



**Fred K. Konrad**  
Director  
Federal Relations

June 23, 1995

EX PARTE OR LATE FILED

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

**RECEIVED**  
**JUN 23 1995**  
**FEDERAL COMMUNICATIONS COMMISSION**  
**OFFICE OF SECRETARY**

Re: **Ex Parte Statement**  
Docket 94-1  
Price Cap Performance Review for Local Exchange Carriers  
Ameritech Petition Regarding Election of 5.3 X-Factor for  
Application Back to January 1, 1995

Dear Mr. Caton:

On June 23, 1995, Mr. Tony Alessi, Director - Federal Relations, Mr. Martin Coveney, Director - Financial Planning, and I met with Ms. Kathleen Wallman, Chief, Common Carrier Bureau, Mr. Mark Uretsky, Assistant Bureau Chief for Economics, Common Carrier Bureau, Ms. Melissa Newman, Common Carrier Bureau, Mr. Anthony Bush, Tariff Division and Mr. Les Selzer, Tariff Division to discuss Ameritech's position in the above referenced proceeding. The attached letter was used as the basis for our discussion.

Sincerely,

Attachment

cc: K. Wallman  
M. Uretsky  
A. Bush  
L. Selzer  
M. Newman

No. of Copies rec'd 0+2  
List A B C D E





**Fred K. Konrad**  
Director  
Federal Relations

June 23, 1995

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

Re: CC Docket No. 94-1  
Price Cap Performance Review for Local Exchange Carriers  
Ameritech Petition Regarding Election of 5.3 X-Factor for  
Application Back to January 1, 1995

Dear Ms. Wallman:

The following information is provided in response to your request.

Ameritech's 1st Quarter Interstate Earnings (excluding billing and collection) expected to be filed on ARMIS reports:

Revenue	\$581.5M
Expenses and Taxes	\$421.4M
Net Investment	\$2894.8M
Rate of Return	22.1%

These data include an extraordinary pension settlement gain (non-cash) of \$47.9 M recognized in the 1st Quarter of 1995. This settlement gain occurred in connection with a 1994 restructuring offer which resulted in 11,000 employees resigning or retiring from active employment.

There are several other known financial changes which will occur during the balance of 1995. These are:

- A) Depreciation Simplification \$13.0M  
(expense increase - annual amount will be retroactive to 1-1-95 - not included in 1st quarter results)
- B) Further Restructuring Charges Net of Additional Pension Settlement Gains \$30.0M  
(to be incurred through the 3rd quarter as additional employees leave the payroll)
- C) Interstate Revenue Reductions in Connection With Annual Filing Rate Reductions (\$27.5M)  
(calendar year impact, effective 8-1-95)

Ms. Kathleen Wallman  
June 23, 1995  
Page Two

- D) SFAS #106 Curtailment Losses \$9.0M  
(recognition of postretirement benefit expenses  
as additional employees leave payroll in  
connection with Ameritech restructuring - none  
recognized in 1st quarter)
- E) Interstate Revenue Reductions in Connection (\$4.0M)  
With Implementation of Switched Transport  
Term and Volume Discounts  
(calendar year impact, effective 8-1-95 in IL  
and 11-1-95 in MI)

There are other factors which will also affect Ameritech's earnings during the balance of 1995, but which cannot be quantified at this time. These factors create significant financial uncertainty for Ameritech during the balance of the year. This uncertainty, in addition to the known financial changes, is relevant to your consideration of Ameritech's request because the 1995 sharing obligation would be based on full calendar year earnings. These other factors are as follows:

- 1) Ameritech's contracts with the IBEW and CWA Labor Unions expire in June and August respectively. New contracts currently being negotiated with these unions will almost certainly result in as yet unknown higher wages than were in effect during the first quarter. Further, the distribution of expenses which result from settlement of the negotiations may also have a significant further impact on 1995 interstate earnings.
- 2) Competition in the provision of switched access services will increase significantly beginning in the 2nd quarter. The Michigan Public Service Commission and the Illinois Commerce Commission have implemented a complete package of local exchange competition measures which will facilitate quick entry by a number of new exchange carriers. By tariff, the commissions in these states from which Ameritech produces 60% of its switched access revenues have provided for local loop unbundling, reciprocal compensation, end office integration and telephone number portability. Further, provisions for full resale of local exchange services have been filed by Ameritech in Illinois. These steps which respond to Ameritech's Customers First Proposal will permit Interexchange Carriers (IXCs) to become full service providers and to displace local switching and transport currently provided by Ameritech. There is clearly a connection between IXC local exchange entry and Ameritech's opportunity to become a full service provider by way of its pending MFJ trial waiver of the long distance prohibition. The IXCs should be expected to move as quickly as possible to establish local exchange market share before Ameritech's MFJ waiver is approved and implemented. IXCs who have indicated an intention to become local exchange providers purchase over 90% of the access services currently sold by Ameritech. In Chicago, both

Ms. Kathleen Wallman  
June 23, 1995  
Page Three

Teleport and MFS have connected customers to their local switches. In Grand Rapids, Michigan, US Signal has connected customers to its switch, utilizing both resold and self-provided local loops. AT&T and MCI Metro have installed several end office switches in Illinois and Michigan and have additional installations under way.

3) A slowdown in economic growth is now being predicted for the balance of the year. (See, for example, Businessweek, June 19, 1995, "The Sharp Slowdown Should Stop Short of Recession", pp.76-77.) This expectation is based on the view that interest rate increases and the buildup of inventories are beginning to blunt economic activity. Ameritech's growth in the provision of switched access services is tied directly to such economic activity and the calling volumes which they generate. Therefore, any slowdown in economic activity could be reflected in slower demand growth for switched access minutes of use.

4) Finally, Ameritech's expense levels typically increase over the calendar year. Since the implementation of price caps, second half expenses have exceeded first half expenses by a range of 1.2% to 5.5%, excluding depreciation and extraordinary expenses. This is a normal pattern which results largely from generally higher levels of construction, rearrangement and preventative maintenance activities to take advantage of relatively more moderate weather conditions during the summer and fall months in the Ameritech region.

The conclusion from these data is that Ameritech will not sustain its first quarter interstate earnings level as calculated on a regulatory accounting basis over the balance of the year. In addition to the normal patterns of higher costs later in the year, the uncertainty of pending labor negotiations, expanding competitive developments and declining business activity levels will all impact the final results for the year. These uncertainties about Ameritech's 1995 earnings translate directly into uncertainty about the resultant level of a sharing-based index adjustment which would occur in 1996.

Many of Ameritech's customers, also aware of the uncertainty which Ameritech faces, have indicated their preference in comments for the proposed immediate rate reduction of \$26.5M. Only these customers know their future access purchasing plans and how those plans will affect Ameritech's earnings during the balance of 1995 and the level of service they intend to acquire from Ameritech in the period when the sharing-based adjustment would apply. Both of these procurement considerations affect their views of the relative benefits of the choice between an immediate known Ameritech rate reduction and an uncertain future price cap adjustment.

Ms. Kathleen Wallman  
June 23, 1995  
Page Four

All of these factors demonstrate that the accelerated Ameritech application of the increased productivity offset produces fair compensation for the immediate elimination of sharing.

Sincerely,

A handwritten signature in black ink, appearing to read "Fred Konrad". The signature is written in a cursive style with a large, sweeping initial "F".

Fred K. Konrad