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Federal Regulatory Policy Issues

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NYNEX

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May 14, 1996

EX PARTE

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

RECEIVED

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

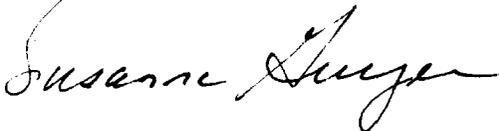
Re: CC Docket 96-45, CC Docket 96-98, CC Docket 94-1

Dear Mr. Caton:

Yesterday, F. Gumper, D. May, and I, representing NYNEX, met with R. Welch, D. Stockdale, D. Ellen, L. Gelb and S. Kupinsky of the Policy and Program Planning Division of the Common Carrier Bureau. The purpose of the meeting was to discuss NYNEX's position regarding Interconnection, Access Reform, 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: R. Welch
D. Stockdale
D. Ellen
L. Gelb
S. Kupinsky

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NYNEX Recycles

GUIDING PRINCIPLES

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

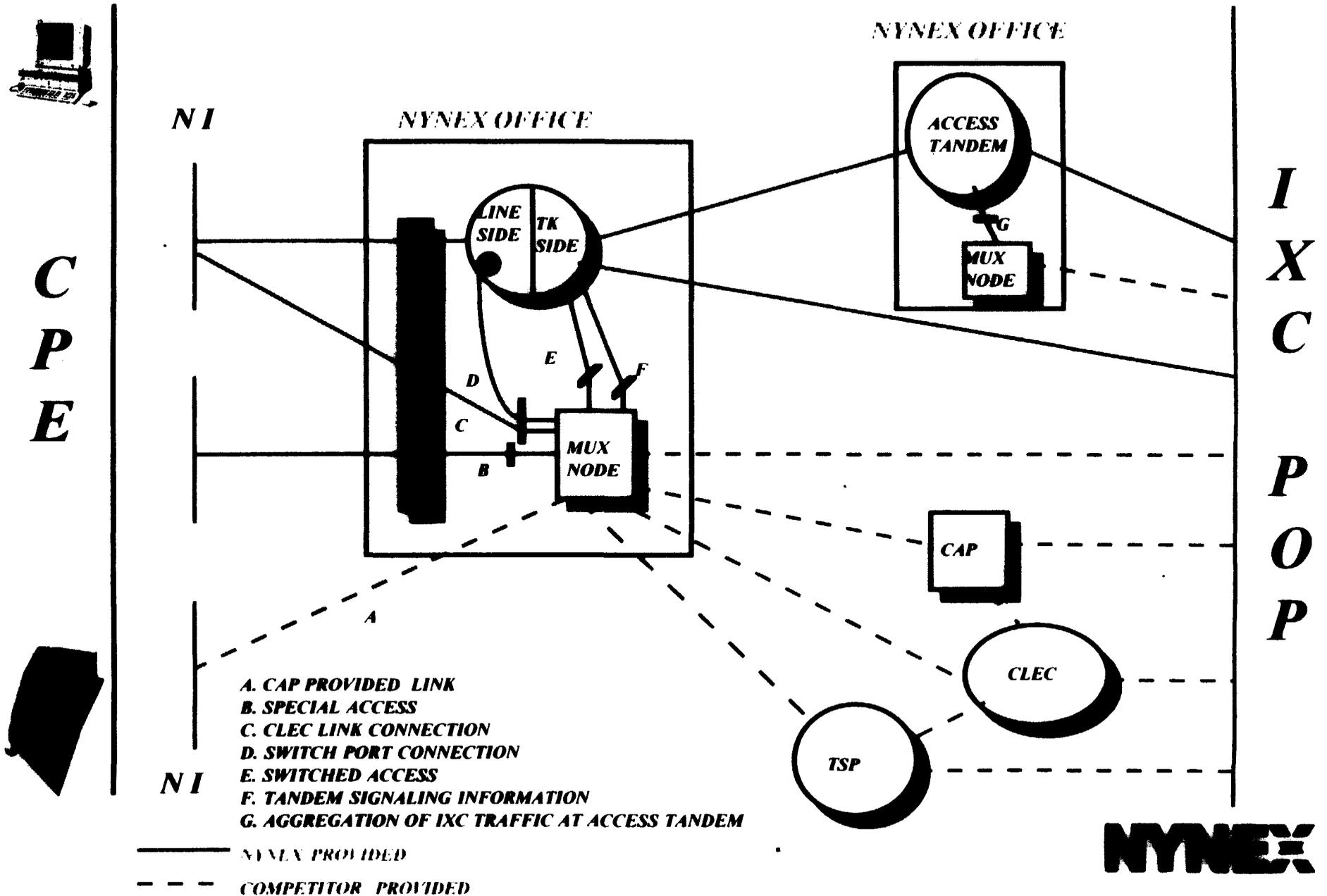
OPENING THE NETWORK

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

OPENING THE NETWORK

- **Jumpstart Competition**
- **Focus on Initial, Workable Set of Unbundled Elements**
- **Establish Priority for Maximum Effect**
- **Establish Process for Reaching Longer Term Market Needs**

POINTS OF INTERCONNECTION



PAY FOR THE NETWORK

- Resale [Sect. 252(d)(3)] : retail prices excluding avoided 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

- 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

- 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

- 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.

