EX PARTE OR LATE FILED

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MAR 17 1995

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

March 17, 1995

EX PARTE

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

RE: CC Docket No. 94-1

Today, Edward Young, Bell Atlantic-Vice President External Affairs met with Richard Welch-Legal Advisor to Commissioner Chong to discuss the attached, as in pertains to the aforementioned proceeding.

Please include this letter and the attached into this record as appropriate.

Sincerely,

Maureen Keenan

Attachment

CC: R. Welch

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List A B C D E

PRICE CAP REFORM

- Principled Based Productivity Index
  - Comparable to other industries
- Need to preserve incentives for investment and efficiency
- Establish an adaptive framework for transitioning to competition
  - Remove interexchange basket from price caps as a first step
  - These services are competitive and LEC is not dominant carrier
- Interim plan would create further uncertainty

Bell Atlantic
Price Cap Reform (CC Docket 94-1)
February 15, 1994

INTEREXCHANGE (IX) BASKET

Consideration should be given to remove IX services from Price Cap Regulation, at a minimum Corridor Service should be removed.

- **Interexchange Services consist of the following:**

  -Interstate InterLATA (Corridor)
  -Interstate IntraLATA
  -Operator and Directory Assistance
  for Interstate Inter and Intra LATA

- **Rational for Removal of such services from Price Cap Regulation:**

  -Commission has already recognized that these services are competitive in their original Price Cap Order.
  -Competitors are not subject to earnings monitoring.
  -Marketplace has already established a price ceiling. (API is below PCI)
  -Bell Atlantic is Non-Dominant carrier in corridor.

- **Interstate InterLATA (Corridor) Services:**

  -Prices are 20-40% below AT&T's.
  -Represents 41% of Bell Atlantic's IX Basket.
  -Customers are currently bypassing BA for this service.

- **Interstate IntraLATA Services:**

  -All customers have the option and ability to use other Long Distance Carriers
  -Business customers use:
    -FG A
    -Dedicated Special Access Services
    -PBX's programmed to auto dial an IXC
  -Small Business customers use:
    -Automatic Dialers
    -Speed Dialing
    -Have significantly lowered rates in the review period
    -Toll Plans
    -Represents 48% of BA's IX Basket

