



# NEWS

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February 2, 1988

## FCC RELEASES STUDY ON TRENDS IN TELEPHONE SERVICE

The FCC has released a report on Trends in Telephone Service reflecting information from the consumers' standpoint. The report collects into a single source and puts into context information from other, detailed reports prepared by the Industry Analysis Division of the Common Carrier Bureau.

A review of the data shows continued good news for consumers:

- o For residential customers, the cost of interstate calling has fallen by more than 30% since the beginning of 1984, while increases in the cost of local service have slowed dramatically. During 1987, while the nation's overall rate of inflation was 4.4%, the Consumer Price Index for telephone services fell by 1.3% -- the first such annual decline since 1967. Thus, during 1987, the price of telephone services for residential customers fell by more than 5% in relation to the cost of other goods and services.
- o During 1987, rate reductions and refunds ordered by state commissions exceeded any increases granted. This is the first full year during which this has happened since the FCC began monitoring state rate cases. Based on actions of state regulatory commissions and the amount of pending rate hike requests by the telephone companies, local rate increases for the coming year, if any, should be quite moderate.
- o The number of households with telephone service is increasing. Telephone penetration stood at 92.3% nationwide in November 1987, up from 91.4% in November 1983. Five million households have been added to the nation's telephone system during this period.
- o Equal access is proceeding apace. By the end of 1987, 80% of all subscribers could choose their primary long-distance carrier for easy 1 + dialing, compared to less than 4% at the end of 1984.
- o The number of long-distance competitors appears to be increasing. Over 500 long-distance carriers serve in one part or another of the nation, and more than 200 carriers provide service through 1 + dialing in one or more states.

This report is available for reference in Room 537, Industry Analysis Division, Common Carrier Bureau, 1919 M Street, N.W. Copies may be purchased by calling International Transcription Service at (202) 857-3800.

- FCC -

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

Trends in Telephone Service

Industry Analysis Division

Common Carrier Bureau

Federal Communications Commission

January 1988

## Trends in Telephone Service

January 1988

### 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 information from the consumers' perspective. 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 every month 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. According to the Current Population Survey, over five million households have been added to the nation's telephone system since November 1983.

Table 1  
Telephone Penetration in the U.S.

<u>Date</u>	<u>Households</u> (millions)	<u>Households</u> with <u>Telephones</u> (millions)	<u>Percentage</u> with <u>Telephones</u>	<u>Households</u> without <u>Telephones</u> (millions)	<u>Percentage</u> without <u>Telephones</u>
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

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-January 1988, 14 states and the District of Columbia had been certified to provide both lifeline service and connection assistance under the Link-Up America Program. Another 14 states had established one, but not both, of the programs. The states, and the date of FCC certification for each program, are indicated in Table 2.

Table 2

Lifeline and Connection Assistance Programs:  
Date of Approval

State	Lifeline	Link-Up
Alabama		10/01/87
Arizona	11/14/86	01/15/88
Arkansas	5/22/86	10/01/87
Colorado	7/25/86	11/13/87
Connecticut		11/13/87
Distict of Columbia	3/18/86	08/19/87
Hawaii	10/27/86	
Idaho	07/24/87	
Kentucky		12/24/87
Maine	08/11/87	08/11/87*
Maryland	5/22/86	10/01/87
Missouri	10/01/87	12/28/87
Montana	08/11/87	08/11/87
Nevada	04/28/87	
New Jersey		11/13/87
New Mexico	04/01/87	01/15/88
New York	11/02/87	08/11/87
North Carolina	5/22/86	10/19/87
North Dakota		12/24/87
Ohio	07/01/87	10/01/87
Oregon	5/22/86	
Rhode Island	09/21/87	09/21/87
South Carolina		12/24/87
Texas	/	10/01/87
Utah	12/31/86	
Vermont	10/01/86	
Virginia	12/24/87	12/24/87
Washington	07/24/87	
West Virginia	7/25/86	09/11/87

\* Approved but not implemented.

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 Consumer Expenditure Survey, which is used to provide weights for consumer price indexes, indicates that the average American household spends about as much on long distance service as on local service. The following sections illustrate the range of information available from BLS programs.

1. Long Term Trends in the Overall Price of Telephone Service:

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 3 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 3  
Annual Rate of Change For Various Price Indexes\*

	1937 to 1987	1977 to 1987
CPI all goods and services	4.2%	6.5%
CPI all services	4.7	8.0
CPI telephone service	2.4	4.5
CPI major categories		
- food & beverages	**	5.9
- housing	**	7.1
- apparel & upkeep	3.3	3.5
- transportation	4.0	6.0
- medical care	5.2	8.6
- entertainment	**	5.4
- other goods & services	**	7.8
CPI public transportation	5.3	9.2
CPI piped gas	4.1	8.2
CPI electricity	2.6	6.9
CPI sewer & water maintenance	**	7.8

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

\*\* Series not established until after 1937.

