuda
562	California - Los Angeles
970	Colorado - Denver
560	Connecticut
954	Florida - Miami
941	Florida - Tampa
770	Georgia - Atlanta
630	Illinois - Chicago
423	Tennessee - Eastern
972	Texas - Dallas
281	Texas - Houston
540	Virginia - Northern
360	Washington - Seattle

Telephone Subscribership and Universal Service

The most basic measure of universal service is the percentage of households with telephone service. There has been a steady upward trend in the percentage of households with service. However, the level has remained around 94% during the last few years and declined slightly in 1994. This decline may be due to a substitution of paging and/or cellular service for regular telephone service, an increase in phone bills due to higher toll or pay-per-call charges, or a change in the way the data is collected.

Less than one percent of households do not have service because they are located in remote areas where service is not available. Thus, most people without phone service are "off the net" because of income, price, or personal choice.

Although subscribership has increased among all segments of society, particularly historically disadvantaged groups, it continues to lag among black and Hispanic households.

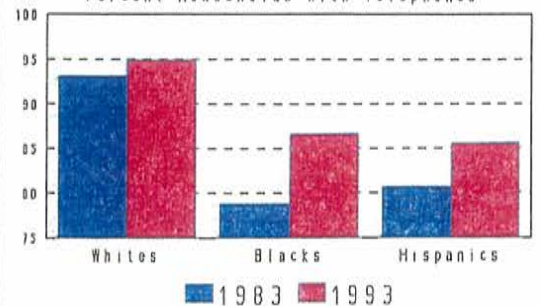
Telephone Penetration

Percent of Households with Telephones



Telephone Penetration

Percent Households with Telephones



For Additional Information

A variety of periodic reports provide information on such subjects as carrier revenues, market shares, technology deployment and other industry trends. A list of these publications is available from the Commission's **Fax On Demand** system at (202) 418-2830. [Request: *Resources Available from the Industry Analysis Division.*]

All of the periodic reports published by the Common Carrier Bureau can be downloaded from the **FCC-State Link** computer bulletin board at (202) 418-0241. A directory of bulletin board files is also available from the **Fax on Demand**. [Request: *Index of Industry Analysis Division Data Sets and Publications Available through the FCC-State Link.*]

The **FCC-State Link** can also be reached through the National Technical Information Service's **FedWorld** system at (703) 321-8020 or through **FedWorld's** telnet internet node (fedworld.gov).

The *Statistics of Communications Common Carriers* is prepared annually by the Commission and is the standard reference work for telecommunications data. The book is published by the U.S. Government Printing Office, and the 1993/1994 edition may be purchased from the Superintendent of Documents, Washington, DC 20202-9328 or by calling GPO's Order and Inquiry Desk at (202) 512-1800.

The staff of the Federal-State Joint Board prepares an annual *Monitoring Report to Congress* that contains detailed statistical and financial data on a state-by-state basis. The report presents data on eight categories: (1) subscribership and penetration levels; (2) lifeline assistance plans; (3) high cost assistance; (4) network usage and growth; (5) rates; (6) revenues, expenses and investment; (7) pooling; and (8) infrastructure and new services. The *Monitoring Report* is released each May, and the information is also made available on the **FCC-State Link** bulletin board.

Copies of all reports are available from the Commission's Duplicating Contractor, International Transcription Services, Inc. (ITS) at (202) 857-3800. The material can also be copied in the Public Reference Room maintained by the Industry Analysis Division, located at 1250 23rd Street, N.W., Washington, DC 20554.

For additional information on the common carrier industry, contact the Industry Analysis Division at (202) 418-0940.