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Ameritech

Anthony M. Alessi
Director
Federal Relations

March 10, 1995

EX PARTE OR LATE FILED

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 22054

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Re: **Ex Parte Statement**
Docket 94-1

Dear Mr. Caton:

On March 10, 1995, Mr. Fred Konrad, Director - Federal Relations and I met with Mr. Richard Welch, Legal Advisor to Commissioner Chong, to discuss our position in the above referenced proceeding. The attached information was used as part of our discussion.

Sincerely,

Attachment
cc: R. Welch

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Docket 94-1; Price Cap Reform
Ameritech's View

Goal of LEC Price Cap Regulation

To benefit consumers by giving LECs the incentives to provide access services of quality and at prices which would be produced in a fully competitive environment.

To encourage LECs and state regulators to facilitate the development of local competition.

Competition and Price Cap Reform - The Need for Change

From 1991 through 1994, Price Caps was an effective interim plan while moving from a fully regulated environment toward a fully competitive environment.

Competition for access services now requires streamlining the Price Cap plan.

Ameritech Competitive Landscape

Active Access Competition Exists in the Ameritech Region

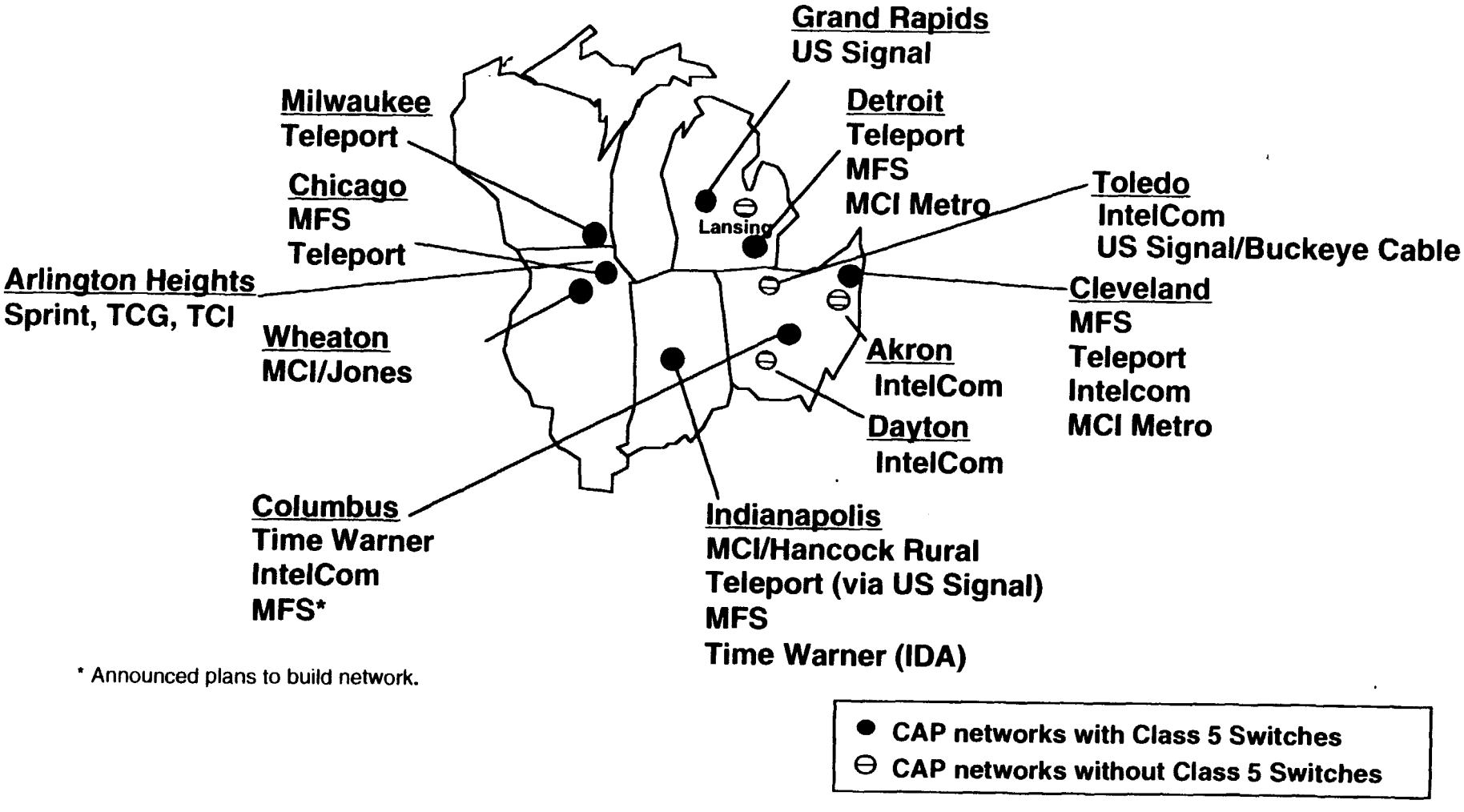
Multiple access providers have built and operate networks in Ameritech's top 10 cities.
Class 5 switches installed in 7 of the top 10 cities.

