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BEFORE THE

# Federal Communications Commission

WASHINGTON, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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| **In the Matter of** | ) | |
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| **Access Charge Reform** | ) | **CC Docket No. 96-262** |
| | ) | |
| **Price Cap Performance Review for Local Exchange Carriers** | ) | **CC Docket No. 94-1** |
| | ) | |
| **Transport Rate Structure and Pricing** | ) | **CC Docket No. 91-213** |
| | ) | |
| **End User Common Line Charges** | ) | **CC Docket No. 95-72** |
| | ) | |

**To: The Commission**

## COMMENTS OF AMERICAN PETROLEUM INSTITUTE IN SUPPORT OF PETITION FOR RULEMAKING

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**Dated: January 30, 1998**

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## EXECUTIVE SUMMARY

In its *Access Charge Reform Order,* the Commission recognized that to eliminate implicit subsidies in access rates it needed to both restructure rates and decrease rate levels. Unfortunately, the assumptions underlying the Commission's two-pronged approach to access reform - particularly its restructuring of common line cost recovery and its reliance on anticipated competitive forces to reduce rates - have been disproven by events that have occurred since release of that *Order.* Just and reasonable access rates will not be achieved without prescriptive action by the Commission.

Appellate rulings have gutted the Commission's efforts to dismantle the legal and economic barriers to entry. Operational barriers remain largely intact. No incumbent LEC, for example, can be said to have satisfied the Commission's rule regarding nondiscriminatory access to operations support systems despite a January 1, 1997 deadline. Because these barriers preclude the near-term development of competitive forces that could drive access rates towards economic cost, implicit subsidies remain secure and contribute to record earnings by price cap LECs.

Just as appellate rulings and on-going operational difficulties have thwarted the emergence of competition in local markets, the Commission's failure to mandate flow-through of access charge reductions has thwarted the realization of subscriber benefits from access reform. Indeed, that failure has seriously penalized business customers.

The Commission should grant the petition for rulemaking so that it may take action that ensures just and reasonable access rates.

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**To: The Commission**

## COMMENTS OF AMERICAN PETROLEUM INSTITUTE IN SUPPORT OF PETITION FOR RULEMAKING

On December 9, 1997, the Consumer Federation of America (CFA), International Communications Association (ICA), and National Retail Federation (NRF) filed a Petition for Rulemaking, pursuant to 47 C.F.R. § 1.401, to initiate a rulemaking addressing the immediate prescription of interstate access rates to cost-based levels (hereinafter the Joint Petition). The American Petroleum Institute (API) supports the Joint Petition and urges the Federal Communications Commission (Commission) to initiate that rulemaking as soon as practicable. As a result of appellate rulings and

pending litigation regarding various Commission *Orders,* significant legal and economic barriers to entry in local markets remain intact. These barriers, in conjunction with unresolved operational issues that constitute another form of barrier, ensure that interstate access markets will not be effectively competitive in the near future. Consequently, in compliance with its statutory responsibilities, the Commission should seek through regulation to ensure that interstate access rates are reasonable by prescribing, to the greatest extent possible, prices that would exist in competitive markets.

## I. INTRODUCTION

API is a national trade association representing approximately 300 companies involved in all phases of the petroleum and natural gas industries, including exploration, production, refining, marketing, and transportation of petroleum, petroleum products, and natural gas. Among its many activities, API acts on behalf of its members as spokesperson before federal and state regulatory agencies. The API Networks and Technology Committee is one of the standing committees of the organization's Information Systems Committee. The Networks and Technology Committee evaluates and develops responses to state and federal proposals affecting telecommunications facilities used in the oil and gas industries. API participated extensively in the Commission's *Access Charge Reform* proceeding.

## II. THE MARKET-BASED APPROACH WAS PREMISED ON THE ANTICIPATED NEAR-TERM EMERGENCE OF COMPETITION

In its *Access Charge Reform Order*, the Commission attempted to "reshape the existing rate structure to eliminate significant implicit subsidies in the access charge system."[1] Thus, an important goal of the *Order* was to increase the amount of fixed costs recovered through flat charges and decrease the amount recovered through variable rates. The Commission accomplished this goal with respect to common line costs by phasing out per-minute carrier common line charges and replacing these charges with fixed "presubscribed interexchange carrier charges" or PICCs.

