Ad Hoc vs. USTA on the development of the X factor

	Ad Hoc	USTA
Productivity	**2.6%**	**2.6%**
Input Price Differential	**GDP-PI – 2.6%**	**GDP-PI + 0.3%**
Consumer Productivity Dividend	**0.5%**	**0.0%**
Final Price Cap Index Formula	**GDP-PI – 5.7%**	**GDP-PI – 2.3%**

Adoption of the USTA position would result in an inappropriate transfer of at least $8-billion of wealth from telecommunications users to LECs over the next four years, chilling competitive activity and creating a significant drag on the US economy.

The parties' positions on the X Factor / Price Cap Formula issue

Ad Hoc analysis yields 5.7% .

AT&T analysis yields 5.47% .

MCI analysis yields 5.9% .

USTA method, but using Taylor's input price theory, yields 5.7%

These results explain why LEC rates of return have increased under the 3.3% price cap program.

Clearly, the X Factor should be increased to at least 5.7%.

In a competitive market, firms do not retain indefinitely the fruits of their efficiency and productivity gains

- **Benefits will be retained only for a short period of time, and will disappear once improvements and innovations are mimicked by competitors**

By contrast, in resisting consumer dividend and sharing, USTA seeks to capture permanently all LEC productivity and efficiency gains, a result that is simply not possible under competitive market conditions.