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August 16, 1989

FCC RELEASES SEMI-ANNUAL STUDY ON TELEPHONE TRENDS

The FCC has released its latest semi-annual report on Trends in Telephone Service. The report, with is a summary of information collected by the Commission in much more detailed and technical reports, includes information on telephone subscribership levels, costs, equal access, long-distance and lifeline programs.

Among the findings are:

-- 87 million U.S. households have telephone service, the highest number ever;

-- 90 percent of the nation's lines have now been converted to equal access;

-- During the first half of 1989, the nation's overall rate of inflation, as measured by the Consumer Price Index, was about 6%. In contrast, the Consumer Price Index for telephone service increased at an annual rate of less than 1%;

-- Between January 1984 and July 1989, AT&T charges for directly dialed interstate calls have been reduced 40 percent;

-- By the end of June 1989, 23 states and the District of Columbia had been certified to provide both lifeline service and connection assistance under the Link-Up America program. Another 21 states and the Commonwealth of Puerto Rico had established one, but not both, of these programs.

This report is available for reference in Room 537, Industry Analysis Division, Common Carrier Bureau, 1919 M St., NW. Copies may be purchased from the Commission's duplicating contractor, ITS, at (202) 857-3800.

- FCC -

For further information, contact the Industry Analysis Division, Common Carrier Bureau, at (202) 632-0745

Trends in Telephone Service

Industry Analysis Division

Common Carrier Bureau

Federal Communications Commission

August 16, 1989

Table of Contents

INTRODUCTION:

The Federal Communications Commission, like most regulatory agencies, accumulates a great deal of information from the companies it regulates. Such information is essential to economic regulation, and is provided to the Commission both in the tariff process and in periodic reports. Most of this information deals with investments, revenues, expenses, and earnings. Only in recent years has the Commission begun to systematically collect a wider variety of information. This paper summarizes the range of information now available on a routine basis that extends beyond the essential information needed for economic regulation.

TELEPHONE SUBSCRIBERSHIP:

Under contract with the Federal Communications Commission, the Bureau of the Census includes questions on telephones as part of its Current Population Survey. This survey, which monitors demographic trends between the decennial censuses, has several strengths: it is conducted regularly by an independent and expert agency, the sample is very large and the questions are consistent. Thus, changes in the results can be compared over time with a great deal of confidence.

Over eight million households have been added to the nation's telephone system since these surveys began in November 1983 -- reflecting both an increase in the total number of households and a small, but statistically significant, increase in the percentage of households that subscribe to telephone service. The Census data also reflect slight, but statistically significant, seasonal variations in penetration rates. This pattern, after allowing for effects of the upward trend in the data, is an increase of 0.3% from November to March, followed by a decrease of 0.2% from March to July, followed by a decrease of 0.1% from July to November.

Table 1

Telephone Penetration in the U.S.

Date	Households (millions)	Households with Telephones (millions)	Percentage with Telephones	Households without Telephones (millions)	Percentage without Telephones
November 1983	85.8	78.4	91.4%	7.4	8.6%
March 1984	86.0	78.9	91.8	7.1	8.2
July 1984	86.6	79.3	91.6	7.3	8.4
November 1984	87.4	79.9	91.4	7.5	8.6
March 1985	87.4	80.2	91.8	7.2	8.2
July 1985	88.2	81.0	91.8	7.2	8.2
November 1985	88.8	81.6	91.9	7.2	8.1
March 1986	89.0	82.1	92.2	6.9	7.8
July 1986	89.5	82.5	92.2	7.0	7.8
November 1986	89.9	83.1	92.4	6.8	7.6
March 1987	90.2	83.4	92.5	6.8	7.5
July 1987	90.7	83.7	92.3	7.0	7.7
November 1987	91.3	84.3	92.3	7.0	7.7
March 1988	91.8	85.3	92.9	6.5	7.1
July 1988	92.4	85.7	92.8	6.7	7.2
November 1988	92.6	85.7	92.5	6.9	7.5
March 1989	93.6	87.0	93.0	6.6	7.0

CHANGES IN THE PRICE OF TELEPHONE SERVICES:

The Bureau of Labor Statistics (BLS) collects a variety of information on telephone service as part of three separate programs -- the Consumer Price Index (CPI), the Producer Price Index (PPI), and the Consumer Expenditure Survey. The average American household now spends about as much on long distance service as on local service and the Consumer Expenditure Survey, which is used to provide weights for consumer price indexes, indicates that telephone service accounts for about 2% of total consumer expenditures. This percentage has remained virtually unchanged over the past 15 years, during which there have been major changes in the telephone industry and in telephone usage. The following sections illustrate the range of information available on price indexes and rate levels.