While rate structure changes were intended to eliminate "some of the distortions that have characterized the access charge system for over a decade," the Commission recognized that the elimination of other distortions would require substantial rate reductions.[2] Reductions in rate levels were deemed necessary so that access charges would "ultimately reflect rates that would exist in a competitive market."[3] Such rates would be based on the carrier's economic, or forward-looking, cost of providing the service.

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[1] *In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charges,* First Report and Order, CC Docket Nos. 96-262, 94-1, 91-213, and 95-72. FCC 97-158 (rel. May 16, 1997), *review pending sub nom. Southwestern Bell Tel. Co. v. FCC,* Nos. 97-2866/2873/2875/3012 (8th Cir.) (hereinafter *Access Charge Reform Order or Order)* at ¶ 36; *see also* ¶ 40.

[2] *Id.* at ¶ 42.

[3] *Id.*

Rather than order immediate rate reductions, the Commission elected to rely primarily on anticipated emerging competitive pressures to drive access rates towards their forward-looking costs. "We are confident," the Commission stated, "that the pro-competitive regime created by the Act and implemented in the Local Competition Order and numerous state decisions will generate workable competition over the next several years in many cases, and we would then expect access price levels to be driven to competitive levels."[4]

The Commission recognized, however, that competitive pressures would develop unequally, and that some services would prove "resistant to competition."[5] Consequently, as safeguards for those areas in and services for which competition might not develop, the Commission adopted conservative adjustments to the price cap regulatory regime in its companion *Price Caps Order*.[6] It also reserved to itself the right to adjust rates to forward-looking costs in those instances "[w]here competition has not emerged."[7] To facilitate its implementation of this "prescriptive backstop" to its market-based approach, the Commission required each incumbent price cap local exchange carrier (LEC) to file forward-looking cost studies no later than February 8, 2001 or sooner if competition "is

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[4] *Access Charge Reform Order* at ¶ 48; *see also* ¶ 265.

[5] *Id.*

[6] *In the Matter of Price Cap Performance Review for Local Exchange Carriers and Access Charge Reform,* Fourth Report and Order in CC Docket No. 94-1 and Second Report and Order in CC Docket No. 96-262, CC Docket Nos. 94-1 and 96-262, FCC 97-159 (rel. May 21, 1997) (hereinafter *Price Caps Order).*

[7] *Access Charge Reform Order* at ¶ 48.

not developing sufficiently for the market-based approach to work."[8]

## III. COMPELLING CIRCUMSTANCES WARRANT INITIATION OF THE REQUESTED RULEMAKING

In the months since release of the *Access Charge Reform Order,* events have given lie to the Commission's confident pronouncements. Numerous appellate setbacks have gutted the Commission's efforts to dismantle the legal and economic barriers to entry in local markets. Highlights include:

- **Pricing Rules Vacated:** In July, 1997, the United States Court of Appeals for the Eighth Circuit vacated the pricing rules established in the *Local Competition Order,* finding that "[n]owhere in section 251 is the FCC authorized specifically to issue rules governing the rates for interconnection, unbundled access, and resale, and the transport and termination of telecommunications traffic."[9] The Court also vacated the Commission's "pick and choose" rule.
- **FCC's Section 251 Role Restricted:** In addition, the Eighth Circuit's July decision severely limited federal oversight of Section 251 proceedings, with the Court finding *inter alia* that the Commission lacks the authority

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[8] *Access Charge Reform Order* at ¶ 48.

[9] *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 and Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers,* First Report and Order, CC Docket Nos. 96-98 and 95-185, FCC 96-325 (rel. Aug. 8, 1996), *aff'd in part and vacated in part, Iowa Utilities Board v. FCC,* 120 F.3d 753, 794 (8th Cir. 1997).

to (1) establish binding rules applicable to State regulators; (2) review State-approved interconnection agreements; and (3) establish rural exemptions.

