

Line Costs

By far our largest expense in our early years was distribution costs: what we paid AT&T for our leased lines. In 1975 we paid AT&T \$80,500 which was 25% of our expenses! And, in 1976 it grew to \$105,000 or 28%.

AT&T was a monopoly. It was "the telephone company"--the only one. "Baby-bells" like Southwestern Bell or Atlantic Bell operated regionally but were owned fully by AT&T. Because we operated in multiple states we were under AT&T's tariffs--or rates--which were set by the FCC. The baby-bells' rate structures were overseen by state regulatory commissions. (Isn't this something that's hard to imagine in today's deregulated environment?)

Historically the FCC required Ma-Bell to average its costs across America to arrive at its rates. Thus the per-mile rate for our lines was the same everywhere. It cost the same everywhere to add a point based simply on mileage to the closest existing point on the network. But AT&T wanted to change this rate structure. They wanted to charge their customers based upon what it actually cost them to add a point. No doubt that it cost them much more to add a rural point than an urban one. Just think about the "size" of cables between two urban areas and the large number of customers to divide that cost. On the other hand, it was expensive to add rural points because of the low density of usage. It is sorta like postage. No doubt it costs more to deliver a letter in rural areas than it does to a dense apartment building. But still in America postage is the same for everyone--averaged across all users. The AT&T rate adjustment case was called the "Hi-Lo" case because of High density vs Low density. I'd never heard of the case.

But in March, 1976, I got a call from Michael Yourshaw of the Washington Office of Kirkland and Ellis convincing me that we'd be put out of business--or at the very least badly hurt--if this AT&T rate case prevailed. He offered to represent us at no cost if he could use our company as an example of damage. In doing so we joined "the Press Parties" in this case: AP, UPI, Reuters, etc. Good company. And, the good guys won! (By the way this was the first--and last--time a lawyer worked for us for nothing!!)

Another, more lasting, benefit was the new relationship we had with a DC law firm. Yourshaw and I became great friends. He was so different from much of what I'd been around: Exeter Academy, Harvard, Harvard Law, and now a silk-stocking firm. He was off-the-wall bright, a good family man; we enjoyed sumptuous lunches and dinners at the Prime Rib near their 1776 K Street Office. (I entertained the Team Services group there a year or so ago.) Kirkland and Ellis was a Chicago firm with a long history in media. Former FCC commissioner, Richard Wiley and some of his friends took K & E's Washington office maybe ten years ago and now it is known as Wiley Rein. Another interesting tidbit is the fact that a good friend, Congressman Jim Slattery, went to Wiley Rein after he lost his bid to become governor of Kansas. Now Slattery handles our account there--or did until he left to run for the US Senate from Kansas. For 32 years we've been associated with our good friends at Wiley-Rein. And it began over AT&T's efforts to raise their rates.

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