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CABINET AFFAIRS STAFFING MEMORANDUM

Date: 10/04/83 Number: CA 168794 Due By: _____
 Subject: Cabinet Council on Commerce and Trade - October 4, 1983
3:30 - 4:15 p.m. in the Cabinet Room

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input type="checkbox"/>	CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<u>Baker</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Harper	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input checked="" type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	Herbolsheimer	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Energy	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input checked="" type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input checked="" type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input checked="" type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
UA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:
 The Cabinet Council on Commerce and Trade will meet with the President on Tuesday, October 4, 1983 at 3:30 p.m. in the Cabinet Room. The attached paper was revised after the CCCT meeting of October 3. The agenda for the October 4 meeting is:
 Telephone Rate Legislation

RETURN TO:

<input type="checkbox"/> Craig L. Fuller Assistant to the President for Cabinet Affairs (456)2823	<input type="checkbox"/> Katherine Anderson <input type="checkbox"/> Tom Gibson	<input type="checkbox"/> Don Clarey <input checked="" type="checkbox"/> Larry Herbolsheimer Associate Director Office of Cabinet Affairs (456)2800
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THE SECRETARY OF COMMERCE
Washington, D.C. 20230

October 3, 1983

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Options Paper on Telephone Rate Legislation

FROM: *MB* Malcolm Baldrige, Chairman Pro Tem
Cabinet Council on Commerce and Trade

Issue

At issue is what position the Reagan Administration should take on legislation concerning telephone rates. The Cabinet Council on Commerce and Trade has met and discussed this matter. We believe there are three options available to you, as set forth below.

Summary of Background

The Federal Communications Commission (FCC) in December, 1982, issued its Access Charges decision. This decision, now on appeal, together with the large number of local rate increases that have been filed at the state level, has caused key congressmen to propose legislation. The Senate Commerce Committee and the House Telecommunications Subcommittee now have reported out bills aimed at rolling back elements of the FCC's decision.

The FCC's decision alters the traditional cost-allocation and cost-recovery systems used by the telephone industry. The phone industry has long used a ratemaking system that resulted in substantial cross-subsidies. The largest such subsidy flows from interstate toll service to intrastate, local service. The FCC determined that traditional cross-subsidies should be reduced in order to facilitate more cost-based pricing. The FCC decision calls for costs of about \$11 billion to be shifted to end-users. These "nontraffic sensitive" (NTS) costs are incurred regardless of the number of calls made and whether the calls are local or long-distance.

At present, these costs are placed on long-distance carriers and recovered from toll callers. The FCC decision imposes a \$2 per month "access charge" on all residential customers, and a \$6 per month per line charge on all business customers in 1984. Over the next five years of the FCC's transition period, these end-user charges would be increased. Ultimately, all nontraffic sensitive costs would be recovered directly from end-users. During the transition, some of the needed revenues would be recovered from the long-distance carriers (AT&T, MCI, and GTE-Sprint).

The FCC's Access Charges ruling generally promotes fuller and fairer competition in the long-distance services market. It also seeks to ensure that major toll users (chiefly large corporations) will not

"bypass" local and other telephone facilities that are overpriced as a consequence of traditional cross-subsidy practices. The decision is generally consistent with procompetitive, pro-efficiency arguments that have been advanced for many years.

The end-user access charges will be in addition to any increases granted by the state public utility commissions. There is concern these increases may have adverse political repercussions. Some contend the effect will be to reduce the universality of basic telephone service. Others maintain that the impact of these rate changes will be greatest in rural areas.

The AT&T break-up is not directly responsible for either the pending state rate increase requests or the FCC's Access Charges ruling, though all of these events are generally connected in the extensive media coverage that has resulted. These pricing changes would in all likelihood have occurred even absent the AT&T antitrust settlement.

Pending Legislation

These are the principal features of the Packwood-Lautenberg bill that has been reported out by the Senate Commerce Committee:

-- Two-year moratorium. There would be a two-year moratorium on any end-user charges for residential and single-line business subscribers.

-- Subsidy funds. A \$200 million "Lifeline Service" and a \$200 million "High Cost" fund would be established. Money paid by the long-distance carriers would pay for part of the cost of offering service for low-income and other persons. Small, rural telephone companies would be eligible for funds to help prevent rates from rising unduly.

-- Bypass. Private communications systems used as a substitute for regular voice telephone service would be assessed to help support the two subsidy funds.

These are the principal features of the Wirth-Markey bill that is now before the House Energy and Commerce Committee:

-- Permanent end-user ban. No end-user charges could ever be placed on residential or single-line business subscribers.

-- Lifeline subsidy. States would be encouraged to require phone companies to offer lifeline service. A Federally-administered fund would pick up half of the difference between the lifeline and the regular phone rate.

-- Depreciation. The FCC's decisions allowing accelerated depreciation would be reversed. State regulatory agencies would be given the authority to defer recovery of current economic costs.

-- Bypass. There would be a charge placed on all communications systems that involve actual or potential "bypass."

-- Competitive carrier charges. The prices that competitive carriers such as MCI and GTE-Sprint pay for local exchange access would be frozen for at least two years.

-- Public participation. The FCC would be directed to fund consumer advocates. Citizens Utilities Boards (CUBs) would be sanctioned at the state level.

Discussion of the Bills

The Packwood-Lautenberg bill could increase cross-subsidies initially. The subsidy plan for high-cost phone service, however, does not differ substantially from that proposed in the FCC's order. There is a substantial likelihood any two-year moratorium on end-user charges would simply be extended indefinitely. The bypass assessment, while modest, has the potential to retard new technology.

The Wirth-Markey bill would reimpose many of the hidden cross-subsidies fifteen years of Federal policy have sought to reduce. It would freeze the rates competitive carriers now pay for access and, in effect, require AT&T and local phone companies to subsidize their profitability. The depreciation provisions have the potential to deny phone companies a means to build new facilities and compete. The bypass provisions are more sweeping than the Senate bill, and the subsidies would be far greater and less "target-efficient" as well. The House bill is replete with features that conflict with Administration policies, such as the provisions on taxpayer-funded consumer advocates.

Options

These are the options now available to the Administration:

1. Oppose any telephone legislation. Both the Senate and the House bill have the potential to inflict significant economic damage on the telecommunications infrastructure needed to support the "information economy" many forecast. The FCC's Access Charges decision contains provisions to ease any burdens placed on lower-income and rural subscribers. State regulatory agencies in California, New York, and the District of Columbia are now considering lifeline telephone rates subsidized by intrastate users. There is thus concrete evidence that the states have acted to ameliorate any undue rate burdens that might otherwise be imposed on the truly needy.

Pros

-- FCC's decision is basically sound and right on the merits.

-- Administration opposition could be a catalyst for opponents to any bill and could produce support sufficient to block Congressional action given the time remaining this session.