- **UNE Platform in Disarray:** In October, 1997, the Eighth Court again rejected the Commission's interpretation of the Telecommunications Act of 1996, holding that incumbent LECs owe their competitors no duty to recombine unbundled network elements.[10]
- **RBOC Restrictions Invalidated:** In December, 1997, the United States District Court for the Northern District of Texas agreed with SBC Communications that Sections 271 through 275 of the Act are unconstitutional - a decision which, if allowed to stand, eliminates critical statutory safeguards and allows a Bell Operating Company to enter the in-region interLATA market before its local markets are opened to competitors.[11]
- **Scope of FCC's 271 Review Limited:** In January, 1998, the Eighth Circuit, acting at the request of the National Association of Regulatory

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[10] *Iowa Utilities Board v. FCC*, 1997 U.S. App. LEXIS 28652 (8th Cir. Oct. 14, 1997).

[11] *SBC Communications, Inc. v. FCC,* No. 7-97-CV-163-X (N.D. Tex. Dec. 31, 1997). This decision, in conjunction with the Eighth Circuit's decision, knocks most of the pins out from under the Commission's conclusion that, even without prescribed rates, an "anticompetitive price squeeze is unlikely to occur" in the interexchange market. That conclusion was predicated in large part on statutory safeguards and the availability of cost-based unbundled network elements. *See, Access Charge Reform Order* at ¶¶ 278-282.

Utility Commissioners, prohibited the Commission from requiring that Bell Operating Companies comply with its forward-looking pricing standards as a condition for obtaining Section 271 authority for in-region interLATA entry.[12]

On January 26, 1998, the U.S. Supreme Court agreed to place a number of telecommunications appeals on its 1998-1999 agenda.[13] This Supreme Court action continues the regulatory uncertainty associated with implementation of the Telecommunications Act of 1996 for at least another year.

Additionally, significant operational barriers to entry remain firmly in place, including but not limited to:

- **Number Portability:** In March, 1997, the Commission extended its implementation schedule for the 100 largest MSAs and relaxed its mandate of MSA-wide deployment, requiring deployment only for those switches for which a carrier has made a specific request for portability.[14] Portability remains mired in controversy over cost recovery.

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[12] *Iowa Utilities Board v. FCC,* No. 96-3321 (8th Cir. January 22, 1998).

[13] *AT&T Corp. v. Iowa Utilities Board,* No. 97-826; *MCI Telecommunications Corp. v. IUB,* No. 97-829; *Association for Local Telecommunications Services v. IUB,* No. 97-830; *FCC v. IUB,* No. 97-831; *Ameritech Corp. v. FCC,* No. 97-1975; *GTE Midwest, Inc. v. FCC,* No. 97-1087; *U.S. West Inc. v. FCC,* No. 97-1099; *Southern New England Telephone Co. v. FCC,* No. 97-1141.

[14] *In the Matter of Telephone Number Portability,* First Memorandum Opinion and Order on Reconsideration, CC Docket No. 95-116, FCC 97-74 (rel. March 11, 1997).

- **Operations Support Systems (OSS):** Under the Commission's rules, no later than January 1, 1997, ILECs must provide upon request nondiscriminatory access to OSS functions for pre-ordering, ordering, provisioning, maintenance and repair, and billing for both UNEs and resold services.[15] More than a year after this deadline, the absence of workable OSS for competitors remains a serious impediment to local competition.[16]

Consumers have yet to see the emergence of "workable competition" in local telecommunications markets or to realize the promises of greater choice and lower rates. In fact, end users - particularly multiline business line end users - are seeing *substantial rate increases* attributable to new presubscribed interexchange carrier charges (PICCs) and universal service surcharges and, in some instances, increased subscriber line charges (SLCs).

Higher end-user rates confirm that local competition has failed to develop as the Commission anticipated. If workable competition were beginning to emerge, disgruntled end-users could avoid the new PICCs and increased SLCs by purchasing their local and long-distance telecommunications service from a competitive local exchange carrier

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[15] 47 C.F.R. § 51.319(f).

[16] *See,e.g., In re Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as amended, to Provide In-Region, InterLATA Services in Michigan,* Memorandum Opinion and Order, CC Docket No. 97-137, FCC 97-298 (rel. Aug. 19, 1997).