- **Bell Atlantic is unique in the Amount of IX competition it faces today:**

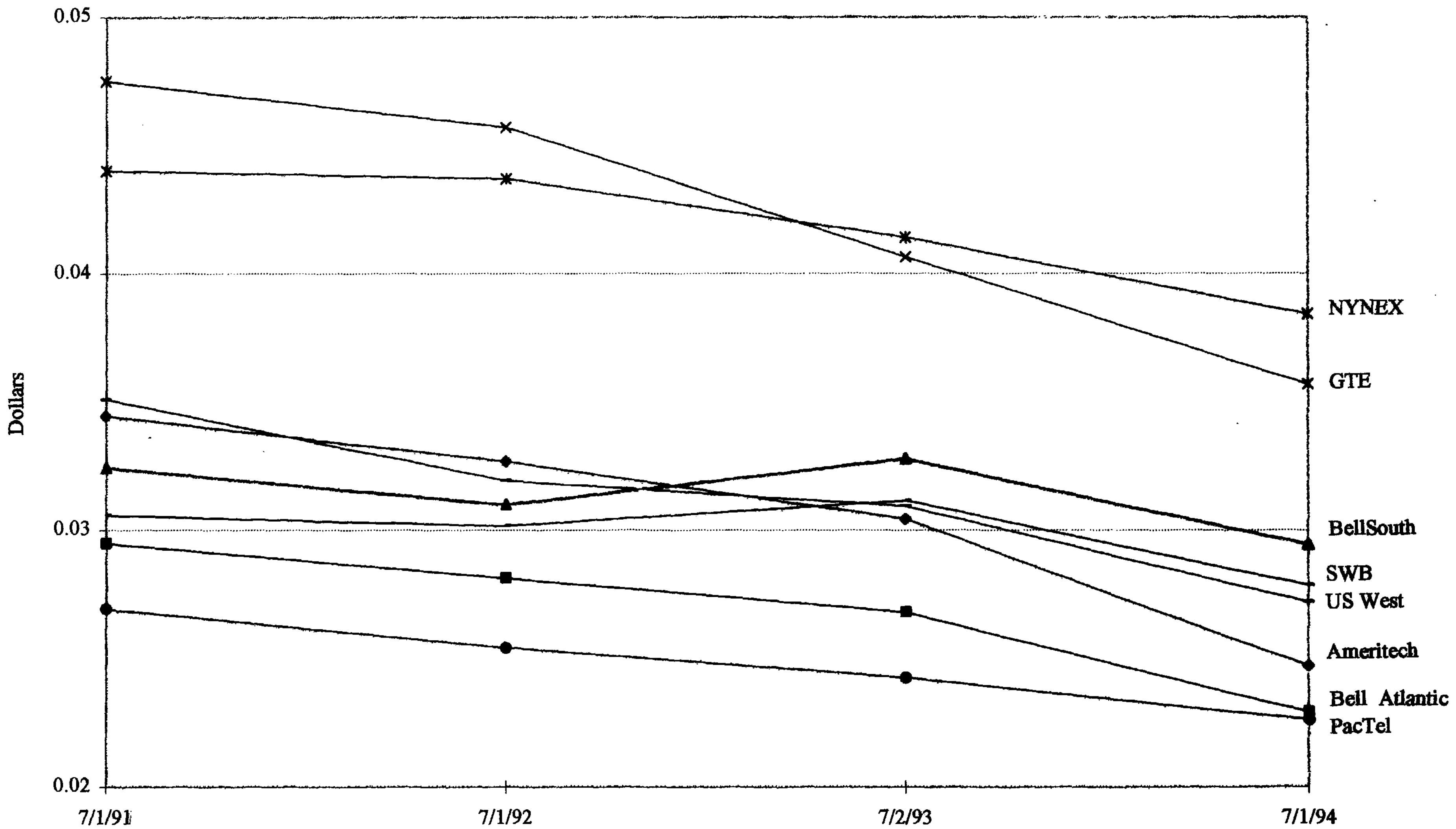
  -Bell Atlantic's IX basket revenues are more than 35% of the total PC LECs IX Basket Revenue.

- **Other Considerations**

  -Other Competitive Data

Composite Switched Access Rates

BA rates have declined 22% from 1991 through 1994



BELL ATLANTIC, AT&T AND CABLE INDUSTRY
RESTATEMENT OF RoRs BASED ON OTHER
INDUSTRY COMPOSITE DEPRECIATION RATES
1991 - 1993

	1991	1992	1993	1994	AVERAGE
BA Achieved Interstate RoR	12.71%	12.50%	13.89%	14.22%	13.33%
BA Interstate Price Cap RoRs restated for ATT rates 1\	3.50%	9.45%	12.73%	10.62%	9.08%
BA Interstate Price Cap RoRs restated for Cable rates	-0.07%	1.22%	0.16%	N/A	0.44%

1\ 1994 Restated RoR based on AT&T's average 1991-1993 Composite Depreciation Rate.

03/08/95 \ E. Googe

REVISED

DEPRECIATION COMPARISON

Both AT&T and cable companies have higher composite depreciation rates than does Bell Atlantic. This translates into higher depreciation expense, and lower reported earnings.

Cable: Depreciation is not regulated; cables are therefore free to use economic depreciation lives.

Cable is predominantly outside plant intensive, therefore, higher depreciation rate probably driven by shorter lives for coaxial and fiber cable, as well as headend (electronic) equipment.

Cable is not required to file any depreciation data, so all information is only what is "heard on the street".