1. Long Term Trends in Prices:

A price index for telephone services was first published in 1935. Since that time, telephone prices have tended to increase at a slower pace than most other prices. Table 2 shows long run changes in the Consumer Price Indexes for all items, all services, telephone services, each of the seven major categories that currently constitute the overall CPI, and several services that are often characterized as being public utilities. The price of telephone service has increased less rapidly than almost any other category when viewed over a long period of time.

Table 2
Annual Rate of Change For Various Price Indexes*

	1935 to 1988	1978 to 1988
CPI all goods and services	4.2%	6.1%
CPI all services	4.6	7.5
CPI telephone services	2.2	4.4
CPI major categories		
- food & beverages	**	5.1
- housing	**	6.6
- apparel & upkeep	3.3	3.6
- transportation	3.9	5.8
- medical care	5.1	8.4
- entertainment	**	5.3
- other goods & services	**	7.9
CPI public transportation	5.0	9.1
CPI piped gas	3.8	7.1
CPI electricity	2.4	6.2
CPI sewer & water maintenance	**	7.2

* Exponential rates calculated using "year average" index values for the first and last years of each comparison period.

** Series not established until after 1935.

2. Comprehensive Price Indexes:

The CPI index of telephone services is based on a "market basket" intended to represent the telephone related expenditures of a typical urban household. It includes both local and long distance services. Changes in telephone prices tend to lag behind other price changes. Overall inflation in the American economy peaked in 1979 and 1980. In contrast, the price of telephone services rose most rapidly during the years 1981 through 1984, with the rate of increase declining since then. The prices of telephone service decreased slightly in 1987 -- the first such decline since 1967 -- increased only 1.3% in 1988, and has increased at an annual rate of less than 1% during the first half of 1989. The annual rate of change is shown in Table 3 for the Gross National Product fixed weight price index (which reflects inflation throughout the economy), the overall CPI (which measures the impact of inflation on consumers), and the CPI for telephone services.

Table 3
Annual Rate of Change in Price Indexes

	GNP Fixed Weight Price Index	CPI: All Items	CPI: Telephone Services
1978	7.2	9.0%	0.9%
1979	8.8	13.3	0.7
1980	9.8	12.5	4.6
1981	8.5	8.9	11.7
1982	5.0	3.8	7.2
1983	3.9	3.8	3.6
1984	3.7	3.9	9.2
1985	3.6	3.8	4.7
1986	2.3	1.1	2.7
1987	4.0	4.4	-1.3
1988	4.5	4.4	1.3
1989*	5.0	6.1	0.7

* Annual rate for first half of year.

3. Price Indexes for Local Service:

The Bureau of Labor Statistics publishes a number of price indexes related to local telephone service. The price indexes indicate percentage changes in the price of telephone services. The BLS does not publish the actual level of rates. The CPI index of local telephone charges is based on a broadly defined "market basket" that includes monthly service charges, message unit charges, leased equipment, installation, enhanced services (such as tone dialing and call waiting), taxes, subscriber line charges, and all other consumer expenditures associated with telephone services except long distance charges. In contrast, the PPI index of monthly residential rates is much more narrowly defined. It is based only on monthly service charges for residential service, optional touch tone service, and subscriber line charges. It excludes taxes and all other expenditures. The annual rates of change for these two indexes of local costs are presented in Table 4.

Table 4

Annual Rate of Change in Price Indexes
For Local Telephone Service

	CPI: All Local Charges	PPI: Monthly Service Charges For Residential Service
1978	1.4%	3.1%
1979	1.7	1.6
1980	7.0	7.1
1981	12.6	15.6
1982	10.8	9.0
1983	3.1	0.2
1984	17.2	10.4
1985	8.9	12.4
1986	7.1	8.9
1987	3.3	2.6
1988	4.5	4.6
1989*	2.8	4.0

* Annual rate for first half of year.

4. Price Indexes for Long Distance Service:

CPI data is available for intrastate toll and interstate toll services since December 1977. Table 5 presents the annual changes in these series. The high inflation of the late 1970's is reflected in the long distance price increases beginning in 1980. Intrastate toll rates have stabilized since that time, and interstate rates have steadily fallen since 1983.