(CLEC).[17] Due to the paucity of competitive options, however, such movement is not occurring.

Because legal, economic, and operational barriers to local entry remain largely intact, the "market forces" operating in access markets today and for the near term are primarily those associated with monopoly markets. In these markets, rates have been set and remain far above cost. These grossly-inflated access rates directly penalize end-users, since the incumbents generate their monopoly profits from customers purchasing services in the competitive long-distance market. As long as the incumbents retain their monopoly grip on access services, as well as the network functions used to provide access, access rates will not move towards economic cost. The Commission therefore should grant the Joint Petition and initiate a rulemaking for the purpose of prescribing immediate rate reductions for interstate switched access services.[18]

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[17] *Access Charge Reform Order* at ¶ 265.

[18] Generally, an agency enjoys substantial discretion to grant a petition for rulemaking. As explained by the Court in *WHHT, Inc. v. Federal Communications Commission,* 656 F.2d 807, 809 (D.C. Cir. 1981), "the decision to institute rulemaking is one that is largely committed to the discretion of the agency, and that the scope of review of such a determination must, of necessity, be very narrow." Typically, that judicial review is limited to ensuring that an agency has adequately explained the facts and policy concerns it relied on in determining whether to initiate a rulemaking and that those facts have some basis in the record. *Id.* at 817. Granting a petition for rulemaking is appropriate and, indeed, obligatory in circumstances such as those presented by the instant case, wherein "a significant factual predicate of a prior decision on the subject (either to promulgate or not to promulgate specific rules) has been removed." *Id.* at 818-819, citing *Geller v. FCC,* 610 F.2d 973, 979 (D.C. Cir. 1979) ["The court in *Geller* ruled that an agency 'cannot sidestep a reexamination of particular regulations when abnormal circumstances make that course imperative.'"]

## IV. THE COMMISSION WOULD FAIL TO SERVE THE PUBLIC INTEREST IF IT WERE TO RETAIN THE MARKET-BASED APPROACH IN A NON-COMPETITIVE ENVIRONMENT

The Commission acknowledged that its market-based approach would likely take several years — if it worked at all — to drive rates to competitive levels.[19] Though it did not explain why it could not adopt a graduated prescriptive approach, which guarantees results over definite time periods, the Commission identified two concerns underlying its rejection of a prescriptive "flash cut" approach. First, lacking accurate forward-looking cost models, it expressed the concern that "precipitous action could lead to significant errors in the level of access charge reductions."[20] Emerging competition, it believed, would provide a more accurate means of identifying implicit subsidies and moving access

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[19] *Access Charge Reform Order* at ¶ 46.

[20] *Id.* Interestingly, the absence of cost data did not preclude the Commission in IB Docket No. 96-261 from taking substantial steps towards its goal of cost-based settlement rates. As the Commission explained,

> Because settlement rates in effectively competitive markets would tend to the level of TSLRIC plus a reasonable contribution to joint and common costs, our settlement rate benchmarks ideally should be set at that level. However, . . . because data on foreign carriers' costs are not available at this time, we must look to another source of data to establish benchmarks. . . . [T]he benchmarks . . . that we adopt here result in settlement rates that we believe still exceed foreign carriers' costs to terminate international traffic because they are based primarily on foreign carriers' tariffed rates. . . . Nonetheless, the benchmarks are substantially below most prevailing settlement rates and represent progress towards achieving cost-based rates, and we find that they are reasonable given the limited data available to us for calculating benchmarks at this time.

*In the Matter of International Settlement Rates,* Report and Order, IB Docket No. 96-261, FCC 97-280 (rel. Aug. 18, 1997) at ¶¶ 42-44.

prices to economically sustainable levels. Second, it was concerned that attempts "to move immediately to competitive prices . . . would require dramatic cuts in access charges for some carriers," substantially decreasing the incumbents' access revenues and proving "highly disruptive" to LEC business operations.[21]

The reference to "dramatic cuts" indicates once again that the Commission realizes that interstate switched access rates are seriously bloated. In the absence of viable competition, the ILECs face no pressure to reduce these rates towards economic cost. Implicit subsidies in ILEC access rates thus remain secure and contribute to record earnings.[22] These record earnings undercut any notion that the price cap LECs would be harmed by the Commission's lawful exercise of its unchallenged authority to set just and reasonable rates for interstate switched access services.

