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Ex Parte

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

Re: CC Docket No. 94-1

Dear Mr. Caton:

Today, Frank Gumper and Don Evans, representing the NYNEX Telephone Companies (NTCs), met with Mr. Richard Welch, Legal Assistant to Commissioner Chong, regarding the NTC's suggested approach in dealing with the inter-related issues of Price Caps, Pricing Flexibility, and Access Reform.

The attached material, which in some manner impinges on items to be included in the FNPRMs in CC. Dkt. No. 94-1, served as the basis for the presentation and ensuing discussion.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,

Ken Rust

Attachment

cc: R. Welch

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NYNEX Recycles

Lessons Learned from Competition...

Competitors will target high volume urban customers first.

- **Special Access**
- **Multiline Business**
- **Single Line Business/Residence**

Barriers to Competition differ for Switched and Special Access...

Special Access

- Authorization to provide service
- Ability to collocate and interconnect
- Unbundled network elements available
- Access to poles, conduits and rights of way

Switched Access

- Authorization to provide service
- Local exchange competition authorized
- Compensation, Interconnection and Intrastate Collocation are available

Regulatory Framework and Competition...

- Existing framework reflects view that Price Cap LECs have monopolies.
  - Implicit and explicit subsidies in rates.
  - Averaged rates across area.
- Evolution of competition has demonstrated need for fundamental changes.
  - Recognized by the Commission in;
    - USPP Waiver Order
    - Second FNPRM in Price Cap Proceeding
- Adaptive regulatory framework required as competition evolves.
  - Industry should know in advance how key regulatory structures will change as competition evolves.

Public Policy Benefits of Adaptive Regulatory Framework...

- Provides clear signals, in advance, to the market of changing regulatory framework.
- Provides incentives to LECs to facilitate the evolution of competition.
- Addresses concerns of regulators and competitors that LECs will use pricing flexibility to hinder competition.
- Addresses concerns of LECs and provides assurance that regulatory framework will adapt and keep pace with competitive developments.
- Eliminates continuing regulatory scrutiny of waivers requested in response to competition.

Proposed Regulatory Framework...

- <u>Phase 1</u>
  - Framework A - Baseline -
    - No competitive presence or market entry.
  - Framework B - Barriers to Entry Removed -
    - Implicit and explicit barriers removed.
    - Market is open to competitive entry.
  - Framework C - Competitive Presence -
    - Barriers to entry removed.
    - Competition is present throughout major segments of LEC market.

Proposed Regulatory Framework...

- Phase 2 - Streamlined Regulation -
  - Follows Framework C.
  - Products and areas are subject to effective competition.
  - A service, or group of services, in the relevant market area is removed from price cap.
- Phase 3 - Non-dominant Status -
  - Follows Streamlined Regulation.
  - LEC classified as non-dominant for a service, or group of services, in the relevant market area.

Proposed Regulatory Framework...

- <u>Criteria</u>
  - Transition from Framework A to B -
    - Barriers to Entry removed in areas/jurisdictions overseeing "75%" of the LEC's access lines.
  - Transition from Framework B to C -
    - Barriers to entry removed in all areas/jurisdictions.
    - Competitive presence in areas representing "40-50%" of the LEC's total business access lines (or 40-50% of revenue for special access) .
  - Transition from Framework C to Streamlined -
    - Demonstration of demand responsiveness of 15%.
  - Transition from Streamlined to Non-dominant -
    - LEC services must be subject to streamlined regulation for 1 (or 2) year(s), and competition continues to flourish.

Regulatory Framework should Address...

- Rate Structure
- Subscriber Line Charge
- Pricing Flexibility
  - Lowering Prices
  - Raising Prices
- Price Cap Structure
  - Baskets and bands
  - Productivity - X Factor
  - Carrier Common Line
- Flexibilities for introducing new services
- APPs,Market Trials and Volume/Term Discounts

Components of Adaptive Regulatory Framework Change as Competition Evolves...

Component	Framework A	Framework B	Framework C
Rate Structure	→	Pro-competitive Structural Changes	→
Pricing Flexibility	→	Increased Pricing Flexibility	→
Price Cap Baskets	→	Simplify / Reduce Basket Structure	→
Price Cap Productivity	→	Reduced X Factor	→

Components of Adaptive Regulation Framework A

- Rate Structure
  - Present Rate Structure
- Pricing Flexibility
  - Streamlined Part 69 Waiver Process
  - New Services Expedited Process; 14 days notice, with cost support
  - More flexible Band Limits (+5%, -15%)
- Price Cap Baskets
  - Existing Price Cap Structure
  - Eliminate Common Line Formula
  - Operator Services in present Information Category
- Productivity
  - Productivity Factor: Y

Illustrative Components of Adaptive Regulation Framework B

- **Rate Structure**
  - Zone Structure for LS, CCL, and IC
  - LTS recovered on market share
  - SL/ML structure for LS, CCL, and IC
  - ML CCL recovery on basis of IXC's SL PSLs
  - Increase EUCL
- **Pricing Flexibility**
  - Volume and Term pricing
  - Alternative Pricing Plans, Market Trials
  - Greater downward pricing flexibility (e.g., 50%)
- **Price Cap Baskets**
  - Consolidation of service categories; move to segment into Common Line, Switched, and Trunking (with IC in Switched)
- **Productivity**
  - Lower productivity; Y - a

Illustrative Components of Adaptive Regulation Framework C

- **Rate Structure**
  - Further segment ML structure into "small" and "large" Business
  - Deaverage EUCL by Zones
  - Establish higher SL EUCL for Zones 2 & 3
- **Pricing Flexibility**
  - Unlimited downward flexibility (- 100%)
  - Authority to respond to RFPs
- **Price Cap Baskets**
  - Combine Common Line and Switched
  - Resulting in two primary baskets; Switched and Trunking (Special)
- **Productivity**
  - Lower productivity; Y - b