EX PARTE OR LATE FILED

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July 25, 1995

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

ExParte

Mr. William F. Caton
Secretary
Federal Communication commission
1919 M Street, NW- Room 222
Washington, D.C. 20554

RE: CC Docket 94-1

Dear Mr. Caton:

The attached letter was sent to Kathleen Wallman, Chief, Common Carrier Bureau. Please include this correspondence in the record in the above referenced proceeding.

If you have any questions, please call me.

Sincerely,

WW Jordan

W. W. (Whit) Jordan
Executive Director - Federal Regulatory

Attachment

cc: Kathleen Wallman

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OFFICE OF SECRETARY

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

Re: Ex Parte -- CC Docket No. 94-1, Price Cap Performance Review for Local Exchange Carriers

Dear Ms. Wallman:

This letter is in response to the letter submitted to you on May 25, 1995 by MCI Telecommunications Corporation ("MCI") in connection with the above-captioned docket in which MCI addressed the new services test under the price cap rules and, in particular, ongoing cost-price relationships.

MCI contends that the Commission should include in its next price cap rulemaking proceeding a proposal to require LECs to revise the prices of their services as changes in demand result in changes in unit costs. As an example of the alleged "financial harm" which MCI contends the existing price cap rules can cause, MCI provided information regarding LECs' Line Information Data Base ("LIDB") rates and cost loadings.

As a preliminary matter, MCI is correct that the existing price cap rules do not require a LEC to continue to revise its rates for a new service, once it has been placed under price caps, in order to maintain the same cost/price relationships which existed at the time the new service was introduced. Once a service is under price cap regulation, a LEC is appropriately free to take into consideration a variety of factors, including economic efficiency, in maintaining or revising the rates associated with the service within the constraints of the indices associated with the respective service category, sub-category, and basket. The productivity offset in the price cap formula provides LECs with a strong incentive to price its services efficiently. The offset also insures that access customers share in the increased productivity that results from efficient prices. MCI wants to have its cake and eat it too. It asks the Commission to increase the productivity offset and at the same time mandate inefficient prices for LEC's services in a manner that would impair the ability of the LECs to become more productive. As the Commission has indicated, if a customer believes that somehow a violation of the Commission's rules or orders, or of the Communications Act itself, has been committed, then the appropriate remedy is a complaint proceeding.

BellSouth opposes MCI's suggestion that the price cap rules be amended to require prices to be revised as unit costs change. Indeed, MCI's proposal is nothing more than a request for a reversion to rate-of-return regulation. MCI is asking the Commission to move in precisely the opposite direction from that which is appropriate as the telecommunications industry becomes more and more competitive. More flexibility is needed to base prices on a variety of factors, including efficiency, not solely upon cost considerations as MCI advocates.

As to BellSouth's LIDB prices in particular, BellSouth carefully followed the Commission's rules in establishing the proposed rates for the service, and revised the rates downward as a result of the Commission's very thorough investigation. The demand which BellSouth projected for the first twelve months of the new service (210.9 million queries) was very close to the demand which actually materialized during that year (205.7 million queries). Since that time, demand for the service has grown, as MCI indicates, probably as a result of new interexchange carriers services such as 1-800-COLLECT, 1-800-OPERATOR and 1-800-CALLATT, which BellSouth had not anticipated, and the intensive marketing for those services. However, BellSouth's costs have changed also. More than seventy-five percent of the LIDB query costs shown in the filing represented variable costs, and thus overall costs have increased as overall demand has increased. In addition, since LIDB was first introduced BellSouth has continued to make additional expenditures that were not reflected in the original estimates such as replacement of computers, addition of software enhancements and addition of personnel. In the interim, BellSouth has continued to price its LIDB service within the parameters permitted under the existing price cap rules. Contrary to MCI's mistaken belief in doing so, BellSouth has not violated any rule, order or statute and there is no basis for the complaint which MCI appears to threaten.

In conclusion, BellSouth respectfully requests the Commission to reject MCI's request that its existing rules be modified to impose even more stringent pricing rules on the LECs. The Commission must view MCI's request as a reversion to cost regulation and away from price regulation. If the Commission were to adopt such an approach, the many benefits and efficiencies which the Commission has recognized as flowing from price cap regulation would be lost. Indeed, the competitive environment demands that the Commission provide LECs with even more flexibility to revise their prices than currently exists under the present rules.

If you have any questions regarding this matter, please do not hesitate to call me.

Sincerely,

WW Jordan