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Executive Director  
Federal Regulatory Policy Issues



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May 9, 1996

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

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

Re: CC Docket 96-45, CC Docket 96-98, CC Docket 94-1

Dear Mr. Caton:

Yesterday, F. Gumper and I, representing NYNEX, met with J. Schlichting, J. Jackson, D. Sieradzki, S. Spaeth, L. Selzer, G. Cooke, and A. Goldschmidt of the Competitive Pricing Division of the Common Carrier Bureau; D. Sloten and C. Jackson of the Policy and Program Planning Division of the Common Carrier Bureau, and J. Lanning of the Competition Division of the Office of the General Counsel. The purpose of the meeting was to discuss NYNEX's position regarding Access Reform, Interconnection and Universal Service. The attached documents represent the basis for the presentation and discussion.

In accordance with Section 1.1206(a)(1) of the Commission's rules, two (2) copies of this notice are being submitted to the Secretary of the FCC today.

Sincerely,

Attachments

cc:	J. Schlichting	J. Jackson	D. Sieradzki	S. Spaeth
	L. Selzer	G. Cooke	A. Goldschmidt	D. Sloten
	C. Jackson	J. Lanning		

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# GUIDING PRINCIPLES

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- **Open the Network to Competition**
- **Pay for the Network**
- **Promote Universal Service**

# OPENING THE NETWORK

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- Interconnection: [*Sect. 251(c)(2)*] linking networks;
- Unbundled Access: [*Sect. 251(c)(3)*] augmenting competitors' networks;
- Resale: [*Sect. 251(c)(4)*] “off-the-shelf” networks.

# PAY FOR THE NETWORK

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- Resale [Sect. 252(d)(3)] : retail prices excluding avoidable costs;
- Network Elements [Sect. 252(d)(1)] : costs plus reasonable profit;
  - » *Costs* must be determined without reference to rate-of-return or other rate-based proceeding.

# PAY FOR THE NETWORK

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- Act does not bar reference to embedded costs; “*rate of return*” [Sect. 252(d)(1)(A) ] does not equate to “*embedded costs*”
- TSLRIC ignores reality of existing plant in use to provide service.

# PUBLIC POLICY CONSEQUENCES

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- TSLRIC ignores real costs:
  - » Embedded *capital* not stranded *investment*
- Reduces incentives for future capital deployment:
  - » Riskier investment and greater capital costs as revenues are reduced

# PUBLIC POLICY PRINCIPLES

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- Competition will drive prices down to economic costs; regulators should promote competition, not seek to impose confiscatory rates.
- Arbitrage effects on current revenue streams must be recognized and dealt with in a comprehensive manner.

# How Revenues Are Used

**Maintenance,  
Taxes, Interest,  
Operations  
70%**

**Construction  
20%**

**Dividends  
10%**



# INTERCONNECTION PRINCIPLES

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- Congress did not intend that unbundled elements impinge on access revenue stream.
- Interconnection is *not* a means to achieve needed access reform.

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# **NYNEX's Adaptive Regulatory Model**