Pro-competitive State Regulatory Environment

Alternative local exchange carriers have been granted certification in Illinois, Michigan, and Wisconsin, and certification requests are pending in Indiana and Ohio.

Increased access and local exchange competition is expected with full network unbundling (e.g., loops, ports, reciprocal compensation, number portability) in Illinois and Michigan.

1+ IntraLATA subscription
- Has been ordered in Michigan to begin 1/1/96
- Will be ordered, this month, as part of Customers First in Illinois
- Wisconsin is expected to order in 1995
- Included in Ohio's local competition docket starting this month



* Announced plans to build network.

● CAP networks with Class 5 Switches
⊖ CAP networks without Class 5 Switches

- Alternate local providers have networks in ALL of Ameritech's top ten metro areas.
- Alternate local providers have deployed local switches in seven of the top ten metropolitan areas.
- 60% of Ameritech's top ten metropolitan areas have at least two alternate local providers.
- Ameritech constructing SONET ring capabilities in top ten metropolitan areas over three years at cost of over $200M. Chicago ring complete in 1995.

Ameritech's Response to Competition for Access Services

The introduction of UltimateLink which was designed to position Ameritech as the industry leader in access services by offering a comprehensive price, performance and product package.

To Price Competitively

- Drive down per-minute access prices
- Reward customers for continuing and growing their business with Ameritech
- Offer Zone, Volume and Term discount plans for transport services
- DS1 LDC rates reduced by 50% since the introduction of Price Caps
- Reduced Switched and Special Access nonrecurring charges
- Zone pricing for Local Switching
- Expansion of Optional Payment Plans to include 2 and 4 year terms

To improve performance and installation guarantees

- Invest in infrastructure
- Guarantee our performance
- Simplify customer operations

To introduce innovative products, regularly

The Ameritech Access Pricing Story

Ameritech's access pricing is dictated by customers in the Competitive Access Marketplace.

Prices set below the price cap ceiling for both switched and transport services.

