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SBC

August 8, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Memorandum of Ex Parte Communication

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *CC Docket No. 94-1 and 96-262 - Access Reform*

On Thursday, August 7, David Hostetter, Michael Van Weelden and myself met with members of the Competitive Pricing Division to review SBC Communications' position on pricing flexibility as described in the attached materials. Attending from the Competitive Pricing Division were Paul Glenchur, Aaron Goldschmidt, Jay Atkinson, Dana Bradford, Rich Lerner, Chris Barnekov, David Konuch and Brad Wimmer. We are submitting the original and one copy of this Memorandum to the Secretary in accordance with Section 1.1206(b)(2) of the Commission's rules.

Please stamp and return the provided copy to confirm your receipt. Please contact me at (202) 326-8889 should you have any questions.

Sincerely,

Jay Bennett

Attachment

cc (w/o attachments): P. Glenchur, A. Goldschmidt, J. Atkinson, D. Bradford, R. Lerner,
C. Barnekov, D. Konuch, B. Wimmer

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List ABCDE

Pricing Flexibility for Price Cap LECs

SBC
August 1997

Access Market Rating Process

- **A process should be established to rate the competitiveness of an access market**

- **The access market rating process should determine the degree to which less regulation is appropriate for an incumbent local exchange carrier (ILEC)**

- **An access market consists of:**

  - A service grouping component that identifies the group of services which could be provided with a given set of network facilities

  - A geographic area component that identifies a homogenous area which either shares a community of interest or complements the service grouping component

Access Market Rating Process

- **Competitiveness should be measured using a criteria that assesses the state of facilities-based competition in an access market**
  - Facilities-based competition includes non-ILEC facilities as well as the use of unbundled network elements (UNEs)
- **Three access market ratings should be used to characterize the competitiveness of an access market beyond the baseline stage**
  - Access market rating 1: Operational Competition
  - Access market rating 2: Substantial Competition
  - Access market rating 3: Effective Competition

Access Market Rating Process

- **Operational competition rating identifies markets in which:**
  - Barriers to entry are down as evidenced by operational interconnection arrangements; and,
  - Competitors have established facilities to serve a portion of the market's customer demand

- **Substantial competition rating identifies markets in which:**
  - Competitors have established facilities with enough capacity to serve a significant portion of the market's customer demand

- **Effective competition rating identifies markets in which:**
  - Deregulation is warranted because competitive discipline protects customer interests

Access Market Rating 1: Operational Competition

Transport Market

- **Special access, entrance facilities, direct trunk transport and common transport should be grouped together for competitive measurement purposes**
  - Special access and dedicated switched transport (entrance facilities and direct trunk transport) are interchangeable
  - Alternative networks are technologically capable, operational and competitors are providing these services
  - UNEs can be used to duplicate transport services

Access Market Rating 1: Operational Competition

Transport Market

- **Geographic area over which to measure transport competition:**
  - ILEC's service territory located within a Metropolitan Statistical Area (MSA)
    - * MSA - an urban area and its surrounding communities that meets certain population criteria and that have strong economic and social ties
  - Basic Trading Areas (BTAs) would be used for an ILEC's service territory located outside MSAs
    - * BTA - a geographic area that includes a trading center and its surrounding area; a trading center is a city where residents of the BTA make the majority of their shopping goods purchases
  - Residents in a MSA or a BTA share common social, economic and general business interests

