



295 North Maple Avenue
Basking Ridge, NJ 07920

April 2, 1993

Ms. Donna Searcy
Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

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APR 2 1993

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: Ex Parte Presentation
CC Docket 92-135

Dear Ms. Searcy:

On April 2, 1993, I met with Dan Grosh and Andy Mulitz of the Common Carrier Bureau. At this meeting, we discussed several issues related to the above referenced regulatory reform proceeding for non-price cap LECs. Materials presented in these discussions are attached to this submission.

Two copies of this Notice were submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's rules.

Sincerely yours,

A handwritten signature in cursive script that reads "Richard N. Clarke".

Richard N. Clarke
Regulatory Policy Analysis
Government Affairs

Attachments

cc: D. Grosh
A. Mulitz

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PROPOSAL PACKAGE FOR NPCL REGULATORY REFORM

FEDERAL COMMUNICATIONS COMMISSION
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PARAMETER	OPTIONAL INCENTIVE REGULATION (OIR)
Term	Biennial
Data used to support filing	Historical with rates targeted to authorized ROR at biennial filings.
Adjustments to supporting data	Exogenous cost changes as defined for PCLs. No additional "known and measurable" cost changes.
Earnings	Measured based on all interstate access regulated under the plan. Expansion of permitted ROR zones to -100/+200 bp.
Overearnings/sharing	All earnings in excess of +200 bp returned to customer in lump sum after close of monitoring period.
Earnings monitoring period	Two year period: should be reasonably aligned with tariff period
Midcourse rate adjustments	Mid-period upward adjustment permitted only to retarget future earnings to -100 bp level. Filed on 45 days notice with full cost support.
Pricing flexibility	Revenue neutral (or negative) by basket pricing changes permitted subject to +10% upper limit over two year tariff period for each service category as defined for PCLs. (Base year-weighted APIs used to measure revenue effects as for PCLs.)
New services	Filing without cost support is permitted if service amounts to less than 2% of interstate revenue and price does not exceed that charged by the geographically closest PCL.
Common Line adjustment	Historical demand growth rate g computed. Base period demand adjusted using g to match demand during period immediately prior to tariff period. This demand grown using $g/2$ factor to compute synthetic demand used for ratemaking.
Eligibility	All non-average schedule affiliates of an NPCL must adopt.
Elections	May elect for depooled TS only, or depooled CL and TS. Rules should encourage NPCLs electing OIR to remain under OIR and discourage "gaming."
Infrastructure and service quality reports	Annual service quality reports, biennial infrastructure reports.
Supporting Information	EUCL, CCL, and TS and Special support should all be filed publicly

Example of CCL Rate Development Under Proposed OIR or 61.39

Assume that plans become effective for 7/93 - 6/95 tariff period

Tariff Development for 7/93 - 6/95 (Base period is one year)

	<u>CL Costs@A-ROR</u>	<u>EU Revenue</u>	<u>CCL Cost</u>	<u>Minutes</u>	<u>CCL Cost/Min</u>
<u>1/91 - 12/91</u>				19,000,000	
Base Period Data					
<u>1/92 - 12/92</u>	\$1,000,000	\$600,000	\$400,000	20,000,000	\$0.0200
			Demand Growth (g):	5.26% (annual)	
			(g/2):	2.63%	

7/93 - 6/95 Rate Development

CL Costs@A-ROR	2 x BP CL Costs@A-ROR	\$2,000,000
EU Revenue	2 x BP EU Revenue	\$1,200,000
CCL Costs	CL Costs - EU Revenue	\$800,000

Grow 1/92-12/92 BP minutes at full historical growth for one half year to their 7/92-6/93 levels

$$\text{BP Minutes} \times (1+g)^{(1/2)} = 20,519,567$$

Grow 7/92-6/93 minutes at half of full historical growth for one year to their 7/93-6/94 level

$$7/92-6/93 \text{ Minutes} \times (1+g/2) = 21,059,556$$

Grow 7/92-6/93 minutes at half of full historical growth for two years to their 7/94-6/95 levels

$$7/92-6/93 \text{ Minutes} \times (1+g/2)^2 = 21,613,754$$

Total CCL Ratemaking minutes for 7/93-6/95 = 42,673,310

CCL Rate = CCL Costs/Ratemaking Minutes = \$0.0187

