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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ex Parte

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

Re: CC Docket No. 96-262, CC Docket No. 94-1 and CC Docket No. 91-213

Dear Mr. Caton:

Yesterday, Mr. E. Lowry, representing Bell Atlantic, Mr. F. Gumper, Mr. T. Caldwell and I, representing NYNEX, met with Mr. J. Schlichting, Mr. R. Lerner, Mr. J. Atkinson, Mr. P. Glenchur, Ms. D. Bradford and Mr. C. Barnekov of the Competitive Pricing Division of the Common Carrier Bureau. The purpose of the meeting was to present the Bell Atlantic/NYNEX proposal for pricing flexibility and access reform. The attached materials were used as a basis for discussion during the meeting.

Sincerely,

Susanne Guyer

Attachments

cc: Mr. J. Schlichting
Mr. R. Lerner
Mr. J. Atkinson
Mr. P. Glenchur
Ms. D. Bradford
Mr. C. Barnekov

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NYNEX Recycles

A NEW APPROACH TO PRICING FLEXIBILITY AND ACCESS REFORM

A Bell Atlantic / NYNEX Proposal

July 30, 1997

Pricing Flexibility

A New Approach To Pricing Flexibility Is Required

- Increased competition resulting from implementation of the Interconnection Order accelerates the ILECs' need for pricing flexibility
  - » availability of unbundled network elements (UNEs) enable market entry with minimal investment
- The restructuring of access rates has changed the pricing flexibility required by the ILECs
- The experience gained with NYNEX's Universal Service Preservation Plan (USPP) provides a valuable template for such flexibility

Pricing Flexibility Principles

- An administratively simple process using objective, verifiable criteria is required
  - » With 163 LATAs in 50 states and multiple services offered in each, the FCC could be inundated with individual pricing flexibility requests

- This process will provide:
  - » a comprehensive framework for streamlined case-by-case resolution of requests, and
  - » reduced administrative burdens for both the FCC and applicants

Pricing Flexibility Principles

- Decrease regulation as competition increases
  - » Allow deaveraged rates and targeted reductions as competition grows
  - » Reduce Price Cap X-Factor as competition grows
  - » Provide a clear path for removal of all price regulation

Pricing Flexibility

- Differences in characteristics of the markets for multiple services require different criteria, time frames and pricing flexibility
- Pricing flexibility should enable further alignment of rate structures with costs -- e.g., Access Reform (SLCs, PICCs, &Transport) vs. UNEs
    - Transport vs. switched access
    - Existing access services vs.
        - » Interexchange services,
        - » Corridor services,
        - » Directory Assistance services, and
        - » New services

Pricing Flexibility
Transport vs. Switched Access

- The factors which foster growth of competition and competitive behavior in a market are fully developed in the ***special access transport*** market, particularly for high capacity transport services
  - » Substantial competition exists
    - – CAPs have installed significant fiber networks in primary and secondary markets and have collocated and interconnected with ILECs
- ***Special access*** customers are sophisticated users, primarily interexchange carriers and large business customers, with "buying power" which fosters competitive behavior and makes the market easier to penetrate

Pricing Flexibility
Transport vs. Switched Access

- CAP provided ***special access*** services are fully substitutable for ILEC provided special access, and can "stand alone"

- The Commission has acknowledged these industry conditions in establishing "collocation cross connects" as the standard for permitting pricing flexibility for ***special access*** services

- This standard demonstrates actual market presence and market coverage by competitive providers of ***special access*** services

Pricing Flexibility
Transport vs. Switched Access

- CAPs are actively competing for switched transport services, particularly switched entrance facilities
- Competition for switched Direct Trunked Transport is also growing rapidly as CAPs expand the use of collocation to interconnect their facilities with the ILEC's network
- Emerging competition for Tandem Switched Transport will accelerate with the FCC's Access Reform Order

Pricing Flexibility
Transport vs. Switched Access

- The factors which foster growth of competition and competitive behavior in a market are less fully developed in the ***switched access*** market

- ***Switched access*** competition depends in part on development of local exchange competition which is demonstrated by the:
  - » availability of number portability, interconnection, UNEs and reciprocal compensation