2. Recent Changes in the Overall Price of Telephone Service:

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 in 1985 and again in 1986. The cost of telephone service fell slightly in 1987. In Table 4, the annual rate of change is shown for the overall CPI and the CPI for telephone services for each of the last ten years.

Table 4  
Annual Rate of Change in Price Indexes \*

	CPI: All goods & Services	CPI: Telephone Services
1978	9.0%	0.8%
1979	13.3	0.8
1980	12.4	4.5
1981	8.9	11.8
1982	3.9	7.3
1983	3.8	3.6
1984	4.0	9.2
1985	3.8	4.7
1986	1.1	2.7
1987	4.4	-1.3

\* Measured from December to December.

### 3. Price Indexes for Local Service

The Bureau of Labor Statistics publishes a number of price indexes related to local telephone service. The CPI index of local telephone charges is based on a broadly defined "market basket" that includes monthly service charges, message unit charges, 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 are presented in Table 5.

Table 5  
Annual Rate of Change in Price Indexes  
For Local Telephone Service \*

	CPI: All Local Charges	PPI: Monthly Service Charges For Residential Service
1978	1.5%	3.1%
1979	1.7	1.6
1980	7.1	7.1
1981	12.6	15.6
1982	10.8	9.0
1983	3.2	0.2
1984	17.1	10.4
1985	8.9	12.4
1986	7.1	8.9
1987	3.3	2.6

\* Measured from December to December.



4. Price Indexes for Long Distance Service:

CPI data is available for intrastate toll and interstate toll services since December 1977. Table 6 presents the annual changes in these series for recent years. 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. The 12.4% drop in interstate rates in 1987 does not include the rate decline occurring on January 1, 1988.

Table 6  
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	-0.8	0.2
1980	3.5	6.1
1981	14.6	4.1
1982	2.6	7.4
1983	1.4	3.7
1984	-4.3	0.5
1985	-3.8	0.3
1986	-9.5	0.4
1987	-12.4	-3.0

\* Measured from December to December.

5. Very Recent Trends and the Near Term Outlook:

Telephone prices have historically lagged behind inflation in the rest of the economy and, to a lesser extent, behind changes in interest rates. With both inflation and interest rates having declined, future changes in telephone prices should be more moderate than during the early 1980's. The CPI index for all telephone services decreased slightly in 1987 -- the first such decline since 1967. With no large rate cases pending before state public utility commissions, changes in local rates during the next year should be moderate. Given the continuing decline in long distance prices, it seems likely that the overall cost of telephone service for residential customers may decline again during the coming year.

INFORMATION ON RATE LEVELS:

The price indexes published by the Bureau of Labor Statistics indicate percentage changes in the price of telephone services. The BLS does not publish the actual level of rates.

Local rates are regulated by state public utility commissions and vary so much from area to area that it is hard to characterize any rate as "typical". In most states, the Bell Operating Companies and larger independents charge higher rates in metropolitan areas than in rural areas -- a pricing practice that dates back to the turn of the century and is traditionally justified in the belief that the value of the service provided is higher for subscribers with larger local calling areas. California differs from most states in that rates are averaged throughout the state. There, the basic local rate is \$8.25 for areas served by Pacific Bell and \$9.75 for areas served by General of California.

Table 7 presents average local residential rates. It is based on a survey using the same sampling areas and weights used by the BLS in constructing the Consumer Price Index. In October 1987, the national average for flat rate residential service was \$16.41 monthly, including taxes and subscriber line charges. Lower priced service alternatives are typically available, at a total monthly cost of less than \$10.00. These averages do not reflect the lower "lifeline" prices available to low income subscribers in many areas.

Table 7  
Average Monthly Residential Rates \*

	October 1986	April 1987	October 1987
Unlimited Local Calling	\$12.55	\$12.51	\$12.19
Subscriber Line Charges	2.07	2.08	2.69
Taxes	<u>1.52</u>	<u>1.50</u>	<u>1.53</u>
Total	16.13	16.09	16.41
Lowest Generally			
Available Monthly Rate	\$ 6.00	\$ 6.08	\$ 6.11
Subscriber Line Charges	2.07	2.08	2.69
Taxes	<u>.80</u>	<u>.81</u>	<u>.92</u>
Total	8.87	8.97	9.72
Minimum Connection Charge	\$45.63	\$45.12	\$43.59
Taxes	<u>n.a</u>	<u>2.50</u>	<u>2.66</u>
Total	n.a	47.61	46.25

\* Monthly Rates and connection charges do not include lifeline rates.

