GTE

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March 20, 1995

EX PARTE OR LATE FILED

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

EX PARTE: CC Docket No. 94-1

DOCKET FILE COPY ORIGINAL

Dear Mr. Caton:

Today I held a brief telephone conversation with Karen Brinkmann of Chairman Hundt's office regarding the points made in the attached document. In addition I delivered copies of the document to the offices of Commissioner Quello, Commissioner Ness, Commissioner Chong and Commissioner Barrett. Please incorporate this document into the record of the above-captioned proceeding.

Please call me if you have any questions.

Sincerely,

Whitney Hatch

c: P. Belvin
K. Brinkmann
J. Casserly
J. Coltharp
R. Welch
R. Metzger
K. Wallman

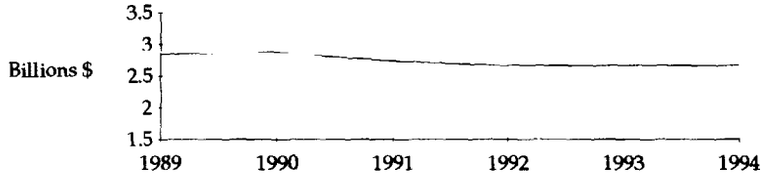
No. of Copies rec'd 0+1
List A B C D E

PRICE CAPS

PRESENT OBJECTIVES: "BACK TO BASICS"

A. Promote incentives for greater efficiency, innovation and investment.

GTE Telephone Investment

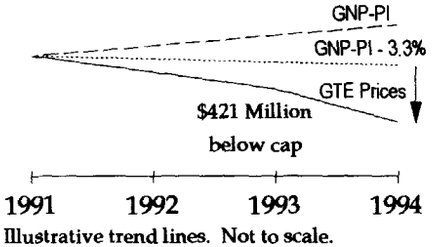


	1989	1990	1991	1992	1993	1994
Pcnt Lines Digital	73.5%	77.4%	81.9%	85.5%	88.2%	90.7%*
Sheath km of Fiber	34,329	44,271	48,359	52,093	63,394	75,637*

(*estimates)

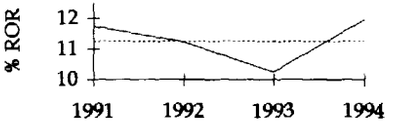
B. Ensure just and reasonable rates for innovative, high-quality services.

GTE Access Prices



Illustrative trend lines. Not to scale.

GTE ROR vs FCC



1991-1993 ROE Comparison	
AT&T	16.5%
MCI	18.9%
GTE Interstate	12.9%

C. Provide a regulatory framework which mimics and promotes competition.

Yet to be accomplished.

CONCLUSION: FCC price cap regulation has worked.

PRICE CAPS

FUTURE OBJECTIVES: "BACK TO THE FUTURE"

A. Promote incentives for greater efficiency, innovation and investment.

- Avoid earnings "recapture" or historically-based adjustments which will gut inherent incentives of price caps.
- Break the link between rate of return and price caps — eliminate sharing.
- If an interim step is needed, provide price cap options which recognize the range of performance among LECs.

B. Ensure just and reasonable rates for innovative, high-quality services.

- Establish price cap parameters based on a future outlook, not historical retribution.

C. Provide a regulatory framework which mimics and promotes competition.

- Proceed to develop an adaptive framework of price cap rules to promote the introduction of new services, promote competition in access markets, and to establish reasonable pricing signals for market entry and NII investment.
- Steps to take now:
  - -- Allow new switched elements without a waiver.
  - -- Set all lower bands at -15% — Rate reductions are good.
  - -- Extend the application of zone pricing to local switching and all trunking elements but the RIC.
- Issue a further notice to determine:
  - -- Relevant markets for determining the presence of competition;
  - -- Competitive criteria for making such a determination; and
  - -- Streamlined price cap rules to apply in those markets where competition is demonstrated.