Proposed Process For Pricing Flexibility

- A three phase framework under which pricing flexibility increases with competition
- ILECs may seek flexibility for a service group by a self-defined market area no smaller than a LATA
  - » Competition will evolve differently for different services
  - » The ILEC assumes the burden of proving the threshold for the criteria for the entire market area
    - – larger areas require burden of showing criteria for entire area
    - – smaller areas require burden of multiple showings

Criteria For Transport Flexibility

Phase I 100 DS1 equivalent collocated cross connects

Phase II competitors have demonstrated the capability to provide service to **25%** of the market

- » **Step 1:** Classify wire centers (WCs) as competitive or non-competitive. Competitive WCs are where a competitor has:
  - » collocated facilities;
  - » obtained UNEs in the WC; or
  - » its own facilities in the WC serving area
- » **Step 2:** Calculate the % of ILEC revenue in competitive WCs to the total ILEC revenues in the market area

Criteria For Transport Flexibility

Phase III

» Competitors have demonstrated the capability to provide service to **75%** of market

– Use same steps as Phase II to determine that criteria are met

Pricing Flexibility Granted
Transport Markets

Services	Phase I	Phase II	Phase III
HiCap Special Access	Respond to Requests for Proposals	Contract rates Increase upper service band limits to 10% Growth option with V&T	Services removed from Price Cap regulation
Direct Trunked Transport	Respond to Requests for Proposals Target TIC reductions to TIC in collocated WCs	Contract rates Increase upper service band limits to 10% Growth option with V&T	Services removed from Price Cap regulation
Tandem Switched Transport	Respond to Requests for Proposals Target TIC reductions to TIC in collocated WCs	Contract rates Increase upper service band limits to 10% Growth option with V&T	Services removed from Price Cap regulation
Remaining Special Access	Respond to Requests for Proposals	Contract rates Increase upper service band limits to 10% Growth option with V&T	Services removed from Price Cap regulation

Criteria For Switched Access Flexibility

Phase I

- » Negotiated or State approved agreements or statements for:
  - – UNEs
  - – Discounted resold services
  - – Transport and termination of traffic
- » Interim number portability is available
- » 100 UNE loops are in service

Criteria For Switched Access Flexibility

Phase II -- Competitors have demonstrated the capability to provide service to **25%** of the market

Step 1: Classify WCs as competitive or non-competitive

» For **residence and single line business**, competitive WCs are where:

- competitors have collocated facilities,
- competitors have purchased UNEs, or
- competitors have their own facilities in a WC serving area **and offer service to such customers**

» For **multiline business** (ML business), competitive WCs include:

- the above WCs and where competitors have their own facilities in a WC serving area

Step 2: Calculate the % of ILEC lines by residence, SL business, or ML business served in competitive WCs to the total ILEC lines by class of service served in the market area.

Criteria For Switched Access Flexibility

Phase III

- » Competitors have demonstrated the capability to provide service to **75%** of market
  - – Use same steps as Phase II to determine that criteria are met

Pricing Flexibility Granted
Switched Access Markets

Phase I pricing flexibilities

» primarily concern non-traffic sensitive elements and ML business customers

– PICCs, SLCs

Phase II pricing flexibilities

» provided for traffic sensitive services and single line business and residence customers

– MOU rates

– ML business, single line business, residence, etc.

– ***growth*** as an additional option with volume, term plans

Pricing Flexibility Granted
Switched Access Markets

Services	Phase I	Phase II	Phase III
ML business	Deaverage ML PICCs by UNE zone and class of customer V&T PICC pricing Deaverage ML SLC by UNE zone Deaverage overflow ML Bus O/T MOU by UNE zone Promotional offerings	Contract pricing Growth option with V&T plans Deaverage MOU rates by UNE zone	Services removed from Price Cap regulation
SL business and residence	Deaverage PICCs by UNE zone and class of customer V&T PICC pricing Promotional offerings	Contract pricing Deaverage MOU rates by UNE zone and class of customer Deaverage SLCs by UNE zone	Services removed from Price Cap regulation

Price Cap X-Factor Reductions

- The X-Factor should be reduced as competition evolves
  - » Phase I - when 50% of the ILEC's total interstate access revenues are under Phase I, II or III, then eliminate Consumer Productivity Dividend (CPD)
    - – The CPD assumes that future productivity will grow faster than historical levels. As competitors enter the market, this is an unreasonable assumption.