# **Legislation Speeds Need For Access Reform**

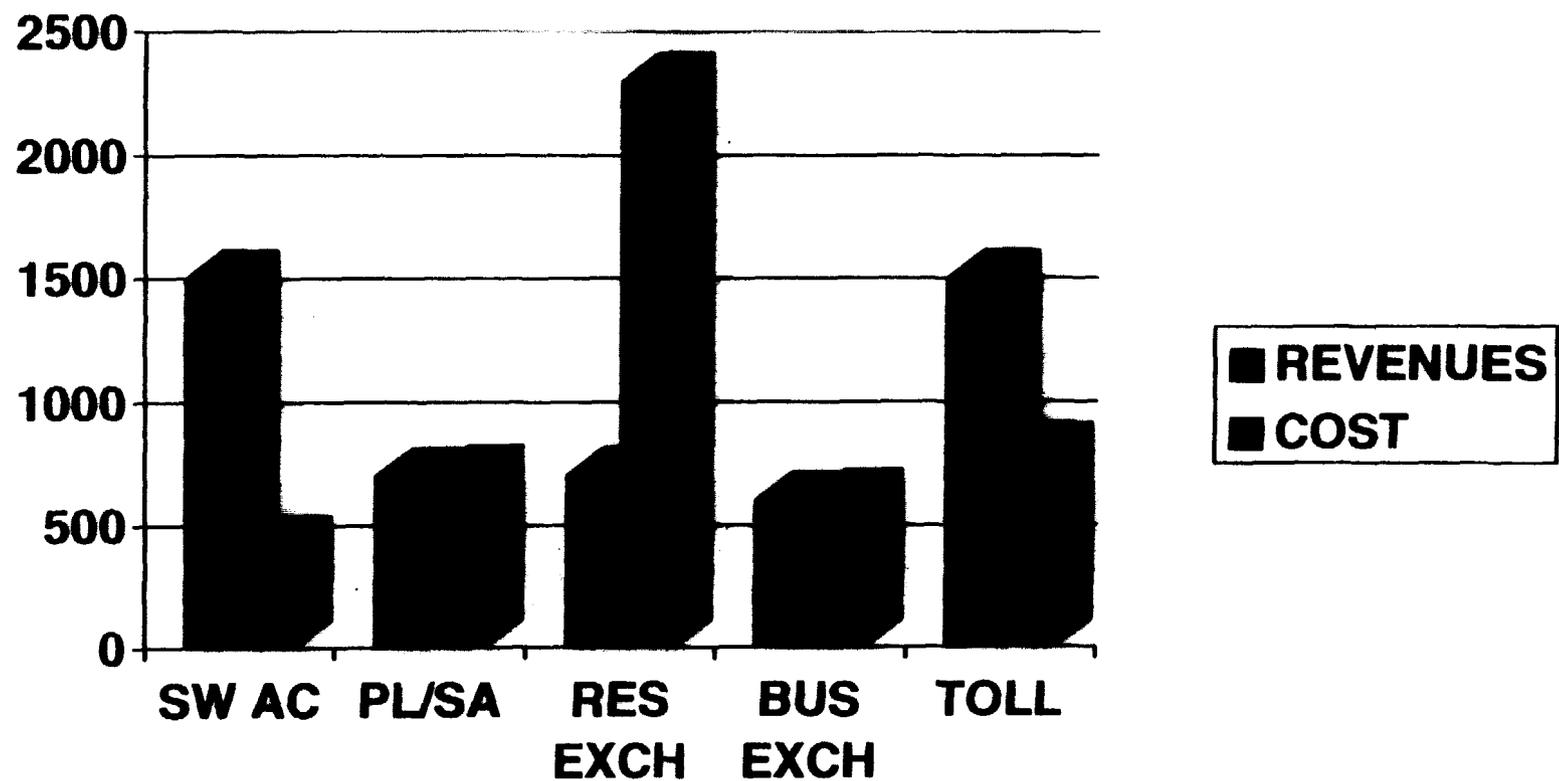
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- **Mandated local competition speeds opening of switched access markets.**
- **Results in competitive switched access market.**
- **Competitive markets can not support averaged prices.**

# NYNEX- NEW YORK COST STUDY

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# NYNEX Proposal for Access Reform

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- **The Commission Should ...**
  - » **Adopt a Regulatory Framework That Reflects Evolving Competition, and**
  - » **Give Companies the Tools To Manage Access Rates in a Competitive Environment.**

