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Federal Communications Commission
Office of Secretary

Ex Parte

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

Re: CC 96-98 Implementation of the Local Competition Provisions in the Telecommunications Act of 1996

Dear Mr. Caton:

The attached letter was sent by Mr. F. Gumper, NYNEX Vice President-Federal Regulatory Planning, to Dr. Farrell of the Office of Plans and Policy. It is NYNEX's response to MCI's July 19, 1996 ex parte in which MCI and ATT presented revised cost factors to the Benchmark Cost Model under discussion in the above proceeding.

Please contact me if you have any questions.

Sincerely,

Dee May

Attachment

cc: J. Farrell
R. Metzger
J. Schlichting
G. Rosston

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Frank J. Gumper
Vice President, Federal Regulatory Planning

NYNEX

July 24, 1996

Joseph Farrell
Chief Economist
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

Re: CC Docket No. 96-98

Dear Dr. Farrell:

This letter is being filed in response to MCI's July 19, 1996 *ex parte* letter, in which MCI and AT&T submitted two sets of factors that could be used to disaggregate loop costs by population density. The first set of factors was based on the Benchmark Cost Model ("BCM 1") that was filed jointly by MCI, NYNEX, Sprint, and US West on December 1, 1995 in Docket No. 80-286. The second set of factors was based on the Benchmark Cost Model 2 ("BCM 2") filed by US West and Sprint on July 3, 1996 in Docket No. 96-45. NYNEX has reviewed this material and wishes to offer the following observations, since we were one of the original sponsors of the BCM 1

MCI and AT&T argue that BCM 1 is a superior tool to BCM 2 for purposes of disaggregating loop costs. NYNEX disagrees. In our opinion, if the Commission were to adopt a set of scaling factors to disaggregate loop costs BCM 2 would provide more accurate results than BCM 1 for the following reasons

1. Contrary to the statement by MCI and AT&T, all parties who sponsored the BCM 1 study were <u>not</u> in agreement that it provided a reasonable relationship of loop costs across the country. In fact, prior to filing the original model, the four parties, including MCI, reviewed the results and determined that the BCM 1 model seriously under-estimated the true loop costs in dense urban areas. The parties only agreed that the BCM 1 provided a reasonable relationship for high cost loop areas. Since the purpose of the BCM 1 was to identify areas that would receive high cost funding, the under-estimation of urban loop costs was not considered to be a major problem. However, because of this error, the relationship between the costs in the dense urban areas and the costs in rural areas is incorrectly magnified. NYNEX pointed this problem out in its original comments in Docket 96-98.[1]

[1] *See* NYNEX Comments, filed May 16, 1996, at pp. 57-60

2. NYNEX did not participate in the development of the BCM 2 because NYNEX withdrew from joint efforts as a result of MCI's mischaracterization of the results of the BCM 1. Although all of the parties to the BCM 1 understood that it did not represent the costs of the local exchange carriers and that it was not designed to be used for rate-setting purposes, MCI argued that the Commission should use the BCM 1 data to establish interconnection rates. Although we did not actively participate in the development of the BCM 2, we maintained a continued dialogue with US West, and we were aware that modifications to the study were being made and that the BCM 2 model would be filed by July 1st. Despite the fact that MCI claims BCM 2 was filed without their knowledge, we understand that they participated in meetings with the FCC universal service task force in which discussions were held as to the types of corrections to be made in the BCM 2 model. We might add that NYNEX was unaware that MCI was using (so they claim) BCM 1 to modify the Hatfield model. To our knowledge, this was never conveyed to the other joint sponsors, *i.e.*, US West and Sprint.

3. Although we have not been able, at this point, to completely evaluate the accuracy of the BCM 2 and the corrections made to it, from conversations with US West it does appear that several of the problems that arose with BCM1 have, in fact, been corrected. While we are not sure that the urban problem has been completely resolved, BCM 2 does appear to provide a better approximation of the relative cost differences between density zones.

4. If the Commission were to disaggregate the unbundled loop price, using the BCM models or some other method, it would have to provide some mechanism for deaveraging the State retail local exchange rates. Otherwise, the unbundled loop prices would undermine the ability of the LECs to continue providing service to high cost areas through state-wide average local exchange rates.

Sincerely,

cc: Greg Rosston