

**REPORT OF THE  
STATE CORPORATION COMMISSION ON**

**Customer Owned Coin  
Operated Telephones**

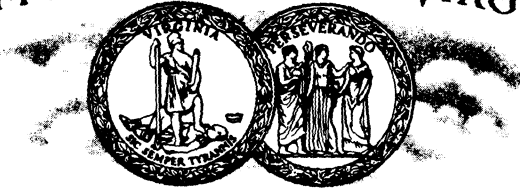
**TO THE GOVERNOR AND  
THE GENERAL ASSEMBLY OF VIRGINIA**



**SENATE DOCUMENT NO. 12**

**COMMONWEALTH OF VIRGINIA  
RICHMOND  
1989**

# COMMONWEALTH OF VIRGINIA



PRESTON C. SHANNON  
CHAIRMAN  
THOMAS P. HARWOOD, JR.  
COMMISSIONER  
ELIZABETH B. LACY  
COMMISSIONER

GEORGE W. BRYANT, JR.  
CLERK OF THE COMMISSION  
BOX 1197  
RICHMOND, VIRGINIA 23202

## STATE CORPORATION COMMISSION

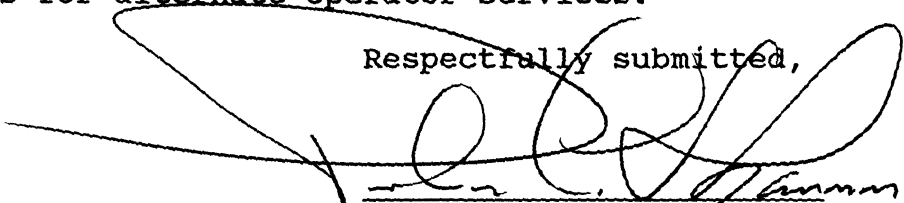
January 10, 1989

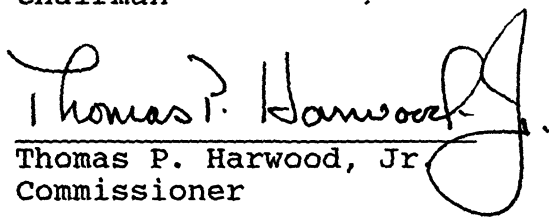
TO: The Honorable Gerald L. Baliles  
Governor of Virginia  
and  
The General Assembly of Virginia

The report contained herein is pursuant to Senate Joint Resolution No. 21 of the 1988 Session of the General Assembly of Virginia.

This report represents the response of the State Corporation Commission to the legislative directive to conduct a review of customer owned coin operated telephone services and charges, including charges for alternate operator services.

Respectfully submitted,

  
Preston C. Shannon  
Chairman

  
Thomas P. Harwood, Jr.  
Commissioner

## TABLE OF CONTENTS

	<u>Page</u>
I. Executive Summary	1
II. Senate Joint Resolution No. 21	4
III. Report of the State Corporation Commission	
Introduction	5
Background	
A. Customer Owned Coin Operated Telephones (COCOTs)	5
B. Alternate Operator Service (AOS)	6
IV. Investigation Pursuant to SJR No. 21	
A. COCOTs	7
B. AOS	8
V. Conclusions	9
VI. Attachments	
1. State Corporation Commission Guidelines for Customer Owned Coin Operated Telephones	
2. Comparison of Toll Rates	
3. Draft Legislation	

## EXECUTIVE SUMMARY

Senate Joint Resolution No. 21, adopted by the 1988 General Assembly Session, requested the State Corporation Commission (SCC) to study the customer owned coin operated telephone (COCOT) services and charges, and charges for alternate operator service (AOS). AOS is the provision of operator service by companies other than the local telephone company or a certified long distance carrier such as AT&T, MCI, or US Sprint. AOS service is usually provided in hotels, motels, airports, or in conjunction with COCOT service where users are "transient" and are unaware of the AOS company's rates or identification. Neither industry is regulated by the SCC.

The 1985 Session of the General Assembly added Virginia Code Section 56-241.2, which relates to approval of rates for the resale of telephone service. This legislation provided for coin service not furnished by a certified telephone company to be based on number of calls.