In Table 8, the prices of several long distance calls are shown based on AT&T's tariffed rates during January 1984 and January 1988. During this period, AT&T's per minute charges for interstate calls have been reduced about 34% 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	January 1988	Percentage change	January 1984	January 1988	Percentage change
New York City*	Day	\$2.14	\$1.25	-42%	\$4.09	\$2.45	-40%
	Evening	1.28	.81	-37	2.45	1.59	-35
	Night	.85	.62	-27	1.63	1.22	-25
Atlanta & Chicago**	Day	2.34	1.39	-41	4.49	2.74	-39
	Evening	1.40	.90	-36	2.69	1.78	-34
	Night	.93	.69	-26	1.79	1.37	-23
Los Angeles***	Day	2.70	1.48	-45	5.15	2.88	-44
	Evening	1.62	.96	-41	3.09	1.87	-39
	Night	1.08	.74	-31	2.06	1.44	-30

\* 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.

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, however, the level of activity in state cases diminished substantially. During 1987, the dollar amount of rate reductions and refunds ordered by state commissions exceeded the dollar amount of rate increases authorized and, at the end of 1987, total rate requests pending had declined to about \$125 million. Since it typically takes more than a year for a rate case to be completed, the low level of pending cases should indicate a correspondingly low level of state and local increases during at least the next year.

TABLE 9

State Telephone Rate Cases  
(Millions of Dollars)

	<u>Revenue</u> <u>Increases</u> <u>Requested</u> <u>During Quarter</u>	<u>Revenue</u> <u>Changes</u> <u>Ordered</u> <u>During Quarter</u>	<u>Requests</u> <u>Pending</u> <u>at End</u> <u>of Quarter</u>
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	<u>1,059.4</u>	<u>361.2</u>	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	<u>369.9</u>	<u>307.3</u>	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	<u>8.7</u>	<u>.8</u>	322.6
Total	643.7	290.0	
1987 First quarter	7.0	-41.0	67.1
Second quarter	19.4	-48.5	47.7
Third quarter	62.0	-91.0	94.0
Fourth quarter	<u>57.9</u>	<u>-279.9</u>	124.7
Total	146.3	-460.4	

EQUAL ACCESS:

The Bell Operating Companies serve about 80% of the nation's telephone lines. Under the Modification of Final Judgment (MFJ) that settled the AT&T antitrust case, the Bell Operating Companies were obligated to begin converting offices to equal access during 1984, to convert one-third of their lines by September 1985, and to make equal access generally available by September 1986. By the end of 1986, the Bell Operating Companies had converted three-quarters 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 are also converting offices to equal access, although on a somewhat different time schedule. By the end of 1987, over 80% of the nation's 123 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
December 31, 1984	3.8%	1.5%	3.4%
December 31, 1985	50.2	4.9	42.9
December 31, 1986	74.4	38.2	68.5
December 31, 1987	84.4	64.3	81.1
December 31, 1988	89.6	74.0	87.0

\* Data from Tariff Review Plans filed November 12, 1987.

LONG DISTANCE CARRIERS:

In 1983, the Federal Communications Commission decided to "forbear" from regulating "non-dominant" long distance carriers. Among carriers providing interstate service, only AT&T remains subject to comprehensive economic regulation. Because the FCC has exempted other carriers from the burdens of regulation, the Commission collects no data from those 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 operating 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. Nevertheless, 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



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 200 different long distance carriers 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

\* Data not available

\*\* Differs slightly from previously published totals to eliminate duplications resulting from mergers.

Table 13 shows the number of long distance carriers that purchase equal 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 Equal Access  
 From Bell Operating Companies: 1987