Commission inaction with respect to these access rates ensures that total telecommunications costs remain artificially inflated with serious negative public-interest ramifications. These excess charges penalize end-users directly by keeping long-distance rates higher than otherwise would be. In addition to suppressing long-distance calling volume, excess access charges undermine local telecommunications competition by eroding the financial capability of potential entrants to make the massive, up-front investments necessary for facilities-based entry. Ultimately, as the Commission

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[21] *Access Charge Reform Order* at ¶¶ 45-46.

[22] Copies of recent press releases from BellSouth and GTE touting their financial results, including double digit growth, are attached hereto. Financial results for other carriers are readily available on their Internet home pages.

acknowledges, these excessive access rates retard job creation and economic growth.[23]

The Commission's vision of a pro-competitive regime created by the Act and implemented by its *Local Competition Order* has failed to materialize. Litigation and difficult operational issues ensure that workable competition cannot be achieved in the near term. "[I]n the event competition fails to develop, rates that approximate the prices that a competitive market would produce[ ] best serve the public interest."[24] It is time to implement this regulatory maxim and set rates that "approximate the prices that a competitive market would produce," since further delay in prescribing access rate reductions inures only to the benefit of the price cap LECs at the expense of end-users and the economy at large.

## V. ACCESS REFORM MUST ENSURE THAT END-USERS BENEFIT FROM RATE REDUCTIONS AND RESTRUCTURING

It is undisputed that telecommunications is a declining cost industry. Nonetheless, in the wake of the *Access Charge Reform Order,* most multiline business line customers are experiencing substantial rate increases as interexchange carriers (IXCs) impose new charges to recover PICCs and universal service contributions while reserving to themselves rate reductions attributable to restructuring.[25] These significant rate

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[23] *Access Charge Reform Order* at ¶ 30.

[24] *Access Charge Reform Order* at ¶ 42.

[25] Customers also face the prospect of rate hikes attributable to increases in their subscriber line charges, since the *Order* raised the SLC cap on multiline business line customers from $6.00/line/month to $9.00/line/month.

increases stands in sharp contrast to the promise of rate reductions.

The reformed common line rate structure was intended to allow price cap LECs to recover almost all common line costs through flat charges assessed on subscribers (SLCs) and IXCs (PICCs). Per-minute charges paid by IXCs, consequently, were to be phased out over a period of one to three years. The Commission recognized that its planned transition to flat rates would not be transparent to business customers.[26] It apparently assumed, however, that the blow would be cushioned by the IXCs, who would modify their billing to reflect the phase-out of per-minute carrier common line (CCL) charges. This assumption was unfounded and has proven false.

Because interexchange carriers are under no obligation to flow-through cost savings attributable to access reform, under the Commission's *Order* they "win" twice at the customer's expense. First, customers continue to pay the same usage-based rates even as their IXCs' CCL charges drop. Second, these same customers are assessed new "presubscribed line charges," despite the fact that these charges compensate the carriers for costs already recovered in the usage-based rates.[27] Customer bills are further inflated by universal service surcharges.

The Commission's failure to mandate flow-through of access charge reductions

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[26] "While the plan we adopt today does not eliminate, even on a flat-rated basis, transitional higher rates for business users, it redistributes collection from a very few high-volume users to business users generally." *Access Charge Reform Order* at ¶ 101.

[27] Admittedly, smaller carriers may have experienced increased costs due to transport restructuring and other reforms.

has thwarted the realization of subscriber benefit from access reform, just as appellate rulings and on-going operational difficulties have thwarted the emergence of competition in local markets. The Joint Petition presents the Commission with a timely opportunity to promptly rectify the harm that subscribers are experiencing due to this regulatory blind-spot. The Commission should initiate the requested rulemaking.

## VI. GRANTING THE PETITION ADVANCES THE INTERESTS OF ADMINISTRATIVE EFFICIENCY

When it released its *Access Charge Reform* and companion *Price Cap Orders* in May, 1997, the Commission acknowledged that its work was not complete. It promised a future order detailing the rules necessary to implement its market-based approach, as well as a separate order to address issues related to embedded cost recovery in a competitive environment.[28] Both remain outstanding.

