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March 29, 1996

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

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Price Cap Review of Local Exchange
Carriers, CC Docket No. 94-1

Dear Mr. Caton:

In reviewing the AT&T Reply Comments and appendices, filed in the above-referenced proceeding, we noted that Table 4 (page 28) of Appendix B did not reflect the updated input prices for the U.S. economy (nonfarm business sector) recently released by the Bureau of Labor Statistics (BLS). We also noted that minor changes in that table should be made for technical reclassifications and deflations relating to the RBOCs' capital input prices. Accordingly, we are attaching a revision of Table 4 and the text on page 28 of Appendix B to conform with these revisions and the calculation of the input price differential based thereon. These revisions and the updated BLS data further affect Table 8 (page 51) and Table 8A (page 52) of Appendix B, for which we have also attached corrected pages.

The above-mentioned revisions have a minimal effect on the results of the Performance-Based Model. The input price differential (IPD) should be 2.75 percent (instead of 2.79 percent) and the X-Factor for the LECs' interstate access services should be 7.36 percent (instead of 7.35 percent). All references to the amounts of the IPD and X-Factor in the AT&T Reply Comments and in Appendix B thereto should therefore be changed accordingly.

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These revisions do not change AT&T's recommendations in its Comments and Reply Comments to the effect that the minimum X-Factor (with CPD) for the LECs should be set at 7.8 percent and the higher X-Factor option, without sharing, should be set at 8.8 percent.

Very truly yours,

Peter H. Jacoby / skw

Attachment

cc(w/att.): Counsel for all parties
International Transcription Service

Appendix B
Reply Comments of AT&T

[revised page]

Table 4 below shows the movements in the labor, material and capital price indices for all RBOCs for the period 1985-1994. Also shown are the input price indices for the nonfarm private business sector and the RBOCs. The average rate of growth for input prices in the nonfarm business sector of the national economy is 3.06 percent per year for 1985-1994. The average rate of growth for input prices at the LECs is 0.31 percent per year for 1985-1994. And the best estimate of the input price differential for 1985-1994 is 2.75 percent per year.

Table 4. Input Price Indices for RBOCs

	ALL INPUTS NON-FARM BUSINESS 1985 = 1.000	LABOR ALL RBOCs 1985 = 1.000	MATERIALS ALL RBOCs 1985 = 1.000	CAPITAL ALL RBOCs 1985 = 1.000	ALL INPUTS ALL RBOCs 1985 = 1.000
1985	1.000	1.000	1.000	1.000	1.000
1986	1.028	1.025	1.021	1.076	1.042
1987	1.055	1.036	1.035	1.026	1.031
1988	1.095	1.064	1.059	0.828	0.971
1989	1.129	1.071	1.099	0.799	0.975
1990	1.167	1.158	1.143	0.606	0.937
1991	1.191	1.216	1.169	0.573	0.947
1992	1.226	1.223	1.194	0.598	0.968
1993	1.272	1.333	1.206	0.673	1.027
1994	1.318	1.373	1.234	0.631	1.029
Growth for Period	3.06%	3.52%	2.34%	-5.11%	0.31%
Sources: Rate of growth for Nonfarm Business Sector from Bureau of Labor Statistics RBOC input data computed in Performance-Based Model from BOC reports to FCC.					

Appendix B
Reply Comments of AT&T

[revised page]

Table 8. TFP, Input Price Differential and X-Factor in Interstate and All LEC Regulated Services: Rates of Growth, 1985-1994		
	Interstate Access Services	All LEC Regulated Services
Output Growth	6.83%	4.90%
-Input Growth	2.04%	2.04%
=TFP Growth LECs	4.79%	2.86%
+ IPD	2.75%	2.75%
- TFP Gr in NFB	0.18%	0.18%
= X-Factor	7.36%	5.44%
<p>Note: TFP Gr in NFB is Total Factor Productivity Growth in Non-Farm Business Sector</p> <p>Source: Computed in Performance-Based Model</p>		

Appendix B
Reply Comments of AT&T

[revised page]

Table 8A. TFP, Input Price Differential and X-Factor in Interstate and All LEC Regulated Services: Rates of Growth, 1985-1994 Adjusted for Separations, 1991-1994		
	Interstate Access Services	All LEC Regulated Services
Output Growth	6.83%	4.90%
- Input Growth	2.04%	2.04%
+ Separations Adjust- ment	0.91%	---
= TFP Growth LECs	5.70%	2.86%
+ IPD	2.75%	2.75%
- TFP Gr in NFB	0.18%	0.18%
= X-Factor	8.27%	5.44%
Note: TFP Gr in NFB is Total Factor Productivity Growth in Non-Farm Business		
Source: Computed in Performance-Based Model		