Cons

-- Just announcing the Reagan Administration's opposition to any bill would provide the Democrats with a campaign "fairness and equity" issue.

-- Actively working to block legislation could be seen as lobbying for an AT&T rate increase, for decreased rates for business, and increased rates for average subscribers.

2. Support a "damage control" bill.

(a) Given the momentum in Congress, the Administration may need to support certain legislative principles to minimize adverse economic and competitive effects. Flat opposition to bills cast as "pro-consumer" by extreme liberal congressmen might also feed allegations the Administration is insufficiently sensitive to the needs of "ordinary Americans."

Pros

-- Would show the Administration is willing to work with Congress and defuse possible political issue.

-- While the Wirth-Markey bill is seriously flawed and unacceptable, the Senate bill might be modified to yield a measure satisfactory to all.

Cons

-- Working with Congress would make subsequent Presidential disapproval hard and thus undercut "veto strength."

-- Delaying the necessary transition to cost-based pricing may increase ultimate costs and engender more uncertainty that could damage the industry's standing with the financial community.

(b) If we determine to support a "damage control" bill, we should determine what position to take on the four main issues.

(i) Access Charges. The key issue here is whether to press for a brief moratorium, or to urge simply a cap on the FCC's first-year access fee (i.e., \$2/\$6 per month for the duration).

*perhaps:
phase-in
access charge
as long-distance
rates drop (making
large contingent
on such a drop
actually occurring)*

(A) Moratorium

Pros

-- Would give a "breathing space." If local rate hikes are not approved and divestiture problems do not materialize, the access charge would attract little attention when implemented.

Cons

-- A moratorium might just be extended by Congress indefinitely.

(B) "Cap"

Pros

-- Would clearly establish the principle of cost-based pricing but minimize consumer impact.

Cons

-- Would not neutralize charge the Administration supports higher phone rates, nor satisfy those concerned about the additional charges during an election year.

(ii) Lifeline Service. Although the FCC order does not explicitly direct phone companies to offer a low-cost option to the aged, poor, and disadvantaged, several states have taken the lead in so doing. Such an approach tends to neutralize traditional arguments that competition and achieving social goals are incompatible.

Pros

-- Would indicate Administration sensitivity to problems some may face coping with higher phone rates, and track actions major states already have taken, and is similar to the FCC waiver for access charges.

Cons

-- Would establish something of a new Federal entitlements program, although off-budget.

(iii) Subsidies to High-Cost Local Telephone Systems. The FCC's order provides for a \$400 million fund to ease any problems encountered by high-cost and rural phone companies. The Senate bill refines the FCC's approach, though the House bill creates a potential bonanza for some companies.

Pros

-- Legislation like the Senate bill would minimize adverse consequences especially for rural phone companies and their subscribers. This type of subsidy is due to continue under the FCC decision.

Cons

-- Legislative subsidies might reduce any incentive on the part of rural and similar high-cost phone companies to economize, and be difficult to end as we move toward cost-based pricing.

(iv) Bypass. The FCC seeks to keep large users on the phone network through pricing changes. The legislation seeks to either penalize such bypass, or to make private systems contribute to lifeline and high-cost subsidies (as would AT&T, MCI, and other carriers) on the ground it assures a "level playing field."

Pros

-- A bypass assessment would minimize any economic distortions caused by charges placed on the carriers.

Cons

-- Such a "tax" might discourage innovation and lessen the service options available to big users.

3. Take no position at this time. Telephone pricing is complex and controversial. Major users and much of the telephone industry strongly oppose both the House and Senate bills. These bills may thus collapse in the face of private sector opposition. The Administration to date has not been drawn into the process, and may be able to avoid involvement in the future.

Pros

-- Would not be blamed for the success or failure of the FCC's program.

-- House Energy and Commerce Committee has yet to act, and at that time, we may have a better feel for the legislation's prospects.

Cons

-- "Worst case" legislation could pass and present the Administration with the need to veto a bill that would "keep phone rates down."

-- Any impact we might have could be lost if we do not act soon.

Dispelling Hang-Ups Over New Phone Rates

By MARK S. FOWLER

The technological revolution in telecommunications has spawned a revolution in regulation by federal and state government. The one constant amid this flurry of activity—maintain universal service among residential telephone users, that is, service for all at reasonable prices. Some believe that other goals, such as spurring technical innovation, lowering long-distance costs or keeping America pre-eminent in the communications/information industries, will undermine universal service. I do not.

The Federal Communications Commission recently addressed these goals when it decided to reprice the way users pay for the telephone wire that runs from each home and business to the telephone company office. I am concerned that recent committee actions indicate that the Senate and House might vote to postpone or repeal most of the FCC's "access-charge" decisions. This would be unfortunate, for the considered benefits of our action may be irretrievably lost. The issue is complex but four important points should be made.

A Real Threat

First, the decision more fairly allocates telephone costs to those users who cause them. Second, it creates safety mechanisms to ensure that telephone service will remain affordable to all. Third, it fosters more efficient use of America's interstate telecommunications network. Fourth, it will stem the flight of large users from that network, a trend that poses the real threat to universal service and that is already occurring under the existing pricing scheme.

The decision is based on one major principle: The price of telephone service should follow the cost of providing it. In particular, a phone bill should cover the cost of the wire that connects the telephone to the local switching office. The cost of the local loop is the same every day whether a person makes (or receives) one or a thousand calls. These costs do not change if calls are local or toll.

Long-distance users currently pay part of the cost of the local loop each time they make a toll call—about 15 cents a minute, hidden in the overall charge.

This is unfair and inefficient because all telephone customers impose loop costs on the network, no matter how many toll or local calls they make. It is unfair because many long-distance users overpay to subsidize others who make no long-distance calls but are perfectly able to pay the true cost of their local loop. And, overcharging large, long-distance users leads to other distortions that come about when prices do not reflect costs. Recognizing that their bills are artificially high, large customers suppress their use of toll services, obtain bulk discounts or construct their own sys-

tems to bypass the network and avoid the extra charges.

Next January, a portion of these fixed costs will be shifted directly to the residential and business users who, in fact, cause them. Residential users will be charged \$2 a month. That figure will rise to \$3 in 1985 and to \$4 in 1986. Further increases will be phased in only if our monitoring efforts assure us universal service is not being jeopardized.

Critics contend these charges threaten universal service. I disagree. Our decision recognizes that the poorest customers may find these charges unaffordable. To that end, state regulators or phone companies can waive them through "lifeline" service. For example, the New York State Public Utilities Commission has authorized such service at \$5 a month. Further, our order creates a universal service fund to offer subsidies, particularly in rural areas where the costs of serving low-density subscribers are high. These provisions should protect rates to rural customers from becoming unreasonable.