This action by the General Assembly led to the SCC development of guidelines (Attachment 1) for telephone companies' use in filing appropriate terms, conditions, and rates for the connection of COCOTs to the public network. Most local telephone companies in Virginia have now filed COCOT tariffs which comply with SCC guidelines.

Most AOS companies are resellers of WATS or other bulk rated services furnished by facility based companies such as those mentioned above. The SCC ruled earlier that resellers are not monopolies and therefore should not be regulated.

The SCC has issued a press release informing the public about AOS rates, ordered C&P Telephone Company to send a bill insert with the same information, and ordered that local service cannot be disconnected for withholding payment of a noncertified company's toll charges. (AOS companies are not certified in Virginia.)

The study of COCOT and AOS services pursuant to SJR No. 21 revealed the following:

1. In a field inspection of 161 randomly selected COCOTs, which represents approximately 5% of the total, 28% of the sets were in full compliance with telephone company tariffs. The remaining sets (72%) exhibited one or more tariff violations, were out-of-order, or had been disconnected. The SCC feels that the results of this sample are representative of total tariff compliance figures.
2. The charges for all AOS-handled test calls, placed from COCOTs at various locations to the SCC's Division of Communications, were substantially higher than AT&T's or C&P Telephone Company's long distance rates as shown on Attachment 2.

## Conclusions

Based on the results of this study and on customer complaints, the SCC believes that problems exist in both the COCOT and AOS industries and that action must be taken. While the General Assembly could amend Code Section 56-265.1 to allow the SCC to register or certify these industries, other approaches appear to be more appropriate at this time. Code Section 56-265.1 defines a "public utility", as it relates to the furnishing of telephone service, as "...any company which owns or operates facilities within the Commonwealth of Virginia ...". Neither COCOT providers nor AOS companies own or operate facilities as contemplated by this definition. COCOT providers own only the coin telephone set itself which is an easily connected piece of terminal equipment. The AOS companies usually own equipment similar to a telephone utility's central office switch, but to the SCC's knowledge none are presently located in Virginia. The AOS companies transmit interstate and intrastate long distance calls via leased lines owned and operated by the certified local and long distance carriers. It follows that both COCOT and AOS companies can enter and exit markets easily with relatively small capital investments.

Progress has been made in bringing COCOT providers into compliance with the telephone companies' tariffs. The SCC can place renewed and even greater emphasis on tariff compliance. Such action may result in substantially correcting this problem. This action is preferable to the certification of perhaps hundreds of COCOT providers who, in many cases, own only one public telephone set. States which require certification report that the process is very time-consuming, expensive, and cumbersome. Additionally, the Code could be amended to specifically authorize the SCC to impose sanctions in the form of a monetary penalty on those COCOT owners who do not comply with the local exchange company's tariff provisions regarding COCOTs.

AOS presents peculiar problems because of the interstate nature of their business. The providers are all located outside Virginia, but their clients, the "traffic aggregators", such as COCOTs, hotels, motels, hospitals, airports, and college campuses, have locations in the Commonwealth. Thus, an out-of-state AOS company only handles a Virginia intrastate call when a transient guest at one of the institutions places a call to another Virginia location. Any measure that would limit or forbid such intrastate calling would still not protect Virginians from interstate abuses by AOS companies. Customer notification and awareness is the most important issue at this time. If a customer is alerted to check local and long distance rates before placing a call from a public location, both intrastate and interstate overcharges can be avoided. Additional problems are presented, however, when the long distance carrier of the caller's choice cannot be accessed from a public phone.

Legislation requiring public notice similar to that shown on Attachment 3, requiring businesses, such as COCOT providers, motels, hotels, hospitals, airports, and universities, to post a notice on or near each telephone instrument naming the provider of the long distance services and whether a different carrier can be accessed from that phone may alleviate the problem. So notified, customers can make intelligent choices regarding the call, i.e., it could be delayed or placed from another location. Failure to provide adequate information is a traditional deceptive trade practice and warrants criminal as well as potential civil liability.