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

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## Price Cap Regulation

### Component

A

B

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**

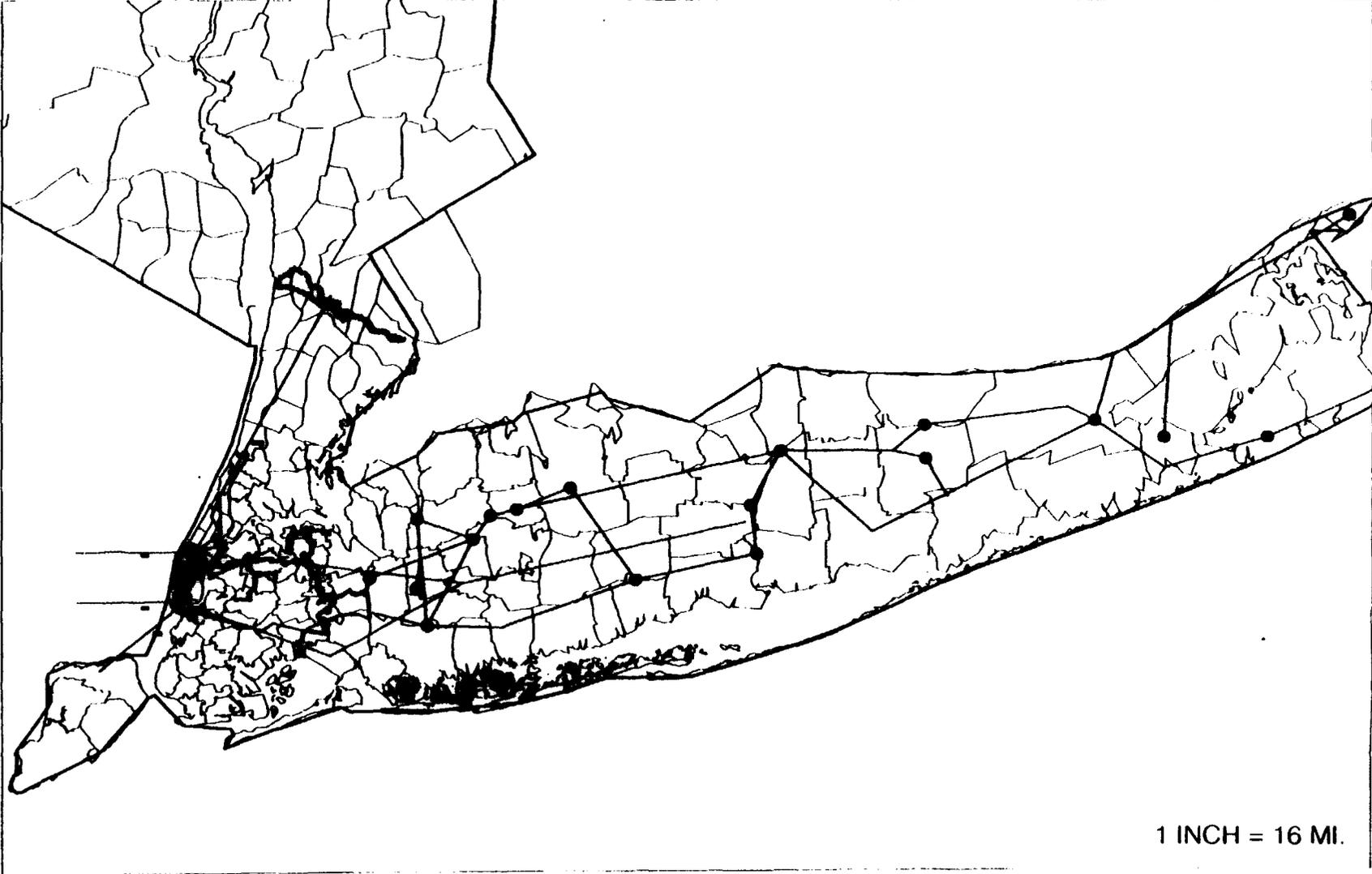


# NYNEX's Adaptive Regulatory Model

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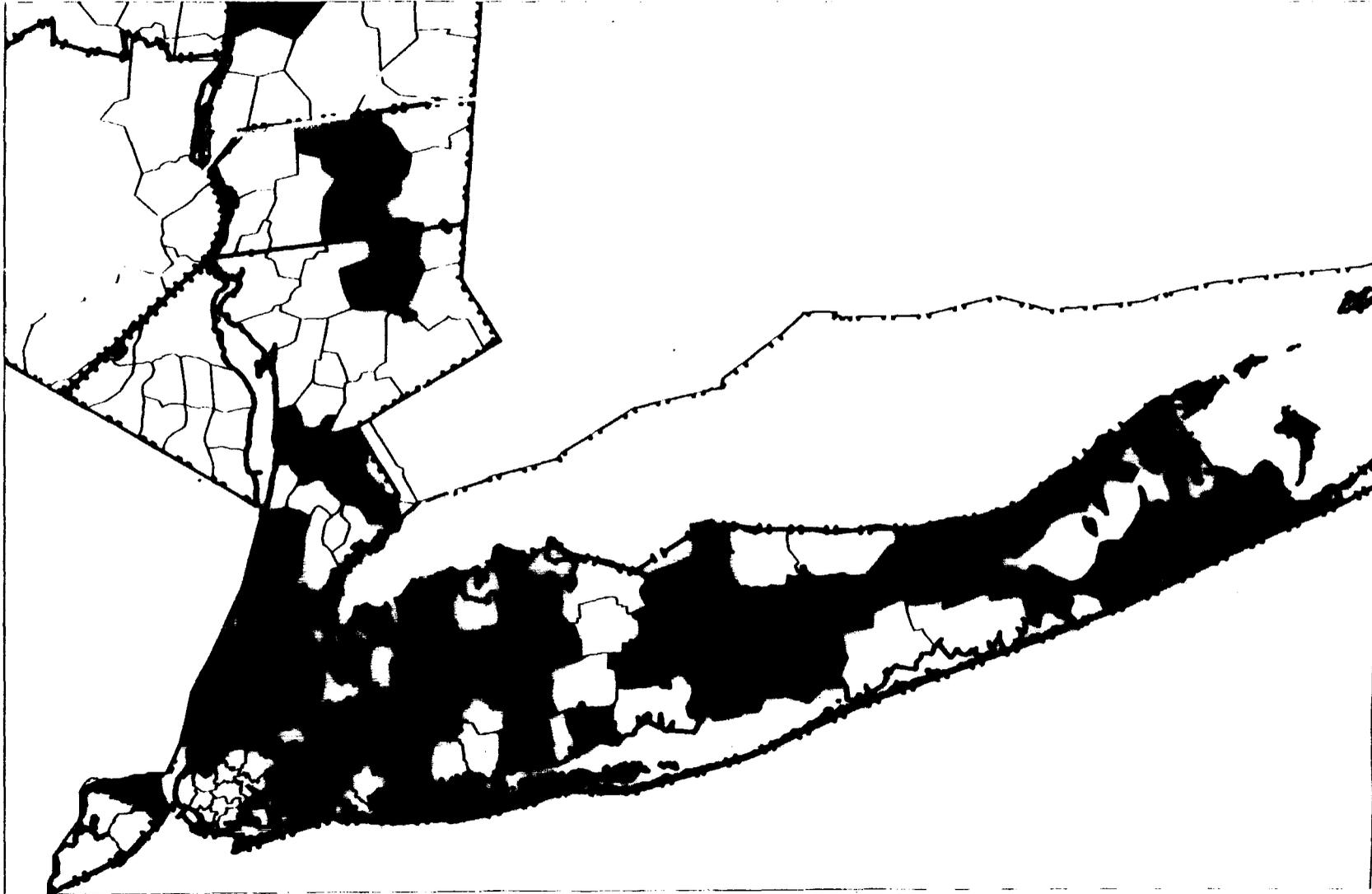
- **Phase 1 - Price Cap Regulation - Region Wide**
  - » **Framework A - Baseline**
    - No competitive presence or market entry
  - » **Framework B - Barriers to Entry Removed and Competitor Present**
    - Competitive structure available in jurisdictions representing 75% of lines
    - Competitor is operational in-region
  - » **Framework C - Significant Competitive Presence**
    - Competitive structure in place throughout entire region
    - Competitive presence throughout major segments of LEC market