The benefits of cost-based pricing will be nothing short of dramatic. As access charges go into effect over the next six years, long-distance rates will come down 35% to 40%, and more people will make more long-distance calls. We have already seen this when subscribers choose alternative networks offering lower rates. All long-distance users—including low-income customers, who often rely on long-distance service instead of travel—will find per-

minute costs declining. Small businesses unable to field national sales forces will use the phone more to "telemarket." Whether it is making the once-a-week call home or getting a price quote from a far-away supplier, long-distance calls will become more commonplace.

There are important long-term benefits, too. For example, with cheaper long-distance prices, we can tie together computers throughout the country. Everything from accounts receivable to inventory flow can be improved by better matching of demand and supply. This can lead to quantum jumps in productivity in our basic industries and our international trade capability.

And, excess computer resources can be accessed over long-distance lines. Today's large computers have unused capacity that can be tapped by distant, smaller companies. By reducing the cost of getting to that large computer, we make available to small business computing power previously unaffordable.

The full effect of lower toll rates on creating new businesses and new jobs will come when the millions of entrepreneurs in our \$3 trillion economy begin to adjust to these price reductions.

Our decision also discourages loss of revenue that supports the present long-distance system. Because large, long-distance users pay their share of access costs many times over, they have an enormous incentive to turn to cheaper communications alternatives. We cannot afford to have these

04 OCT 1983 WST

large telephone users jump ship. If they do, the costs still will be there, and residential and other small users will be socked even harder. Our decision makes it less appetizing for big users to leave the network; that means they will continue to pay a large share of its cost.

The alternative of taxing bypass facilities, proposed by some in Congress, is neither feasible nor desirable. Defining and finding bypassers is no easy task. And bypass taxes could kill efficient new technologies.

For example, the words you are reading were communicated to printing plants by satellite. This service could be provided by the telephone network, albeit at higher costs. Is this newspaper's distribution network uneconomic bypass? No one can really tell under the present system. The most prudent solution is to price services at cost, removing the incentive to turn to bypass except where it is the cheapest alternative.

So, we want to encourage innovation in telephony. But we want to discourage duplication generated only because long-distance prices are distorted. This, then, is the heart of our access-charge decision. It reflects the new telecommunications world, where competition leads to better service and innovation.

We know this philosophy works. Because of competition, mandated by the FCC, you can buy your own phone for as little as \$10, instead of leasing one for \$35 a year. And competition has led to features unavailable even five years ago.

Greater Upheaval?

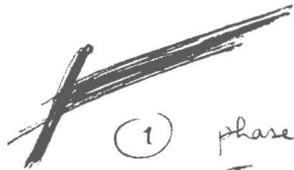
The commission's access-charge decision is part of a wave of regulatory reforms: faster depreciation of telephone plant and equipment, price deregulation of residential and business phones and competition in long-distance services. The result is a fairer, more efficient system. It is a system that rewards innovation, moves prices to reflect costs and allows for subsidies only to those consumers who need them.

Those who would undo the FCC's decision should realize if this happens, our phone system will face greater upheaval down the road. It is unavoidable. And we will have missed the chance to promote the efficiency and innovation promised by the access-charge rule, create new jobs and wealth, and expand our international trade.

Worst of all, we will have forsaken valuable time to provide an orderly transition in phone rates. Perhaps we will lose the incentives in our system that keep rates affordable. In short, we must act now to rescue the system, or we warrant the certain end of universal telephone service in this country.

Mr. Fowler is chairman of the FCC.

① no posit =



- ① phase-in access charge as long distance rates actually go down (make it contingent)
- ② require "lifeline" service (now optional decision for state PUC's); no fed. funding
- ③ maintain "universal service fund" in FCC decision
- ④ designate person/agency to "monitor" situation as it develops post-Jan '84.

HB - trying to get grasp on issue
sugg. wait wk or two before decisi. //

- ① House Bill passes, on RR's desk
- ② Pres vetoes
- ③ Congr overrides; bill takes effect
- ④ rates go up anyway due to divestiture
- ⑤ Pres. says "told you so"

THE WHITE HOUSE
WASHINGTON

July 21, 1983

Per JAB = copy sent
to CLE (JAB also disc'd
w/ Mem) JWE

MEMORANDUM FOR JAMES A. BAKER, III

FROM: JAMES W. CICCONI 

SUBJECT: Telephone Rate Increases

Since you felt it advisable to call Paul Laxalt back this week on the telephone rate increase issue, I would suggest the following for your consideration:

1. It is clear that rates will go up significantly next year.
2. Outside of normal pressures, rates will go up due to the dismantling of the Bell System and due to the FCC's long distance access charge decision, which takes effect in January.
3. It is difficult to gauge whether the Administration will be blamed for increases due to the AT&T break-up; we will probably not know this for certain till next year.
4. It seems certain, though, that the Administration will be blamed for increases resulting from the FCC's action, especially since the charges are precise (\$2 per residence) and directly attributable to "our" FCC. Also, the impact of this increase will be national, not regional, and it will hit all at once in January.
5. Due to the uniform application of the access charge, we are especially vulnerable to accusations that it falls most heavily on the poor and the elderly on fixed incomes.

Recommendations

1. The Cabinet Council on Commerce and Trade should be asked to begin monitoring the telephone rate increase issue. A working group could be formed to concentrate on this, and to make periodic informational reports to the CCCT. This will make it easier to react quickly should the issue heat up.
2. The CCCT should immediately begin examining the specific issue of the FCC-sanctioned access charges. They should

Memorandum for James A. Baker, III

July 21, 1983

Page 2 of 2

assess the overall impact of such charges, and would also consider whether we should urge the FCC to provide exceptions for the poor, the elderly on fixed incomes, and other groups who might be particularly hard hit by the access charge decision. (Charles Brown, the chairman of AT&T, indicated to me that they would have no real problem with such exceptions in principle.)

3. If the issue heats up, we may want to consider a statement of concern by the President regarding the impact of significantly higher phone rates.

At this point in time, I would not go beyond the above recommendations. Rate increases due to the AT&T break-up are not yet a major national issue, though they have the potential to develop into one. Given that situation, our focus should be on preparing to respond quickly should the need arise. The FCC's access charge policy should be dealt with in a slightly different manner, as suggested above, largely because it is more certain to be a major issue.

THE WHITE HOUSE

WASHINGTON

June 29, 1983

MEMORANDUM FOR MICHAEL M. UHLMANN
WENDELL W. GUNN

FROM: ROGER B. PORTER *RBP*

SUBJECT: AT&T Divestiture Case and Telephone Rate
Increases

Reports of requests for major telephone rate increases by various regional systems has prompted much renewed interest in the subject of the AT&T divestiture agreement and its impact on telephone rates. I am told that Southwestern Bell, for example, has recently submitted to the Texas Public Utility Commission an extremely large rate increase for basic telephone service. While the case was begun well before we came into office (in 1974 if I recall correctly), since the settlement was reached during our watch we are likely to be associated with such major rate increases.