SENATE JOINT RESOLUTION NO. 21

*Requesting the State Corporation Commission to study customer owned coin operated telephones.*

Agreed to by the Senate, February 10, 1988

Agreed to by the House of Delegates, March 9, 1988

WHEREAS, on July 6, 1984, the Federal Communications Commission ruled that customer owned coin operated telephones (COCOTs) that had been registered by the FCC could legally be connected to the public network for interstate use; and

WHEREAS, on May 19, 1987, in case PUC850008, the State Corporation Commission issued guidelines to govern the tariffs filed by telephone companies desiring to offer service for COCOT providers; and

WHEREAS, during the last quarter of 1987 the SCC staff inspected eighty-seven COCOTs provided by twenty-one vendors and found only six COCOTs to be in full compliance with SCC guidelines included in telephone company tariffs; and

WHEREAS, local telephone companies would have an added cost to police COCOT providers; and

WHEREAS, some Virginia telephone users have complained to the SCC about inferior service and excessive charges by some COCOT providers, including charges for alternate operator service; now, therefore, be it

RESOLVED by the Senate, the House of Delegates concurring, That the State Corporation Commission is requested to study COCOT services and charges.

The Commission shall report the results of this study, together with any legislative recommendations, to the Governor and General Assembly on or before December 31, 1988.

## Introduction

Senate Joint Resolution No. 21, adopted during the 1988 General Assembly Session, requested the State Corporation Commission (SCC) to study the customer owned coin operated telephone (COCOT) services and charges, including charges for alternate operator service (AOS). AOS is the provision of operator service by companies other than the local telephone company or a certified long distance carrier such as AT&T, MCI, or US Sprint. AOS service is usually provided in hotels, motels, airports, or in conjunction with COCOT service where users are "transient" and are unaware of the AOS company's rates or identification. Neither industry is regulated by the SCC.

The SCC was further directed to report its findings, together with any legislative recommendations, to the Governor and General Assembly on or before December 31, 1988.

## Background

### COCOTs

On June 25, 1984, the Federal Communications Commission (FCC) released a Memorandum Opinion and Order allowing the registration of coin telephones.<sup>1/</sup> This action permitted, for the first time, private ownership of public coin operated telephones. Previously, this service could only be provided by regulated local and long distance telephone companies. This document (1) provided for FCC registration of coin telephones containing circuitry necessary to execute all coin related functions normally associated with coin telephone service and that such telephones be attached to regular telephone company lines instead of central switching office coin trunks, (2) established certain requirements that COCOTs must meet to be registered with the FCC, and (3) permitted individual states to establish guidelines or rules for the connection of COCOTs to the public network.

The 1985 Session of the General Assembly added Virginia Code Section 56-241.2, which relates to approval of rates for the resale of telephone service. This legislation provided for coin service not furnished by a certified telephone company to be based on number of calls.

The SCC docketed Case No. PUC850008, Investigation of Customer Provided Pay Telephones on February 28, 1985. A list of issues concerning the offering of COCOT service was outlined in the Order, and interested parties were invited to submit comments.

---

<sup>1/</sup> In the Matters of Registration of Coin Operated Telephones under Part 68 of the FCC's Rules and Regulations, et..al., CC FCC 84-270 34994 (Memorandum Opinion and Order, Adopted June 15, 1984, Released June 25, 1984).



Based on the comments received in Case No. PUC850008 and a staff investigation, the SCC issued guidelines for COCOT connection and use on June 7, 1985. (See Attachment 1) These guidelines were given to all Virginia telephone companies for use in developing appropriate terms, conditions, and rates for the accommodation of customer owned coin telephones. The companies were not, however, directed to file COCOT tariffs, since the service was not required by either the FCC or Virginia law. Nevertheless, the major telephone companies filed tariffs for COCOT service because of numerous requests from individuals and companies with plans to provide public coin telephone service.

The SCC kept the docket open to monitor the application of the tariffs. By May, 1987, the SCC concluded that "... the guidelines appear to be working and because none of the complaints have required a generic examination of those guidelines, the Commission sees no reason to keep this docket open." The SCC did instruct the staff to continue monitoring COCOT-related customer complaints and conduct inspections of COCOTs to determine the degree of compliance with the telephone companies' tariffs.