Table 5
Annual Rate of Change in Price Indexes
For Long Distance Service

	CPI: Interstate Toll calls	CPI: Intrastate Toll calls
1978	-0.8%	1.3%
1979	-0.7	0.1
1980	3.4	- 0.6
1981	14.6	6.2
1982	2.6	4.2
1983	1.5	7.4
1984	-4.3	3.6
1985	-3.7	0.6
1986	-9.4	0.3
1987	-12.4	-3.0
1988	-4.2	-4.2
1989*	-3.1	-3.6

* Annual rate for first half of year.

5. [illegible] Rate Levels:

[illegible] rates are regulated by state public utility commissions and vary so [illegible] from area to area that it is hard to characterize any rate as "[illegible]". In most states, the Bell Operating Companies and larger [illegible]dents charge higher rates in metropolitan areas than in rural areas -- [illegible] pricing practice that dates back to the turn of the century and is tra[illegible]ionally justified in the belief that the value of the service provided is [illegible]er for subscribers with larger local calling areas. California dif[illegible]s from most states in that rates for residential customers are ave[illegible]ged throughout the state. There, the basic local rate is $8.35 for areas served by Pacific Bell and $9.75 for areas served by General of California.

Tables 6 and 7 present average local rates for residential and single-line business customers. They are based on surveys using the same sampling areas and weights used by the BLS in constructing the Consumer Price Index. In April 1989, the national average for flat rate residential service was $17.59 monthly, including taxes and subscriber line charges. For residential customers, lower priced service alternatives are typically available, at a total monthly cost averaging $10.35. These averages do not reflect the lower "lifeline" prices restricted to low income subscribers that are available in many areas.

Table 6
Average Monthly Residential Rates
(in October of each year except 1989)

	1983	1984	1985	1986	1987	1988	April 1989
Unlimited Local Calling	$10.50	$12.10	$12.17	$12.58	$12.44	$12.32	$12.36
Subscriber Line Charges	.00	.00	1.01	2.04	2.66	2.67	3.55
Taxes	1.08	1.25	1.36	1.51	1.56	1.58	1.68
Total	11.58	13.35	14.54	16.13	16.66	16.57	17.59
Lowest Generally Available Monthly Rate	$ 5.37	$ 5.62	$ 5.75	$ 5.96	$ 5.81	$ 5.67	$ 5.78
Subscriber Line Charges	.00	.00	1.01	2.04	2.66	2.67	3.55
Taxes	.56	.58	.70	.84	.94	.91	1.02
Total	5.93	6.20	7.46	8.84	9.41	9.25	10.35
Minimum Connection Charge	$35.01	$43.71	$44.32	$45.63	$44.04	$42.94	$42.98
Taxes	1.75	2.19	2.22	2.28	2.20	2.11	2.12
Total	36.76	45.90	46.54	47.91	46.24	45.05	45.10

Table 7

Average Monthly Single line Business Rates
(in October of each year except 1989)

	1983	1984	1985	1986	1987	1988	April 1989
Representative Rate *	$29.16	$32.74	$33.42	$34.26	$33.71	$34.48	$33.57
Subscriber Line Charges	.00	.00	1.01	2.04	2.68	2.69	3.58
Taxes	3.35	3.76	3.96	4.17	4.18	3.95	4.05
Total	33.51	36.51	38.39	40.47	40.57	40.12	41.21
Minimum Connection Charge	$56.04	$68.84	$70.82	$79.94	$72.15	$72.51	$72.58
Taxes	3.08	3.79	3.90	4.01	3.97	3.92	3.92
Total	59.12	72.63	74.72	76.95	76.12	76.43	76.50

* The "representative" rate is the monthly single line rate for touch tone service with unlimited service where offered, and the measured service rate with 200 messages in other cities.

6. Long Distance Rates:

In Table 8, the prices of several long distance calls are shown based on AT&T's tariffed rates during January 1984 and July 1989. During this period, AT&T's charges for directly dialed interstate calls have been reduced 40% for the average residential customer.

Table 8

Changes in the Price of Directly Dialed Long Distance Calls
(AT&T Prices from Washington, D.C.)

For calls to:		Five minute calls			Ten minute calls		
		January 1984	July 1989	Percentage change	January 1894	July 1989	Percentage change
New York City*	Day	$2.14	$1.15	-46.3%	$4.09	$2.30	-43.8%
	Evening	1.28	.77	-38.8	2.45	1.54	-37.1
	Night	.85	.60	-29.6	1.63	1.20	-26.6
Atlanta & Chicago**	Day	2.34	1.20	-48.7	4.49	2.40	-46.5
	Evening	1.40	.80	-42.6	2.69	1.61	-40.2
	Night	.93	.62	-32.9	1.79	1.25	-30.3
Los Angeles***	Day	2.70	1.25	-53.7	5.15	2.50	-51.5
	Evening	1.62	.84	-48.3	3.09	1.68	-45.8
	Night	1.08	.65	-39.8	2.06	1.30	-36.9

* The prices shown for calls between New York City and Washington, D.C. apply to all calls with distances between 125 and 292 miles.