I would appreciate the two of you pulling together the following information:

1. What telephone rate increases have regional telephone companies formerly associated with the Bell System requested since the divestiture agreement was announced?
2. What rationale are the companies publicly using to explain or justify these increases? To what extent are they attributing the increases to the divestiture agreement?
3. What projections were made at the time of the divestiture agreement by both the Administration and the Bell System regarding its anticipated impact on telephone rates?
4. What federal jurisdiction exists, if any, in this area beyond federal antitrust laws?

I would appreciate this report by close of business on Monday, July 11, 1983.

cc: Edwin L. Harper
James W. Cicconi ✓

THE WHITE HOUSE

WASHINGTON

July 14, 1983

MEMORANDUM FOR: EDWIN L. HARPER
ROGER B. PORTER

FROM: WENDELL W. GUNN

SUBJECT: Q&A -- Telephone Rate Increases

Q: "What telephone rate increases have regional telephone companies formerly associated with Bell System requested since the divestiture agreement was announced?"

A: Attached is a preliminary tabulation. It is broken down by state and shows all proposed and awarded Bell System telephone company rate increases since the AT&T divestiture agreement on January 8, 1982. This list is reasonably comprehensive and current through May, 1983. It is based solely on published reports. We estimate that \$5 to \$6 billion in local phone rate increases is now pending.

NTIA's research staff in Boulder is currently updating and revising this preliminary tabulation. This effort should be completed early next week. Information concerning rate increases sought by non-AT&T companies will also be included.

Q: "What rationale are the companies publicly using to explain or justify these increases? To what extent are they attributing the increases to the divestiture agreement?"

A: These increases are said to be necessary for number of reasons. First, the carriers maintain, increases are necessary to cover higher operating costs. Although they acknowledge that inflation has eased some of the pressures on

their costs, they generally contend that the rate increases sought are needed to recoup losses incurred as a consequence of earlier "regulatory lag." Second, in 1980-81 the Federal Communications Commission (FCC) permitted the carriers to accelerate their depreciation. This has increased annual revenue requirements for interstate operations. Telephone companies have sought to make corresponding changes at the intrastate and local levels as well. Third, many local telephone companies are seeking increases in their allowable rates of return. The FCC currently permits AT&T to earn 12.75 percent on its interstate enterprise. State rates of return, however, typically are lower. The industry, as in the past, is seeking to equalize these rates of return.

The upcoming AT&T divestiture is the stated cause for only some of the proposed rate increases. In the past, for example in Texas, the state utility commission followed a policy apportioning most of the requested rate increases to intrastate toll. Local service rates were artificially depressed and Southwestern Bell was encouraged to make up the difference on its intrastate toll offerings. Under the divestiture, however, approximately half of the intrastate toll business will be assigned to AT&T. Consequently, Southwestern Bell is now seeking a local rate increase in Texas to cover the prospective revenue losses involved.

By number, a majority of the rate increases set forth in the tabulation were filed prior to court approval of the AT&T divestiture plan. Recently, very large proposed rate increases have been filed and the stated reason has been that the divestiture will necessitate major revenue increases. It should be borne in mind in this regard that a large number of additional rate increase proposals are anticipated to be filed later this year. These proposed rate increases, moreover, are independent of the price increases expected to result as a consequence of the FCC's March, 1983 Access Charges order. Under that order, end users will be assessed charges to defray nontraffic sensitive costs associated with interstate toll calling. In essence, a \$2 per month per line charge will be placed on each residential customer commencing in January, 1984. Business users will be assessed \$4 per month per line. These charges for toll network access will be increased over the next five years.

Q: "What projections were made at the time of the divestiture agreement by both the Administration and the Bell System regarding its anticipated impact on telephone rates?"

A: The long report on the AT&T antitrust litigation submitted to the Cabinet Council on Commerce and Trade by NTIA in 1981 recommended that the case be dismissed. That report concluded there was little evidence radical structural changes along the lines ultimately agreed upon by the Antitrust Division and AT&T were needed to sustain existing equipment and toll services competition (which had increased

notwithstanding AT&T's alleged monopolistic depredations). Local rate issues were not addressed as such, although the matter of risk premiums and their effects on this capital intensive enterprise was raised. In addition, NTIA questioned the desirability of undertaking major changes in structure of AT&T prior to a careful benefit-cost appraisal.

NTIA argued against the proposed settlement of the AT&T case on grounds including that it would result in substantial local telephone rate increases. The settlement having been approved by the Administration, however, NTIA endeavored to defend its features in a number of congressional proceedings. At the request of the Senate Commerce Committee, a detailed evaluation of the rate implications of the settlement was undertaken. This evaluation forecasts telephone price increases aggregating 76 percent on average over the next five post-divestiture years. To the best of our knowledge, at no stage prior to filing the AT&T case was any detailed appraisal of rate increases undertaken by the Justice Department. AT&T witnesses testified against the relief proposals advanced by the Antitrust Division during the trial of the case. These witnesses contended, among other things, that to restructure the Bell System along the lines ultimately reflected in the antitrust settlement would result in substantial local rate increases. We are aware of only one AT&T rate increase study, however, and it was prepared following announcement of the divestiture in January, 1982. This study essentially tracked the rate study NTIA prepared for the Senate Commerce Committee, and forecast slightly lower local rate increases.

Q: "What federal jurisdiction exists, if any, in this area beyond the federal antitrust laws?"

A: The 1934 Communications Act ostensibly reserves to the states regulatory authority over intrastate and local phone rates, as well as local rates in exchanges that span state lines (e.g., Washington, D.C., New York, Kansas City, etc.). In recent years, however, the FCC has successfully preempted state regulatory authorities with respect to both most equipment and some long-distance services offerings.

All the local and intrastate rate increases proposed since the settlement were filed with state regulatory agencies. While the FCC can alter some of the cost and other factors supporting those rate increases, under present law as interpreted by the courts, it has essentially no authority to act on these rate increase proposals.

The authority of the district court administering the AT&T antitrust decree to address these rate increases is unsettled. U.S. District Court Judge Harold Greene in two decisions has sharply criticized the FCC's Access Charges ruling and associated it with the rate increases (somewhat erroneously, we believe). Whether Judge Greene will take steps to deal with the causes ostensibly giving rise to these increases is thus not clear at this time.