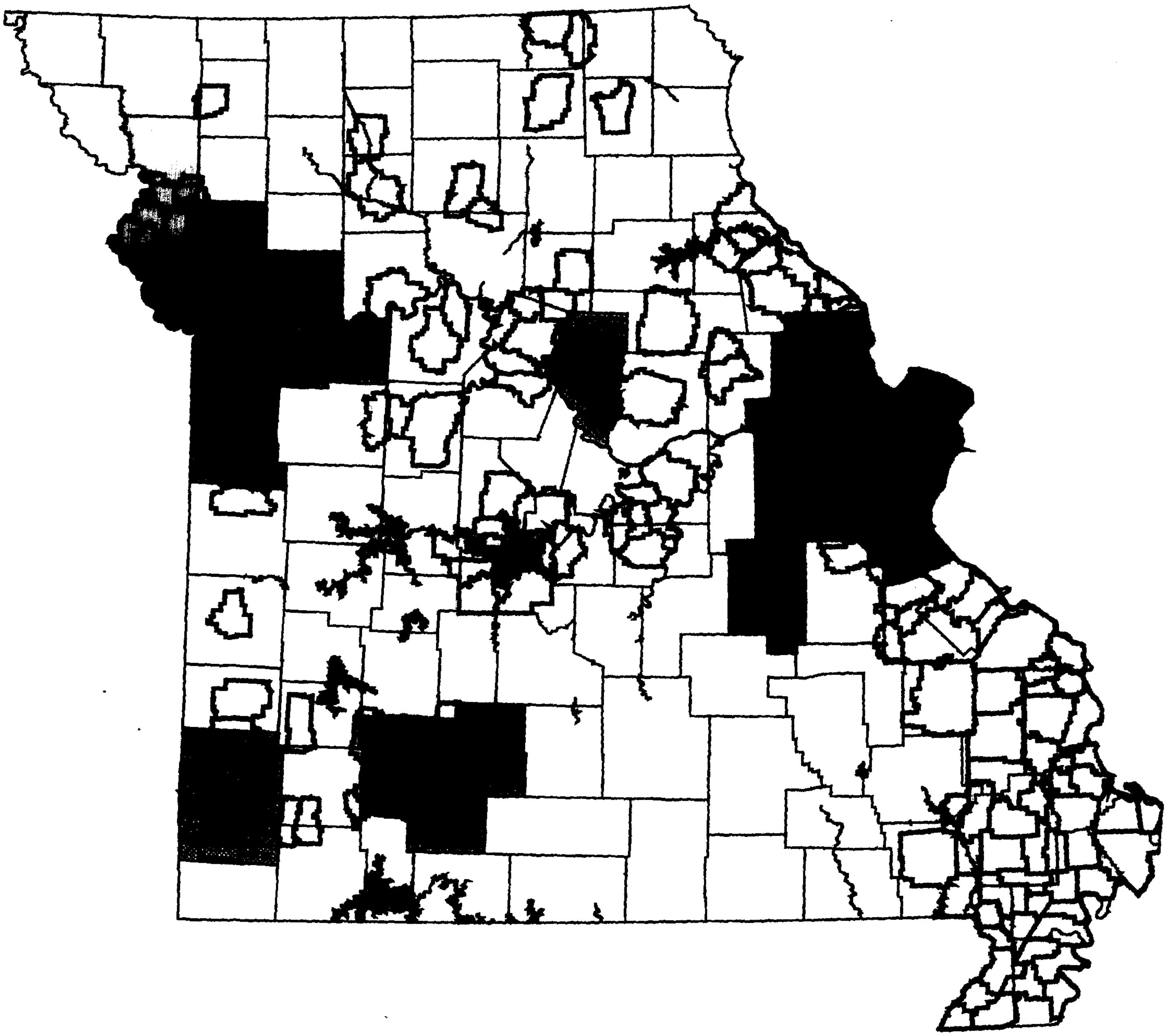
Missouri Metropolitan Statistical Areas (MSAs)

MSAs	Population	SWBT Population	SWBT Wire Centers	SWBT Access Lines
Joplin	137,300	107,931	6	68,700
St. Joseph	97,300	82,393	5	49,429
Springfield	276,500	240,318	13	157,149
St. Louis	1,975,085	1,783,478	51	1,124,642
Kansas City	998,100	877,375	23	574,003
Columbia	117,000	0	0	0
TOTAL	3,601,285	3,091,495	98	1,973,923

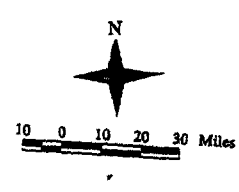
Total population of counties are estimates of Rand McNally based on 1990 Census.