The Commission's efforts to implement its market-based approach appear to have been complicated by *inter alia* the various Eighth Circuit decisions and pending appeals involving the *Access Charge Reform* and *Price Cap Orders.* Given the failure of key Commission assumptions regarding competitive prospects and end-user benefits, further work towards implementing the market-based approach would commit the Commission to constructing a regulatory framework based on little more than hope.

A more efficient and beneficial course is to undertake efforts designed to ensure that interstate switched access rates move as expeditiously as possible towards economic

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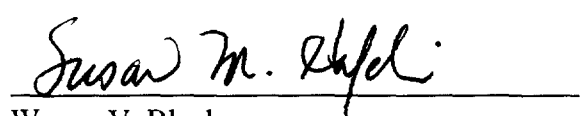
[28] *Access Charge Reform Order* at ¶ 14; *Price Caps Order* at ¶ 175.

cost. As the Commission, the states, interested parties, and the courts continue to work their way through the complex task of reshaping local telecommunications markets, rate prescription offers the greatest opportunity to achieve concrete progress towards the goal of a fair and efficient access system. The Commission should take the next step towards that goal by granting the Joint Petition.

**WHEREFORE, PREMISES CONSIDERED,** the American Petroleum Institute respectfully requests that the Federal Communications Commission take action consistent with the views expressed herein by granting the Joint Petition and initiating a rulemaking addressing the immediate prescription of interstate access rates to cost-based levels.

Respectfully submitted,

**AMERICAN PETROLEUM INSTITUTE**



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Dated: January 30, 1998

BELLSOUTH



# BellSouth Reports Fifth Consecutive Year of Earnings Growth

## *Increase in access lines sets fourth annual record in row; Wireless customers worldwide surpass 6 million*

For Immediate Release:

January 22, 1998

ATLANTA — BellSouth Corporation (NYSE: BLS) reported 12.5 percent growth in earnings per share (EPS) for the fourth quarter of the year, excluding special items. It was the fifth year in a row of improved operating results for BellSouth. For the full year, EPS improved 12.3 percent, excluding special items which increased reported EPS by 45 cents.

Fourth quarter EPS was a record 72 cents in 1997, not including a gain of 2 cents on the sale of BellSouth's interest in Bellcore, a telecommunications research company, and a charge of 1 cent for retiring long-term debt early. EPS in the fourth quarter of 1996 was 64 cents.

"Our earnings momentum continues to be a direct result of executing our three strategies," said Duane Ackerman, BellSouth's chairman and chief executive officer. "By focusing on what our customers need, we're driving record growth in our nine-state telecommunications region, growing our domestic wireless business profitably, and expanding our international businesses, primarily in Latin America. That focus and execution result in continued strength in earnings."

For the fourth year in a row, BellSouth set a record for the number of new access lines. Growth was driven by continued success in marketing additional lines and by a strong regional economy in the South. The company added 1,066,000 lines in 1997, including an unprecedented 233,000 during the fourth quarter. The 4.8 percent annual growth in total access lines is the highest for any calendar year in the company's history.

Residential lines grew 4.6 percent in 1997, also a record pace, and business lines grew 5.3 percent to more than 7,088,000. The company's 15.8 million residential lines include nearly 1.9 million additional lines. Promotions keying on customers' demands for Internet access, children's phones, fax machines and other work-at-home tools have helped boost the penetration of additional lines to about one in every seven BellSouth residential customers.

Sales of BellSouth's telephone calling features continued to

grow rapidly. Revenues from services such as Caller ID Deluxe and MemoryCall® service voice messaging were $346 million in the fourth quarter of 1997, up 20 percent from the same three months of 1996. For the full year, calling feature revenue grew 24 percent to $1.3 billion in 1997.

With demand for sophisticated, secure data services exploding in all market segments, BellSouth tailors more than 80 of these products to the special needs of large and small businesses, as well as to consumers. Revenues from BellSouth's digital services for business customers were $1.3 billion in 1997, up 27 percent from 1996.