During July, August, and September, 1987, the SCC's Division of Communications inspected 87 COCOT installations in various geographical areas of Virginia. The sets were randomly selected from the telephone companies' records of COCOT installations which at the time of this inspection totaled approximately 2,500.

At the time of the 1987 inspections, it was the policy of the telephone companies to provide all COCOT providers with a copy of applicable terms and conditions as set forth in the tariff for the connection of coin operated telephones. These tariffs were based on the guidelines shown on Attachment 1. Only 6 of the 87 sets inspected were in full compliance with the tariffs. The sets which did not comply exhibited an average of 2 tariff violations. In most cases the COCOT provider simply failed to comply, but others did not receive the applicable tariffs.

On October 14, 1987, the SCC, in an effort to improve compliance with the tariffs directed each telephone company in Virginia to (1) ensure that applicable tariff sections are sent to each new COCOT provider, (2) send applicable tariffs to each identifiable existing COCOT provider regardless of previous notification, and (3) state in a letter of transmittal that the notification was pursuant to an SCC directive.

#### AOS

In addition to COCOTs this study also focused on the rates and service quality of alternative operator service (AOS) companies.

The AOS industry began several years ago in the South and Midwest and spread to Virginia during 1987.

Most AOS companies are essentially resellers of WATS or other bulk related services provided by facility-based carriers, such as AT&T, MCI, or US Sprint. In 1983, the SCC ruled that such resellers should not be regulated because of the level of competition and the lack of monopoly characteristics.

Beginning in December, 1987, the SCC began receiving complaints from customers who were charged AOS rates significantly above the rates of certified long distance carriers for both interstate and intrastate calls. In almost every case, the complainant was unaware of the level of charges and that an AOS company provided the services until the bill arrived. The majority of AOS billing appears on the bill of the local exchange company, such as C&P Telephone Company of Virginia which contracts for billing with AOS companies. Some AOS companies will accept major credit cards such as VISA, Mastercard, or American Express which bill directly. This is a definite benefit to those who do not have traditional telephone company credit cards.

As a result of these complaints and staff investigations the SCC took the following steps to protect customers and alert the public regarding the operation of AOS companies:

1. A press release was issued informing the public about AOS companies and possible high rates.
2. C&P Telephone Company, which serves approximately 80% of Virginia customers, was directed to send out a bill insert providing similar information to the press release. At this time practically all AOS complaints have been registered by C&P customers. Other telephone companies may be directed to take this action if the problem spreads.
3. The SCC ruled that local service may not be disconnected for withholding payment of a noncertificated company's toll charges (AOS companies are not certified in Virginia).

#### Investigations Conducted Pursuant to SJR No. 21

##### COCOTs

A. During June, July, and August, 1988, the SCC's Division of Communications inspected 161 COCOT installations in Virginia which represents 5% of the total. Once again, the sets were randomly selected from location records furnished by the telephone companies. A summary of the study is shown below:

Number of COCOTs in full compliance with the tariff	45 ( 28%)
Number of COCOTs with one or more tariff violations	74 ( 46%)

Number of COCOTs which were out-of-order	18 ( 11%)
Number of COCOTs which appeared in telephone company lists but had been disconnected	24 ( 15%)
	161 (100%)

As this summary clearly shows, the majority of COCOTs which could be inspected (some were out-of-order or removed) did not fully comply with applicable tariffs. There was, however, an improvement over the earlier inspection mentioned above.

Under the present approach, local exchange telephone companies have the primary responsibility for policing COCOTs through tariffs. This policy gives rise to several problems for them. First, the expenses for administrative work and field inspections have to be recovered from the general body of ratepayers, but this does not appear to be a significant amount. Second, the telephone companies compete with the COCOT providers in the coin telephone market. . COCOT providers may be reluctant to respond to policing activities by competitors, but the use of "policing action" for a competitive advantage is problematic. The telephone companies readily admit that very little emphasis is being placed on enforcing these particular tariffs.

