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Executive Director
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NYNEX

June 3, 1996

Ex Parte

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

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FEDERAL COMMUNICATIONS COMMISSION
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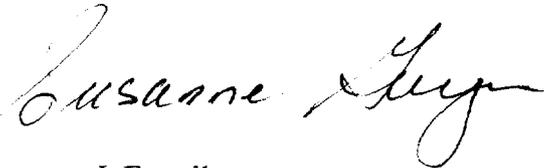
RE: CC Docket 96-98

Dear Mr. Caton:

Today, Ms. L. Cardinale, Mr. F. Gumper, and I, representing NYNEX, met with Dr. J. Farrell, Chief Economist, Dr. R. Pepper, Chief, Office of Plans and Policy, Mr. E. Maxwell, Deputy Chief, Office of Plans and Policy, Mr. J. Olsen, Chief, Competition Division of the Office of the General Counsel, and Mr. P. Wynns, Chief of the Industry Analysis Division of the Common Carrier Bureau. The purpose of the meeting was to describe NYNEX's Wholesale/Retail Market Simulation Model and to discuss how this model might be used to assist the Commission in analyzing financial impacts of possible policy decisions in the above mentioned proceeding.

The attached charts were used during the meeting.

Sincerely,



cc: J. Farrell
R. Pepper
E. Maxwell
J. Olsen
P. Wynns

Attachment

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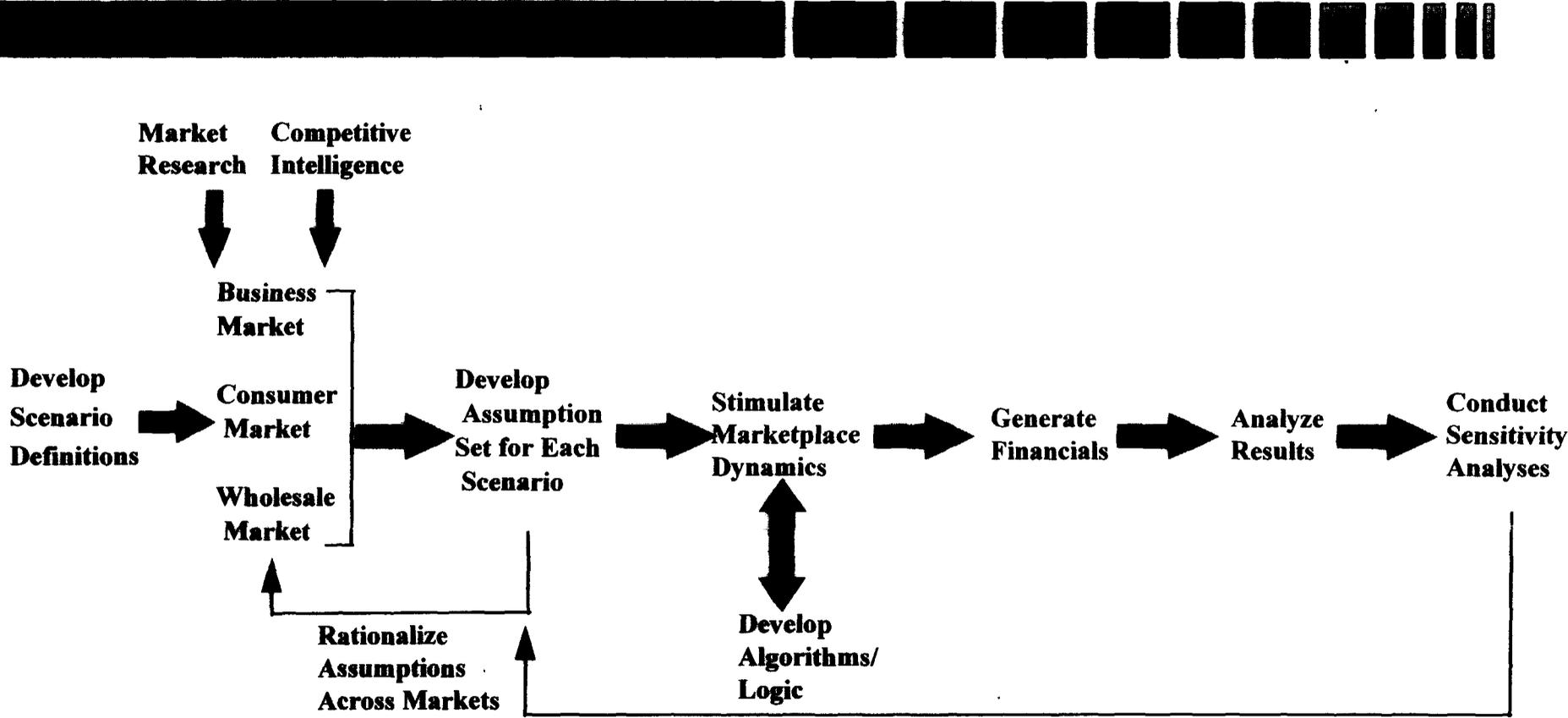
**NYNEX's
Wholesale/Retail
Market Simulation**