INTERCONNECTION PRINCIPLES

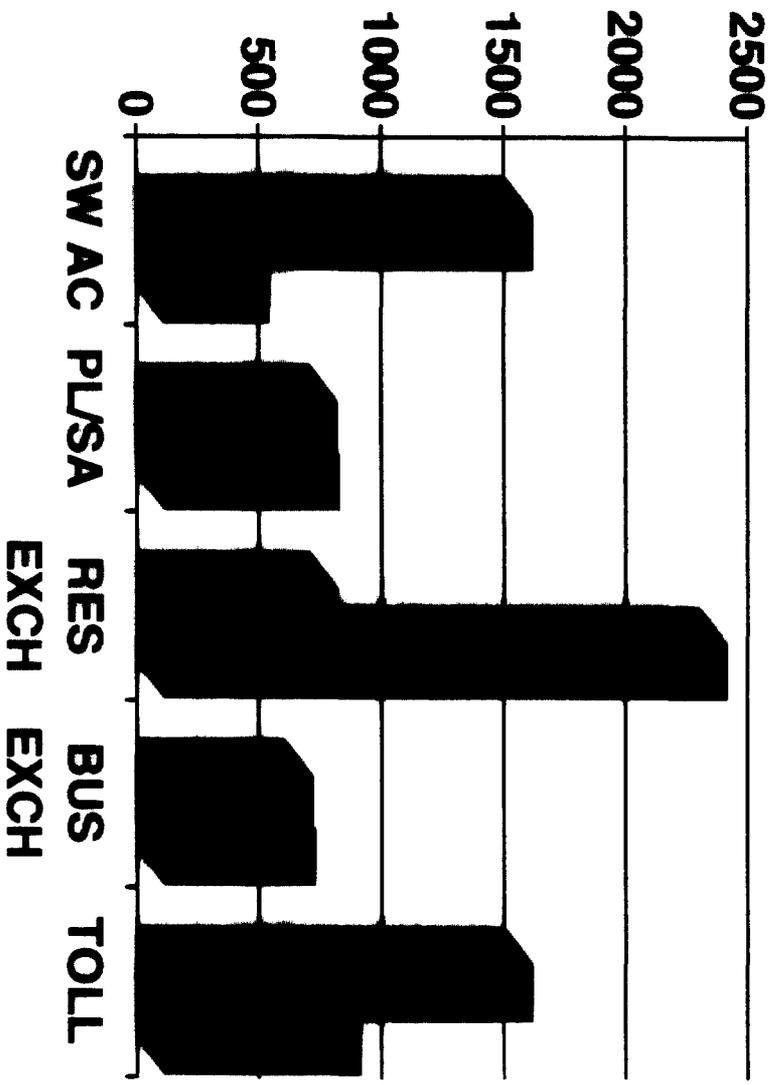
- Congress did not intend that unbundled elements impinge on access revenue stream.
- Interconnection is *not* a means to achieve needed access reform.

NYNEX's Adaptive Regulatory Model

Legislation Speeds Need For Access Reform

- **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



■ REVENUES
■ COST

NYNEX Proposal for Access Reform

- **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...