LOCAL TELEPHONE RATE INCREASES AND AWARDS (1982-1983)

AT&T OPERATING COMPANIES

June, 1983

State	1982		1983	
	<u>requested</u> (\$millions)	<u>granted</u> (\$millions)	<u>requested</u> (\$millions)	<u>granted</u> (\$millions)
Alabama	—	—	—	111.5
Alaska	—	—	—	—
Arizona	84.4 49.9	60.2	79	
Arkansas	25.2 26.1	18.7	137.9	
California	610.1	—	813.2	
Colorado	—	38.5	38.5	—
Connecticut	0.4 128	89	—	—
Delaware	2	1.86	—	—
			82	

	<u>requested</u>	<u>1982</u> <u>granted</u> (\$millions)	<u>requested</u>	<u>1983</u> <u>granted</u> (\$millions)
Florida	330.4		285.1	
Georgia	75.4		158.5	
Hawaii	—		—	
Ohio	2.3	4.2 7.3	28.9 26.9	5.9
Illinois	170	217.7		
Louisiana	71.5	66.8	96 (12.6%)	
Maryland	44.7	24.2	18.7	
Missouri		46.7 9.3	213.7 (16%)	17.8
Kentucky	66.1		3.4	4.6

tate

requested 1982 granted
(\$millions)

requested 1983 g
(\$million)

Louisiana

Maine

8.5

1.7

Maryland

125.5

Massachusetts

19.1

Michigan

143
451

Minnesota

83.6

59.6

Mississippi

98.2

Missouri

165.9
134.1

110.2

<u>State</u>	<u>1982</u>		<u>1983</u>	
	<u>requested</u>	<u>granted</u>	<u>requested</u>	<u>granted</u>
		(\$millions)		(\$millions)
Montana	27	8.1	20.7	
Nebraska				
Nevada		1.9		
New Hampshire	8.4			
New Jersey	212.9	84.4		50.6 34.8
New Mexico	76.6	(-6.5)	55.6	30
New York	878	99.3		
North Carolina		81.8 27.76		

<u>State</u>	<u>requested</u>	<u>1982</u>	<u>granted</u>	<u>requested</u>	<u>1983</u>	<u>granted</u>
		(\$millions)			(\$millions)	
North Dakota						
Ohio	10.6					
	123.4					
	187.5			179.8		103.6
Oklahoma						
	129.2		16.4			
Oregon						
	36.6		26.3	38.4		
Pacific Islands						
	—		—	—		—
Pennsylvania						
			255.6	378.9		
Porto Rico						
	—		—	—		—
Rhode Island						
	7.6		9.28			
			6.5			

<u>State</u>	<u>requested</u>	<u>1982</u>	<u>granted</u>	<u>requested</u>	<u>1983</u>	<u>granted</u>
		(\$millions)			(\$millions)	
North Carolina	72.2					21
North Dakota	23.4					
Tennessee	44.8 130.5		49.4			
Texas	223.7 471.5			\$1B		221.8
Utah	78.8		22.6			36.6
Vermont	6.5					
Virginia	66.5					
Virgin Islands	—		—	—		—
Washington						

ate

1982

1983

requested

granted

requested

granted

(\$millions)

(\$millions)

st Virginia

consin

oming

99

61.8

26.7

18.0 (2.09%)

2.6

Source: 1981, 1982 Telecommunications Reports.

THE WHITE HOUSE

WASHINGTON

July 29, 1983

MEMORANDUM FOR CRAIG FULLER

FROM: Jim Cicconi 
SUBJECT: Telephone Rate Increases

As you know, the issue of telephone rate increases has begun to receive a good deal of media attention. There are at least two parts to the problem:

1. Increases attributable to the break-up of AT&T (most of these increases will probably not begin to bite until mid-1984); and
2. Increases resulting from the FCC's "access charge" decision (these will begin in January 1984, and will continue for several years thereafter).

If a briefing on this subject is not already in the works, I hope you will consider holding one either for interested WH staff or as part of a Cabinet Council meeting. If it is necessary to treat the two aspects of the overall issue separately, I would suggest that the FCC ruling is perhaps more urgent (Mark Fowler testified on the Hill yesterday on this subject, and it has already drawn considerable press attention). In any event, I would be happy to discuss this further with you.

Thanks.

cc: James A. Baker, III
Richard Darman

THE WHITE HOUSE
WASHINGTON

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 9/14/83 Number: 118857CA Due By: _____

Subject: Telephone Rates

	Action	FYI		Action	FYI
ALL CABINET MEMBERS	<input type="checkbox"/>	<input checked="" type="checkbox"/>	CEA	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Vice President	<input type="checkbox"/>	<input type="checkbox"/>	CEQ	<input type="checkbox"/>	<input type="checkbox"/>
State	<input type="checkbox"/>	<input type="checkbox"/>	OSTP	<input type="checkbox"/>	<input type="checkbox"/>
Treasury	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Defense	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Attorney General	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>	<u>Baker</u>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Agriculture	<input type="checkbox"/>	<input type="checkbox"/>	Deaver	<input type="checkbox"/>	<input type="checkbox"/>
Commerce	<input type="checkbox"/>	<input type="checkbox"/>	Clark	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Labor	<input type="checkbox"/>	<input type="checkbox"/>	Darman (For WH Staffing)	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>	Harper	<input type="checkbox"/>	<input checked="" type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>	Jenkins	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
CIA	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input type="checkbox"/>	<input type="checkbox"/>	_____	<input type="checkbox"/>	<input type="checkbox"/>
GSA	<input type="checkbox"/>	<input type="checkbox"/>	CCCT/Gunn	<input type="checkbox"/>	<input checked="" type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>	CCEA/Porter	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>	CCFA/	<input type="checkbox"/>	<input type="checkbox"/>
UA	<input type="checkbox"/>	<input type="checkbox"/>	CCHR/Carleson	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>	CCLP/Uhlmann	<input type="checkbox"/>	<input type="checkbox"/>
			CCMA/Bledsoe	<input type="checkbox"/>	<input type="checkbox"/>
			CCNRE/	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

Attached for your information is a background paper on telephone rates.

RETURN TO:

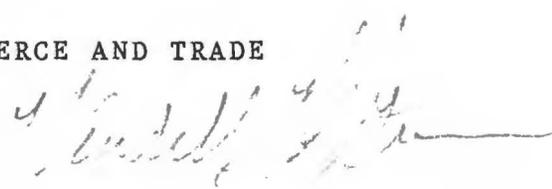
Craig L. Fuller
Assistant to the President
for Cabinet Affairs
(456)2823

Katherine Anderson
 Tom Gibson
 Don Clarey
 Larry Herbolsheimer
Associate Director
Office of Cabinet Affairs
(456)2800

THE WHITE HOUSE
WASHINGTON

September 14, 1983

MEMORANDUM FOR: CABINET COUNCIL ON COMMERCE AND TRADE
FROM: WENDELL W. GUNN
Executive Secretary
SUBJECT: Phone Rates



Enclosed is a brief narrative on the telephone rate situation, together with a tabulation showing the magnitude and incidence of the rate requests.