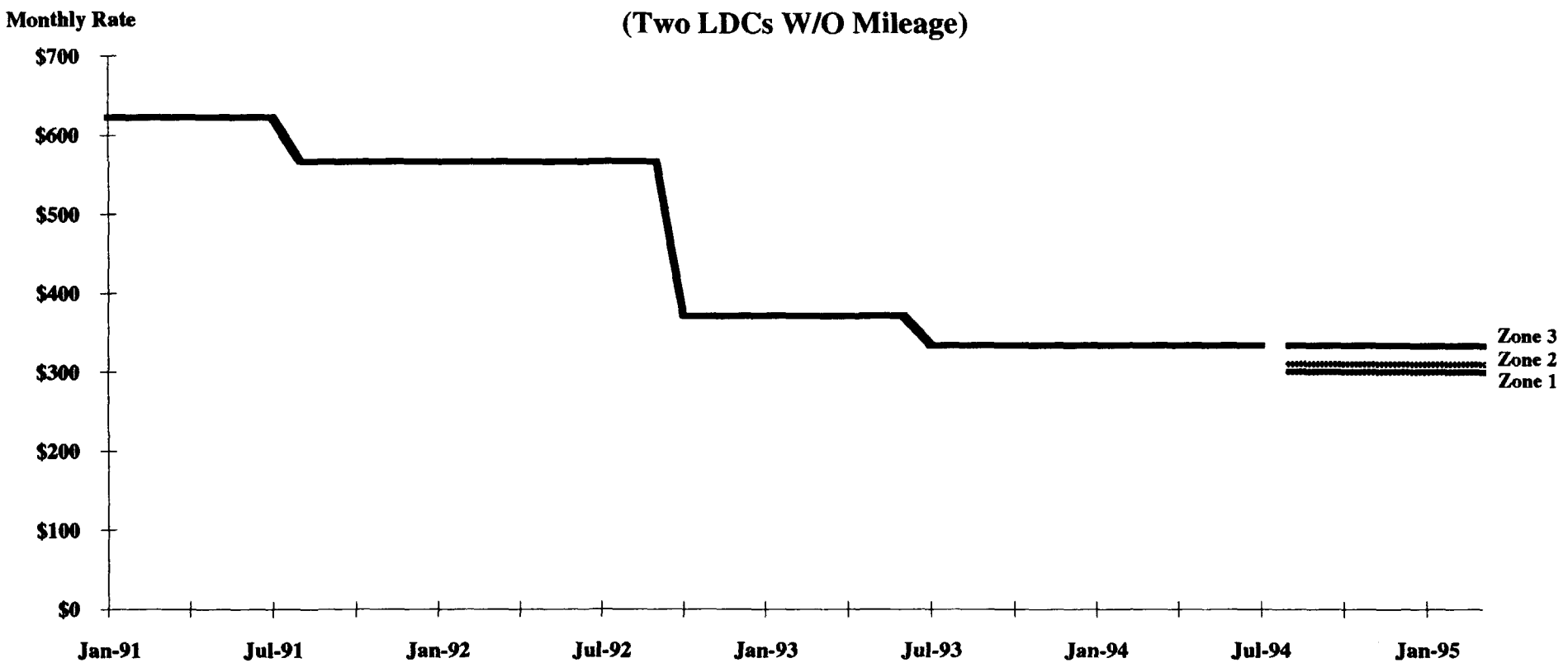
Average switched access revenues per mou have declined 30% since the start of price caps in 1991. Price caps would have required only a 17% reduction.

Transport rates have been deaveraged with no increases to rates in the least dense or at least competitive areas.

Ameritech has made firm commitments to customers to continue lowering access prices through the UltimateLink program.

Ameritech DS-1 Price Cap Rate History

(Two LDCs W/O Mileage)



60 Month Term Price (Two LDCs) for Zone 1 - $225

Price Cap Reform is an Absolute Necessity for Ameritech's Access Business

Ameritech must be able to reinvest earnings and price services to meet customer alternatives in a competitive marketplace.

No longer can Ameritech simply reduce prices across the board.

Ameritech must have the incentives and resources to invest in order to meet our customers' expectations.

Cornerstones for the Fully Competitive Marketplace Will be Set by the Price Cap Reform Docket

The elimination of the annual review of interstate earnings and future adjustments of sharing and LFAM amounts.

Additional pricing flexibility:	Ability to change rates and modify existing structures on one day's notice
	Allow downward pricing flexibility of 15% across Price Cap band indices and subband indices; and merge DS1/LT-1 with DS3/LT-3 services into one service band
	Elimination of Part 69 waiver requirement for new services

No change to the productivity offset

Price Caps Means Regulating Prices Not Earnings

- *Price limitations protect customers, while the earnings freedom provides incentives for network investment (see Pablo Spiller study), innovation and new services.*

- *Accounting returns are overstated due to the low depreciation rates prescribed by the FCC. Ameritech has already discontinued use of SFAS 71 and adopted realistic depreciation rates for financial reporting purposes.*