Population within SWBT-MO Wire Centers are based on 1990 Census indexed for growth.

STATE OF MISSOURI
Counties, Wire Centers and MSA's



Marketing Department
Director-Market View & Performance Analysis
LH_/mst1/projects/crtwrght/msa_mo.apr



Missouri Adjusted Basic Trading Areas (BTAs)

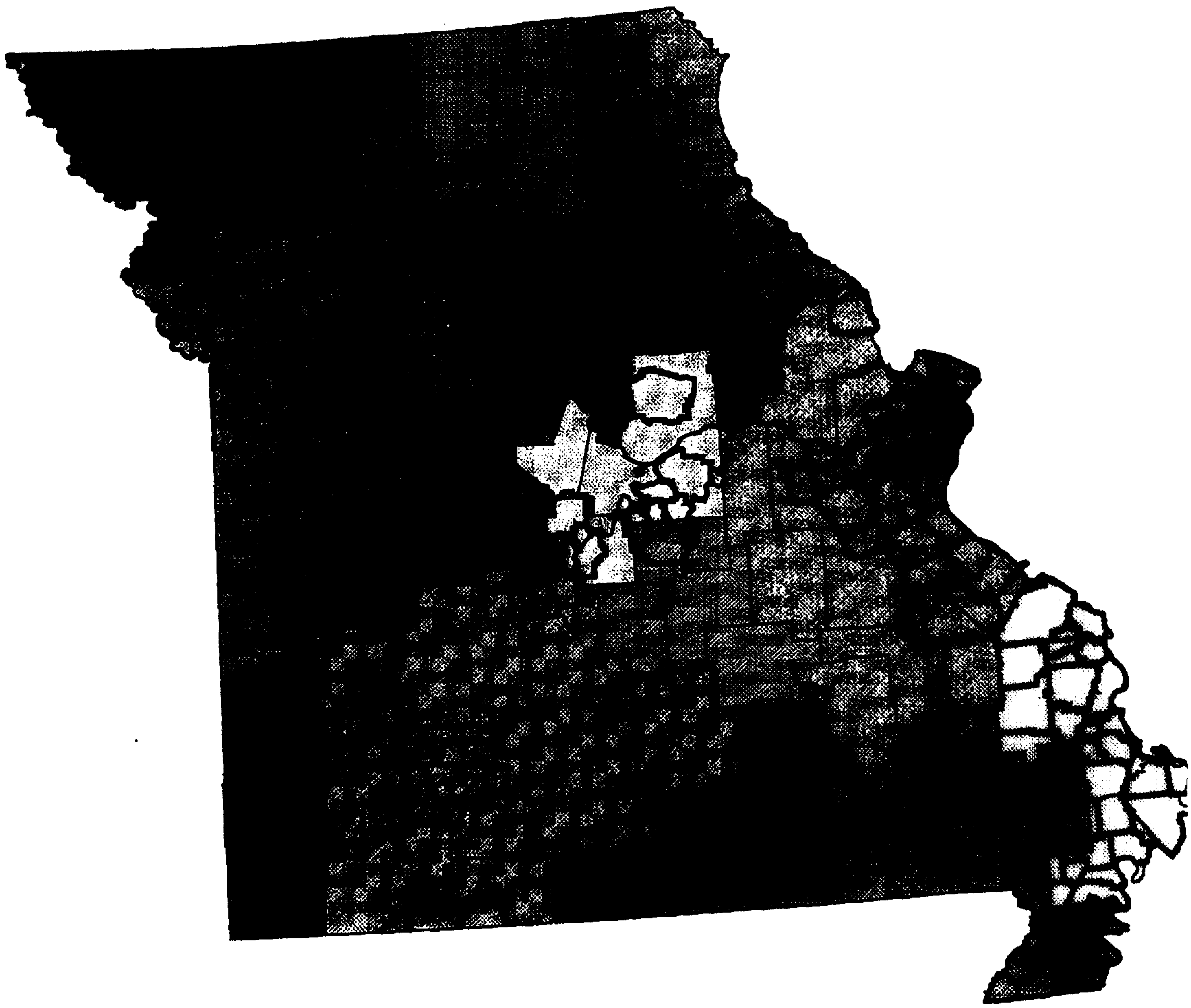
	BTAs	Total Population	SWBT Population	SWBT Wire Centers	SWBT Access Lines
**	Joplin	28,900	6,636	1	3,913
**	Kansas City, MO	187,200	76,637	10	40,812
**	St. Joseph	73,800	1,948	1	912
	Sedalia	80,600	51,121	5	30,849
	Blytheville, AR	21,400	16,198	4	7,256
	Cape Giradeau-Sikeston	164,500	163,786	26	89,136
**	Columbia	77,200	50,337	9	26,837
	Jefferson City	144,700	49,362	9	23,967
	Kirksville	54,300	23,172	3	15,204
	Mark Twain Forrest	58,100	0	0	0
	Popular Bluff	130,500	94,522	16	48,886
	Quincy, IL-Hannibal, MO	86,400	40,475	8	21,925
	Rolla	107,800	2,175	1	1,170
**	St. Louis	131,600	77,657	10	40,096
**	Springfield	278,100	48,341	11	38,390
	TOTAL	1,625,100	702,367	114	389,353