One cited example,

Fiber depreciation for cable (we think) =	15 years
Fiber depreciation for LECs =	25 - 30 years

AT&T does file data, and following are examples comparing the plant lives of certain types of plant:

	AT&T	BA
Underground cable		
Metallic	9 yrs	24 yrs
Fiber	20 yrs	25.8 yrs
Buried cable		
Metallic	15 yrs	20.7 yrs
Fiber	20 yrs	25 yrs
digital switch	9.7 yrs	17 yrs
Poles	9.3 yrs	31.4 yrs

The View From Wall Street: Competition in the Long Distance Telephone Market

AT&T and its rivals are pushing some prices up after almost 10 years of steady discounting. This gives AT&T more room to grow profits, and it creates an umbrella over MCI and Sprint, allowing them to raise prices, too. *(Kenneth Leon, Bear Stearns, 10/20/92)*

AT&T, MCI, and Sprint all have high-quality earnings because they operate in a stable, oligopolistic industry. . .without serious price competition. [T]he only real threat [is] posed by the Regional phone companies which are unlikely to gain regulatory freedom to enter this business for at least 3-5 years. *(Philip A. Managieri, Cowen, 8/23/93)*

Margins improved for all four [long distance] carriers, reflecting an impact from price increases and steady declines in access costs. *(Daniel P. Reingold and Richard C.Toole, Merrill Lynch, 2/10/94)*

The combination of a cozy oligopoly that wishes to avoid price wars and falling operating expenses primarily due to [exchange] access cost reductions is an unbeatable environment in which to do business. *(Timothy N. Weller and Nick Frelinghuysen, Donaldson, Lufkin & Jenrette, 6/1/94)*

The long distance industry is one of today's premier growth industries. Where else can you find: (1) double-digit unit volume growth, (2) declining unit costs, on a nominal as well as real basis, (3) a $10 billion barrier to entry, (4) a benign, stable oligopoly where the price leader [AT&T] is looking to generate cash to fund other ventures, and (5) a prohibition on competition. . . It is rare to see a full-fledged price war in an oligopolistic market, witness soft drinks. The same holds true in the long distance market. *(G.W. Woodlief and E. Strumingher, Dean Witter, 10/28/94)*

Many investors still seem to believe that there has been some sort of "price war" among the major interexchange carriers. The fact is that although interstate telephone rates have come down by about 50% over the past decade, the entire decline has been "funded" by decreases in the amounts paid by interexchange carriers to the local exchange carriers for "access." *(John Bain, Raymond James & Assoc., 1/12/95)*

Overall, MCI's new Friends & Family program looks like just another round of discounting funded by previously announced increases in the base rates. By focusing on the discount instead of the rate, the industry has been able to quietly raise base rates while spending millions of dollars promoting ever-increasing discounts. *(D. Reingold and M. Kastan, Merrill Lynch, 1/20/95)*

Regardless of your carrier, you are paying higher and higher rates if you are among the tens of millions of Americans who have not signed up for a discount calling plan. The person paying the retail rate is bearing the disproportionate burden. And these are probably the people who can't afford to make a lot of phone calls and therefore [do not] qualify for those cheaper plans. *(D. Briere, Tele-Choice Inc., 1/21/95)*

AT&T now has the same revenues as the entire Bell system just before the break up in 1984, when they spun off about 85 percent of their assets. *(John Bain, Raymond James & Assoc., 1/24/95)*

MCI. . . filed for a 3.9% across-the-board rate increase. We fully expect AT&T, Sprint, and the second tier carriers to follow suit. This move by MCI is extremely bullish for the long distance stocks since it sends a clear message to the investment community that the long distance industry will practice 'safe pricing' which will lead to stable revenue per minute trends. *(Jack B. Grubman, Salomon Brothers, 2/6/95)*

Baby-Bell Watchers Ponder the Unthinkable: Which Might Be the First to Cut Its Dividend?

HEARD ON THE STREET

By SUSAN PULLIAM
And LESLIE CAULEY
Staff Reporters of THE WALL STREET JOURNAL

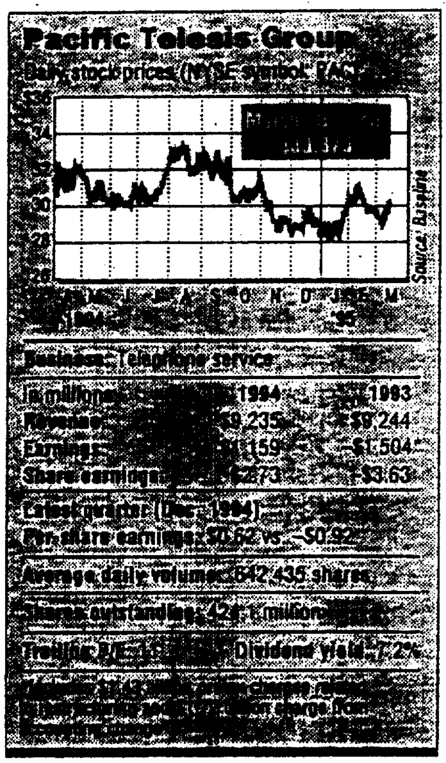
A dividend cut by a Baby Bell? Why, that would be like messing with Mother Nature.

