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Federal Communications Commission
Office of Secretary

Economic and Financial Simulation of Effects of FCC Policies on Local Exchange Unbundling and Resale

I. OPERATING LECG SIMULATION THE MODEL

The LECG Simulation Model is a spreadsheet model with linked worksheets. It is important to follow the correct procedures to maintain the integrity of the Model and its output.

- Before opening and performing simulations with the model, create a back-up version.
- When opening the Model, open the Core workbook [core_v1.xls] before opening the Recombination Scenario [recm_v1.xls].
- Before performing simulations, open both workbooks and keep them open. Check the to be sure that the Recombination Scenario workbook is properly linked to the Core workbook (Edit, Links).
- When closing or saving the Model, close or save the Recombination Workbook before closing or saving the Core workbook

II. CORE MODEL & LOW UNBUNDLED PRICE, HIGH RESALE DISCOUNT SCENARIO [CORE_V1.XLS, I.E., THE CORE]

Sheet: **Outline of Contents (By Worksheet)**

Summary: This sheet provides values of the "control variables" for the Baseline View and the active Low Unbundled Price, High Resale Discount Scenario. It also provides a summary of the revenues, operating incomes, and equity value differences between the Baseline View and the active scenario.

Control: This worksheet is used to set the control variables for the Baseline LEC View and all Scenarios. (Note: The Control sheet of the "Core" workbook is used to set the control parameters for both the Low Unbundled Price, High resale Discount and the Recombination Scenario.)

Mkt Shrs: In this worksheet we establish the overall size of the market in terms of exchange lines and set the trajectories for competitive market share gains in the local market and LECs' market share gains in the in-region interLATA market. Market share gains are set in terms of exchange lines. The exchange lines won by LEC competitors are divided into three categories: local resale, unbundled lines, and competitor supplied lines.

The top section of this worksheet provides market share information for the Baseline View; the lower portion of the worksheet does the same for the Low Unbundled Price, High Resale

Discount Scenario. Changes in market shares in the scenario are driven by the changes in prices for unbundled loops and the size of the resale discount. Changes from the Baseline View of the relative composition of the competitive losses (i.e., between resale and unbundled service) are driven by the relative costs for competitors to provide local service through resale or on unbundled loops.

Old Mkt: This worksheet establishes the size of the local market in terms of volumes and revenues. Initial prices, price growth rates, initial volumes, volume growth rates, and revenues are input for the current regime (competitive conditions as they are perceived today). Changes in prices from the initial prices will produce new volumes through the action of market elasticities. Out of trend, non-price driven exogenous market growth can be input separately.

As a matter of modeling convenience, prices for resale and for the recombining basic local price (used in the Recombination Scenario, see below) for both business and residential lines are calculated near the bottom of this worksheet.

Base LEC: This worksheet establishes the Baseline View by combining the quantities and prices from the Old Mkt worksheet, the market share information from the Mkt Shr worksheet, and baseline prices for unbundled loops and the resale discount from the Control worksheet. The Baseline View is a simulation of the performance of the composite of the large LECs[1] given realistic policy and pricing assumptions, including reasonable TSLRIC estimates. This view includes in-region interLATA market share gains for the LECs.

Scenario: This is the Low Unbundled Price, High Resale Discount Scenario. As the name indicates, this scenario simulates the impact to the LECs of providing unbundled loops to competitors at low TSLRIC estimates (i.e., based on Hatfield analysis as cited by the DOJ) and local resale at discounts that far exceed the avoided costs to the LECs from offering local resale service. In a variant of this scenario, competitors bypass terminating switched access by arbitraging the difference between interconnection and access prices.

Common: This sheet holds variables that are used in various calculations throughout the model but are not specific to one view or scenario

[1] The large LECs are Ameritech. Bell Atlantic, BellSouth, GTE. NYNEX. Pacific Bell, Southwestern Bell, and U S WEST

III. Recombination Scenario (built from Low Unbundled Loop Price Scenario) [RECM_V1.XLS]

Summary: This sheet provides values of the "control variables" for the Baseline View and the active Recombination Scenario. It also provides a summary of the revenues, operating incomes, and equity value differences between the Baseline View and the active scenario.

Mkt Shrs: This sheet builds on the top portion of the 'mkt shrs' spreadsheet in the Core to establish LECs' local market share losses and in-region interLATA market share gains for the Recombination Scenario. The exchange lines won by LEC competitors are divided into three categories: unbundled lines, competitor supplied lines, and lines used by an element of recombined service.

Scenario: This is the Recombination Scenario. It is characterized by low prices for the unbundled loop and other network elements, which allows competitors to purchase at low cost the necessary elements to provide service, and recombine those elements without investing in facilities. In a variant of this scenario, competitors bypass terminating switched access by arbitraging the difference between interconnection and access prices.

Attachment A

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This page has been substituted for one of the following:

o An oversize page or document (such as a map) which was too large to be scanned into the RIPS system.

o Microfilm, microform, certain photographs or videotape.

~~o Other~~ materials which, for one reason or another, could not be scanned into the ~~RIPS~~ system.

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