** The prices shown apply to all calls with distances between 431 and 925 miles.

*** The prices shown apply to all calls with distances between 1911 and 3000 miles.

7. Outlook:

The price of telephone service has historically lagged behind inflation in the rest of the economy and, to a lesser extent, behind changes in interest rates. Overall inflation peaked in early 1980 and interest rates in 1981. Following historical patterns, the price of telephone service increased faster than the overall rate of inflation in 1981 and 1982. A one-time surge in prices occurred at the beginning of 1984 when the AT&T divestiture took place. With the exception of that surge, however, the price of telephone service rose at about the same rate as overall inflation during the years 1983 through 1986. During 1987, 1988, and the first half of 1989, there has been very little change in the overall price of telephone service while inflation in the rest of the economy has continued at an annual rate of between 4% and 5%.

In late 1984, the national average monthly charge for residential flat rate service was $12.10 -- compared with $12.36 in early 1989. During this period, however, the adoption of subscriber line charges caused monthly bills, including subscriber line charges and taxes, to increase at a somewhat higher rate than the overall rate of inflation. Total monthly bills for local service (including telephone company service charges, subscriber line charges, and taxes), increased about 30% compared with an increase in the overall CPI of slightly less than 20% during this period.

Barring a serious recession (or unexpected surge of inflation), there should be no significant increases in the cost of local service during the foreseeable future. The first reason for reaching this conclusion is the underlying stability of basic monthly service charges which, as indicated above, have remained essentially unchanged since 1984. The second is the fact that there are no important state rate cases pending -- that is, no significant proposals to raise basic service rates. Finally, there will be no further increases in federal subscriber line charges. Indeed, if the federal excise tax on telephone service expires as currently scheduled at the end of 1990, local service bills could conceivably be lower in 1991 than 1989. However, a variety of other tax considerations, added to the possibility that the excise tax may be extended and the fact that inflation is now in the range of 5% per year, make it more likely that local costs will gradually increase at a slower rate than overall inflation -- perhaps something on the order of 2% per year.

Prices of directly dialed interstate calls have decreased 40% since the beginning of 1984. The price reductions have resulted from increasing competition, rapid technological progress, the implementation of subscriber line charges, and a variety of other causes. Subscriber line charges have been the largest single factor in these reductions. As local telephone companies recovered an increased share of their local costs from monthly subscriber line charges, they were required to make matching reductions -- on a dollar for dollar basis -- to their charges imposed on long distance carriers. The long distance carriers, in turn, then passed these access charge reductions through to their customers in the form of reduced long distance rates. Because subscriber line charges will not be increased in the future, future reductions in long distance rates cannot be expected to continue at the same pace as in the past. Nevertheless, changes in long distance rates should continue to reflect the forces of further technological progress and intense competition.

STATE TELEPHONE RATE CASES:

The actions of state regulatory commissions provide important indicators of future rate changes. Rate cases completed by the state commissions tend to result in immediate rate changes. At the same time, the amount of rate relief requested by local telephone companies, but not yet acted upon by state commissions, provides an indicator of future rate changes.

At the time of divestiture, rate cases pending before state public utility commissions totaled nearly $7 billion dollars. During the first half of 1984, state commissions completed action on a number of extraordinarily large rate cases. After the first half of 1984, the level of activity in state cases diminished substantially. During 1987 and 1988, the dollar amount of rate reductions and refunds ordered by state commissions exceeded the dollar amount of rate increases authorized. In mid-1989, the amount of rate increases requested and pending before state commissions totaled only about $100 million. Since it typically takes more than a year for a rate case to be completed, the low level of pending cases -- viewed in conjunction with the recent reductions ordered by state commissions -- should indicate a low level of state and local rate changes during at least the next year.

