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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Ex Parte

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

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

Dear Mr. Caton:

*In accordance with the Commission rules governing ex parte presentations, please be advised that today, Jeff Olson and the undersigned representing Southwestern Bell met with Alexander Belinfante and Mark Uretsky of the Common Carrier Bureau to discuss SWBT's position as reflected in the record of the above referenced docket.*

*Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions.*

Sincerely,

  
Attachments

cc: Alexander Belinfante  
Mark Uretsky

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List A B C D E

**NPV @ 11.25% of OWNERS NET INCOME (1995-1999)**

Assumptions					A: Initial 1994 Earnings Level B: Alternative Achieved Productivity Profiles											
X	PCI Cut	Shar- ing	Add- Back	100% Sharing Begins	A	13.4%			14%			15%				
					B	4.5%	5%	5.5%	4.5%	5%	5.5%	4.5%	5%	5.5%		
3.5%	0%	Yes	No	16.25%												
<b>(approximates current plan)</b>						16.5	16.9	17.2	17.0	17.3	17.6	17.7	18.1	18.3		
<b>Low Option:</b>																
4.0%	0%	Yes	Yes	13.25%		15.2	15.3	15.5	15.2	15.3	15.5	15.2	15.3	15.5		
4.0%	0%	Yes	Yes	16.25%		15.8	16.1	16.4	16.1	16.4	16.7	16.7	16.9	17.1		
<b>High Option:</b>																
4.5%	0%	No	NA	NA		16.2	16.7	17.1	16.9	17.3	17.7	17.9	18.3	18.8		
5.0%	0%	No	NA	NA		15.7	16.1	16.5	16.3	16.7	17.2	17.3	17.8	18.2		
5.5%	0%	No	NA	NA		15.1	15.5	16.0	15.7	16.2	16.6	16.8	17.2	17.6		
6.0%	0%	No	NA	NA		14.5	15.0	15.4	15.2	15.6	16.0	16.2	16.6	17.0		
6.5%	0%	No	NA	NA		14.0	14.4	14.8	14.6	15.0	15.5	15.7	16.1	16.5		
7.0%	0%	No	NA	NA		13.4	13.9	14.3	14.1	14.5	14.9	15.1	15.5	15.9		
<b>Low Option:</b>																
4.0%	3%	Yes	Yes	13.25%		14.8	15.0	15.1	14.8	15.0	15.1	14.8	15.0	15.1		
4.0%	3%	Yes	Yes	16.25%		14.9	15.2	15.5	15.3	15.6	15.9	15.8	16.1	16.4		
<b>High Option:</b>																
4.5%	3%	No	No	NA		14.9	15.3	15.8	15.5	16.0	16.4	16.6	17.0	17.4		
5.0%	3%	No	No	NA		14.3	14.8	15.2	15.0	15.4	15.8	16.0	16.4	16.8		
5.5%	3%	No	No	NA		13.8	14.2	14.7	14.4	14.8	15.3	15.4	15.9	16.3		
6.0%	3%	No	No	NA		13.2	13.7	14.1	13.8	14.3	14.7	14.9	15.3	15.7		
6.5%	3%	No	No	NA		12.7	13.1	13.6	13.3	13.7	14.2	14.3	14.8	15.2		
7.0%	3%	No	No	NA		12.1	12.6	13.0	12.8	13.2	13.6	13.8	14.2	14.6		

# SWBT's Pricing Below Cap

(Leading up to 1995 Annual Filing)

	Revenue	Revenue Below Cap	Percent Below Cap
Common Line	\$323	(\$2.5)	-0.8%
Traffic Sensitive	\$326	(\$1.0)	-0.3%
Trunking *	\$613	(\$9.4)	-1.5%
Interexchange	\$39	(\$0.4)	-1.0%
	\$1,301	(\$13.3)	-1.0%

\* Trunking revenue not yet updated for 1995 Annual Filing data. Other baskets reflect 1994 base period demand and most recent pricing data as will be reflected in 1995 filing.

## **Value Effects of Regulatory Restrictions**

### **Tightened Sharing Bands:**

Current plan vs. 12.25% to 13.25% sharing range (with addback):

- Reduces Value by \$1.1B to \$1.4B (7% to 9% loss in value)
- Based on industry average performance

### **1% Increase in Productivity Offset:**

Increasing the productivity offset by 1%:

- Reduces Value by approx. \$1.2B (7% loss in value)
- Value calculation above only considers 5 years. Effect compounds geometrically each year.

### **"Per-Line" Common Line Treatment:**

Revise Common Line Price Cap Formula to "Per-Line" Treatment:

- Reduces Value by approx. \$1B (6% loss in value)
- Effects compound geometrically, like productivity offset.
- Equivalent to 0.7% to 0.8% increase in productivity offset.

### **Up-Front Reductions in Price Caps:**

A 1% Reduction on Price Cap Indexes:

- Reduces Value by approx. \$0.5B (3% loss in value)

A 3% Reduction on Price Cap Indexes:

- Reduces Value by approx. \$1.4B (9% loss in value)

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**Notes:** Values based on NPV of LEC Net Income over 1995-1999 (5 years).  
The value of each variable noted above has been determined individually. These variables in combination interact, and are therefore not strictly additive.