

1401 H Street, N.W.
Suite 1020
Washington, D.C. 20005
Office 202/326-3822

EX PARTE OR LATE FILED

Ameritech

Anthony M. Alessi
Director
Federal Relations

June 5, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW
Room 222
Washington, DC 20554

RECEIVED

JUN - 5 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Re: **Ex Parte Filing**
CC Docket 96-262

(1)(1)(K)(F) FILE COPY ORIGINAL

Dear Ms. Salas:

On Friday, June 5, 1998, Ms. Lynn Starr, Mr. Karl Wardin, Mr. Mike Alarcon, Ms. Denise Reidy and I met with Mr. Richard Lerner, Deputy Chief, Competitive Pricing Division, Mr. Aaron Goldschmidt, Ms. Tamara Preiss, Mr. David Konuch, Mr. Jay Atkinson and Mr. Chris Barnekov to discuss access reform and pricing flexibility in the above referenced docket. The attached material was used as part of our discussion.

Sincerely,



Attachment

cc: R. Lerner
A. Goldschmidt
T. Preiss
D. Konuch
J. Atkinson
C. Barnekov

No. of Copies rec'd 0+2
List A B C D E



Access Charge Reform

6/5/98

Ameritech

Ameritech Ex-Parte on Access Charge Reform

June 5, 1998

- FCC should move forward in adopting a framework for access pricing flexibility as proposed by Ameritech
- Ameritech's proposal advocates for geographic relief no smaller than a LATA and can accommodate single and double LATA states
- The X-Factor inhibits the development of a competitive marketplace and only acts as a disincentive for ILECs to invest additional capital into the network infrastructure
- Extensive pricing flexibilities have been granted in the Ameritech states
- Competition continues to grow in the Ameritech region; the Commission should reaffirm its commitment to the market-based approach and reject efforts calling for a prescription of access rates to forward looking cost levels

Ameritech's Market Based Approach to Access Pricing Flexibility

Criteria for Evaluating Competitive Markets

Services	Phase I	Phase II	Phase III
Transport Services*	100 DS1 equivalent cross connections	Competitors have the ability to offer service to 25% of market**	Competitors have the ability to offer service to 75% of market**
Switched Access	Negotiated or State approved agreements or SGATS for: UNEs, transport and terminating compensation, resale	Competitors have the ability to offer service to 25% of market**	Competitors have the ability to offer service to 75% of market**
Price Cap X Factor	Achieve Phase I criteria for Transport and Switched Access	Achieve Phase II criteria for Transport and Switched Access	Achieve Phase II criteria for Transport and Switched Access
Interexchange (IntraLATA)	When 10-10XXX is available	When 10-10XXX is available	When IntraLATA presubscription is available
Directory Assistance*	Alternative provider offers service	Alternative provider offers service	Alternative provider offers service

*Hi Cap Transport in certain pre-defined areas can be removed from Price Cap regulation immediately. Similarly, Directory Assistance should be immediately removed from Price Cap regulation

**Measured on the basis of DS1 Equivalents (Transport) or Interstate Local Switching MOU (Switched Access) addressable by competitors via collocation in Ameritech's wire centers

Ameritech's Market Based Approach to Access Pricing Flexibility

Proposed Regulatory Relief*

Services	Phase I	Phase II	Phase III
Transport Services	(1)Geographic deaveraging under zone rate structure (2) Volume/term, contract/RFP (3)New services not subject to Part 69 public interest test and cost support (4)SBI increased to 10% per year	(1)Geographic deaveraging without zone rate structure or cost support (2) Bundled services packaging, contract pricing, growth pricing, LATA specific pricing, greater promotional offerings	Services removed from Price Cap regulation
Switched Access	(1)Geographic deaveraging under zone rate structure (2)Volume and term pricing (3) New services not subject to Part 69 public interest test and cost support (4)SBI increased to 10% per year	(1)Geographic deaveraging without zone rate structure or cost support (2)Bundled service packaging, contract pricing, and growth pricing	Services removed from Price Cap regulation
Price Cap X factor (weighted X factor to be calculated based on services revenues within phases of flexibility)	Elimination of CPD in X factor from 6.5% to 6.0% for those specific service revenues	Elimination of the X factor from Price Cap calculation for pre-defined LATA area service revenues	X factor no longer applies to specific service revenues
Interexchange (IntraLATA)	Services removed from Price Cap	Services removed from Price Cap	Services removed from Price Cap
Directory Assistance	Services removed from Price Cap	Services removed from Price Cap	Services removed from Price Cap

