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Ameritech

Anthony M. Alessi
Director
Federal Relations

April 25, 1997

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Federal Communications Commission
Office of Secretary

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

RE: **Ex Parte Statement**
CC Docket No. 96-262

Dear Mr. Caton:

On April 23, 1997, Ms. Lynn Starr, Ms. Kristin Shulman, and I met with Mr. Tom Boasberg, Legal Advisor to Chairman Hundt, to discuss Ameritech's position in the above referenced proceeding. The attached material was used as part of our discussion.

Sincerely,

Anthony M Alessi

Attachment
cc: T. Boasberg

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List ABCDE

Ameritech
Access Reform & Universal Service

Let the markets work

- The market based approach provides the proper incentive for continuing infrastructure investment
- The market based approach will result in significant downward pressure on access rates because of the availability of unbundled elements at rates based on forward looking incremental cost
- The prescriptive approach is equivalent to a restoration of cost-based regulation. Price caps work; the record in 94-1 does not support an increase in the productivity factor
- The prescriptive approach will stifle and distort the development of efficient competition

Non-traffic sensitive costs must be removed from traffic sensitive rates and recovered via non-traffic sensitive charges

- Modify the existing switched access rate structure and any rate effecting changes no earlier than 1/1/98

1. Recover loop and line port costs thru a flat per PIC'ed line charge assessed to Interexchange Carriers
2. Eliminate the TIC recovery of tandem switching costs and recover the remainder of the TIC thru a flat per PIC'ed line charge assessed to Interexchange Carriers
3. After a short transition period, the residential and business PIC'ed line charges should be equal
4. Phase out the TIC (in equal increments) over a five year period, but ONLY if coupled with additional pricing flexibility and the flexibility to target mandatory price cap reductions to the TIC

The AT&T/Bell Atlantic/NYNEX proposal is significantly flawed and takes the focus off the level of access prices

- Under the joint proposal, the new Bell Atlantic would reduce its access prices the least of any RBOC
- The new Bell Atlantic's switched access price of $0.0274 per minute is greater than the switched access price of any RBOC. Ameritech's current switched access per minute rate is $0.0227, or 17.2% lower
- The joint proposal would return the ILECs to rate of return regulation rather than letting markets work
- The proposal removes the ILECs' incentives to be efficient. Price caps works because it rewards companies that are efficient by allowing companies to keep earnings that accrue directly from their efficiencies

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Pricing flexibility must be commensurate with market conditions

The Market Based Approach
Phase 1 - Potential Competition

When all triggers are met:	The relief granted:
Unbundled network elements at rates approved by the states	Geographic deaveraging
Wholesale prices for retail services are based on reasonably avoidable costs	Contract/RFP pricing
Transport and termination at cost based rates	Volume and Term discounts
Network elements and services are capable of being provisioned rapidly and consistent with a significant level of demand; CLECs must provide demand forecasts	Price deregulation of technically new services
	Growth discounts
	Reduction of the X factor from 5.3 to 4.0 for the no sharing option

Phase 2 - Actual Competition

When all triggers are met:	The relief granted:
Presence of competition	Simplification of price cap bands and baskets
	End of mandatory Part 69 rate structure
	Ability to price differentiate between classes of customers
	Reduction of the X factor from 4.0 to 0.0

Competitive Access Services should be removed from price regulation

- Demonstration of substantial competition or when an ILEC cannot dictate price movement
- Removal on a service by service, LATA by LATA basis
- Services currently facing substantial competition - Directory Assistance, HiCap Transport in certain LATAs and Interstate IntraLATA (IX)