It is important that we signal that this matter is under study and review. While informal discussions have taken place among Commerce, OMB, Antitrust, and Defense, the Administration has taken no position on the "rate stability bills" now pending. We may have to act fairly quickly later this month in order to ensure that our views are reflected in any legislative measures reported out of Committee.

Pending Telephone Rate Legislation

Introduction

More than a dozen bills have been introduced aimed at stabilizing local telephone rates and reinstating some of the cross-subsidies the AT&T divestiture and related initiatives by the Federal Communications Commission (FCC) have sought to curtail or eliminate. This has politicized the debate concerning both telephone industry deregulation as well as the AT&T restructuring. The House and Senate Commerce Committees held joint hearings on universal phone service and rate issues July 28-29, 1983.

Background Information

The FCC's December, 1982 Access Charges ruling precipitated this legislation. That decision, now on appeal, calls for major changes in the cost-allocation system traditionally used by regulators and telephone companies to apportion costs and revenues between local and long-distance services. At present, costs are generally assigned on the basis of actual plant use, although most costs do not vary with traffic or use. An estimated \$8 to \$12 billion in annual revenue requirements is generated by about \$45 billion in "nontraffic sensitive costs."

The traditional cost-allocation system achieves the following results. First, it overcharges subscribers who are heavy long-distance callers. Such subscribers include a minority of residential subscribers and a small number of large corporations. About 20 percent of business subscribers, for example, make 80 percent of the long-distance calls. They generally pay substantially more than the direct costs of providing them service under traditional cost accounting rules.

Second, the traditional system has the effect of subsidizing residential and smaller business subscribers who make few long-distance calls. Other subscriber groups (including the aged and the elderly) also pay for the nontraffic sensitive costs associated with toll services only when they make long-distance calls.

Third, this traditional means of allocating joint and common nontraffic sensitive costs may give rise to the "bypass situation." New technology affords major users a means of avoiding or bypassing local phone company plant and accessing the intercity toll network directly. AT&T contends that unless the cost burdens now imposed on major users are reduced, these users will shift the bulk of their calls, with the result that the cost burdens for residential users ultimately will substantially increase.

The Access Charges Decision

Under the FCC's Access Charges decision, nontraffic sensitive costs will be assigned to user groups on the basis of "cost causation," not actual use. One result will be to shift many of the costs (and associated annual revenue requirements) from major long-distance callers to residential and small business users. These latter groups will be required to pay a charge for the privilege of accessing the toll network and receiving long-distance calls, whether or not they make any such calls.

The FCC's decision, as recently revised, assigns half the nontraffic sensitive costs to callers directly in the first year. This will be accomplished by including a monthly access charge in subscribers' bills. Under the plan, each residential customer would be required to pay \$2 a month (in addition to usage charges) for interstate long-distance network access. Business customers would be charged \$6 per month per line. These charges are to increase in stages over the next six years until all nontraffic sensitive costs are covered in this fashion. In addition to these interstate access charges, intrastate access charges will be set by state regulatory agencies.

The Access Charges decision also requires complicated changes in the amounts non-Bell long-distance carriers pay for access to local telephone plant. At present, under the "temporary" ENFIA tariffs, competing carriers pay approximately 60 percent as much as AT&T's Long Lines pays for local "loop" access. As a result of the changes ordered by the FCC, the competing carriers will experience substantial cost increases.

AT&T maintains these changes will constitute a "zero sum game," since there will be commensurate reductions in long-distance revenue requirements and thus toll call prices. No price reduction tariffs, however, have yet been filed. The new tariffs required by the Access Charges decision are to be filed with the FCC in October, 1983. The charges are scheduled to go into effect in January, 1983, coincident with the AT&T divestiture.

Impact on Rates

We estimate some \$8 billion in local phone rate increase requests are now pending before State commissions for AT&T companies alone. A detailed tabulation of these requests on a State-by-State basis is attached. These rate requests are attributable to a number of factors. The FCC, first, has directed changes in industry capital recovery, or depreciation practices, which have substantially increased local service revenue requirements. Many local companies, second, have filed "bread-and-butter" rate proposals, seeking increased rates of return (in part because of allegedly greater commercial risks). Provisions of the AT&T antitrust consent decree, third, require

local Bell System companies to relinquish about half their intrastate toll operations (and associated profits) which these carriers maintain necessitates local rate increases.

On average, local phone rates should not increase more than 25 percent. The magnitude of these increases will also vary by state. In some states and rural areas, however, increases of 50 to 100 percent are possible.

Legislative Proposals

Congress obviously is concerned about a possible surge in local telephone rates in an election year. The AT&T settlement and the common carrier legislation proposed by Congressman Wirth last year (H.R. 5158) provoked very heavy constituent mail. Subsequent programs including the deregulation of customer premises terminal equipment have engendered consumer complaints. The concern is that a nationwide upsurge in local phone rates, coupled with the forced readjustment of buying habits the AT&T divestiture will cause, will trigger a consumer backlash. Higher phone rates may also reduce the universality of basic service. These concerns are deepened by the publicity accorded each new telephone company rate increase request.

Most pending bills would basically do three things. First, they would cut the first-year access charge levy that the FCC's order proposes, and stretch out the FCC's transition. Second, they would direct the FCC to ensure the continued availability of "lifeline" phone service at affordable rates. Third, they would expand the FCC's regulatory authorities to include all intrastate traffic between the new local calling areas ("Local Access and Transport Areas," or "LATAs") being configured as part of the AT&T settlement. The net effect of these measures, of course, would be to reinstitute some of the inter- and intraclass subsidies achieved under the traditional telephone pricing regime that the FCC and the Justice Department have been seeking to change to a more efficient, cost-based system.

Who Gains and Who Loses

AT&T has indicated it will oppose any "rate stability" legislation on basically two grounds. It will argue, first, that having forced the company to acquiesce to competition and the cost-based rates competition implicates, it is unfair for the Government now to force the industry to reverse itself and reinstitute the traditional cross-subsidies. Second, AT&T will argue that unless the cost burdens imposed on heavy users by the traditional system are changed, widespread bypass will result, as major customers simply shift their traffic to alternative modes, thus leaving the conventional phone system underutilized and increasing costs to residential subscribers.

The specialized carriers and some large users (e.g., data processing service bureaus) are not likely to strongly oppose

legislation rolling back the FCC's Access Charges ruling. Their objective is to minimize their own costs (and to forestall likely AT&T rate reductions). Such legislation, of course, would tend to do that.

Some business groups are likely to oppose such rate legislation. Under the FCC's decision, their costs will decline. The effects will not be uniform across the business community, however. Smaller businesses and those that do not make heavy use of conventional long-distance will see cost increases at the local level. The effect on the Federal Government is unclear at this time. The General Services Administration has estimated that the FCC's ruling may increase local phone bills for the Government by some \$36 million. Other major local phone using operations, including the Defense Department, may also be affected.