Price Cap X-Factor Reductions

- Phase II - when 25% or more of the ILEC's total interstate access revenues are in Phases II or III
  - » Corresponding reductions in the X-Factor as competitors offer service to larger percentage of the market (e.g., 35% of revenues in Phase II or III then X reduced by 35%)
    - – Dr. Christensen established that an increase in competition results in an immediate decline in productivity
    - – X-Factor reductions could be limited to a floor of GDP-PI.
      - Under current economic conditions nominal rates will not go up and real rates will continue to decline

Pricing Flexibility Granted
Other Services

- Interexchange Services:
  - » Remove from price cap regulation when intraLATA presubscription is available in the market area

- Corridor Services:
  - » Remove from price cap regulation immediately
  - » Bell Atlantic and NYNEX compete with IXCs for interLATA transport services.
  - » Corridor service is limited in geographic scope and as such is an inferior service to the IXCs' long distance service
  - » AT&T, the carrier with the largest market presence in the corridors, has characterized these markets as having "the highest degree of competition possible"

Pricing Flexibility Granted
Other Services

- Directory Assistance Services:
  - » Remove from price cap regulation when there is at least one other directory assistance provider offering service in the market

- New Services:
  - » Remove from price cap regulation immediately.
    - – New services, by definition, provide a competitive alternative to existing services and the prices, terms and conditions for such services will be constrained by market forces

A Bell Atlantic/NYNEX Proposal
for
A NEW APPROACH
TO
PRICING FLEXIBILITY
AND
ACCESS REFORM

INTRODUCTION

The Federal Communications Commission (Commission or FCC) has recognized the fact that regulation should be reduced as competition develops. This proposal presents a regulatory framework to accomplish that goal in a manner consistent with the rapidly evolving competitive telecommunications marketplace including the access reforms most recently ordered by the Commission. The basic concepts of this proposal, such as distinguishing markets by specific competitive criteria, application of streamlined regulations to competitive services, and more flexible price cap management, can be integrated with concepts already adopted by the Commission in its Access Reform, Price Cap, Universal Service and Interconnection proceedings. In addition, incorporated in this proposal are the concepts and experience gained from the FCC's approval of NYNEX's Universal Service Preservation Plan (USPP).[1] This proposal also recognizes the important and distinctly different characteristics of competition in the Switched Access and Special Access and Transport markets, and how these competitive markets must be accommodated. It provides a road map to remove ILEC services from price regulation as regulatory controls are replaced by competitive forces.

PUBLIC POLICY GOALS

[1] Also incorporated in this proposal are the concepts and experience gained from the FCC's approval of Ameritech's Customer's First Plan, such as deaveraging the Interconnection Charge (IC).

This proposal is consistent with the goals that have been espoused in various reform proposals before the FCC. Such goals include:

- The Price Cap process must encourage more efficient prices.
- Further alignment of rate structures with costs causation principles.
- Adoption of policies and programs that rely on competitive marketplace forces instead of regulatory forces.
- The reduction of regulation to allow competitive markets to flourish.
- The maintenance of consumer protection while enabling competitive pricing.

The result of accomplishing these goals will be a relaxation of the requirement for averaged prices, a recognition of the necessity to offer different prices by class of customer (multiline business, single business, residence, etc.), a process to limit the size of the productivity offset (X-Factor) as competition grows and a process that deregulates the introduction of new services to stimulate deployment of new technologies. The Commission must also define a clear path to the elimination of price regulation as competition becomes more pronounced.

The following charts summarize the criteria proposed for evaluating the extent of competition and the flexibilities proposed for services provided by the ILEC in each market segment and phase of competition. ILECs offering services in these markets should be provided relaxed regulation and additional pricing flexibility for those services, commensurate with the extent of competition in each phase.