*Petition to be filed and acted upon within 90 days by the Common Carrier Bureau

Ameritech LATA Proposal For Access Pricing Flexibility under the Market Based Approach

Ameritech's pricing flexibility proposal advocates that a self-defined area for relief be no smaller than a LATA. There are 9 single LATA states (NM, WY, SD, DE, CT, RI, VT, NH, ME) and 11 double LATA states (WA, OR, NV, ID, UT, CO, ND, MS, MA, MD). To the extent there are concerns that states with only one or two LATAs could obtain pricing flexibilities prematurely, Ameritech's proposal can be modified as follows:

- ILECs with single or double LATA states must demonstrate that collocation exists in more than just one metropolitan area to obtain Phase II relief.
 1. At least 25% of the market is addressable via collocation in the ILEC's wire centers (as Ameritech's proposal originally stated).
 2. Of the 25% market addressability in item 1, at least 25% of the ILEC's addressable market (via collocation in the ILEC's wire centers) must come from outside the most densely populated metropolitan area to demonstrate that collocation exists in other portions of the state.

- Similarly, to obtain Phase III relief, ILECs with single or double LATA states must demonstrate the following:
 1. At least 75% of the market is addressable via collocation in the ILEC's wire centers (as Ameritech's proposal originally stated).
 2. Of the 75% market addressability in item 1, at least 25% of the ILEC's addressable market (via collocation in the ILEC's wire centers) must come from outside the most densely populated metropolitan area to demonstrate that collocation exists in other portions of the state.

The X-Factor Should Be Phased Out Or Eliminated To Maintain ILEC Earnings And Investment Levels In An Increasingly Competitive Environment

- Commission should focus efforts to phase out the price cap X-factor as competition increases, not on increasing the X-factor that applies to price cap LECs today
 - Policy and economic reasons dictate that the X-factor is not needed as the industry moves from price cap regulation to a fully competitive marketplace
 - X-factor adjustments should not be used as a means to indirectly revert back to discredited Rate of Return (ROR) regulation
 - IXC proposals to increase the X-factor are self serving proposals to increase IXC profit margins
- Current X-factor should be lower because the Access Charge Reform Order caused a shift in revenue growth for the LECs
 - Per minute rates decreased as recovery shifted to flat per line rates
 - Line growth not expected to increase at the same rate as usage growth
 - The current 6.5% X-factor was developed on the premise that usage growth will increase over time. Given that the revenue has shifted to lower growth, flat line rate elements, the current X-factor is overstated

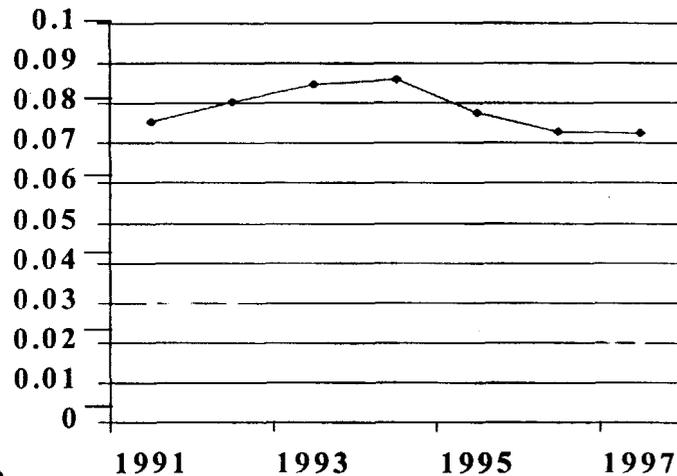
IXC and Industry Performance Strong, No Need To Increase IXC Profitability Through Regulatory Fiat

- AT&T recently announced an 18% earnings increase for 1Q98
 - AT&T's total return based on its stock value has increased **95%** since 1995 (Source: Bloomberg Investor Source)
- MCI/WorldCom financial results strong since 1995
 - MCI's total return based on its stock value has increased **192%** while WorldCom's total return increased **318%** (Source: Bloomberg Investor Service)
- A strong, balanced financial performance currently exists for the entire industry
 - S&P index shows that local telephone companies experienced total return since 1995 of **129%** while long distance companies had **127%** increase, thus ILECs not alone (Source: Bloomberg Investor Service)