Agenda



- **Market Simulation Analysis Process**
- **Sample of Scenarios Evaluated and Results**
- **Further Analysis**

The NYNEX Analysis Process



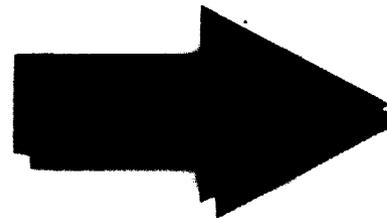
Market Simulation Tool Was Developed to Evaluate Performance Under Different Strategic Scenarios

- 
- **Simulates Future Financials and Key Performance Indicators (Financial and Operational)**
 - Net Income
 - Revenues: Total, Retail, Wholesale
 - Expenses
 - **Integrates Competitive and Market Dynamics, Customer and Work Unit Expense Drivers and Capital Expenditures**
 - **Provides Directional Understanding of Impacts**
 - **Develops Projections at either Aggregate or Disaggregated Level (Company, State, LATA, etc.)**

Market Simulation Modeling

Key Drivers

- **Market Growth by Segment**
- **Retail Market Share by Segment**
- **Prices - Retail and Wholesale**
- **IntraLATA Presubscription**
- **Competitors' Take Rates**
- **Cost Sheds**
- **Cost Additions**
- **Churn Rate**
- **Productivity/Inflation**
- **Capital Program**



Results

By Year:

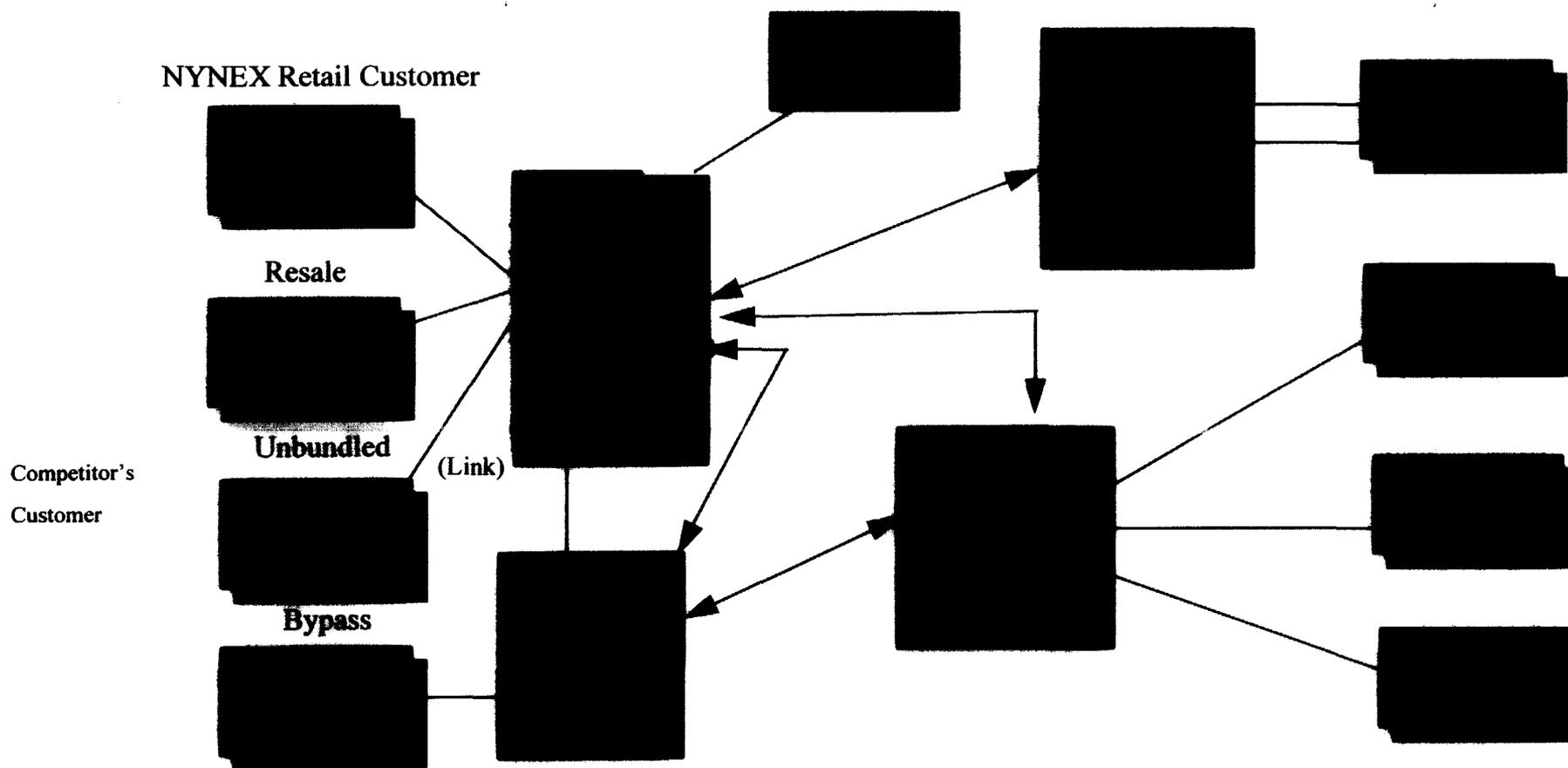
Revenue

Expense

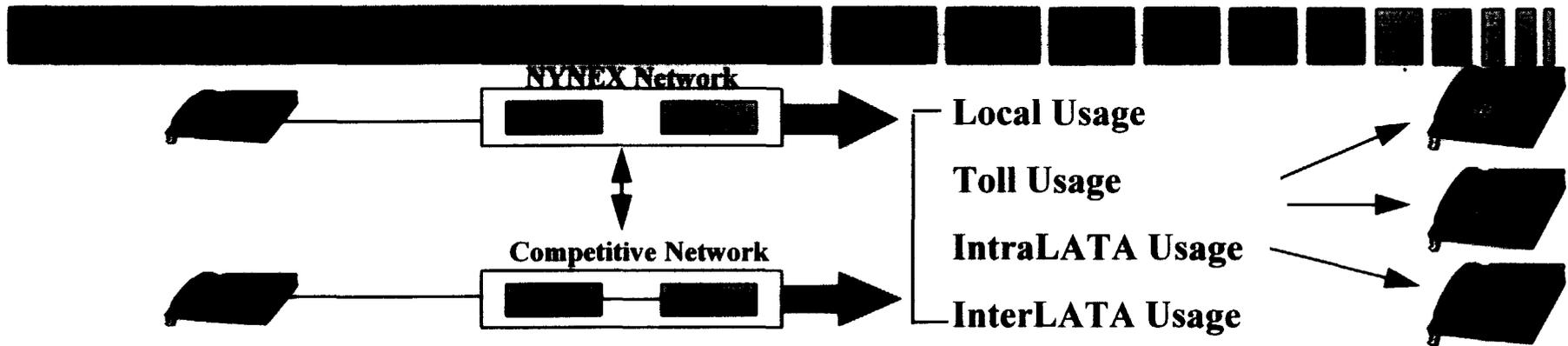
Net Income

**Results reflect interaction of variables in defined scenarios
to provide directional insights**

Revenue/Expense Simulation Algorithms



The Model Simulates the Complex Dynamics Between Wholesale & Retail Businesses in a Competitive Marketplace



- Retail decreases from loss of access lines and associated usage
- Retail price changes
- Retail gains from access line growth
- Toll revenue loss and switched access gain from IntraLATA Presubscription
- Wholesale growth from links and terminating access
- Resale service growth
- Wholesale price changes in base access services and new businesses