- *Returns calculated using realistic depreciation rates provide a more objective basis than accounting returns.*

Price Cap Means Regulating Prices Not Earnings (cont)

- *Within the Ameritech region all 5 five state commissions have approved Price Cap plans that do not include earnings sharing.*

- *Additionally, 4 out of 5 of Ameritech's states do not set depreciation rates for intrastate purposes.*

- *With Commission approval, Ameritech would adjust its depreciation lives on the regulated books to match those used at the FR level.*

Ameritech's Price Cap Earnings and Depreciation Rates

1991 - 1993	**Average Interstate Rate of Return** (from the 492 reports)	**13.53%**
1991 - 1993	**Average Interstate Rate of Return** (Assuming that the FCC's June 28 and October 11, 1994 Orders in the Depreciation Simplification Proceeding had been in effect)	**12.39%**
1991 - 1993	**Average Interstate Rate of Return** (Assuming AT&T's federally prescribed depreciation rates.)	**9.08%**
1991 - 1993	**Average Interstate Rate of Return** (Assuming average plant lives being used on Ameritech's financial reporting books.)	**7.87%**

Composite Depreciation Rates

The Composite Depreciation Rate for Ameritech for 1991 - 1993 is 6 8%

The Composite Depreciation Rate for Ameritech assuming the two Depreciation Simplifica: Orders had been in effect for 1991 - 1993 is 7 8%

The Composite Depreciation Rate (10 10%) for AT&T is based on currently prescribed depreciation rates.

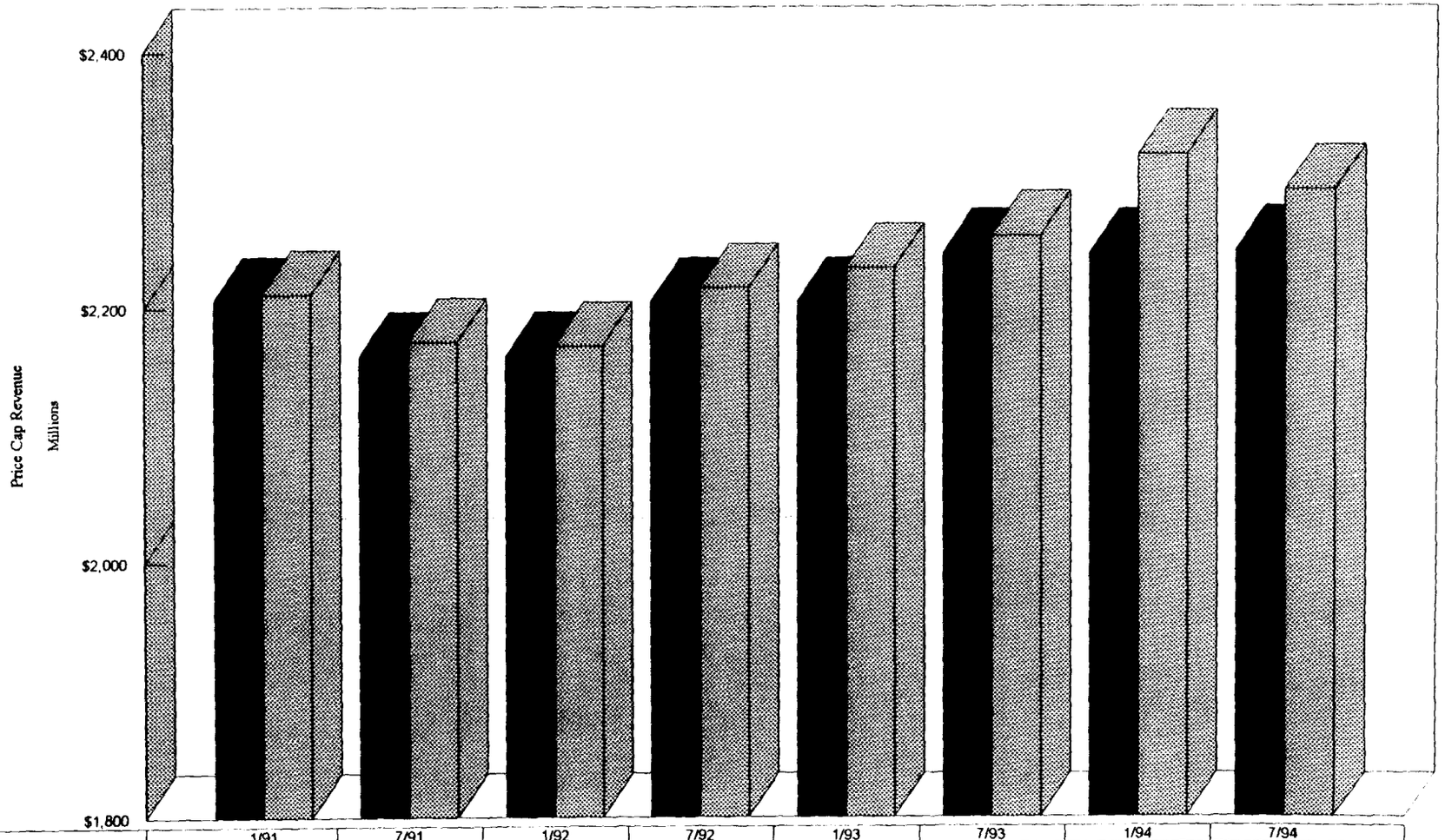
The Composite Depreciation Rate (11 00%) for Ameritech assumes the average plant lives currently used (post SFAS71) for financial reporting purposes.

