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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

November 5, 1998

VIA MESSENGER

Magalie Roman Salas, Secretary
Federal Communications Commission
1919 M. Street, N.W.
Washington, D.C. 20554

Re: CC Docket 98-147

Dear Ms. Salas:

On Tuesday, November 3, 1998 Rhythms NetConnections CEO Catherine Hapka, CFO Scott Chandler, and counsel Glenn B. Manishin, Jeffrey Blumenfeld and the undersigned of Blumenfeld & Cohen met with Jennifer Fabian, and Linda Kinney of the Common Carrier Bureau, Johnson Garrett of the Office of Plans and Policy, and Stagg Newman of the Office of Engineering and Technology to discuss issues relating to the Commission's Notice of Proposed Rulemaking in the above-captioned proceeding.

The substance of the meeting revolved around a discussion of the economic incentives and ability of incumbent local exchange carriers ("ILECs") to anticompetitively price unbundled network elements so as to disadvantage new entrants in the DSL-based advanced services marketplace.

Rhythms began by describing its targeted market and national DSL-based network build-out plans. Rhythms indicated that DSL providers have already developed a greater aggregate nationwide footprint than have the voice CLECs, and that sufficient demand exists at both the corporate and residential levels to drive continued growth in deployment capabilities. Rhythms described the cost structure associated with providing DSL-based services, particularly those costs related to the acquisition of inputs from the LECs. A discussion occurred regarding the existing incentives of the LECs to leverage their market power in unbundled network elements as vertically integrated advanced services providers. Rhythms pointed out that the best method for LECs to accomplish that goal is to block competitors' access to necessary UNEs via manipulation of the availability, interval and price for network elements. Rhythms concluded the

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conversation by describing the process by which the LECs have applied a "price squeeze" to limit both the ability of internet service providers ("ISPs") and DSL-based advanced services providers to compete with the LECs' vertically integrated offerings. Rhythms noted that the Commission's proposed separate subsidiary proposal is the best method for limiting this type of anticompetitive behavior, and that the separate subsidiary rule should be mandatorily applied to any LEC seeking to offer advanced services.

Sincerely,

A handwritten signature in cursive script, appearing to read "Frank Paganelli".

Frank V. Paganelli

cc: Jennifer Fabian, Common Carrier Bureau
Linda Kinney, Common Carrier Bureau,
Johnson Garrett, Office of Plans and Policy,
Stagg Newman, Office of Engineering and Technology