BellSouth's wireless customer base worldwide grew by 33 percent during 1997. In the U.S., the company's cellular and PCS businesses added 149,000 customers during the fourth quarter, and ended the year with 4.2 million. For the year, BellSouth's domestic wireless operations grew by 550,000 customers, or 15 percent.

In BellSouth's 13 international cellular markets, customers more than doubled for the year, growing 107 percent to 1,882,000. BellSouth passed the million customer milestone in Latin America, where customers increased 131 percent.

BellSouth's fourth quarter consolidated revenues of $5.6 billion increased 10.9 percent compared with the same quarter of 1996. Total operating expenses increased 7.9 percent. These results include for the first time certain international operations that previously had been reflected only in other income. As a result, fourth quarter revenue and expense growth rates increased by approximately 2 to 3 percentage points.

Net income in the fourth quarter was $729 million, including $23 million from the gain on the Bellcore sale, partially offset by a charge of $9 million for retiring the debt. Net income in the fourth quarter a year ago was $633 million.

For the year, BellSouth's revenues of $20.6 billion were up 8.0 percent compared with 1996. Total operating expenses increased 6.5 percent, as the company's telephone operations moved to the top of the industry in employee productivity.

Excluding special items in both years, EPS in 1997 was $2.84, compared with $2.53 in 1996. Including the special items, reported EPS was $3.29 in 1997, compared with $2.88 in the previous year. Net income excluding special items was $2.8 billion in 1997 compared to $2.5 billion in 1996. Reported net income in 1997 was $3.3 billion versus $2.9 billion in 1996.

BellSouth is a $20 billion communications services company. It provides telecommunications, wireless communications, directory advertising and publishing, video, Internet and information services to more than 29 million customers in 20 countries worldwide.

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For more information, contact:
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Tim Klein, (404)249-4135

NOTE: For more information about BellSouth, visit the BellSouth Web page at http://www.bellsouth.com. Also, BellSouth news releases dating back one year are available by fax at no charge by calling 1-800-758-5804, ext. 095650.

**A list of BellSouth Media Relations Contacts is available in the Corporate Information Center.**

BELLSOUTH

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**GTE Reports 10% Revenue and Core EPS Growth in Fourth Quarter**
**Strategic Actions Creating Expansion**

January 27, 1998

STAMFORD, Conn. - GTE Corp. today announced its fourth quarter financial results, reporting growth of 10 percent in earnings per share (EPS) from core operations for the tenth consecutive quarter, on consolidated revenue growth of 10 percent.

Earnings per share from core operations increased during the quarter to 89 cents on net income of $851 million, as compared to 81 cents per share reported for the same period last year. Including the effects of previously announced data initiatives, reported earnings per share was 73 cents on net income of $702 million. During the quarter, consolidated revenues and sales increased by 10 percent to a record $6.3 billion, compared to $5.8 billion in the fourth quarter of the prior year.

For the full year 1997, earnings per share from core operations increased 10 percent for the third consecutive year. Net income from core operations was $3.04 billion, or $3.17 per share, compared to $2.79 billion, or $2.88 per share, excluding gains on the 1996 sale of certain non-strategic local-exchange telephone properties. Including the effects of the data initiatives, reported earnings per share was $2.92 on net income of $2.79 billion. Consolidated revenues and sales for the year increased $1.92 billion, or 9 percent, to $23.3 billion, the highest annual revenue growth ever reported by the company.

GTE Chairman and CEO Charles R. Lee said, "1997 was a pivotal year for GTE. In May, we announced a number of key initiatives that continue to transform GTE into a leading national provider of telecommunications services, and implementation of these actions is on track. As a result, we are well positioned to capitalize on the fastest growing telecommunications segment, the Internet and data markets. Our initiatives included the acquisition of BBN Corporation, a leading supplier of end-to-end Internet solutions, as well as the construction of a national, state-of-the-art fiber-optic network. We continued to expand our data initiative in November with the purchase of Genuity, Inc., a premier value-added provider of distributed application hosting solutions that enable customers to transfer their business applications to the Internet. In 1998 we will expand and capitalize on our position in the data market, providing a significant new source of revenues and earnings growth.