Actions Required

Sharp increases in consumer prices for telephone service, coupled with all the changes the AT&T divestiture will force, have the potential to provoke a significant political backlash. This, in turn, could result in legislation reversing some of the procompetitive, deregulatory gains achieved over the past ten years. That has been the experience, for example, in the energy field. Past Congressional debates concerning communications common carrier policies focused on relatively esoteric competitive and structural issues. Rates were rarely at issue and there was then no evidence competition had caused any concrete harms. The legislation that will be forthcoming, however, will deal with rates -- a topic that a majority of Congressmen and Senators feel competent to debate -- and will take place against a backdrop of perceived rapid increases and the largest antitrust divestiture in U.S. history.

Both the House and Senate Commerce Committee staff indicate that they expect to mark-up legislation promptly, and believe they can pass a bill by this fall. If legislation reversing the FCC's decision and instituting an unsound Congressional "solution" seems likely, it may be desirable to propose a legislative "stay" coupled with a formal commission study of the issue.

Attachment

<u>STATE</u>	1982		1983		<u>COMMENTS</u>
	<u>REQUEST</u> (\$ million)	<u>GRANTED</u> (\$ million)	<u>REQUEST</u> (\$ million)	<u>GRANTED</u> (\$ million)	
Alabama				52.5	South Central Bell
Alaska					
Arkansas	26.1	18.7	137.9		Southwestern Bell
Arizona	84.8	60.2	79		Mountain Bell
California	475 6.7 31.1 597.3	50.7 3.8 12.7	819.2 1,248		GT&E Roseville Tel. Continental Tel. Pacific Bell
Colorado	127.9	38.5			Mountain Bell
Connecticut	3.5 167.6	2.5 89			New York Bell Southern New England Tel.
D.C.	82	40.3			C&P
Delaware	2	1.9	15.9		Diamond State Tel.
Florida			349 285.1 238.9	113.4	Southern Bell Southern Bell Southern Bell
Georgia	180	75.4	158.5		Southern Bell
Hawaii					Hawaiian Tel. filed for \$47.6 million rate increase in 1981.
Idaho	22.6	7.3	1 28.9	5.9	Mountain Bell Mountain Bell
Illinois	406	217.7	50 42.5 259.4 31.5	21.2 21.7	Illinois Bell Illinois Bell Illinois Bell GT&E
Indiana	71.5	66.8	96		Indiana Bell
Iowa	31.8	24.2	44.7	18.7	Northwestern Bell

<u>STATE</u>	1982		1983		<u>COMMENTS</u>
	<u>REQUEST</u> (\$ million)	<u>GRANTED</u>	<u>REQUEST</u> (\$ million)	<u>GRANTED</u>	
Kansas	80.5	46.7	63.5 213.7	20.7	Southwestern Bell Southwestern Bell
Kentucky	66.1	14.5	3.4	4.6 6.5	South Central Bell Cincinnati Bell
Louisiana			238.6	41.5	South Central Bell
Maine	49.8	11.4			New England Bell
Maryland	202	95.3	165 218	44.3	C&P C&P
Massachusetts	60	19.1			New England Bell
Michigan		28.8	45.5 452	12.1 182.3	GT&E Michigan Bell
Minnesota	6.7 96.4	4.1 59.6	5.7 83.6	3.7 52.6	United Tel. Northwestern Bell
Mississippi	98.2	0			South Central Bell
Missouri	134.1	12.3	254.8 9 11.2	63.8 5.4 2	Southwestern Bell Continental Tel. United Tel.
Montana	27	8.1	20.7		Mountain Bell
Nebraska	5.7		33	6.2	Lincoln Tel. Northwestern Bell
Nevada	16.4	1.9	13.1	5.9	Nevada Bell
New Hampshire	13.7	8.4			New England Bell
New Jersey	212.9	84.8		34.8 15.8	New Jersey Bell New Jersey Bell (for depreciation)
New Mexico			76.6 86.1	30	Mountain Bell Mountain Bell
New York	33.4 644.3	20.6 361.6 99.3	706	185.9	Rochester Tel. New York Bell New York Bell
North Carolina	129	81.8	145		Southern Bell

<u>STATE</u>	1982		1983		<u>COMMENTS</u>
	<u>REQUEST</u>	<u>GRANTED</u>	<u>REQUEST</u>	<u>GRANTED</u>	
	(\$ million)		(\$ million)		
North Dakota					Northwestern Bell, Granted \$9.9 million in 1981.
Ohio	27.8 10.6 123.4	19.4 103	36.2 187.5	22.5 103.6	United Tel. Cincinnati Bell Ohio Bell
Oklahoma		16.4	138.5 301	43.7	Southwestern Bell Southwestern Bell
Oregon	36.6	26.3	1.9 73.9	1.1 38.4 10.1	Continental Tel. Pacific Northwestern Bell GT&E
Pennsylvania	426	255.6	378.9		Bell of Pennsylvania
Rhode Island	17.3 7.6	6.5 9.3	37.4		New England Bell New England Bell
South Carolina	87.6	72.2	98.5	20.3	Southern Bell
South Dakota	23.4	4.6	20.2		Northwestern Bell
Tennessee	130.5	49.4	279.7		South Central Bell
Texas			428.8 1,200 85.4	221.8	Southwestern Bell Southwestern Bell Gen. Tel. of Southwest
Utah	33.2	22.6	78.8 43.2	36.6	Mountain Bell Mountain Bell
Vermont	16.5				New England Bell
Virginia	5.2 10.6	2.2 5.7	5.3 133.5	0 63.8	Central Tel. Continental Tel. United Inter-Mountain Tel. C&P
Washington			146.7	56.9	Pacific Northwest Bell
West Virginia			58.4	26.9	C&P
Wisconsin	99	61.8			Wisconsin Bell
Wyoming	5.6	1.4	20.9	2.6	Mountain Bell

NOTES:

Source:

Telcommunications Reports
Bulletin of the National Association of Regulatory Utility Commissioners
Center for Communications Management, Inc.

Where a grant is specified, an attempt was made to correlate the request with the grant, even if the request was made in previous years.

Compiled as of June 30, 1983.

THE WHITE HOUSE
WASHINGTON

July 1, 1983

MEMORANDUM FOR

JIM CICCONI

FROM:

KEVIN HOPKINS 

SUBJECT:

AT&T DIVESTITURE CASE

Ed Meese requested that I send you the attached.

BACKGROUND INFORMATION ON THE FORTHCOMING BREAK-UP OF AT&T

Action Under Truman and Eisenhower Administrations

- o The Justice Department attempted to break up AT&T as early as 1949, when it brought an action to compel the company to divest itself of Western Electric, the largest manufacturer of telephone equipment in the world.