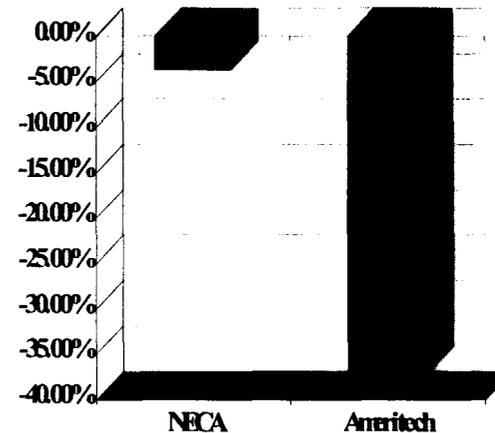
Comparison Between Price Caps and ROR

- How can we measure whether Price Cap regulation is preferable to ROR?

Access Rate Comparison from 1991-1997



Rate Reduction Comparison (%)



- Percentage decrease in access rates from 1991 to 1997 for NECA was 3.7% compared to Ameritech's decrease of 37.2%
- Clearly price cap rates resulted in greater benefits to customers in the form of lower access rates which would not have occurred under ROR

Mechanisms to Declare Services Competitive In Ameritech's States

Illinois

A service can be declared competitive only if a competitive alternative exists for the same service, or its functional equivalent. A reclassification filing to "competitive" becomes effective upon one day notice to the ICC. Although a competitive service has unlimited pricing flexibility and is removed from price caps, the ICC can investigate and has 180 days to issue a final order.

Indiana

The IURC can determine, after notice and hearing, that the public interest will be served by declining to exercise its jurisdiction over telephone companies or certain services. In reaching a decision, the IURC considers:

1. Whether technological change, competitive forces, or regulation by other state or federal regulatory bodies render the exercise of jurisdiction by the IURC unnecessary or wasteful;
2. Whether the exercise of IURC jurisdiction produces tangible benefits to telephone company customers; and
3. Whether the exercise of IURC jurisdiction inhibits a regulated entity from competing with unregulated providers of functionally similar services or equipment.

Michigan

If a regulated service meets the criteria established by the Michigan Telecommunications Act-2 (MTA2, December, 1995), it will be classified as competitive and the rate for the service will be deregulated and not subject to review. A service is competitive if the service is available from more than one alternative provider and three or more of the following apply:

1. Actual competition, including facilities-based competition, exists in the relevant geographic area.
2. Both residential and business customers have service alternatives available from more than one alternative provider.
3. Competition and end-user usage has been demonstrated and measured by independent and reliable methods.
4. Rates and charges for the service have changed within the last 12 months.
5. Is a functionally equivalent service reasonably available to end users from an alternative provider.

Reclassification will take effect 30 days after customer notification.

Ohio

To reclassify a service from one cell (service and rate classification categories) to another as part of Ameritech Ohio's alternative regulation plan, an application must be filed with the Commission 30 days prior to the effective date of the change. The application must include documentation that demonstrates such a reclassification is justified (e.g. market share data, historic sales information). The Commission can take up to 180 days to investigate.

Wisconsin

Petition for competitive declaration can be filed, or on its own motion, the Commission may hold a hearing to determine whether effective competition exists in a market that justifies lessened regulation. No set time frame exists for the Commission to rule on a petition for such a declaration. The Commission will consider the following factors in determining whether the petition is in the public interest:

1. Number and size of providers offering the same, equivalent service in the relevant market.
2. Extent to which the same, equivalent service is available in the relevant market.
3. Ability of customers to obtain the same service at comparable rates, terms, and conditions
4. Ability of alternative providers to make the same service available at comparable rates, terms, and conditions.
5. Relevant market power of each provider of the service and any market trends that may change in the future.
6. Any affiliation of any alternative provider that may affect competition.
7. Existence of any barriers to entry or exit

REGULATORY RULES REGARDING
COMPETITIVE PRICING/ICB CAPABILITY
FOR SELECT SERVICES*
as of 5/26/98

Exchange-Based Services

	ILLINOIS	INDIANA	MICHIGAN	OHIO	WISCONSIN
Analog Private Line (exchange tariff/catalog)	CPF/ICB	CPF/ICB	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB – (business customers with 4 or more lines)
DDS/Base Rate	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
DS1 (exchange tariff/catalog)	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
DS3 and SONET (exchange tariff/catalog)	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
ALIS and FDDI (exchange tariff/catalog)	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
ISDN Direct	Access Area A – CPF/ICB Access Areas B and C - CPF/ICB, with proof of competitive alternatives	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
ISDN Prime	CPF/ICB	CPF/ICB	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB - (business customers with 4 or more lines)

CPF/ICB denotes services that have competitive pricing flexibilities and ICB capability.