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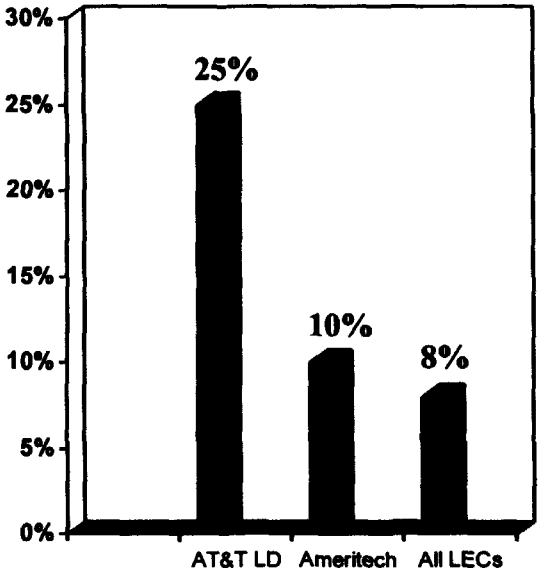
Universal Service

- The federal universal service fund should support interstate telecommunications services. State universal service funds should support intrastate telecommunications services
- If carriers are permitted to assess a surcharge on carrier and customer bills to recover universal service funding obligation, as recommended by the Joint Board, determine each carrier's funding obligation based on their proportion of total gross revenues less access payments for schools, libraries and rural health care, and for Lifeline, Link-up and High Cost funding on the carrier's proportion of interstate retail revenues
- If no surcharge is allowed, funding obligations should be based solely on interstate retail revenues
- Internal Connections and Internet should not be included in items eligible for universal service support and a non-profit foundation should be created that will ensure that a) all classrooms and libraries are wired with 5 connections by the year 2000 and b) all economically disadvantaged and rural schools have access to the Internet

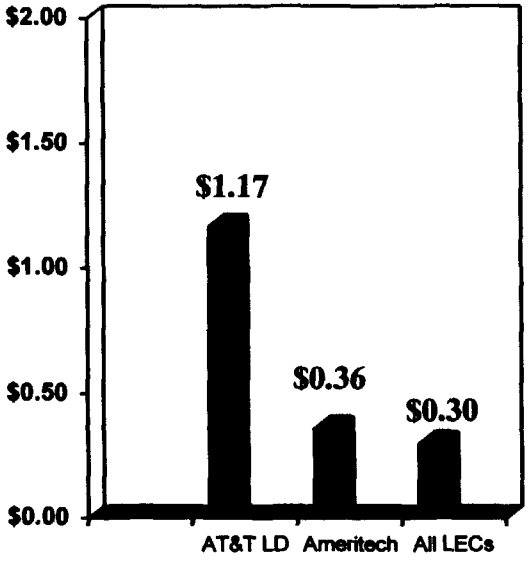
Financial indicators do not support shifting shareholder wealth from Local to Long Distance market

Higher Profits on Investment



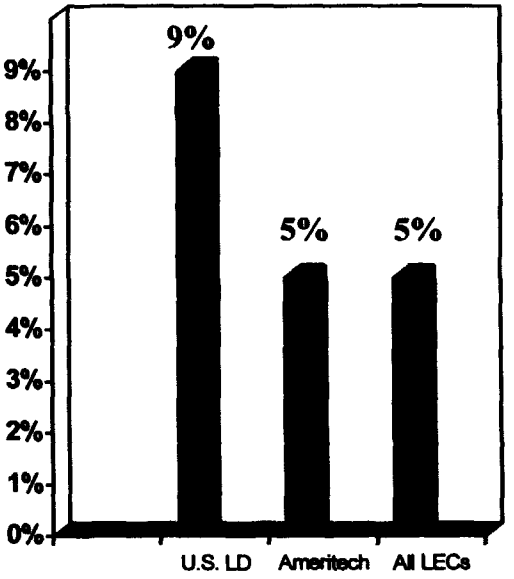
Operating return on assets (EBIT/Gross Plant)

More Revenue per Capital $



Capital Intensity (Revenue/Gross Plant)

Better Growth Rates



Average Annual Revenue Growth (1993-1996)

Source: AT&T Investment Community Meeting, March 3-4, 1997: Goldman Sachs, Furman Selz and Morgan Stanley, research reports and FCC Common Carrier statistics report

AT&T Long Distance Business has higher profits on investments, lower capital requirements, and better growth rates than the LEC local business