Price Cap Plans Summary

	Illinois	Indiana	Michigan	Ohio	Wisconsin	LEC Price Cap Plan	AT&T Price Cap Plan	Ameritech Proposal
Earnings Sharing	No	No	No	No	No	Yes	No	Embed
Productivity Offset	3.3%	None	1.0%	2.8%	3.0%	2.8%	2.5%	2.8%
Consumer Productivity Dividend	1.0%	None	None	.2%	None	.5%	.5%	.5%
Total	4.3%	None	1.0%	3.0%	3.0%	3.3%	3.0%	3.3%
Depreciation Prescription	None	None	None	None	Range of Rates	Direct Oversight	Direct Oversight	None

Ameritech

"Gaps" between the PCI and the API



	1/91	7/91	1/92	7/92	1/93	7/93	1/94	7/94
Actual Revenues (API)	$2,206	$2,162	$2,162	$2,204	$2,204	$2,242	$2,242	$2,245
Maximum Revenue (PCI)	$2,211	$2,173	$2,170	$2,216	$2,231	$2,256	$2,320	$2,292

All dollars shown in millions

Difference between the 2 columns represent the price cap dollar difference between the PCI and the API

Access Competition in the Ameritech Region

CAPs and CATV companies have created a competitive environment in the Ameritech region.

Access providers in the Ameritech region include:

MFS Communications Inc.
Teleport Communications Group
US Signal
IntelCom Group (ICG)
Time Warner AxS
MCI Metro

Competition is not localized to just Chicago.

These companies are active in ***Chicago, Detroit, Cleveland, Indianapolis, Milwaukee, Grand Rapids, Columbus, Dayton and Toledo***

CAPs and CATV companies have created a competitive environment in the Ameritech Region today

