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Kenneth Rust
Director, Federal Regulatory Affairs

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OFFICE OF THE SECRETARY

Bell Atlantic

May 27, 1999

Ex Parte

EX PARTE OR LATE FILED

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, SW
Washington, DC 20554

Re: CC Docket Nos. 96-262, 94-1, and RM 9210

Dear Ms. Salas:

Yesterday, Susanne Guyer, Frank Gumper, Robert McDonnell, Edward Shakin, and Steven McCully, representing Bell Atlantic, met with Jane Jackson, Rich Lerner, Tamara Preiss, Jay Atkinson, Dana Bradford, Ed Krachmer, and Steve Spaeth, of the FCC's Common Carrier Bureau regarding the items captioned above. The attached material served as the basis for the discussion during the meeting.

If you have any questions regarding the attached, please contact me at the address shown above.

Sincerely,

Ken. Rust

Attachment

cc:
J. Jackson
J. Atkinson
D. Bradford
E. Krachmer
R. Lerner
T. Preiss
S. Spaeth

Petition for Forbearance and Pricing Flexibility

Bell Atlantic

May 26,1999

Access Reform and Pricing Flexibility

- Highly regulated services in increasingly competitive markets
  - » "One size fits all" rules prevent pricing access to meet competition and customer requirements

- 1997 Access Reform Order was only part of the job
  - » "In a subsequent order in the present docket, we will provide detailed rules of implementing the market based approach we adopt in today's Order. That process will give carriers progressively greater flexibility in setting rates as competition develops, gradually replacing regulation with competition as the primary means in setting prices..."
  - » **Order was to be released in the summer of 1997**

Pricing Flexibility Principles

- Decrease regulation as competition increases
  - » Allow deaveraged rates and targeted rate reductions
  - » Provide clear path for removal of all price regulation
- Administratively simple process
- Criteria and Triggers should be
  - » Explicit
  - » Measurable
  - » Verifiable
- Comprehensive -- should address all markets
  - » Services
  - » Geographic areas

Bell Atlantic's Proposal For Pricing Flexibility

- A three phase framework under which pricing flexibility increases with competition
- Relevant markets
  - » Geographic area -- a self-defined area no smaller than a LATA
  - » Services
    - – Switched - multiline business and single line bus. & res.
    - – Transport - Special Access, Direct Trunked Transport & Tandem Switched Transport
- Triggers
  - » Based on competitive entry and demand in competitive areas
- Pricing Flexibilities
  - » Increased flexibilities with service ultimately removed from price regulation

Other Pricing Flexibility Proposals Are Not Simple Nor Comprehensive

Pricing Flexibilities

- Baseline - minor modifications of new services rules
- Phase I - service may be provided under contracts
- Phase II - service removed from price cap regulation

