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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

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

RE: CC Docket No. 94-1

Today, Ed Lowry, Bell Atlantic-External Affairs, Ed Shakin, Bell Atlantic-Legal, Professor James Vander Weide, Research Professor of Finance and Economics--Duke University, and I met with Michael Katz, Chief Economist for the Federal Communications Commission to discuss the attached, as in pertains to the aforementioned proceeding.

Please include this letter and the attached into this record as appropriate.

Sincerely,

Maureen Keenan

Attachments

CC: M. Katz

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Bell Atlantic -- CC Docket No. 94-1

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I Price caps are designed to regulate prices, not earnings.

- ◆ The price limitation protects customers, while the earning freedom provides incentive for network investment, innovation and new services.

II The Commission should apply the same regulatory principles and methodologies to all market participants.

- ◆ Given the convergence of service and technology offered by the telecommunications and cable industries, it is essential that price cap LECs have regulatory standards equivalent to cable companies, competitive access providers and IXCs. If one group were to gain an advantage through the regulatory process, benefits of competition would be lost.
- ◆ Regulatory parity requires that the Commission:
 - 1) eliminate the sharing and low-end adjustment mechanisms;
 - 2) eliminate depreciation prescription;
 - 3) correct the productivity factor to no higher than the amount mandated for cable.

III Price Cap LECs will respond and have responded to regulatory incentives to invest in the network.

- ◆ Price caps already have resulted in investment in the network. During the time period 1991 to 1993, the price cap LECs cash flows from operations exceeded their cash dividends to the RHCs by \$42 billion. Claims of LEC disinvestment have been based on invalid measures of investment activity.
- ◆ Future investment in the network can be inhibited or stimulated depending on the Commission's regulations going forward. Limitations on earnings act as a disincentive to investment.

IV LECs economic earnings during 1991 to 1993 were below the Commission benchmark.

- ◆ Any review of earnings must focus on economic returns rather than accounting rates of return. Accounting rates of return overstate the true economic returns.
- ◆ Economic returns are significantly below the 11.25% economic return benchmark set by the Commission.

**BELL ATLANTIC
RESTATEMENT OF RATE OF RETURNS
CC DOCKET NO. 94-1**

LEC PRICE CAP PERFORMANCE REVIEW

**WEIGHTED AVERAGE
(1991-1993)**

RESTATEMENT OF RATE OF RETURNS	Bell Atlantic	Price Cap LECs
Economic Rate of Return	8.25%	NA
Using AT&T's Depreciation Expense Ratios	8.39%	7.47%
Using Cable's Depreciation Expense Ratios	0.42%	(0.54%)