Table 9

State Telephone Rate Cases
(Millions of Dollars)

	Revenue Increases Requested During Quarter	Revenue Changes Ordered During Quarter	Requests Pending at End of Quarter
1984 First quarter	$ 627.7	$ 1,175.6	$ 4,851.9
Second quarter	93.7	2,054.2	1,675.6
Third quarter	2,242.9	284.5	3,387.5
Fourth quarter	1,059.4	361.2	3,672.3
Total	4,023.7	3,875.5	
1985 First quarter	976.6	246.3	3,779.0
Second quarter	172.4	314.8	3,316.3
Third quarter	108.3	286.5	2,664.2
Fourth quarter	369.9	307.3	1,437.3
Total	1,627.2	1,154.9	
1986 First quarter	155.1	58.0	766.2
Second quarter	249.9	57.9	362.0
Third quarter	230.0	173.3	315.7
Fourth quarter	8.7	.8	322.6
Total	643.7	290.0	
1987 First quarter	7.0	-33.1	67.1
Second quarter	19.4	-112.0	47.7
Third quarter	62.0	-94.0	94.0
Fourth quarter	57.9	-279.9	124.7
Total	146.3	-519.0	
1988 First quarter	46.4	-215.3	148.5
Second quarter	155.2	-232.4	301.6
Third quarter	140.9	-387.8	377.0
Fourth quarter	36.4	-530.9	219.5
Total	378.9	-1,366.4	
1989 First quarter	31.3	-206.7	86.3
Second quarter	25.3	-72.2	111.4

EQUAL ACCESS:

The Bell Operating Companies serve about 80% of the nation's telephone lines. Under the Modification of Final Judgment that settled the AT&T antitrust case, the Bell Operating Companies are obligated to offer equal access to all long distance carriers. The process began in 1984 and, by the end of 1988, the Bell Operating Companies had converted 90% of their lines to equal access. The remaining lines are at smaller, older offices where equal access is being provided when the offices are converted to more modern equipment. Independent telephone companies, which serve 20% of the nation's lines, are also converting offices to equal access. By the middle of 1989, about 90% of the nation's 130 million telephone lines had been converted to equal access.

Table 10

Equal Access Conversion Schedule *
(Percentage of Lines Converted)

	Bell Operating Companies	Independent Telephone Companies	Total Industry
1984 Third quarter	1.1%	0.0	1.0
Fourth quarter	3.8	1.5	3.4
1985 First quarter	12.1	2.4	10.6
Second quarter	26.9	3.7	23.1
Third quarter	43.0	4.0	36.8
Fourth quarter	50.9	4.9	43.5
1986 First quarter	56.8	11.9	49.5
Second quarter	61.9	18.4	54.9
Third quarter	71.4	27.4	64.3
Fourth quarter	74.3	38.3	68.4
1987 First quarter	76.4	45.3	71.3
Second quarter	77.7	50.9	73.4
Third quarter	80.4	57.9	76.8
Fourth quarter	84.7	64.0	81.3
1988 First quarter	87.0	66.2	83.6
Second quarter	87.9	68.5	84.7
Third quarter	89.1	71.3	86.2
Fourth quarter**	90.9	73.9	88.1
1989 First quarter **	92.8	76.5	90.1
Second quarter**	93.5	77.5	90.9
Third quarter **	94.2	79.3	91.7
Fourth quarter**	94.9	81.6	92.7

* Data from Tariff Review Plans filed November 12, 1987 and December 30, 1988.

** Projected.

LONG DISTANCE CARRIERS:

In 1983, the Federal Communications Commission decided to "forbear" from regulating "non-dominant" long distance carriers. While AT&T remains subject to comprehensive economic regulation, most other carriers have been exempted from the burdens of regulation. As a result, the Commission collects no data from most carriers. Nevertheless, we have two different sources of information on the number of long distance competitors. The first source, Carrier Identification Codes, provides information on the number of firms seeking to acquire certain types of interconnecting arrangements with local telephone companies. Any firm that seeks to use "trunk side" connections with local telephone companies is provided a three digit identification code so that traffic can be efficiently routed.

All firms seeking to purchase either "Feature Group B" or "Feature Group D" access from local telephone companies are assigned Carrier Identification Codes by the administrators of the North American Numbering Plan. While most firms acquiring Carrier Identification Codes compete in the long distance market, some firms apparently acquire such codes for other purposes. We believe that the number of firms seeking and obtaining these codes provides the best information available on the entry of new firms into the long distance market during the period prior to 1986:

Table 11

Number of Firms with Carrier Identification Codes

June 30, 1982:	13
December 31, 1982:	11
June 30, 1983:	25
December 31, 1983:	42
June 30, 1984:	65
December 31, 1984:	123
June 30, 1985:	179
December 31, 1985:	217
June 30, 1986:	276
December 31, 1986:	334
June 30, 1987:	397
December 31, 1987:	451
June 30, 1988:	489
December 31, 1988:	493
June 30, 1989:	544

Beginning in 1986, we have received information provided by each of the seven Regional Holding Companies that were formed as a result of the AT&T divestiture. Each regional company has provided a list of carriers purchasing "switched access" from their Bell Operating Companies. Because all long distance carriers purchase access from local telephone companies, the number of such carriers can be supplied by local telephone companies without imposing reporting requirements on long distance carriers.

