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Anthony M. Alessi
Director
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April 28, 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**
Docket 96-262

Dear Mr. Caton:

Ameritech is submitting the attached information into the record of the above referenced docket as requested by Mr. Richard Lerner, Competitive Pricing Division.

Sincerely,

A M Alessi

Attachment
cc: R. Lerner

No. of Copies rec'd 0+2
List ABCDE

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Issue: How to "target" mandatory price cap reductions to the TIC sub-band without creating any new headroom in any baskets

Assumptions:
1) Current Basket and band structure remains in place (IX basket removed from price cap regulation)
2) Common Line costs recovered on a flat rate basis eliminating the "g" component in the current common line PCI formula

Obstacle: Today's price cap formula drives changes in the PCI to all service bands within a given basket. This does not allow for one service band to impacted independently from the other service bands.

Current PCI formula

Other Baskets 61.45(b)

$$PCI_{(t)} = PCI_{(t-1)} * [1 + w(GDP\text{-}PI - X) + \Delta Y/R + \Delta Z/R]$$

Common Line 61.45(c)

$$PCI_{(t)} = PCI_{(t-1)} * [1 + w(GDP\text{-}PI - X - (g/2))/(1 + (g/2)) + \Delta Z/R]$$

Upper Limit formula (in most cases) 61.47(g)(1) thru 61.47(h)(2)

$$SBI_{(upper\ bound)} = SBI[PCI_{(t)} / PCI_{(t-1)}] * 1.05$$

Solution: Change the Price Cap formulas allowing exogenous changes to be taken at the service band level in addition to the basket level.

Revised PCI formula

$$PCI_{(t)} = PCI_{(t-1)} * (1 + GDP\text{-}PI - X)*(1 + \Delta Z_{basket}/R_{basket})$$

Revised Upper Limit formula (in most cases)

$$Limit_{(t)} = SBI_{(t-1)} * (1 + GDP\text{-}PI - X) * (1 + \Delta Z_{band}/R_{band}) * 1.05$$

Application of Revised Formula: Mandatory price cap reductions only exist when the GDP-PI is less than or equal to the X-Factor.

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Impact of Revised Price Cap Formulas

(Illustrative Only)

Formula Inputs	
GDP-PI (%)	2.30
X-Factor Choice (%)	5.30
Common Line R value	1,099,734,989
Traffic Sensitive R value	433,607,269
Trunking R value	794,674,510
Common Line Exogneous Amount	0
Traffic Sensitive Exogenous Amount	0
Trunking Exogenous Amount	0

Scenario #1 Business as Usual	Existing PCI	Proposed PCI	% change in PCI	Revenue Change
Common Line (no G component)	83.4287	80.9258	-3.00%	-32,992,050
Traffic Sensitive	79.9277	77.5299	-3.00%	-13,008,218
Trunking	85.9700	83.3909	-3.00%	-23,840,235
Total Price Cap Basket Changes				-69,840,503

Scenario #2 Targetting X-factor reductions to the Trunking Basket/TIC subband	
Common Line [(GDP-PI - X) * R]/(1 + GDP-PI - X)	-34,012,422
Traffic Sensitive [(GDP-PI - X) * R]/(1 + GDP-PI - X)	-13,410,534
Trunking [(GDP-PI - X) * R]/(1 + GDP-PI - X)	-24,577,562
Adjusted Common Line Exogneous Amount	34,012,422
Adjusted Traffic Sensitive Exogenous Amount	13,410,534
Adjusted Trunking Exogenous Amount	-47,422,956

	Existing PCI	Proposed PCI	% change in PCI	Revenue Change
Common Line (no G component)	83.4287	83.4287	0.00%	0
Traffic Sensitive	79.9277	79.9277	0.00%	0
Trunking	85.9700	78.4145	-8.79%	-69,840,503
Total Price Cap Basket Changes				-69,840,503

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(Illustrative Only)

Formula Inputs (%):

GDP-PI	2.30
X-Factor	5.30

	Existing PCI	Existing API	Existing SBI	Existing Upper Bound	"R" Value	Exogenous Changes	Proposed PCI (1)	Proposed PCI (2)	Proposed Upper Bound (3)	Proposed Upper Bound (4)
Common Line	83.4287	n/a	n/a	n/a	1,099,734,989	34,012,422	83.4287	83.4287	n/a	n/a
Traffic Sensitive	79.9277	79.8744			433,607,269	13,410,534	79.9277	79.9277		
Local Switching			91.5695	95.5031	397,507,931	12,294,060			96.1480	96.1480
Information			62.0316	71.9534	26,577,250	821,977			65.1332	65.1332
Database Access			98.2237	99.7318	9,449,898	292,265			103.1349	103.1349
800 Database Vertical Services			98.8863	106.1064	1,249,537	38,645			103.8306	103.8306
Billing Name and Address			98.9778	106.2047	72,190	2,233			103.9267	103.9267
Trunking	85.9700	79.0605			794,674,510	-47,422,956	78.4145	78.4145		
Interconnection Charge (TIC)			83.4643	87.9372	311,747,726	-62,358,836			76.1290	64.7659
Tandem Switched Transport (TST)			100.2086	100.2748	25,614,106	792,189			93.2297	102.2128
TST Zone 1			71.3145	86.2743	673,362	20,826			68.2993	74.8802
TST Zone 2			75.4467	87.4519	1,873,483	57,943			72.2568	79.2190
TST Zone 3			104.1408	105.6369	23,067,261	713,420			99.7377	109.3478
Voice Grade/Metallic/Telegraph (VG)			101.4493	103.2397	62,439,758	1,931,127			97.1600	106.5218
VG Zone 1										
VG Zone 2										
VG Zone 3										
Audio/Video			88.8860	95.7904	3,669,705	113,496			85.1279	93.3303
High Capacity and DDS			75.4265	83.8393	382,056,361	11,816,176			72.2375	79.1978
DS1/LT1			72.2382	81.3020	190,091,983	5,879,133			69.1840	75.8501
DS1/LT1 Zone 1			68.9915	79.5294	41,014,360	1,268,485			66.0745	72.4411
DS1/LT1 Zone 2			69.9519	80.3093	35,316,329	1,092,258			66.9943	73.4495
DS1/LT1 Zone 3			74.3737	82.4558	113,707,808	3,516,736			71.2292	78.0924
DS3/LT3			67.7780	78.3280	90,494,705	2,798,805			64.9123	71.1669
DS3/LT3 Zone 1			67.7986	76.4496	39,802,434	1,231,003			64.9321	71.1885
DS3/LT3 Zone 2			64.1363	78.2770	18,201,890	562,945			61.4246	67.3431
DS3/LT3 Zone 3			68.0386	78.0860	32,489,760	1,004,838			65.1619	71.4405
Wideband										
Signalling Interconnection			100.0000	104.6887	9,146,854	282,892			95.7720	105.0000

Footnotes:

(1) PCI(t) = PCI(t-1) * (1 + W * (GDP-PI - X) + (Delta Z / R))

(2) PCI(t) = PCI(t-1) * (1 + GDP-PI - X) * (1 + Delta Z / R)

(3) SBI(upper bound) = SBI(t-1) * PCI(t) / PCI(t-1) * 1.05 (in most cases)

(4) SBI(upper bound) = SBI(t-1) * (1 + GDP-PI - X) * (1 + Delta Z / R) *1.05 (in most cases)

Assumptions

1. CCL recovered on a per line basis, therefore the "g" component is eliminated from the current Common Line PCI formula
2. no exogenous except for tagetting the mandatory reductions to the TIC sub-band

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