# COMPETITORS SERVING THE NEW YORK METROPOLITAN AREA...



- MFS
- Cablevision Lightpath
- Teleport
- Time Warner

# COMPETITIVE WIRE CENTERS IN NEW YORK CITY METROPOLITAN AREA....



■ ZONE 1    - - - SMSA    LATA    — COUNTY  
■ COMPETITIVE WIRE CENTERS

# NYNEX's Adaptive Regulatory Model

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- Phase 2 - Streamlined Regulation
  - » Products and areas are subject to effective competition
  - » A service, or group of services, in the relevant market area are removed from price caps
- 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

# Access Reform: Framework A -- Baseline

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- **The Transport Interconnection Charge (TIC)**
  - » **Separate current transport costs from residual amount**
  - » **Move residual to Separate Basket**
    - **Freeze revenue level**
    - **Target future price decreases**
    - **Eliminate as embedded plant base is amortized**
    - **Charge IXC based on market share of minutes**
- **Introduce new Feature Group “E”**
  - » **Designated for Enhanced Service Providers**
  - » **Data transport**
  - » **Cost priced**

# Access Reform: Framework B

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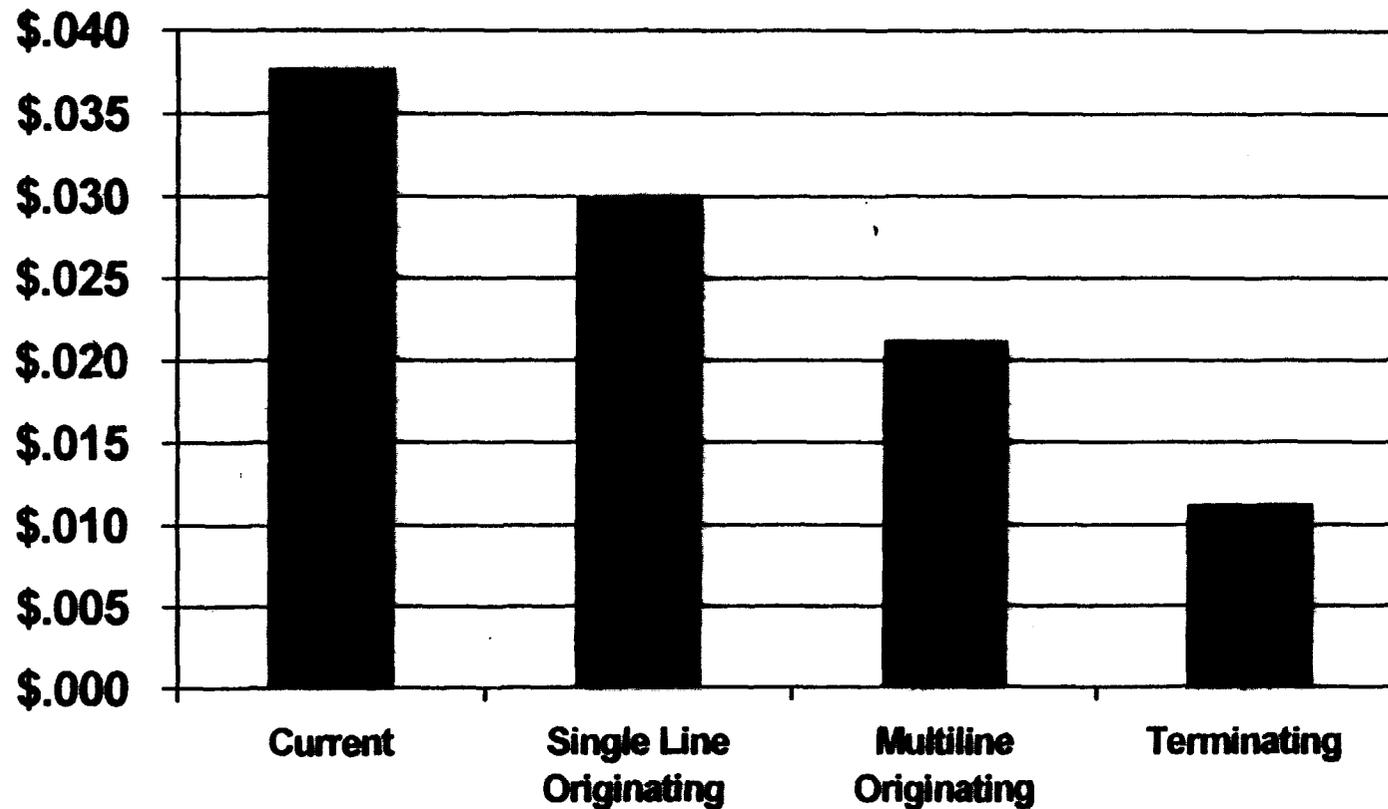
- **“USPP” like rate structure**
  - » Access rates by zone, and by single line and multiline usage
  - » Reduce multiline Carrier Common Line (CCL) to \$0.00
  - » Remove non-traffic sensitive costs from Local Switching
    - Recover both multiline CCL and non-traffic sensitive Local Switching from IXCs on a per line basis
  - » NECA Long Term Support phased out
    - Coincide with shift of DEM Weighting to Universal Service Fund
- Increase single line EUCL by \$.50 (to \$4.00)

# Access Reform: Framework C

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- Establish separate originating and terminating switched access rates
  - » Single line CCL → Apply to originating only
  - » Traffic cost based TIC → Apply to originating only
- Single line EUCL in zones 2 & 3 increase by \$1.00 (to \$5.00)
- Realign Price Cap Baskets
  - » Switching
  - » Trunking
  - » Residual

# Access Reform: Proposed Switched Access Rates



- Proposed per line charge to IXCs of -- \$1.50/line/month
- Proposed TIC Recovery of -- \$35M/month

# Public Policy Benefits of NYNEX's Adaptive Regulatory Model

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- 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 regulation will adapt and keep pace with competitive developments.
- Eliminates continuing regulatory scrutiny of waivers requested in response to competition.

# **UNIVERSAL SERVICE**

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- **WHAT IS THE PROBLEM TO BE SOLVED?**
  - **Very High Cost Areas**
  - **Telephone Subscribership**
  - **Education and Health Access**

# UNIVERSAL SERVICE PRINCIPLES

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- **CORE SERVICES** - RESIDENTIAL LINE WITH ACCESS TO LOCAL AND LONG DISTANCE, TOUCH -TONE, DIRECTORY LISTING, OPERATOR SERVICES, EMERGENCY SERVICES, AND TRS.
- **REPLACE IMPLICIT SUPPORT MECHANISMS** - DEM WEIGHTING, LONG TERM SUPPORT, EXISTING USF
- **CARRIER COMMON LINE IS AN ACCESS REFORM ISSUE**
- **INTERSTATE RETAIL REVENUE SURCHARGE** - MONIES COLLECTED THROUGH A SINGLE MECHANISM
- **TARGETED HIGH COST ASSISTANCE** - RATE OF RETURN LECS USE ACTUAL STUDY AREA COSTS.
- **PRICE CAP LECS** - USE BCM MODEL