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Robert E. Lloyd
Vice President
Government Relations

May 23, 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
Room 222
1919 M Street, N.W.
Washington, D.C. 20554

RECEIVED

MAY 23 1994

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: National Exchange Carrier
Association, Inc.

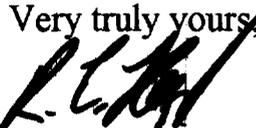
Proposed Revision of Part 69
of the Commission's Rules to
Allow for Incentive Settlement
Options for NECA Pool Companies

Notice of Ex Parte Presentation
RM 8389

Dear Mr. Caton:

On May 20, 1994, NECA representatives Jim Frame, Ken Levy, Bob Lloyd and Bill Stern met with Common Carrier Bureau staff members A. Richard Metzger, Jr., Kathleen Levitz, Gregory Vogt, Roxanne McElvane and Andrew Mulitz to discuss key features of the NECA pool incentive option plan (see attachment).

Please acknowledge receipt hereof by affixing a notation on the duplicate copy of this letter furnished herewith for such purposes and remitting same to bearer.

Very truly yours,

Robert E. Lloyd

G. Vogt

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cc: R. Metzger, K. Levitz, G. Vogt, R. McElvane, A. Mulitz

NECA POOL INCENTIVE OPTIONS

Desired Outcome of This Meeting

The FCC issues an NPRM proposing to allow NECA to offer incentive options to pool members. These options are similar to those available to non-pooling, non-price cap ECs.

Background

The FCC Order in Docket No. 92-135 (Regulatory Reform for LECs Subject to ROR Regulation) released June 11, 1993 in paragraph 16 stated:

"... we encourage NECA to continue to work on reforms to introduce optional incentive plans into the pooling process, which would be considered in the context of a separate proceeding, a waiver petition or a rulemaking."

In response, on November 5, 1993, NECA filed a Petition for Rulemaking that proposed two incentive options. One of these is similar to the OIR plan, the other is similar to the plan available to small study areas in Section 61.39 (details attached). Comments and replies were filed 12/16/93 and 1/3/94

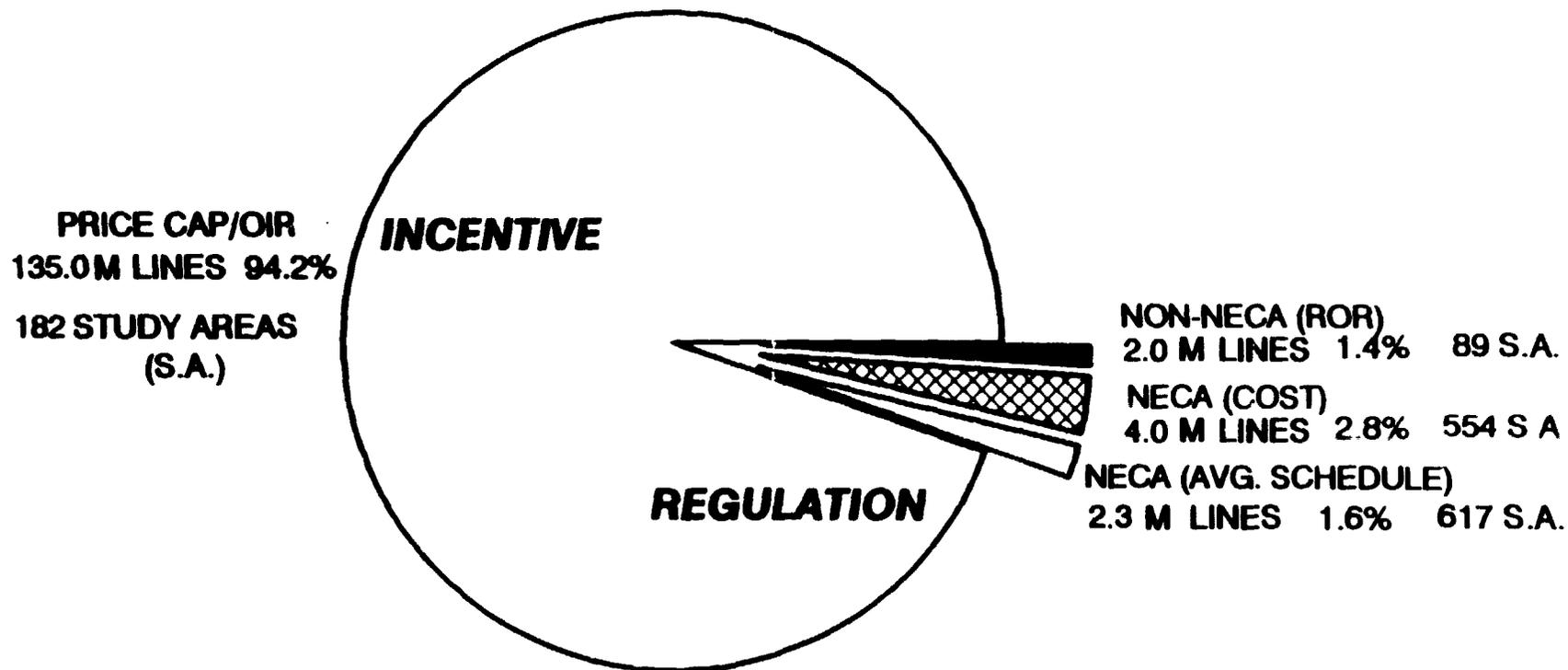
Reasons To Proceed

Importance of FCC moving forward:

- Meet FCC goal of extending incentive regulation options to small and mid-size ECs.
- Maintain concept of pool neutrality - provide same options inside pool that are available to non-pooling ECs.
- NECA hopes to offer these plans by July 1995. Need lead time for EC training and systems development.

Attachment

LEC INTERSTATE REGULATION BY ACCESS LINES



SOURCE: 1992 USF DATA, NECA TS TARIFF

NECA POOL INCENTIVE OPTIONS

KEY FEATURES

General

- Optional settlement plans for pool companies.
- Have attributes of both the current OIR and part 61.39 plans, and average schedule formulas.
- Use company specific formula amounts per demand unit based on historic costs and demand

Pool "OIR" Type" Incentive Plan

- Election available to cost study areas in NECA Pool for either Traffic Sensitive elements only or Traffic Sensitive and Common Line elements, with a 4 year commitment period (two, two-year periods).
- Formula updates occur every two years based on exogenous rule changes and profits outside defined bounds (+ 150bp, -75bp). Formulas are reset every two years to authorized rate of return
- Profit sharing includes inter-incentive company sharing (similar to price cap holding company) prior to sharing with customers.

Pool "Part 61.39 Type" Incentive Plan

- Election available to Subset III study areas in the NECA Pool with fewer than 50,000 lines for either Traffic Sensitive elements only or Traffic Sensitive and Common Line elements, with a two year commitment period.
- There are no exogenous changes or profit sharing. Formulas are reset to the authorized rate of return at the end of each two year period.

Additional Features for Pool

- Streamlined new service introduction similar to OIR Plan.
- Pricing flexibility similar to OIR Plan