The regional Bell operating companies don't even want to talk about the possibility of cutting the vaunted dividend – much less do the deed – because their stocks could get hammered. Yet the question keeps popping up on Wall Street: Which Baby Bell might be first to puncture the payout in the next year or so?

The dividend dilemma is most stark for Pacific Telesis Group, which has a 7.2% dividend payout, far and away the highest among the Baby Bells. "PacTel undoubtedly faces the greatest balancing act" when it comes to financing its growth strategy while maintaining a high dividend payout, says Andrew Bischel of money manager Spare, Tengler Kaplan & Bischel in San Francisco, a PacTel shareholder.

Like other Baby Bells, Pacific Telesis hasn't any plans to change its annual dividend "at this time," says Jeffrey Heyser, executive director of investor relations. Moreover, Mr. Heyser says the Baby Bell expects to fund the large majority of its existing and planned projects without issuing debt or new equity – or cutting the dividend. However, he concedes that the company's first big expenditure will be funded by issuing short-term debt.

Why are some investors wondering about the Bells' dividends now, when a cut might not come for months or even years? The government's auction of "personal-communications services," or PCS, licenses has reminded investors that the Bells' efforts to morph themselves into growth companies won't come cheaply. Sooner or later, one of them "will cut the dividend – it's just a matter of when," says Scott Billeadeau, portfolio manager with Bank of America's Pacific Horizon aggressive-growth fund.



Why is that? The Baby Bells are racing ahead with costly expansions into such areas as cellular-phone and cable-television services. Meanwhile, competition looms ever larger in their once exclusive local-telephone realms. As one big shareholder puts it: "The Bells face an inherent conflict. What they want to do as companies is in conflict with what their current shareholders want" – namely, fat dividends.

"They are literally in a dividend straitjacket," says Merrill Lynch analyst Daniel Reingold. The industry's worst fears were confirmed when Bell Atlantic's share price plummeted after announcement of its now-shelved plans to merge with Tele-Communications Inc. And Bell Atlantic had suggested at the time merely that the dividend would stay flat.

Bell company managers keep urging shareholders not to worry, envisioning a "soft landing" that will allow entry into new businesses through internally generated cash. It may take longer, but such plans would allow them to avoid touching the dividend, they say; meanwhile, earnings would perk up and growth investors would begin to move in. "The very Wall Street people who fully realize the need for the Bells to invest in growth opportunities would be the very first to react negatively to any change in the dividend policy," one Baby Bell executive says.

Pacific Telesis' payout continues to be the highest among the seven Bells, totaling 80% of its net income. The Bell average is 68%, with SBC Communications, the San Antonio-based regional phone company, at just 52%.

PCS licenses alone are costing Pacific Telesis $695 million. Mr. Heyser said the Bell expects to fund the expenditure by issuing commercial paper within the next six months.

The question is, how much more of its capital-spending requirement over the next several years will need to come from external sources. The company says it can handle most of its heavy spending requirements internally, including between $500 million and $700 million needed to put in the PCS network.

In addition, Telesis will have to pony up as much as $2 billion to AT&T Corp. in 1998 to pay for its spanking-new interactive video network.

If it needs cash, Telesis "has enormous capability to go to the capital markets or take on additional debt," now at about $5 billion, Mr. Heyser said. That may be, but financing its expansion entirely with debt could jeopardize its currently stellar credit rating, at least one analyst says. And dilution from issuance of more equity to pay for its plans wouldn't necessarily sit well with shareholders, either.

"We shouldn't be in a situation where the dividend in 2000 is more of a burden than it is now," Mr. Heyser asserts. Maybe. But that assumes its core telephone business remains strong. That could change once competition starts to take hold in the California market. And it may take years before its investment in cable and other new technology pays off.