The number of long distance carriers is summarized in the following two tables. Table 12 provides information on the total number of long distance carriers purchasing switched access and the total number of firms purchasing equal access. A total of over 500 carriers were reported as serving in one part or another of the nation. Of these, over half were reported as purchasing equal access.

Table 12

Number of Long Distance Telephone Carriers

		Carriers that use Equal Access	All Carriers
1986	January	157	*
	February	166	*
	March	169	*
	April	175	475
	May	178	*
	June	183	*
	July	183	494
	August	193	519
	September	190	506
	October	200	516
	November	204	521
	December	210	533
1987	January	207	551
	February	209	559
	March	211	561
	April	213	*
	May	216	*
	June	213	*
	July	219	*
	August	221	560
	September	224	*
	October	227	*
	November	229	552
	December	239	540
1988	January	235	*
	February	235	*
	March	238	511
	April	242	*
	May	245	*
	June	248	519
	July	252	*
	August	254	*
	September	256	506
	October	256	*
	November	260	*
	December	266	510
1989	January	269	*
	February	273	*
	March	273	509

* Data not available.

Table 13 shows the number of long distance carriers that purchase access in each state. Information is provided for 47 states and the District of Columbia. Three states -- Alaska, Connecticut, and Hawaii -- are not served by the Bell Operating Companies and are therefore not represented in the table.

Within any state, a carrier purchasing access may concentrate its efforts in serving only a few exchanges or a small portion of the state. Thus, the number of carriers available to a particular customer will tend to be far smaller than the number of long distance carriers that purchase access somewhere in the state. Since the larger long distance carriers serve many states, they are recorded as purchasing access in each state. Because of this, the state figures can not be added to estimate a national total of long distance carriers.

Table 13

Carriers Purchasing Access
From Bell Operating Companies: March 1989

State	Switched Access	Equal Access	State	Switched Access	Equal Access
Alabama	43	17	Nebraska	32	14
Arizona	53	24	Nevada	29	17
Arkansas	46	13	New Hampshire	17	9
California	129	37	New Jersey	86	27
Colorado	82	24	New Mexico	35	15
Delaware	19	4	New York	140	30
District of Columbia	82	27	North Carolina	54	15
Florida	82	23	North Dakota	22	8
Georgia	92	21	Ohio	83	23
Idaho	32	12	Oklahoma	64	18
Illinois	113	31	Oregon	39	14
Indiana	59	22	Pennsylvania	105	33
Iowa	39	14	Rhode Island	21	9
Kansas	39	18	South Carolina	38	11
Kentucky	37	15	South Dakota	24	5
Louisiana	64	22	Tennessee	61	20
Maine	13	6	Texas	173	75
Maryland	58	19	Utah	43	16
Massachusetts	55	18	Vermont	14	7
Michigan	83	23	Virginia	49	14
Minnesota	61	22	Washington	55	16
Mississippi	38	15	West Virginia	17	8
Missouri	92	27	Wisconsin	54	29
Montana	21	7	Wyoming	18	5
			Unduplicated Total	509	273

THE INTERSTATE MARKET:

Good measures of the total amount of interstate traffic began in mid-1984. The best available measure is that of "switched access minutes" -- those minutes transmitted by long distance carriers that also use the distribution networks of local telephone companies. The measure includes access minutes associated with ordinary long distance calls (whether made via AT&T or a competitor) and the "open end" of WATS and WATS-like calls. It excludes calls made on private telecommunications systems, on leased lines, and access minutes on the "closed end" of WATS and WATS-like calls.

Table 14 shows the number of interstate access minutes handled by AT&T, by other carriers, and industry totals. The total number of minutes has grown steadily since mid-1984, stemming from a combination of overall economic growth, price reductions, and extensive advertising. AT&T's traffic has grown at a rate slower than the industry average and the remaining traffic, handled by all other carriers, has continued to grow at a rapid rate -- averaging more than 30% per year.