** **Does not include MSA data.**

Total population of counties are estimates of Rand McNally based on 1990 Census.

Population within SWBT-MO Wire Centers are based on 1990 Census indexed for growth.

State of Missouri
Counties, Wire Centers & BTAs



Marketing Department
Director-Market View & Performance Analysis
/map/projects/ms_mo.apr

SBC
MSAs and BTAs

State	MSAs	BTAs
Arkansas	7	16
Kansas	4	18
Missouri	6	15
Oklahoma	5	19
Texas	27	32
California	25	20
Nevada	2	3

Access Market Rating 1: Operational Competition

Transport Market

- **Competitive criteria: Operational facilities-based competition**
  - An interconnection agreement and/or Statement of Generally Available Terms (SGAT) is in effect; and,
  - Competitors serve customer demand for transport services on a facilities basis which is equivalent to at least 10% of the total interstate transport revenues generated within a MSA or within a BTA

Access Market Rating 1: Operational Competition

Switched Access Market

- **The local switching and common line elements should be grouped together for competitive measurement purposes**

  - Local switching and common line elements are necessary to provide end users with local telephone service and switched access to long distance service

  - When competitors provide end users with facilities-based local telephone service, they also provide them with switched access to long distance service (and the ILEC stops billing interstate switched access charges)

Access Market Rating 1: Operational Competition

Switched Access Market

- **Geographic area over which to measure switched access competition:**
  - ILEC's service territory in a MSA
  - BTAs for an ILEC's service territory located outside of MSAs
- **Competitive criteria: Operational facilities-based competition**
  - An interconnection agreement and/or SGAT is in effect; and,
  - Competitors have established interconnection trunks with enough capacity to serve at least 10% of the total local MOUs generated within a MSA or within a BTA

Access Market Rating 1: Operational Competition

Pricing Rules

- Deaverage local switching and common line elements within a study area if switching and loop UNEs are deaveraged within the study area
- Switched access pricing plans
- Modified price cap basket structure
- New service flexibility
- Promotional offerings
- Contract pricing in response to RFPs for transport services