#### AOS

- B. The SCC had a special telephone line installed so that a sampling of AOS-handled test calls could be placed directly to the Communications Division for rate and service evaluation. The calls were placed from selected COCOTs which were being inspected for tariff violations. A comparison between the AOS charges and the C&P or AT&T rate for the same call is shown on Attachment 2. Clearly, the AOS companies' rates are substantially higher. The only exception is International Telecharge, Inc.'s charge for a local operator-assisted call in Richmond.

The quality of service provided by the AOS companies in this sample was generally less than satisfactory. During the course of the evaluations a number of problems were noticed, such as (1) poor voice transmission on approximately 50% of the calls, (2) operator answer time was slow on most calls, ranging from 20 seconds to over 2 minutes, and (3) most AOS operators were hesitant to identify their company at all or did not speak clearly when reciting the prepared response.

## Conclusions

Based on the results of this study and on customer complaints, the SCC believes that problems exist in both the COCOT and AOS industries and that action must be taken. While the General Assembly could amend Code Section 56-265.1 to allow the SCC to register or certify these industries, other approaches appear to be more appropriate at this time. Code Section 56-265.1 defines a "public utility", as it relates to the furnishing of telephone service, as "...any company which owns or operates facilities within the Commonwealth of Virginia ...". Neither COCOT providers nor AOS companies own or operate facilities as contemplated by this definition. COCOT providers own only the coin telephone set itself which is an easily connected piece of terminal equipment. The AOS companies usually own equipment similar to a telephone utility's central office switch, but to the SCC's knowledge none are presently located in Virginia. The AOS companies transmit interstate and intrastate long distance calls via leased lines owned and operated by the certified local and long distance carriers. It follows that both COCOT and AOS companies can enter and exit markets easily with relatively small capital investments.

Progress has been made in bringing COCOT providers into compliance with the telephone companies' tariffs. The SCC can place renewed and even greater emphasis on tariff compliance. Such action may result in substantially correcting this problem. This action is preferable to the certification of perhaps hundreds of COCOT providers who, in many cases, own only one public telephone set. States which require certification report that the process is very time-consuming, expensive, and cumbersome. Additionally, the Code could be amended to specifically authorize the SCC to impose sanctions in the form of a monetary penalty on those COCOT owners who do not comply with the local exchange company's tariff provisions regarding COCOTs. This approach would alleviate the competitive advantage problems cited above and associated with "policing" action solely by the telephone company.

AOS presents peculiar problems because of the interstate nature of their business. The providers are all located outside Virginia, but their clients, the "traffic aggregators", such as COCOTs, hotels, motels, hospitals, airports, and college campuses, have locations in the Commonwealth. Thus, an out-of-state AOS company only handles a Virginia intrastate call when a transient guest at one of the institutions places a call to another Virginia location. Any measure that would limit or forbid such intrastate calling would still not protect Virginians from interstate abuses by AOS companies. Customer notification and awareness is the most important issue at this time. If a customer is alerted to check local and long distance rates before placing a call from a public location, both intrastate and interstate overcharges can be avoided. Additional problems are presented, however, when the long distance carrier of the caller's choice cannot be accessed from a public phone.

Legislation requiring public notice similar to that shown on Attachment 3, requiring businesses, such as COCOT providers, motels, hotels, hospitals, airports, and universities, to post a notice on or near each telephone instrument naming the provider of the long distance services and whether a different carrier can be accessed from that phone may alleviate the problem. So notified, customers can make intelligent choices regarding the call, i.e., it could be delayed or placed from another location. Failure to provide adequate information is a traditional deceptive trade practice and warrants criminal as well as potential civil liability.