Table 14

Interstate Switched Access Minutes
(in Billions)

		AT&T	Other Carriers	Total Industry
1984:	Third Quarter	31.6	5.9	37.5
	Fourth Quarter	31.8	7.9	39.7
1985:	First Quarter	32.8	6.7	39.6
	Second Quarter	33.3	8.2	41.5
	Third Quarter	33.8	9.0	42.8
	Fourth Quarter	33.4	9.9	43.3
1986:	First Quarter	34.2	8.8	43.0
	Second Quarter	34.7	10.1	44.8
	Third Quarter	35.8	10.9	46.7
	Fourth Quarter	35.9	12.6	48.5
1987:	First Quarter	37.4	13.9	51.3
	Second Quarter	38.6	13.8	52.5
	Third Quarter	39.2	15.8	55.0
	Fourth Quarter	40.1	16.9	57.0
1988:	First Quarter	41.2	17.3	58.5
	Second Quarter	41.1	18.3	59.3
	Third Quarter	42.3	19.6	61.9
	Fourth Quarter	43.0	21.2	64.1
1989:	First Quarter	44.2	21.9	66.1
Annual Exponential Rate of Growth:		7.7%	33.9%	13.4%

The result of an AT&T growth rate slower than the industry average has been a declining market share for AT&T. AT&T's market share is shown in Table 15. AT&T's share of the overall market for interstate switched minutes declined from over 80% in late 1984 to about 70% during early 1989. At the same time, its share of the premium market has declined from virtually 100% in 1984 (the first scattered offices began to be converted to equal access in the summer of 1984) to about two-thirds of the equal access market in early 1989.

Table 15

AT&T Share of the Interstate Market

		Premium Minutes	All Minutes
1984:	Third Quarter	98.7%	84.2%
	Fourth Quarter	94.3	80.0
1985:	First Quarter	99.8	83.0
	Second Quarter	95.5	80.3
	Third Quarter	92.2	78.9
	Fourth Quarter	87.9	77.1
1986:	First Quarter	88.2	79.5
	Second Quarter	84.7	77.5
	Third Quarter	82.8	76.6
	Fourth Quarter	78.9	74.0
1987:	First Quarter	77.8	72.9
	Second Quarter	78.3	73.6
	Third Quarter	75.2	71.2
	Fourth Quarter	73.7	70.4
1988:	First Quarter	73.3	70.4
	Second Quarter	72.0	69.8
	Third Quarter	71.0	68.3
	Fourth Quarter	69.4	67.0
1989:	First Quarter	69.1	66.8

THE TOTAL MARKET FOR TOLL SERVICE:

Long distance carriers with revenues of more than $100 million are required to report their annual revenues to the FCC. For most of these companies, information is not available on the division of revenues between interstate and intrastate services. In 1988, the revenues of all long distance carriers totaled about $47 billion. In addition to the services provided by long distance carriers, a substantial amount of toll service is handled by local telephone companies that provide long distance service within their own operating areas. Most of these calls, accounting for about

$13 billion of revenue per year, are intrastate. The total market for long distance telephone service, including both interstate and intrastate calling, is now in the neighborhood of $60 billion per year.

Total toll revenues are shown in Table 16. The growth in total revenues during the early 1980's reflected both growing demand and higher prices. In recent years, calling has grown rapidly as prices have fallen. The effects of rapid traffic growth and sharply lower prices have tended to offset each other -- resulting in a slower growth in total revenues since 1984. AT&T's total communications revenues have been stable or declining slightly as the effects of traffic growth and falling prices have almost exactly offset each other. Other long distance carriers, however, have continued to grow so rapidly that their revenues have tripled since 1984.

AT&T's market share, measured in revenues, is somewhat higher than its share of traffic volumes. In 1988, AT&T received about 75% of the revenues flowing to carriers specializing in long distance service or about 60% of total long distance revenues. Two cautionary notes are required on any calculation of market share information. First, an index of market share is not necessarily an index of market power. Second, any calculation of market share is dependent on how the market is defined. The data in Table 16 thus differ from the data in Table 15 which is concerned only with the interstate market and measured in minutes.