"We are very pleased with the financial and operational results of our core business. Our results include the dilutive effect of other critical investments that are essential to our evolution as a growth company. These investments include enhanced service capabilities and expanded distribution channels in and out of franchise areas; and increased customer penetration in the long distance, video and digital wireless market segments. Without these investments, our core EPS growth would have exceeded 15 percent for the year. However, making the right investments today provides the foundation for future profitable growth and ensures that we are the leader in providing integrated communications services in the U.S. marketplace," Lee said.

## Consolidated Results

GTE's consolidated annual revenue growth of 9 percent to $23.3 billion in 1997 compares to an increase of 7 percent in 1996.
Major contributors to the 1997 growth include:

- Record growth of over 1.5 million, or 8 percent, in domestic access lines, including 6 percent growth in switched lines;
- Record growth of 9.2 billion, or 13 percent, in domestic access minutes of use;
- Revenue growth of 55 percent, or $660 million, totaling $1.9 billion in new and enhanced services, including Caller ID, Call Waiting and voice messaging;
- 1.9 million new domestic customers for the following services:
  - long distance... 889,000
  - wireless... 738,000
  - Internet access... 202,000
  - video and competitive services... 73,000;
- Internationally, wireless subscribers of consolidated and unconsolidated affiliates increased a robust 74 percent.

"Customers are seeing more and more options as competition in the marketplace increases," Lee said. "Domestically, GTE's impressive customer growth demonstrates the strength of our existing competitive position and our ability to deliver a broad range of competitive service offerings. We remain committed to being a leader in providing bundled services, giving our customers convenience and ease of use unmatched in the industry. Internationally, we improved our existing competitive position and implemented a range of new initiatives in Asia, Europe and the Americas."

Consolidated operating income reached a record $5.61 billion in 1997 compared to $5.49 billion in 1996. Excluding the previously mentioned data initiatives, operating income from core operations increased 9 percent to $5.96 billion.

## Domestic Operations

Revenues from domestic network services, including both GTEs wireline and wireless operations, increased 6 percent for the full-year 1997 to $14.5 billion. This compared to a 1996 growth rate of 6 percent to $13.7 billion.

Domestic telephone operations grew $1.2 billion, or 8 percent, to $15.1 billion for the year, compared to 4 percent growth in 1996, primarily due to a 9 percent increase in business lines and a 16 percent increase in second lines. Annual domestic wireless service revenues were $2.5 billion, a growth of $200 million, or 9 percent, while customer churn rates were reduced for the second consecutive year. The impact of the 20 percent increase in subscriber growth in the wireless business was partially offset by competitive price reductions, resulting in a $9 reduction in the revenue per subscriber per month. With these competitive price reductions, market share was maintained and cost reduction initiatives positioned the business to compete at these lower revenue levels in the future.

## International Growth

International operations achieved annual revenue growth of $190 million, or 7 percent, contributing to a record $2.9 billion for 1997. The 1997 net income from all international operations was $366 million, 8 percent higher than 1996 net income, and was fueled by a combination of increased volume and prices in Canadian and Venezuelan operations, wireless growth in Canada, the Dominican Republic and Latin America, and a 6 percent growth in international access lines to 6.1 million.

Profitability has also been enhanced by cost containment efforts and workforce reductions.

## About GTE

With 1997 revenues of more than $23 billion, GTE is one of the world's largest telecommunications companies and a leading provider of integrated telecommunications services. In the United States, GTE provides local service in 28 states and wireless service in 17 states; nationwide long-distance service and internetworking services ranging from dial-up Internet access for residential and small business consumers to Web-based applications for Fortune 500 companies; as well as video service in selected markets.

Outside the United States, the company serves over 7 million telecommunications customers. In addition, GTE is also a leader in government and defense communications systems and equipment, directories and telecommunications-based information services, and aircraft-passenger telecommunications.

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## CERTIFICATE OF SERVICE

I, Cassandra Hall, do hereby certify that on this 30th day of January, 1998, copies of the foregoing Comments of American Petroleum Institute in Support of Petition for Rulemaking were mailed by U.S. First Class Mail, postage pre-paid, to the following persons:

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