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Susanne Guyer
Executive Director
Federal Regulatory Policy Issues

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July 10, 1996

Federal Communications Commission
Washington, DC

Ex Parte

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

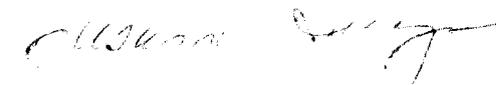
RE: CC Docket 96-98

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, and Mr. P. Wynns, Chief of the Industry Analysis Division of the Common Carrier Bureau. The purpose of the meeting was to describe the financial impacts of the "Hatfield model" on NYNEX's business using the NYNEX Market Simulation Model.

The attached charts were used during the meeting

Sincerely,



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

Attachment

041



Overview of NYNEX Analysis

Estimates of financial impacts with prices @ "Hatfield" costs correlate to USTA view

Retail market share loss is key driver and assumptional ... Utilized range based on aggressiveness of competitive entry

To reduce subjectiveness of market share estimates assumed LEC 100% network business

- performed detailed analysis of revenue and cost

Results prove that LECs cannot run a network business at "Hatfield" level wholesale prices.

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NYNEX Margin Analysis



Competitor's Potential
Per Line Margin (\$) and Percent

Market Segment	Retail & Switched Access (\$)	Hatfield Prices
Strata 1	72	32 (44%)
Strata 2	45	15 (33%)
Strata 3	63	18 (29%)
Strata 4	33	7 (21%)
Small Bus	58	29 (50%)
Medium Bus	65	33 (51%)
Large Bus	49	21 (43%)

Potential Financials ... Full Unbundled @ Hatfield Pricing

Assume 100% Network Business (\$ B)

	Year 1	Year 2
Total Revenue	5.0	5.2
Total Operating Expense	5.6	5.5
Net Income	(2.4)	(2.2)

- Revenue does not cover costs of operating our network ... Joint and common costs above TS LIRIC
- Depreciation, taxes, overhead not covered
- Costs do not reflect one-time implementation costs

NYNEX Expense Analysis



	Base View	View @ Hatfield Prices	% of TOE Fixed/ Variable
Plant Operations			
Installation	1.0	.7	Variable
Maintenance	7.1	9.7	Variable
Testing	4.0	5.2	Variable
Network Operations	19.4	26.1	Fixed
General Operations	<u>12.4</u>	<u>12.1</u>	Fixed
Total Service Operations	43.9	53.8	
Customer Service Inst.	.4	0	Variable
Billing and Collection	8.0	0	Variable
Other Cust. Service	1.8	0	Variable
Operator Services	<u>3.9</u>	<u>0</u>	Variable
Total Retail Service Delivery	14.1	0	
Sales & Marketing	9.0	0	Variable
Overhead/Staff	20.7	28.1	Fixed
Reciprocal Interconnection	1.0	0	Variable
Wholesale Service Delivery (Channel)	.4	7.3	Variable
Other/taxes	<u>10.9</u>	<u>10.8</u>	Variable
Total	100.0	100.0	Variable

NYNEX Margin Analysis

Competitor's Potential Per Line Margin (\$)

Market Segment	NYNEX Retail and Switched Access Revenue (\$)	Hatfield Prices	Hatfield Prices w/ Access
Strata 1	72	32	23
Strata 2	45	15	10
Strata 3	63	18	11
Strata 4	33	7	3
Small Bus	58	29	21
Medium Bus	65	33	25
Large Bus	49	21	17