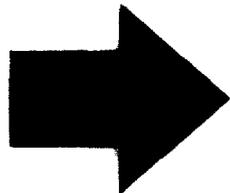
- Shed variable retail costs associated with operations and sales and marketing functions
- Wholesale expense adds for provision of link and resale services
- Reciprocal interconnection expense to terminate on competitors network
- Growth in base retail and wholesale services
- Changes due to operational changes (e.g. Process Reengineering, report rates, churn)

Wholesale Demand Drivers



Wholesale Customers

CAPS
CATV
IXC's
Wireless
CLECs
Resellers



Competitor Distribution Choices

Own Facilities (Probability of Bypass)
Buy Links (Probability of Interconnection)
Resell Retail Services (Probability of Resale)

NYNEX Services Purchased

Terminating Access
Link & Terminating Access
Retail access line, associated usage, features plus switched access

Expense Drivers



Categories

Assumptions

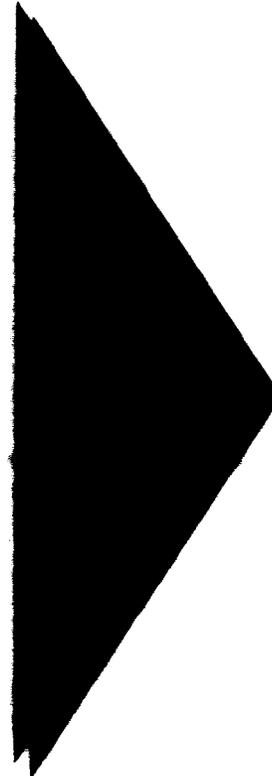