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

Access Reform: Framework A -- Baseline

- **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**

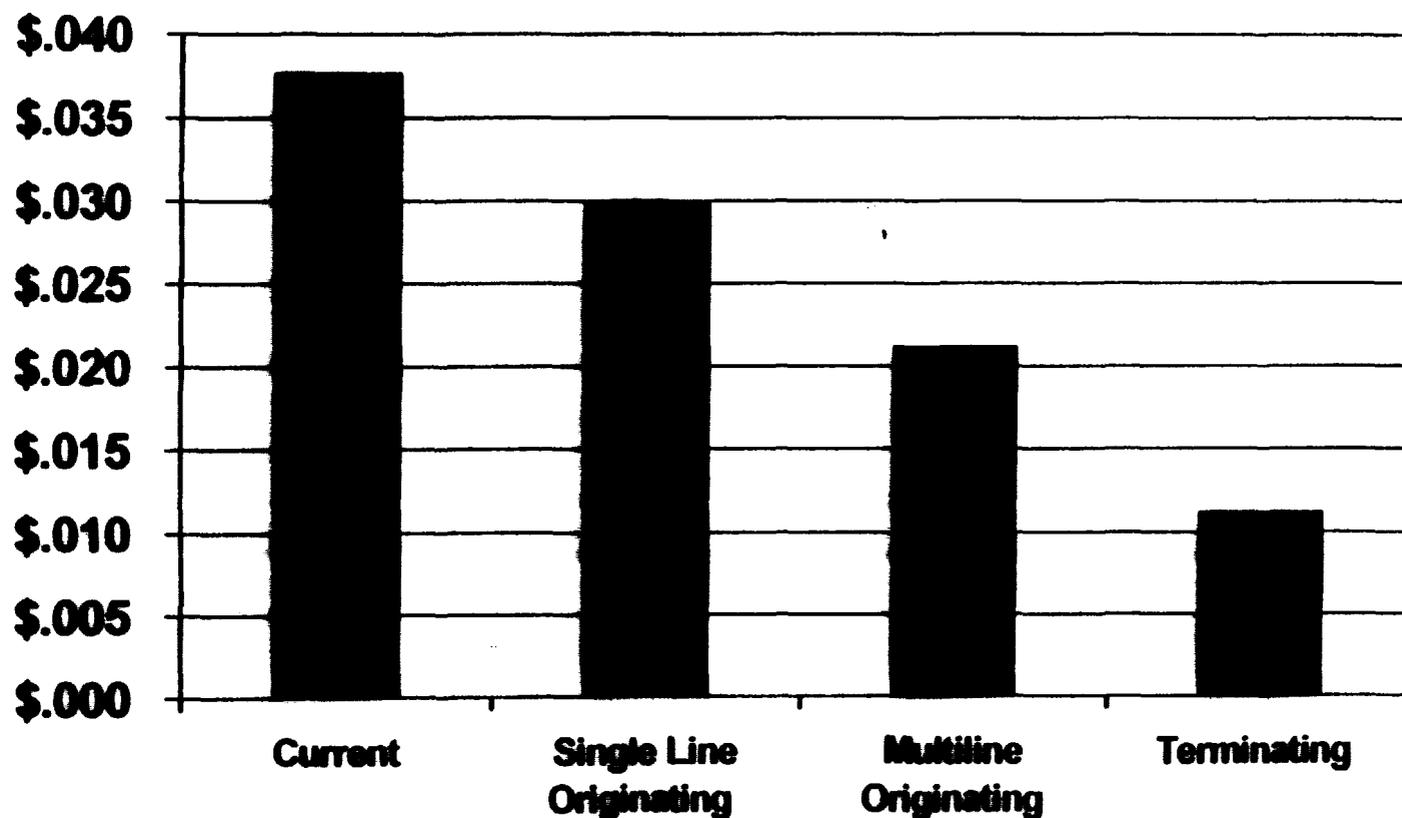
Access Reform: Framework B

- **“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

- 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 IXC's of -- \$1.50/line/month
- Proposed TIC Recovery of -- \$35M/month

Public Policy Benefits of NYNEX's Adaptive Regulatory Model

- 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

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

UNIVERSAL SERVICE PRINCIPLES

- **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**
- **TARGETED HIGH COST ASSISTANCE** - RATE OF RETURN LECS USE ACTUAL STUDY AREA COSTS. PRICE CAP LECS TARGET FUNDING USING THE BENCH MARK COST MODEL. BCM CAN ONLY BE USED TO DETERMINE HIGH COST ASSISTANCE.
- **INTERSTATE RETAIL REVENUE SURCHARGE** - MONIES COLLECTED THROUGH A SINGLE MECHANISM
- **NYNEX EDUCATION PLAN CAPTURES THE NATIONWIDE VISION FOR BRINGING TELECOMMUNICATIONS SERVICES TO SCHOOLS**

NYNEX EDUCATION PLAN

- **VISION FOR EDUCATION DEVELOPED WITH ASSISTANCE OF EDUCATION TELECOMMUNICATIONS COUNCIL**
- **TOTAL NATIONWIDE COSTS ESTIMATED BY COMMISSION - DIFFERENT PER STUDENT BENCHMARK DISCOUNT FOR RURAL AND URBAN AREAS**
- **SCHOOLS DEVELOP PROPOSAL FOR BRINGING TECHNOLOGY INTO THE CLASSROOM**
- **SCHOOL PROPOSALS CERTIFIED BY STATE AUTHORITY**
- **TELECOMMUNICATIONS CARRIERS BILL SCHOOL FOR DISCOUNTED AMOUNT AND COLLECT REMAINDER FROM FUND ADMINISTRATOR**
- **STATE COULD SUPPLEMENT DISCOUNT FOR ADDITIONAL CREDIT FOR INTRASTATE SERVICES**

**THE NYNEX
SINGLE FUNDING MECHANISM
FOR UNIVERSAL SERVICE
(\$MILLIONS)**

DESCRIPTION	AMOUNT (millions)
1 Lifeline	\$123
2 Linkup America	\$19
3 High-Cost for Rate of Return Carriers	\$401
4 DEM weighting for Rate of Return LECs	\$275
5 High-Cost for price cap carriers based on BCM	\$520
6 Schools	\$1,445
7 Public Libraries	\$83
8 Health Care Providers	NA
9 Total (sum of lines 1 to 8)	\$2,866
10 Base Case Industry Interstate Retail Revenues	\$84,205
11 Adjusted Interstate Retail Revenues (Line 10 - sum (Line 1 through Line 5) Refer to Footnote 1	\$62,867
12 Federal Surcharge ((Line 9 / Line 11)	4.56%

Footnote 1

For Price Cap LECs, to the extent that funding for the new USF exceeds the amount for the old USF, that amount will be used by the receiving LEC to reduce its interstate rates.