STATE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
ALABAMA	13	13	13	13	14	13	13	14	14	14	15
ARIZONA	17	18	18	19	18	18	17	16	16	16	16
ARKANSAS	6	6	6	6	6	6	6	6	7	7	7
CALIFORNIA	18	18	19	19	19	19	19	18	20	19	19
COLORADO	17	17	16	16	16	15	16	17	18	18	20
DELAWARE	4	4	4	4	4	4	4	3	4	4	4
DISTRICT OF COLUMBIA	11	12	13	13	13	14	15	15	16	17	19
FLORIDA	18	19	18	21	22	23	22	23	24	23	23
GEORGIA	13	12	14	14	13	16	16	17	17	18	19
IDAHO	8	7	7	8	9	8	8	7	7	7	6
ILLINOIS	16	16	16	17	17	16	17	19	19	20	21
INDIANA	12	12	12	12	12	11	12	12	12	12	14
IOWA	10	10	10	10	10	10	10	10	10	10	10
KANSAS	14	14	14	14	14	14	14	14	14	14	14
KENTUCKY	10	10	10	10	10	10	10	10	9	10	10
LOUISIANA	16	16	16	16	16	17	17	17	17	17	18
MAINE	4	4	4	4	4	4	4	4	6	6	5
MARYLAND	10	9	10	10	10	10	11	11	10	11	11
MASSACHUSETTS	8	8	8	8	8	8	8	8	8	8	8
MICHIGAN	11	11	11	11	11	10	11	11	12	12	12
MINNESOTA	12	12	12	12	14	13	14	14	14	14	13
MISSISSIPPI	6	6	6	6	6	6	6	7	8	8	9
MISSOURI	19	19	19	19	19	19	19	20	20	20	20
MONTANA	4	4	4	5	4	4	4	4	4	4	4

Table 13  
(Continued)

Carriers Purchasing Equal Access  
From Bell Operating Companies: 1987

STATE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV
NEBRASKA	11	11	11	10	10	10	10	10	10	10	10
NEVADA	7	7	7	7	8	8	9	9	9	8	8
NEW HAMPSHIRE	3	3	3	3	3	3	3	3	5	5	5
NEW JERSEY	18	19	19	19	19	19	19	18	19	20	20
NEW MEXICO	5	5	5	5	5	5	5	5	6	6	6
NEW YORK	20	20	21	22	21	21	21	21	21	20	22
NORTH CAROLINA	11	11	11	11	11	9	9	11	11	10	10
NORTH DAKOTA	6	5	5	7	7	7	7	6	6	6	6
OHIO	14	14	14	14	14	13	14	15	15	15	15
OKLAHOMA	11	11	11	11	11	11	12	14	14	14	14
OREGON	17	17	17	18	19	19	19	19	17	17	17
PENNSYLVANIA	15	15	15	16	17	17	19	20	20	21	24
RHODE ISLAND	7	7	7	7	7	7	7	7	7	7	7
SOUTH CAROLINA	7	7	7	7	7	6	7	7	7	7	7
SOUTH DAKOTA	4	4	4	4	4	4	4	4	4	4	4
TENNESSEE	14	14	14	14	16	15	16	16	16	16	16
TEXAS	47	47	48	49	50	51	53	54	54	58	60
UTAH	8	8	8	8	9	10	10	10	9	9	9
VERMONT	3	4	4	4	4	4	4	4	4	5	5
VIRGINIA	7	7	7	7	7	8	8	9	9	9	9
WASHINGTON	17	17	17	15	15	15	15	14	15	15	15
WEST VIRGINIA	5	5	5	5	5	5	5	5	5	4	5
WISCONSIN	24	24	23	24	24	24	25	25	25	25	25
WYOMING	5	5	5	5	5	5	4	4	4	4	4
UNDUPLICATED TOTAL	207	209	211	213	216	213	219	221	224	227	229

THE INTERSTATE MARKET:

Good measures of the total amount of interstate traffic begin 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 40% 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	10.0	44.7
	Third Quarter	35.8	11.1	46.9
	Fourth Quarter	35.9	12.7	48.7
1987:	First Quarter	37.4	14.0	51.4
	Second Quarter	38.6	13.9	52.5
	Third Quarter	39.2	16.6	55.8
Annual Exponential Rate of Growth:		7.4%	41.2%	14.2%

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 has declined from over 80% in late 1984 to about 70% in the third quarter of 1987. At the same time, its share of the premium market has declined from virtually 100% in late 1984 (the first scattered offices began to be converted to equal access in the summer of 1984) to about 75% of the equal access market in late 1987.

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 depends on how the market is defined. The data shown in Table 15 is for the interstate market. A similar index based on the total long distance market would show a lower AT&T market share (because the overall long distance market includes a large amount of intrastate toll traffic handled by local operating companies).

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	88.0	79.6
	Second Quarter	84.7	77.6
	Third Quarter	82.4	76.3
	Fourth Quarter	78.6	73.8
1987:	First Quarter	77.4	72.7
	Second Quarter	78.0	73.5
	Third Quarter	74.2	70.2

\* \* \* \* \*

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:

- Telephone Penetration levels: ..... Alexander Belinfante
- Prices and Rates: ..... Jim Lande
- State Rate Cases: ..... Linda Blake
- Equal Access: ..... Art David
- Long Distance Companies and CIC Codes:..... Katie Rangos
- Access Minutes & AT&T Market Share:..... Chris Frentrup
- Lifeline Assistance Programs:..... Larry Povich