* Rates must cover and pass appropriate costs and imputation tests.

REGULATORY RULES REGARDING
COMPETITIVE PRICING/ICB CAPABILITY
FOR SELECT SERVICES*
as of 5/26/98

Exchange-Based Services

	ILLINOIS	INDIANA	MICHIGAN	OHIO	WISCONSIN
Residential Access Lines	No CPF/ICB	No CPF/ICB *	Must price above cost by 1/1/00. May increase rate CPI minus 1%	No CPF/ICB	No CPF/ICB
Business Access Lines	CPF/ICB	No CPF/ICB	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB - (business customers with 4 or more lines)
Service Transport Facilities (STF)	CPF/ICB				
P.B.X. Trunks	CPF/ICB	No CPF/ICB	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB - (business customers with 4 or more lines)
Business Local Usage	CPF/ICB	See Business Access Lines	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB - (business customers with 4 or more lines)
Toll	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
800/WATS	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB	CPF/ICB
Area Wide Networking	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB	CPF/ICB

CPF/ICB denotes services that have competitive pricing flexibilities and ICB capability.

* Rates must cover and pass appropriate costs and imputation tests.

REGULATORY RULES REGARDING
COMPETITIVE PRICING/ICB CAPABILITY
FOR SELECT SERVICES*
as of 5/26/98

Exchange-Based Services

	ILLINOIS	INDIANA	MICHIGAN	OHIO	WISCONSIN
Centrex	CPF/ICB	CPF/ICB, can only ICB features and intercom, with proof of competitive alternatives	CPF/ICB - intercom and features CPF/ICB - loop & usage in Access Areas A and B No CPF/ICB - loop & usage in Access Area C	CPF/ICB, except loop	CPF/ICB
Ameritech Digital Trunking Service	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB - (business customers with 4 or more lines)
Ameritech Customer Location Alternate Routing	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	No CPF/ICB
Ameritech Network Switch Alternate Routing	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB	CPF/ICB, with proof of competitive alternatives	No CPF/ICB
Central Office Services Basic	CPF/ICB	No CPF/ICB	CPF/ICB	CPF/ICB, with proof of competitive alternatives	CPF/ICB
Advanced Custom Calling Features	CPF/ICB	CPF/ICB	CPF/ICB	CPF/ICB	CPF/ICB

CPF/ICB denotes services that have competitive pricing flexibilities and ICB capability.

* Rates must cover and pass appropriate costs and imputation tests.

Current Ameritech Competitive Environment Requires Additional Pricing Flexibility

- Competitive Ameritech market (Data as of 4/98)
 - » >123 approved interconnection agreements (includes resale)
 - » >83,000 UNE loops and 588,000 resold lines
 - Provisioned resold lines in 995 of Ameritech's 1,155 wire centers (86% of Ameritech's wire centers)
 - » >4 billion reciprocal compensation MOU exchanged with competitors in 1997, approximately 65% ISP related traffic
 - In 1997, Ameritech had over 140 billion local MOU in its region
 - » >129,000 interconnection end office trunks in service
 - » >1400 NXXs assigned to CLECs in Ameritech's region, each representing 10,000 numbers
 - » >400 Ameritech wire centers with collocation

Competition in the Ameritech Region

Special Access DS1-Equivalent HiCAP Market as of 4Q97

Market	Market Percent of Region HiCAPs	Competition Percent Of HiCAP Market	Ameritech Percent Of HiCAP Market
Chicago	34%	57%	43%
Cleveland	6%	36%	64%
Columbus	8%	41%	59%
Detroit	13%	25%	75%
Indianapolis	5%	18%	82%
Milwaukee	4%	28%	72%
Top 6 Markets	70%	44%	56%

Data Source: Quality Strategies 3/98