**SCC GUIDELINES FOR CUSTOMER OWNED COIN OPERATED TELEPHONES**

1. COCOT service will be provided only through FCC registered telephone instruments.
2. COCOTs must be equipped to receive incoming calls.
3. All providers of coin operated telephones must notify the local exchange carrier and provide the FCC registration number of each instrument to be connected.
4. Where message rate service is available, the LEC (local exchange carrier, i.e., the local telephone company) may furnish COCOT access lines on a message rate basis at the same monthly rate and per message rate offered to business customers in that location. Where message rate service is not offered, access lines for COCOTs shall be furnished at a monthly rate not to exceed the rate for flat business trunk service furnished to business customers. Where timed/measured service is offered on an optional basis, the COCOT providers may elect to subscribe to the measured service rather than message rate service or flat rate service.
5. The COCOT provider is liable for the payment of all charges of the telephone company and interexchange carriers.
6. COCOT providers must furnish local directory number information. The maximum charge that the provider can charge the COCOT user is 30 cents.
7. COCOTs must be equipped for dial tone first and coinless calling to 911 and to the operator.
8. COCOTs must return deposited coins on incompleting calls.
9. The COCOT provider may apply a surcharge over the applicable tariffed rate for long distance calls provided the application of a surcharge is clearly posted (for example, AT&T +10% or MCI +5%).
10. COCOTs must be hearing aid compatible and installed in a manner to accommodate disabled persons.
11. The maximum rate for local calls may not exceed the rate approved for the local telephone company.

12. COCOT providers must post: clear operating instructions, specific address and phone number of the instrument, ownership of the instrument, and procedures for repair, refunds and billing disputes.
13. COCOTs must accept any combination of nickels, dimes and quarters for local and long distance calling charges.
14. COCOTs are not restricted as to location.
15. In those cases where COCOTs have been connected but not reported, the COCOT subscriber will reimburse the telephone company for all charges which would have applied had the correct procedures been followed, including in areas where message rate service is offered, 3 months of business message service at a presumed usage of 900 calls per month. If the improper connection discovery is within 3 months of the date of this order the billing shall only be for the amount of time between the date of this order and the date of discovery. Where message rate service is not offered, the COCOT shall be billed retroactively at the rate of 1.5 times the business flat rate.

## COMPARISON OF TOLL RATES

Call Originating Point <sup>(1)</sup>	Call Duration Min.	AOS Rates	C&P or AT&T Credit Card Rate
<u>Elcotel</u>			
Kill Devil Hills,N.C.	4	\$3.81	\$1.81 (AT&T)
Norfolk, VA	5	\$3.68	\$1.84 (AT&T)
Gloucester Va.	2	\$2.67	\$1.39 (C&P)
Norfolk, Va.	3	\$3.06	\$1.40 (AT&T)
Franklin, Va.	3	\$3.06	\$1.40 (AT&T)
Manassas, Va.	5	\$3.43	\$1.84 (AT&T)
<u>NTS<sup>(2)</sup></u>			
Franklin, Va.	2	\$3.54	\$1.18 (AT&T)
Hayes, Va.	1	\$3.13	\$1.08 (C&P)
Richmond, Va.	2	\$1.95	\$ .85 (C&P)
Manassas, Va.	6	\$5.06	\$2.06 (AT&T)
Manassas, Va.	3	\$3.92	\$1.40 (AT&T)
Manassas, Va.	4	\$4.30	\$1.62 (AT&T)
<u>ITI<sup>(3)</sup></u>			
Richmond, Va.	4	\$ .83	\$ .85 (C&P)
Manassas, Va.	5	\$5.36	\$1.84 (AT&T)
Dahlgren, Va.	3	\$4.19	\$1.40 (AT&T)
Kilmarnock, Va.	2	\$3.40	\$1.42 (C&P)

Notes: (1) All calls were placed from the locations in column 1 to the SCC's Communications Division.

(2) NTS - National Telephone Service

(3) ITI - International Tele-Charge, Inc.



**DRAFT LEGISLATION**

Section 18.2-429.1. - Non-disclosure of telephone long distance service billing - Any person who offers for public use telephone equipment, including coin-operated telephone equipment, must conspicuously display the identity of the company who will make the charge for any intrastate long distance calls placed from such equipment. Such equipment must also disclose whether the caller can reach other intrastate long distance services and, if so, the method for accessing them. Failure to disclose shall be a Class 3 misdemeanor for each call initiated over such equipment for which a charge is made for the intrastate long distance services. Provided, however, these requirements do not apply to equipment using only carriers certificated by the SCC and having tariffs on file at the SCC.