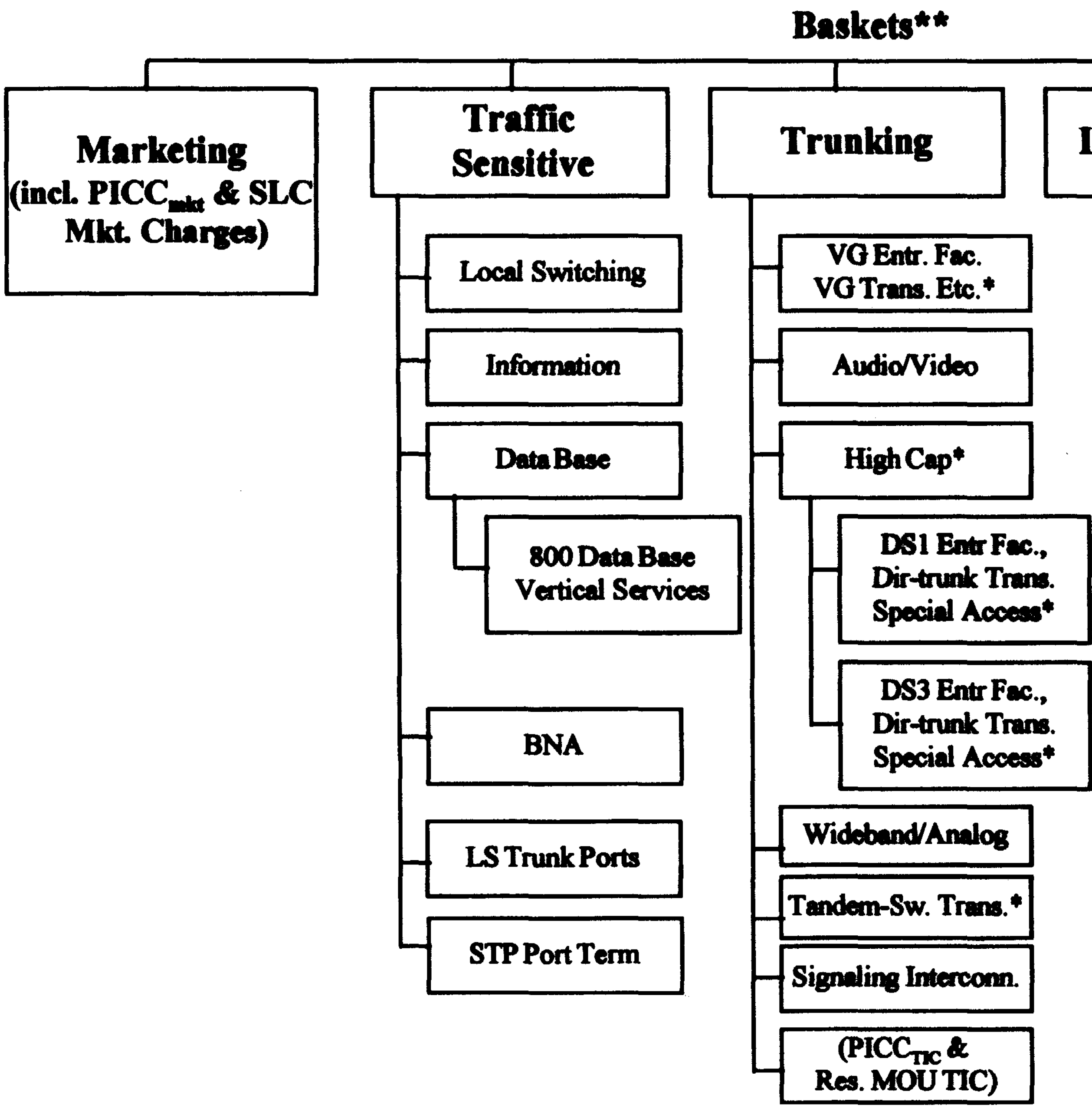
Switched Access Pricing Plans

- Applies to recurring usage charges
- Discount based on percent of base period MOUs
- Discount based on contract period (1, 3 or 5 year options)
- Maximum rate equal to the non-discounted rate at start date of plan
- Termination charge equal to the difference between the discounted rate and the non-discounted rate

Base Period Mou	One Year	Three Year	Five Year
80%	0%	1%	2%
90%	.5%	3%	5%
100%	1%	5%	10%