Table 16
Total Toll Service Revenues
(in Millions of Dollars)

	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988
AT&T*						34,935	36,770	36,514	35,219	35,277
MCI	125	206	413	802	1,326	1,761	2,331	3,372	3,938	4,886
US Sprint	95	153	231	393	740	1,052	1,509	2,132	2,592	3,405
Allnet							436	450	395	394
USTS	21	42	83	128	163	162	241	282	269	282
Alascom	143	157	191	238	257	255	271	267	262	272
Cable & Wireless							146	171	180	218
Teleconnect								112	168	216
Others**	48	79	144	263	443	591	926	1,295	1,498	1,868
Total: Long Distance Carriers						38,755	42,630	44,595	44,521	46,819
AT&T Share:						90.1%	86.3%	81.9%	79.1%	75.3%
Bell Operating Companies*						9,037	9,026	9,599	10,268	
Other Local Telephone Companies*						3,290	3,094	3,166	3,136	
Total: Local Exchange Companies						12,327	12,120	12,765	13,404	
Total: All Carriers:	29,551	33,335	39,180	43,919	46,970	51,082	54,750	57,360	57,925	
AT&T Share:						68.4%	67.2%	63.7%	60.8%	

SOURCES:

Local Exchange Carrier information derived from USTA annual reports

AT&T and Alascom - FCC Statistics of Common Carriers

Otherwise - 1979-1982: Annual Report Form P
1983-1988: As reported pursuant to FCC Report and Order in CC Docket 83-1291

* While total toll revenues are available prior to 1984, the manner in which they were divided between the Bell System and other telephone companies makes it impossible to accurately determine the amounts billed by what is now AT&T Communications, the Bell Operating Companies, and other local telephone companies.

** Estimated by FCC staff.

LIFELINE ASSISTANCE PROGRAMS:

The FCC has established two types of assistance programs for low income subscribers. Programs of the first type are designed to assist poor subscribers in affording the monthly costs of service, and are called "lifeline" plans. Other programs -- connection assistance or "Link Up" programs -- are designed to help low income subscribers defray installation charges in order to begin receiving telephone service. Participating states have wide latitude in selecting means tests and shaping the benefits of the programs. By mid-1989, 23 states and the District of Columbia had been certified to provide both lifeline service and connection assistance. Another 21 states and the Commonwealth of Puerto Rico had established one, but not both, of the programs. The states, and the date of FCC certification for each program, are indicated in Table 17.

Table 17

Lifeline and Connection Assistance Programs:
Date of Approval

State	Lifeline	Link Up
Alabama		10/01/87
Arizona	11/14/86	1/15/88
Arkansas	5/22/86	10/01/87
California	1/01/85*	
Colorado	7/25/86**	11/13/87**
Connecticut		11/13/87
Distict of Columbia	3/18/86	8/19/87
Florida		8/01/88
Hawaii	10/27/86	
Idaho	7/24/87	5/12/89
Indiana		4/25/88
Iowa		3/10/88
Kansas		1/27/88
Kentucky		12/24/87
Louisiana		10/28/88
Maine	8/11/87	8/11/87
Maryland	5/22/86	10/01/87
Michigan	1/24/89	1/24/89
Minnesota	1/27/88	1/27/88
Mississippi		4/27/88
Missouri	10/01/87	12/28/87
Montana	8/11/87	8/11/87
Nebraska		3/17/88
Nevada	4/28/87	9/07/88
New Hampshire		11/03/88
New Jersey		11/13/87
New Mexico	4/01/87	1/15/88
New York	11/02/87	8/11/87
North Carolina	5/22/86	10/19/87
North Dakota		12/24/87
Ohio	7/01/87	10/01/87

Oregon	5/22/86	5/05/88
Pennsylvania		6/02/88
Puerto Rico		11/17/88
Rhode Island	9/21/87	9/21/87
South Carolina		12/24/87
South Dakota	3/25/88	3/25/88
Tennessee		11/03/88
Texas	7/12/88	10/01/87
Utah	12/31/86	3/17/88
Vermont	10/01/86	
Virginia	12/24/87	12/24/87
Washington	7/24/87	
West Virginia	7/25/86	9/11/87
Wisconsin	7/25/86	7/14/89
Wyoming		1/24/89

* California is the only state still offering a lifeline program under Plan 1 (a 50% waiver of the SLC).

** The Colorado lifeline and Link Up plans were terminated as a result of legislative sunset provisions during 1989.

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The statistical data presented above provides a brief summary of several types of information now being collected by the FCC's Industry Analysis Division. In most cases, the reports underlying this summary provide a greater level of detail and are available in the Division's Public Reference Room, Room 537 at 1919 M Street, N.W. For more information, the following individuals may be contacted at (202) 632-0745:

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State Rate Cases: ..... Linda Blake
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Access Minutes & AT&T Market Share: ..... Linda Blake
Lifeline Assistance Programs: ..... Mary Green or Larry Povich