BELLSOUTH

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EX PARTE

January 20, 1995

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE OR LATE FILED

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

RE: Written ex parte Communication in LEC Price Cap Performance Review, CC Docket No. 94-1

Dear Mr. Caton:

DOCKET FILE COPY ORIGINAL

This notice of a written ex parte presentation in the above-referenced proceeding and the attached letter are provided for inclusion in the public record pursuant to the Commission's ex parte rules at 47 C.F.R. § 1.1200 et seq.

If you have any questions regarding this matter, please do not hesitate to call the undersigned.

Sincerely,

for Maurice P. Talbot, Jr.
Executive Director-Federal Regulatory

Attachment

cc: Kathleen Wallman
Richard Metzger
David Nall
Anthony Bush
Joanne Wall

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EX PARTE

January 20, 1995

Ms. Kathleen Wallman
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, N.W. Room 500
Washington D.C. 20554

Re: LEC Price Cap Performance Review, CC Docket No. 94-1

Dear Ms. Wallman:

I am writing in regard to an issue that arose during BellSouth's *ex parte* presentation to you and members of your staff on December 7, 1994, in this proceeding. During that meeting, BellSouth was questioned by a member of your staff about its use of a Bureau of Labor Statistics (BLS) interstate long distance rate index to show what has happened to interstate MTS rates since the local exchange carriers' (LEC) price cap plan was implemented on January 1, 1991. As you may recall, those questions stemmed from concerns that the BLS index may not include all of the discount plans currently being offered by the interexchange carriers (IXCs) and, thus, may overstate IXC rate increases.

This same issue apparently arose in *ex parte* presentations that MCI recently made to Chairman Hundt, Commissioner Ness and various members of the FCC staff concerning issues before the Commission in CC Docket 94-1. In those presentations, MCI asserted that since the LECs' price cap plan was implemented on January 1, 1991, MCI's interstate long distance rates have fallen by roughly the same percentage amount as interstate exchange access charges.

MCI also contrasted its alleged reductions in interstate rates with a second index labeled *BellSouth "Assumption" Interstate Long Distance Rates*. This index shows that instead of declining by 12 percent since 1991, interstate rates actually went up by nearly 13 percent.

We bring this to your attention for two reasons. First, the interstate rate index that MCI attributes to BellSouth was compiled by the Bureau of Labor Statistics. As we explained in our meeting with you, it reflects the interstate MTS rate component of the BLS consumer price index, a widely used barometer of the cost of living in this country. You may also be aware that the BLS interstate index also is routinely used by the Common Carrier Bureau's Industry Analysis Division, in its semi-annual *Trends in Telephone Service* report, to highlight on-going changes in the cost of long distance service to end users. In any case, MCI's claim that the BLS index is based on some set of "assumptions" made by BellSouth is simply wrong.

Second, and more important, we want to reiterate our view that trends in interstate rates clearly matter in this proceeding because they suggest two very different ways that funds affected by Commission's actions in the price cap docket might eventually be used. The Bureau of Labor Statistics data indicates that rates have been going up; a finding that suggests that further reductions in interstate exchange access charges would not be passed along to consumers. MCI, on the other hand, maintains that rates have been going down in an effort to assure the Commission, albeit indirectly, that consumers would gain from further LEC access charge reductions.

The question of who benefits -- consumers or shareholders -- is obviously important to consumers. The Commission needs to resolve this question by making an affirmative finding one way or the other. Only by making such a determination can the Commission be assured what impact interstate access charge reductions by price cap LECs will have on consumers and the public interest. To the extent that potential LEC earnings reductions are likely to be absorbed by IXC shareholders, without benefit to consumers of interstate services, the transfer carries with it no clear public interest advantage and, because of the lower investment rate by long distance carriers, may well reduce the overall rate of capital formation.

At the end of the day, the public deserves to know whether interstate rates are going up or going down. We at BellSouth have attempted, unsuccessfully, to confirm the validity of the average revenue per minute measures offered by MCI as surrogate price level measures. The Commission also is well aware of some of the shortcomings of this estimating procedure, and we need not elaborate and repeat those here. If the Commission believes that the methods being used by the Bureau of Labor Statistics to measure trends in interstate rates are flawed and inferior to alternative measures suggested by MCI, it should explain the basis for that finding. And, it should so inform BellSouth, the Bureau of Labor Statistics, and others such as the Federal Reserve Board who rely on BLS measures.

We do not believe, however, that the Commission is free simply to dismiss the Bureau of Labor Statistics rate indices out of hand in favor of those advocated by MCI. If you would like to meet with us to discuss this matter further we would be more than happy to do so.

Sincerely,

Maurice P. Talbot, Jr.

cc: William Caton
Richard Metzger
David Nall
Anthony Bush
Joanne Wall