- The case was settled by a consent decree in 1956, which left the Bell System intact.

- * The terms of the settlement did, however, require Western Electric to confine itself to the manufacture of telephone equipment, and sell off units involved in the making of railroad dispatch machinery, movie gear, and other non-telephone items.

- * AT&T also agreed to license all its existing patents.

- Critics dubbed the settlement a mere "slap on the wrist."

- * Criticism was heightened by the disclosure, during congressional hearings in 1958, that Attorney General Herbert Brownell had given AT&T's vice president and general counsel a "little friendly tip" on how to settle the case.

- * AT&T officials testified at the same hearings that the patent licensing requirement imposed by the 1956 settlement would however greatly reduce its dominance in the telephone business.

The Nader Report on Antitrust Enforcement

- o The Closed Enterprise System, a 1972 report on antitrust enforcement prepared by Ralph Nader's Center for the Study of Responsive Law, said this of the 1956 settlement:

"The paradigm of political intrigue in antitrust remains the story behind the 1956 consent decree with AT&T, then and now the largest company in the world. It was here that the Eisenhower Administration's tenderness toward business was most clearly manifest."

- o In the same report, Nader & Co. strongly implied that further antitrust action was both necessary and desirable. In a section entitled "The Conglomerate Threat," the authors declared:

"[W]hen this problem and response are compared to the more continuous and generic costs of shared monopoly,

and the official indifference expressed toward it, the policy mispriority becomes evident. If LTV or ITT creates economic and political problems by concentration of assets, what of AT&T and Standard Oil (N.J.), both of which are bigger?"

Origins of Latest Justice Department Action Against AT&T

- o The Justice Department's latest antitrust lawsuit may be said to have arisen out of two rulings by the Federal Communications Commission.
- The first, the so-called "Carterfone" decision in 1968, allowed a small company to sell a device that connected a mobile radio to the phone network. This meant that that makers of non-Bell equipment could henceforward plug into the Bell system.
- The second ruling, in 1971, created a new classification of specialized common carriers licensed to provide interstate communications on a private line basis, thereby allowing customers to bypass the Bell system entirely when making interstate calls.
- The upshot of these decisions was an increase in the number of telecommunications firms eager to compete with AT&T for the profitable long-distance market. This in turn gave rise to controversy over the nature

of the links that Bell was supposed to provide its competitors under the "Carterfone" decision.

o Convinced that AT&T was attempting to forestall competition, the Justice Department filed suit under Section 2 of the Sherman Antitrust Act on November 20, 1974.

-- The Justice Department sought to compel AT&T to divest itself of Western Electric, and to withdraw completely from either the long-distance or the local market.

-- AT&T maintained -- as it had always maintained -- that it was a regulated monopoly, and that any complaints about its business dealings nationwide should be brought before the Federal Communications Commission.

* This issue delayed matters for two years, until a federal court ruled that the suit could proceed.

* It was this suit that was settled by the consent agreement on January 8, 1982, under which AT&T gave up its 22 local companies but kept Western Electric and its long-distance market.

o There is a general conviction that this agreement will reduce long-distance rates, but will result in higher local rates and less local service.

-- Interestingly enough, the impact on phone rates does not appear to have been one of the Justice Department's primary concerns.

-- In a briefing for reporters when the suit was filed in 1974, Keith I. Clearwaters, Deputy Assistant Attorney General, declared as follows:

"I don't believe we can promise that winning this suit is going to lower rates, but it would force additional competition and that should bring downward pressure on prices."

PAUL LAXALT
NEVADA

COMMITTEE ON APPROPRIATIONS
COMMITTEE ON JUDICIARY

United States Senate

WASHINGTON, D.C. 20510

WASHINGTON OFFICE:
315 RUSSELL OFFICE BUILDING
(202) 224-3542

CARSON CITY OFFICE:
705 NORTH PLAZA STREET
(702) 883-1930

LAS VEGAS OFFICE:
300 LAS VEGAS BLVD., SOUTH
(702) 385-6547

RENO OFFICE:
300 BOOTH STREET
(702) 784-5568

MEMO TO: Jim Baker

FROM: Paul Laxalt

DATE: June 15, 1983

When you have your talks on the telephone problem, it might be well to include members of the Rural Telephone Board.

Apparently they're Presidential appointees with staff in town.

Copy to: Senator Howard Baker

7/3
To J.C.
When are we on this? Who's got the action & what's being done? Thanks.
JMB

United States Senate

OFFICE OF THE MAJORITY LEADER
WASHINGTON, D.C. 20510

MEMORANDUM

TO: JIM BAKER

FROM: HOWARD BAKER 

DATE: JUNE 17, 1983

SUBJECT: PAUL LAXALT'S MEMO DATED JUNE 15 REGARDING TALKS ON
THE TELEPHONE PROBLEM AND MEMBERS OF THE RURAL
TELEPHONE BOARD

Don Stansberry, a member of the Rural Telephone Board and one of my former law partners many years ago, advises me that two public members who would be especially valuable in these discussions are Arnie O. Haynes, who is president of a small telephone company in Eatonville, Washington, and Eleanor Haskin, vice president of a small telephone company in Waitsfield, Vermont, both of which are financed in part by the Rural Telephone Bank.

Five of the members of the Board are Presidential appointees, and six are elected by borrowers. They depend on REA to supply staff and assistance. The Governor of the Board, Harold Hunter, is also REA Administrator.

I think the cost of local telephone service will escalate dramatically in the next year or so and is a sleeper issue of explosive proportions.



UNITED STATES SENATE
OFFICE OF THE MAJORITY LEADER
WASHINGTON, D. C.

HOWARD H. BAKER, JR.
TENNESSEE

June 28, 1983

Dear Jim:

Here is the Laxalt memo we discussed
on the phone yesterday. I hope this is
helpful.

Sincerely,

James M. Cannon

Mr. James W. Cicconi
Special Assistant to the President
The White House
Washington, D.C.

PAUL LAXALT
NEVADA

COMMITTEE ON APPROPRIATIONS
COMMITTEE ON JUDICIARY

United States Senate

WASHINGTON, D.C. 20510

WASHINGTON OFFICE:
315 RUSSELL OFFICE BUILDING
(202) 224-3542

CARSON CITY OFFICE:
705 NORTH PLAZA STREET
(702) 683-1930

LAS VEGAS OFFICE:
300 LAS VEGAS BLVD., SOUTH
(702) 385-6547

RENO OFFICE:
300 BOOTH STREET
(702) 784-5568

MEMO TO: Jim Baker

FROM: Paul Laxalt

DATE: June 15, 1983

When you have your talks on the telephone problem, it might be well to include members of the Rural Telephone Board.

Apparently they're Presidential appointees with staff in town.

Copy to: Senator Howard Baker