Price Cap Basket Structures

Baseline Price Cap Structure



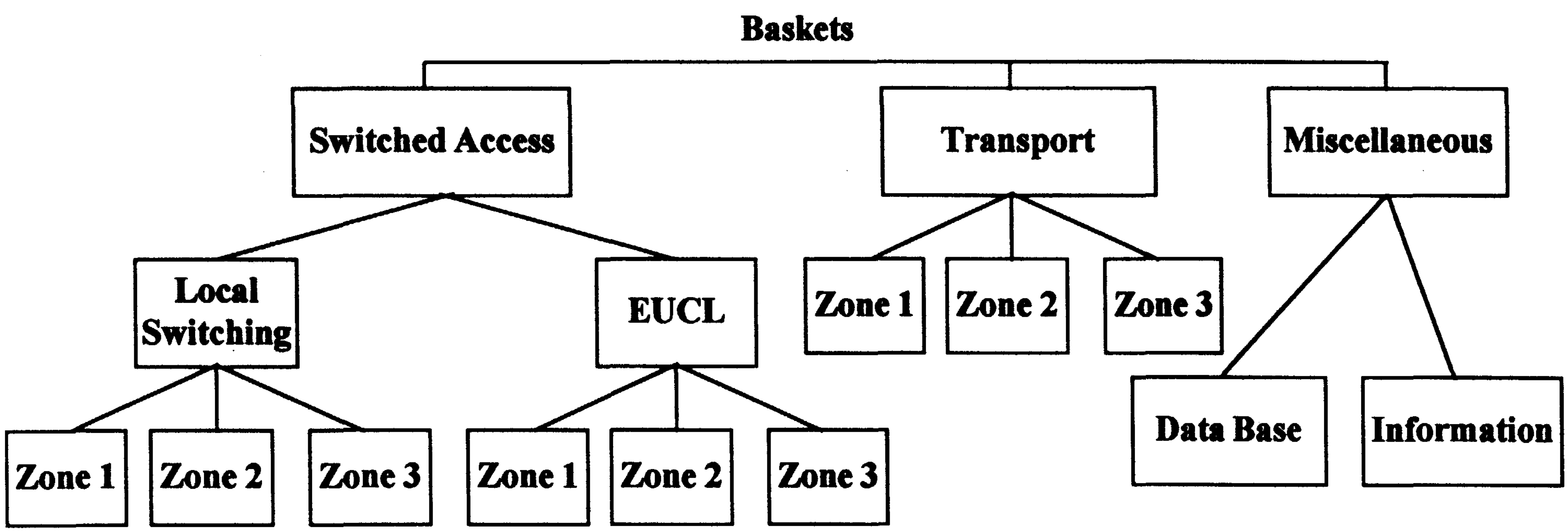
Service Categories and Sub-categories

The TST upward pricing constraint is +2%, all others are +5%. There are no downward pricing constraints

*Zone pricing is allowed on these services

** Effective 1/1/98

Access Market Rating 1
Price Cap Basket Structure



The Information Service Category, Data Base Service Category and the Local Switching and Transport Zones have a +5% upper limit and no lower limits. Prices in the EUCL Zones are limited by the non-primary residence and multi-line business price ceilings.

Access Market Rating 2: Substantial Competition

Transport Market

- **Special access, entrance facilities, direct trunk transport and common transport**

- **Competitiveness measured over MSAs and BTAs**

- **Competitive criteria:**

  - Competition serves customer demand for transport services on a facilities basis which is equivalent to at least 25% of the total interstate transport revenues generated within a MSA or within an adjusted BTA

Access Market Rating 2: Substantial Competition

Switched Access

- **Local switching and common line elements**
- **Competitiveness measured over MSAs and BTAs**
- **Competitive criteria:**
  - Competitiors have established interconnection trunks with enough capacity to serve at least 25% of the total local MOUs generated within a MSA or within an BTA

Access Market Rating 2: Substantial Competition

Pricing Rules

- No Part 69 structure
- Services removed from price caps
- Contract pricing for transport services
- Cost support not required for tariff filings
- One day notice period for tariff filings

Access Market Rating 3: Effective Competition

- Forbearance requirements of Section 10 of the Act should be used to judge the degree of competitiveness

- Regulatory action may be initiated either by a petitioner or the Commission

- Services that satisfy Section 10 requirements should be deregulated