

and the RBOC Payphone Coalition (BellSouth Public Communications, Inc., SBC Communications, Inc., and the Verizon telephone companies). The Commission asks whether the \$0.24 rate still ensures that all payphone service providers (PSPs) are fairly compensated for each and every completed call as mandated by 47 U.S.C. 276, or whether a change in the default rate is mandated.

2. According to cost studies submitted by APCC and the RBOC Payphone Coalition, per-payphone costs have not changed dramatically since 1998, but falling call volumes at payphones have caused a major increase in per-call costs at marginal payphones. These two groups of PSPs assert that the current dial-around compensation rate is no longer adequate to ensure widespread deployment of payphones because \$0.24 no longer provides cost recovery for PSPs.

3. The petitions for rulemaking were opposed by six interexchange carriers (IXCs) and the Attorney General of the State of Texas. While they do not assert that IXCs can implement targeted call blocking at this time, some IXCs contend that the Commission should not change the default compensation rate because market forces by themselves are able to determine the appropriate level of payphone deployment. These IXCs will be afforded an opportunity to demonstrate how PSPs can be effectively compensated in a fully deregulated market.

4. In finding it unnecessary to issue a Notice of Inquiry (NOI), as requested by some IXCs, the Commission decided it is possible to resolve certain methodological and factual issues, to the extent that they are relevant to our ratesetting task, in the course of determining what, if any, modifications the Commission should make to the dial-around compensation rate.

5. The Commission invites comments both on the general issue of whether to prescribe a different payphone compensation rate and on the specific issue of the amount of the rate. The Commission seeks comment on the cost studies presented in the petitions for rulemaking by APCC and the RBOC Payphone Coalition (Coalition). The Commission seeks comment on whether the methodologies reflected in those studies are consistent with the rate methodology the Commission used in *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996*, CC Docket No. 96-128, *Third Report and Order*, 64 FR 13701, March 22, 1999. The Commission also asks whether the cost information

presented in those studies accurately represents the costs currently incurred by payphone service providers. The Commission further invites commenting parties to submit additional studies that support or refute the information presented in the APCC and Coalition studies.

6. In the NPRM, the Commission tentatively concludes that the methodology the Commission adopted in the *Third Report and Order* is the appropriate methodology to use in reevaluating the default dial-around compensation rate. The decision to use that methodology was affirmed by the United States Court of Appeals for the D.C. Circuit. The Commission seeks comment on this tentative conclusion.

7. The Commission also invites comment on whether the methodology should be modified in any way due to changes in the payphone industry since its adoption. For example, some IXCs argue that, due to the elasticity of the demand for dial-around calling, an increase in the dial-around rate would suppress demand to such an extent as to reduce total revenues, resulting in increased removal of payphones. APCC and the Regional Bell Operating Companies (RBOCs), on the other hand, argue that there is no reason to believe that dial-around calling is highly price-elastic. In the *Third Report and Order*, the Commission considered the issue of demand elasticity in determining the appropriate allocation of overhead between dial-around calls and other calls, but was unable to reach a firm conclusion. Thus, elasticity issues bear on both the allocation of overhead and the potential for demand suppression. The Commission seeks further comment on the issue of demand elasticity, including the impact of recent increases in the coin calling rate and the cross-elasticity of demand between payphones and wireless telephone service. The Commission invites the submission of any further data that may have become available on these questions. Also, because monthly call volume is a key driver in determining the per-call compensation rate, the Commission seeks comment on the efficacy and merit of the use in the APCC and Coalition cost studies of marginal payphone monthly call volumes of 233.9 and 219, respectively.

8. The Commission seeks comment on whether the particular inputs the Commission adopted in the *Third Report and Order* for various cost categories continue to be appropriate or whether there are changed conditions that warrant modifications of the particular inputs used in 1999. For example, is the depreciation rate used in

the *Third Report and Order* still valid? As another example, WorldCom claims that, given the declining payphone base, estimates of capital costs should be based on the price of second-hand payphones. The Commission invites comment on this and other aspects of the cost studies.

9. The Commission seeks comment on whether additional cost categories are needed beyond those identified in the *Third Report and Order*. Are there other cost categories that should be added or modified beyond those on which the Commission relied in the *Third Report and Order*? Specifically, the APCC and Coalition cost studies add an element for collection costs specific to dial-around compensation, and the Coalition study adds an element for uncollectibles. In the *Third Report and Order*, the Commission declined to include these costs in setting the dial-around rate, finding that the record in that docketed proceeding contained insufficient information to determine the extent to which administration costs vary when the number of coinless calls increases relative to coin calls. AT&T and others argue that the *Third Report and Order* methodology precludes the inclusion of an element for bad debt. The Commission invites comment on whether there is now an adequate record to justify such an element, and the appropriate amount of such an element.

10. The Commission seeks comment on whether and how the Commission should consider the revenues and costs associated with the provision of additional services and activities in conjunction with payphones, such as Internet access or rental of advertising space. Are these revenues and costs relevant to the Commission's marginal payphone analysis, and, if so, how? While APCC argues that such contribution is minimal, is there evidence regarding the extent of the net contribution to payphone cost recovery resulting from these activities? Is there any net contribution? If so, the Commission invites parties to supply such evidence with respect to payphones generally and to marginal payphones in particular.

11. Sprint urges the Commission to reconsider adopting a "caller-pays" compensation scheme, in which the caller would deposit coins or other forms of advance payment before making a dial-around call. In the *Third Report and Order*, the Commission noted that some economists would argue that a caller-pays methodology forms the basis for the purest market-based approach. The Commission rejected this approach based on