Network Operations

Customer Contact

Sales and Marketing

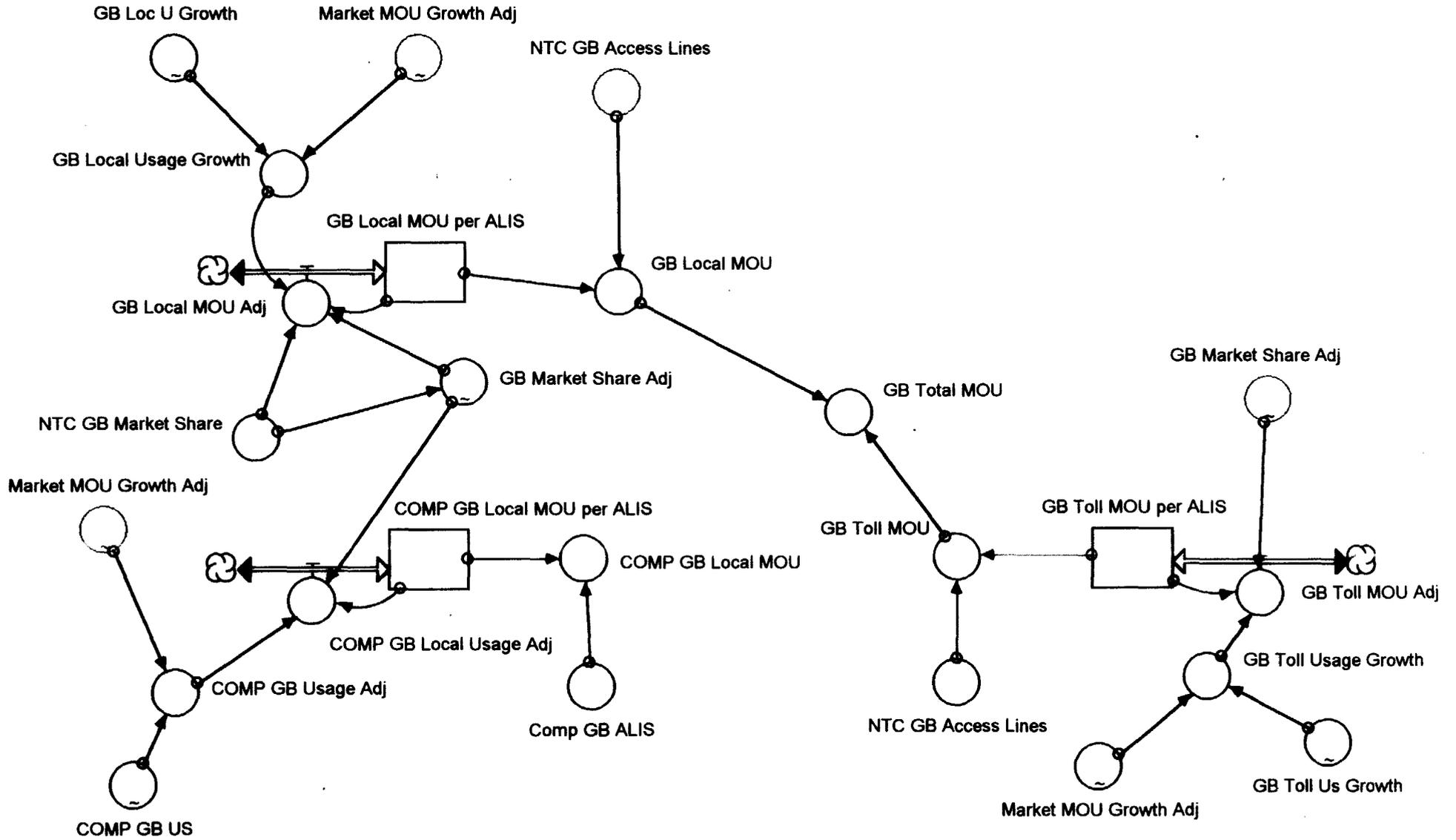
Reciprocal Interconnection

Staff and Non-Income Taxes



- **Productivity Gains**
- **Inflation**
- **Reengineering Efforts**
- **Operational Changes Related to Resale**
- **Operational Changes Related to Interconnection**

**Business - General Business
Usage Market Usage Calculations
(GB)**



Equations

$COMP_GB_Local_MOU_per_ALIS(t) = COMP_GB_Local_MOU_per_ALIS(t - dt) + (COMP_GB_Local_Usage_Adj) * dt$
INIT COMP_GB_Local_MOU_per_ALIS = 6503.68

INFLOWS:

$COMP_GB_Local_Usage_Adj = COMP_GB_Local_MOU_per_ALIS * (((COMP_GB_Usage_Adj/100)) - (GB_Market_Share_Adj))$
 $GB_Local_MOU_per_ALIS(t) = GB_Local_MOU_per_ALIS(t - dt) + (GB_Local_MOU_Adj) * dt$
INIT GB_Local_MOU_per_ALIS = 6503.68

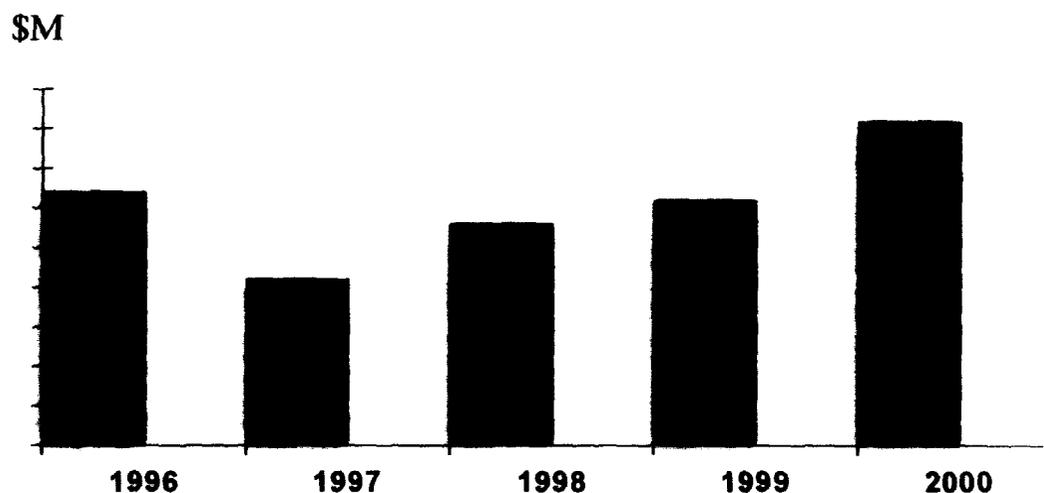
INFLOWS:

$GB_Local_MOU_Adj = GB_Local_MOU_per_ALIS * ((GB_Local_Usage_Growth/100) - ((NTC_GB_Market_Share - delay(NTC_GB_Market_Share, 1)))$
 $GB_Toll_MOU_per_ALIS(t) = GB_Toll_MOU_per_ALIS(t - dt) + (GB_Toll_MOU_Adj) * dt$
INIT GB_Toll_MOU_per_ALIS = 1392.13

INFLOWS:

$GB_Toll_MOU_Adj = ((GB_Toll_Usage_Growth/100) - (GB_Market_Share_Adj))$
 $*GB_Toll_MOU_per_ALIS$
 $Comp_GB_ALIS = GB_ALIS_Market * (1 - NTC_GB_Market_Share)$
 $COMP_GB_Local_MOU = COMP_GB_Local_MOU_per_ALIS * COMP_GB_ALIS$
 $COMP_GB_Usage_Adj = COMP_GB_US + Market_MOU_Growth_Adj$
 $GB_Local_MOU = GB_Local_Comp_MOU + GB_Local_Non_Comp_MOU$
 $GB_Local_Usage_Growth = GB_Loc_U_Growth + Market_MOU_Growth_Adj$
 $GB_Toll_MOU = (NTC_GB_Access_Lines) * GB_Toll_MOU_per_ALIS$
 $GB_Toll_Usage_Growth = GB_Toll_Us_Growth + Market_MOU_Growth_Adj$
 $GB_Total_MOU = GB_Local_MOU + GB_Toll_MOU$
 $NTC_GB_Access_Lines = GB_ALIS_Market * NTC_GB_Market_Share$
 $NTC_GB_Market_Share = Base_GB_Market_Share + Market_Share_Adj$
 $COMP_GB_US = GRAPH(time)$
(1995, 0.00), (1996, 3.00), (1997, 3.00), (1998, 3.30), (1999, 3.50), (2000, 3.50), (2001, 3.50), (2002, 3.50), (2003, 3.50), (2004, 3.50),
 $GB_Loc_U_Growth = GRAPH(time)$
(1995, 0.00), (1996, 3.00), (1997, 3.00), (1998, 3.30), (1999, 3.50), (2000, 3.50), (2001, 3.50), (2002, 3.50), (2003, 3.50), (2004, 3.50)
 $GB_Market_Share_Adj = GRAPH(NTC_GB_Market_Share)$
(0.00, 0.00), (10.0, 0.00), (20.0, 0.00), (30.0, 0.00), (40.0, 0.00), (50.0, 0.00), (60.0, 0.00), (70.0, 0.00), (80.0, 0.00), (90.0, 0.00), (100, 0.00)
 $GB_Toll_Us_Growth = GRAPH(time)$
(1995, 0.00), (1996, 1.70), (1997, 6.50), (1998, 6.80), (1999, 7.10), (2000, 7.10), (2001, 7.10), (2002, 7.10), (2003, 7.10), (2004, 7.10)
 $Market_MOU_Growth_Adj = GRAPH(time)$
(1995, 0.00), (1996, 0.00), (1997, 0.00), (1998, 0.00), (1999, 0.00), (2000, 0.00), (2001, 0.00), (2002, 0.00), (2003, 0.00), (2004, 0.00)

“Wholesale” Algorithms Developed to Capture Wholesale Channel Expenses for Resold Retail and Interconnection Services



Fixed: Systems, Overhead

Variable: Service Order Processing, Customer Contact, System Maintenance

Market Simulation Scenarios



Resale Discount	Economic Choice			Marketplace Factors		
	Links @			Links @		
	<u>Base Case</u>			<u>Base Case</u>		
12% Residence 7% Business	22	15	10	22	15	10
25% Residence 20% Business	22	15	10	22	15	10

Economic Choice - Based on Competitors' Buy vs Build Economics

Market Factors - Reflects Other Decision Making Factors in Addition to Economic Choice
(e.g. Capital Availability, Bundling Options)

Further Analyses



- **Dynamic Tool Capturing a Myriad of Interrelationships**

- **Continued Analysis**
 - **Network Elements Alternative**
 - **Additional Market Segmentation**