	Current	Developing
Region Wide	• CAP networks are present in top 10 cities	• $58 million CAP network expansion in top four cities • Interconnection is present or pending in 70+ wire centers • ICG constructing 300 route mile network in Ohio
Chicago	• **MFS, and TCG Class 5 switches installed** • MCI/Jones Intercable integrated access trial • TCG and MFS are authorized to offer local switching • **TCG & MFS each have network capacity to carry 100% of Ameritech HiCap circuits** • CAPs have access to 95% of the buildings with 4 or more DS-1s	• MFS- $15 million expansion in suburbs • MCI pending authorization for local switching • MFS is constructing a state-wide SONET network for ComEd • TCI/Motorola integrated access trial in Arlington Heights
Detroit	• **TCG has Class 5 switch and extensive network via TCI, Comcast, and Continental CATV.** • MCI Metro negotiating collocation with Class 5 switch and SS7 interconnection • **TCG has network capacity to carry 200% of Ameritech's HiCap service in Detroit and 5ESS switch installed**	• MFS- $20 million network construction • **MFS, TCG, MCI pending authorization to provide local service**
Cleveland	• IntelCom has network capacity to carry 161% of Ameritech's HiCap circuits • MFS, MCI Metro, and US Networks are constructing local networks • IntelCom 91 route mile network expansion • Intelcom installed 5ESS Local Switch • US Network installed 2-5ESS local switches	• TCG is planning to develop network • **MCI, MFS, Time Warner pending authorization to provide local switching**

. . . and competition is not localized to just Chicago

Market	Current	Developing
Grand Rapids	• US Signal approved for certification to provide local exchange service with Class 5 switching • **US Signal has network capacity to carry 3.5 times the number of Ameritech HiCap circuits in Grand Rapids**	• TCG and Cablevision Lightpath to offer telephony via CATV networks
Indianapolis	• MCI pending authorization to offer local switching via Hancock Rural's Class 5 switch • Time Warner AxS & US Signal have CAP networks • Teleport purchased US Signal Network	• MFS is constructing an $11 million network
Milwaukee	• TCG has been authorized to provide local service • Time Warner is installing 100 miles of new fiber	
Columbus	• Time Warner AxS currently in over 40 buildings • Time Warner Network passes by 80 major buildings • ICG constructing $7M, 60 mile network	• Planning to deploy AT&T 5ESS switch • ICG planning to deploy AT&T 5ESS switch
Dayton	• ICG 29 mile network expansion	
Toledo	• US Signal constructing network	

Highlights of Local Exchange Competition in the Ameritech Region

Illinois

Who's Certified? ***MFS*** *7/20/94*
Teleport *9/07/94*

MCI Metro and Jones Intercable *certified on a trial basis in Wheaton (have requested to extend this trial to cover the Chicago area)*

What's the Illinois Commission doing to foster competition?

On 2/8/95 the ICC issued an order that requires Ameritech to interconnect with MFS on the same basis as any other LEC and provide reciprocal compensation or termination of local calls.

Final order expected in March on Ameritech's Customers First filing. The ICC Hearing Examiner's proposed order would require Ameritech to:

Implement End Office Integration and Reciprocal Compensation
Unbundle loops and ports
Implement intraLATA 1+ subscription on a 2-PIC basis within 1 year
Tariff interim Number Portability within 45 days

Highlights of Local Exchange Competition in the Ameritech Region

Indiana

MCI filed an application on 4/25/94 to resell Centrex service from Hancock County (an independent company) in server Ameritech Indianapolis exchanges. Case is pending.

Michigan

PSC issued an order requiring LECs to implement IntraLATA 1+ by 1/1/96.

City Signal was granted a license on 10/24/94 to provide exchange service in the Grand Rapids area.

Other companies that have requested licenses to provide local service in the Detroit area: MCI Metro (10/3/94), MFS (10/24/94) and Teleport (11/10/94)

Ohio

Time Warner filed an application on 10/26/94 to provide service in 37 counties.

MCI Metro filed on 12/20/94 to provide service in Cleveland, Columbus and Dayton.

Highlights of Local Exchange Competition in the Ameritech Region

Ohio (Cont.)

MFS filed on 12/21/94 to provide local service in Cleveland, Columbus and Cincinnati.

On 11/9/94, NCTA, Teleport, MFS, AT&T, MCI and several other parties announced they would jointly lobby in 6 states for removal of legal/regulatory barriers to entry for competitive local exchange services (Ohio was one of the included states).

Wisconsin

On 7/7/94, the PSC of Wisconsin issued orders which found intraLATA 1+ subscription is in the public interest and should be implemented using a 2-PIC approach.