INTERNATIONAL PACIFIC

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October 18, 1990

Mr. Paul Curl
Secretary
Washington Transportation & Utility Commission
1300 South Evergreen Park Drive S.W.
Olympia, WA 98504-8002

Dear Mr. Curl:

Subject: Proposed Rules in UT-900726

The following comments and concerns refer primarily to the Small Business Impact Statement section of the proposed rule making docket UT-900726. Our discussion is outlined in the same order as presented to us in the document dated September 19, 1990. Comments on the proposed rule changes will be provided under separate cover by our legal counsel, Swidler & Berlin of Washington, D.C.

1. The Commission assumed that the total cost associated with this requirement will be $13.00 for the filing of a master contract. This assumption does not take into consideration the provisions outlined in WAC 480-120-141, section 1. "If the AOS company uses a master contract, it shall file the master contract, a current list of customers ... <u>and the locations at which service is provided to that customer</u>."

   The nature of our operator service provider (OSP) business is that our customers are adding, deleting, and moving pay telephones on an ongoing basis. To comply with the proposed rule we would have to provide this information continually. Clearly this creates a time consuming and costly procedural requirement.

   We agree with your assessment that a master contract is the only practical contract to use for compliance under the new rule. However, we currently do not use master contracts and would incur substantial legal and administrative expenses in developing new contracts.

2. This section involves three different considerations: branding, reorigination, and blocking.

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Branding:
We currently identify our company at the beginning of every call. The proposed rule adds the requirement to identify the billing agent at the beginning of the call as well. It is impossible to identify the billing agent until the operator receives the billing information. In addition a "double branding" requirement is being recommended. The only costs the Commission considered are those of operator cost and associated training.

In reality, the true costs associated with this requirement are considerable. First, there is the cost of modifying and maintaining software dealing with automated calls. More important are the network and switching costs incurred by the OSP which are not recoverable as part of the completed or uncompleted call. If this became a requirement and 20 seconds were added to each call handled, the network costs are highly significant.

Reorigination:
The Commissions stated assumption is that it is not possible for a "small" company to satisfy this requirement in an automated fashion, and reorigination is accomplished by handing the call over to a "live" operator. This, in fact, does not solve the problem.

Fundamentally, this task can be accomplished in one of three different ways. It should be pointed out that we currently support all three of these methods, at great expense, something which is not true of the Local Exchange Carriers (LEC). The three methods follow:

A. Reorigination is accomplished in an automated manner, without requiring the consumer to "redial," via a redirect tone. Basically, the payphone is programmed to listen for the occurrence of a specified tone. When requested, the OSPs system will produce this tone, which causes the payphone to terminate the call in process to the OSP and to dial "DDD" on the Public Access Line (PAL). When the call is routed over the PAL line, it will be sent to the Presubscribed Interexchange Carrier (PIC) specified in the LEC facilities.

   The vast majority of payphones allow for monitoring a single tone, and as a consequence can only facilitate routing the call to a single carrier, which may or may not be the consumer's carrier of choice.

B. The OSP, in conjunction with the payphone vendor, can provide verbal assistance in directing the consumer to utilize a programmed "speed dial" number to simplify the process of the consumer directly dialing a carrier access code. Most payphones can provide limited "speed dial" registers, consequently, not all consumer requests can be handled in this manner.

The degree of difficulty in obtaining a master directory of interexchange carriers, their access numbers, as well as programming the payphones when additions or changes occur would be cost inhibitive. In addition, the OSP must provide an on-line, property specific listing of preprogrammed carriers.

Many payphone vendors prefer this option over direct "10XXX" access because their payphones can not adequately protect them from fraudulent calls being billed to their PAL line when "10XXX" direct dialing in enabled. Typically, a vendor may program two or three major carriers into "speed dial" registers.

C. The OSPs live operator can provide verbal instructions to the consumer with respect to how to directly dial a carrier access code. Typically this access would be in the form of a "10XXX" or "1-800" number provided by the consumer's carriers of choice.

It is important to note that the above do not work from payphones in non equal access areas or some phones standing behind a LEC which doesn't support reorigination. Imposing this rule on OSP and payphone vendors will not solve the reorigination problem in numerous instances. The costs of providing reorigination to all carriers are incalculable since the universe of potential carriers is constantly changing. If reorigination to all carrier is required no payphone owner, including LECs, or OSP will be able to comply.

<u>Blocking</u>:
The proposed rule would prohibit blocking of access to other carriers and "1-800" numbers. As mentioned above, some payphones do not provide adequate protection against fraudulent billing when "10XXX" access is allowed. Since we currently do not block there would be no expense to

International Pacific under this rule.

The above discussion of reorigination and blocking should clarify the functional alternatives. From a purely OSP viewpoint, prohibiting the blocking of access to other carriers and "1-800" numbers is a reasonable approach to satisfying the consumer's needs, in most instances.

3. The assumption here is that there is only a one-time cost associated with posting of additional information at each instrument. If it is required to include billing agent information on each notice, then every time an OSP adds or changes a billing agent, all notices would have to be reprinted and distributed. Changing billing agents is a common occurrence in this industry to capitalize on the best rates in order to remain competitive. International Pacific currently uses six different billing agents, any one of which is subject to change in this competitive market.

4. The provision to provide both the service providers and the billing agents name on the consumer's bill will require any billing agents, besides the local LEC, doing business in Washington to modify their existing systems and programs. Although we have no way of knowing the expenses associated with these modifications, there is little doubt that the billing agents will pass this expense on to the service provider. We can assume this expense will at least equal that of the LEC, or 10 cents per message as you indicated in your analysis.

   We would agree with the Commission that the LECs will pass their expenses on to the service providers. Based on your 10 cents per message estimate and on our current message volume in Washington State of 816,000 per year, our company incurs a new expense of $81,600 per year from new LEC charges and an additional $81,600 from billing agents.

5. The proposed rules establish a rate cap at U.S. West, other LEC, or AT&T tariffed rates and limits surcharges above these rate to $.25. There is a fundamental flaw with this approach. This approach assumes an OSP's cost are equal to those of the LECs and AT&T. In fact, OSP cost far exceed our larger competitors primarily as a result of the excessive charges the LECs are allowed to pass on to us under the current regulatory environment.

These costs include billing and collection charges that are over $.20 per message greater for OSP than the LEC, validation charges at $.03 per message greater, and network cost at over $.10 per minute higher. Given these higher costs if we are restricted to the proposed rates, we can not operate profitably in Washington.

Surcharges are added to the call cost to compensate the OSP and their subscribers for these higher cost of doing business. Cost vary greatly for payphone owners depending on equipment used, locations serviced, available access, local fraud and bad debt, to name a few items. Flexibility must exist to allow the OSP and subscriber the opportunity to set rates which provide a reasonable return given our cost.

If the proposed rate caps are adopted we will experience a 30% reduction in operator assist revenues and a 50% reduction in per minute charges. This translates to a $39.53 reduction in revenues for every $100.00 in current sales. Put another way, we would incur a 39.5% reduction in revenue with no corresponding reduction in cost.

In addition to the above cost, there are additional costs we would incur if these rules are adopted. The rules place new enforcement requirement squarely on the shoulders of the OSP and introduces additional administrative burden on our organization. The over five man weeks of programming these proposed rules would require causes International Pacific substantial lost opportunities given the current projects underway within our organization. Additionally, no attempt has been made by us or the Commission to quantify the cost of providing an operator within ten seconds from when a customer dials "0" in 90% of the attempts. This cost is incalculable since current technology does not exist anywhere within the industry to provide this level of service.

The attached Summary of Cost Increases/Revenue Reductions (Appendix A) quantifies a majority of the cost of the proposed rules to International Pacific. A review of the summary makes it quite apparent that we would be forced to discontinue our operations in the State of Washington should these rules be adopted. These rules force the only Washington based OSP to discontinue operating in it's home state.

If International Pacific withdraws from Washington we will not be the only losers, the state and local community also lose. International Pacific collects and remits over $225,000 per year in state and local sales taxes. We also pay over $13,000 in business and occupation taxes. Most importantly, we would be required to terminate approximately twenty full time employees with an annual payroll of $240,000. This will have a very negative impact on our community, both financially and mentally. Given an economic multiplier of three, a layoff of twenty employees will reduce local spending by $720,000, not a small amount.

Given all of the above factors we strongly urge you to reconsider your proposals. We would be happy to discuss these and related matters with you at any time and again invite the Commission and the staff to visit our facilities so that a better understanding of our business exists in Olympia.

Cordially,

James D Ray

James D. Ray
President

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APPENDIX A
Summary of Cost Increases/Revenue Reductions

The economic impact analysis outlined below is based upon International Pacific's current business volumes in the State of Washington. Current monthly revenues are approximately $250,000 on 113,000 attempts and 68,000 completed calls.

1.	Contracts and Reporting:	
	Develop master contracts	$6,000.00
	Initial report program changes	2,000.00
	Monthly report processing	100.00
	Monthly reporting	65.00
2.	Branding:	
	Double Brand AOS-	
	Initial software and message development	$2,500.00
	Monthly software maintenance	100.00
	Brand Billing Agent-	
	Initial software and message development	7,250.00
	Monthly software and message maintenance	350.00
	Training and Network-	
	Initial operator training	2,000.00
	Monthly operator training	200.00
	Monthly network cost	8,286.00
	Reorigination:	
	Initial software changes supporting new carriers	$2,000.00
	Monthly network cost	1,175.00
	Monthly ACP/ operator cost	2,750.00
	Monthly system maintenance	1,000.00
3.	Posting at Instruments:	
	Initial printing cost	$2,000.00
	Monthly printing cost (assumes quarterly change)	666.00
4.	Include AOS and Billing Agent Name on Customer Bill:	
	Initial software modifications	$4,000.00
	Monthly LEC billing cost increase	6,800.00
	Monthly billing agent billing cost increase	6,800.00
5.	Rate/Tariff Caps:	
	Cost of refilling tariffs	$ 3,000.00
	Cost of reprogramming for new tariffs	5,000.00
	Monthly revenue loss from reduced operator surcharges	32,640.00
	Monthly revenue loss from tariff caps	46,416.00

6. <u>Other Cost</u>:

Monthly cost of enforcing new rules	$ 750.00
Monthly administrative cost of new rules	1,000.00
One time cost of interrupting current projects to comply with new regulations	50,000.00

<u>Grand Totals</u>:

	Total	Per $100 Sales
Total One Time Expense	$ 85,750.00	$ 2.86
Monthly Expenses/Revenue Loss	109,098.00	43.64
First Year Total Cost	1,394,926.00	46.50
Future Years Annual Cost	1,309,176.00	43.64