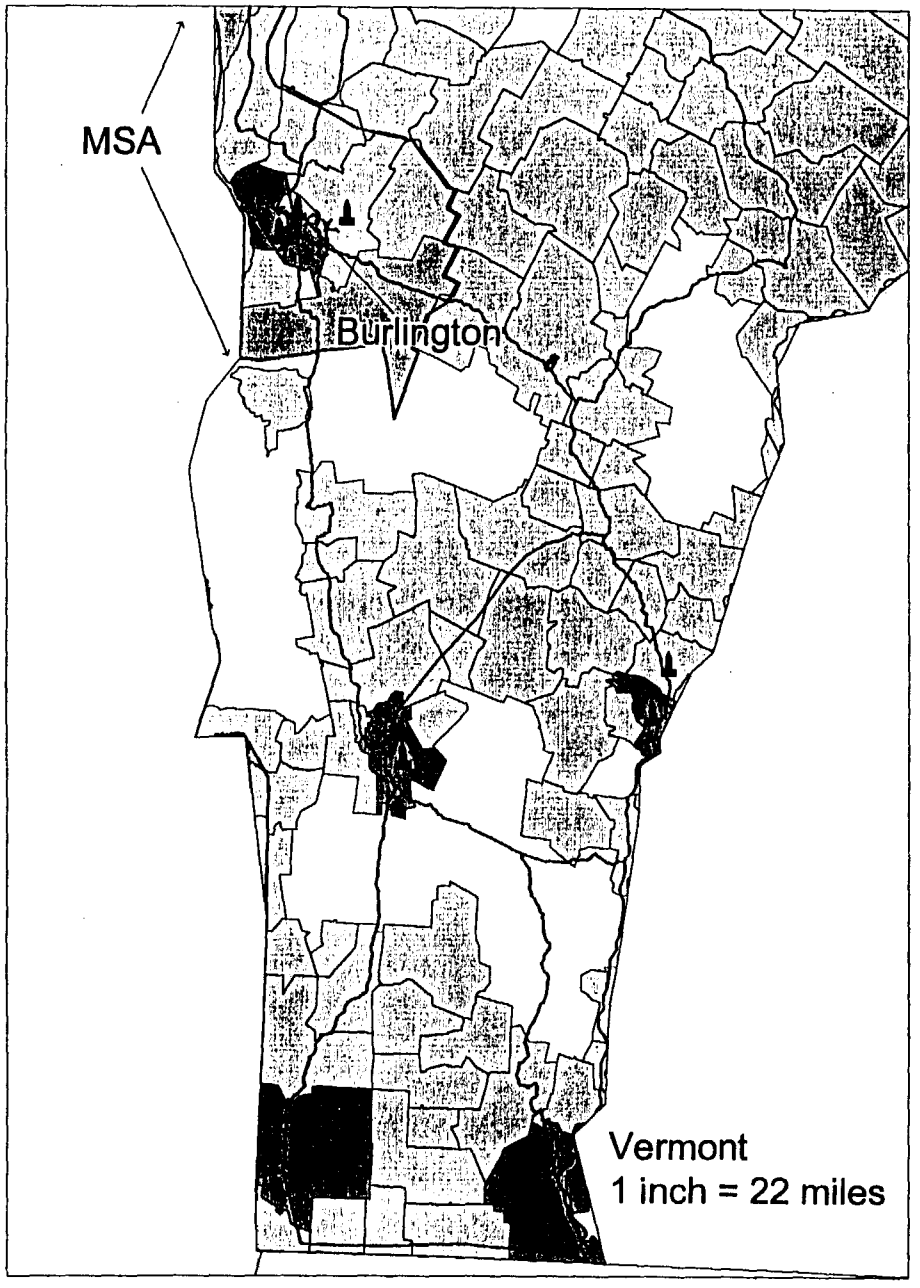
Process

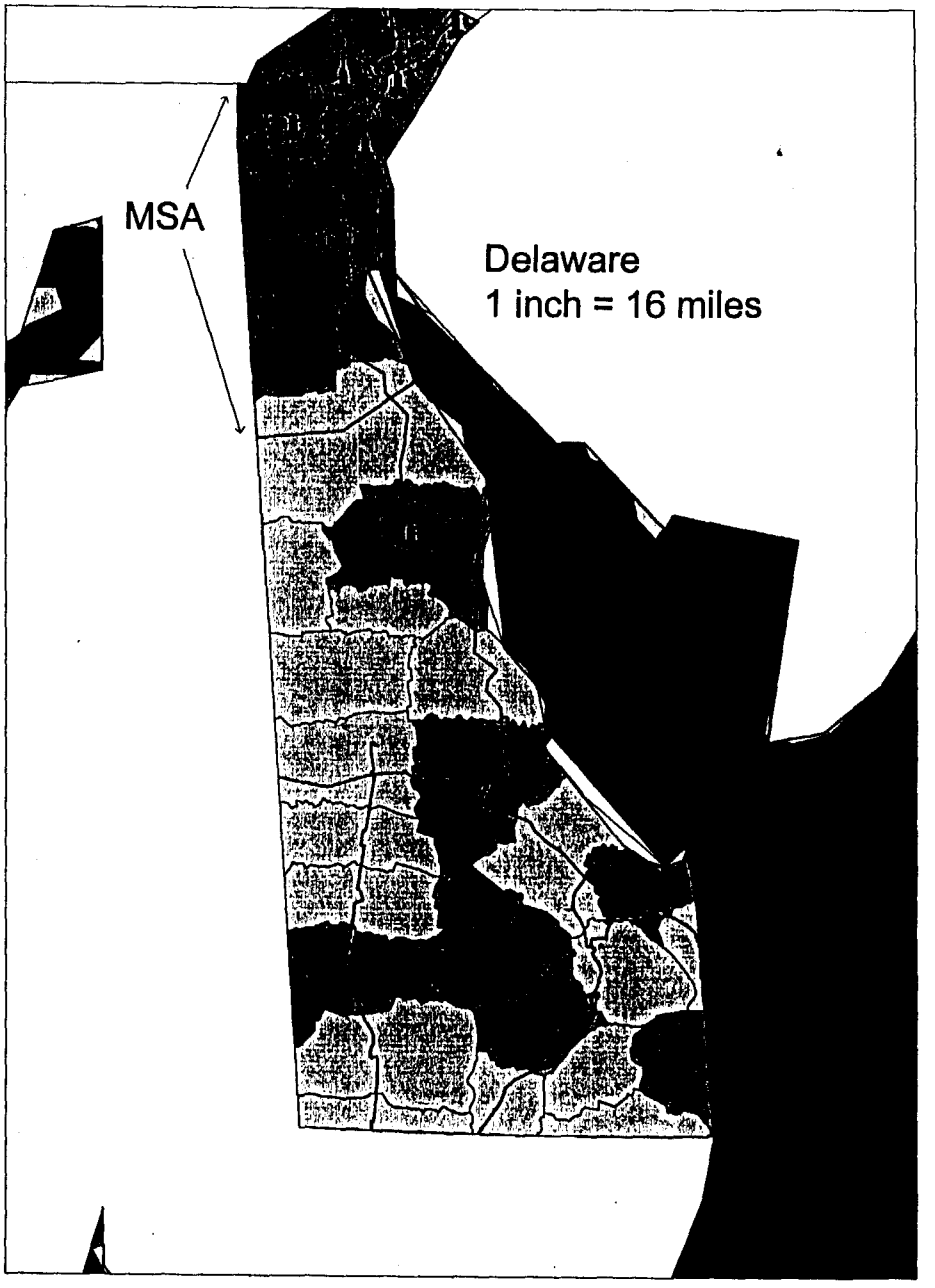
- Relevant Markets
  - » Geographic areas smaller than a LATA Services
  - » Services defined as transport and switched access
- Trigger
  - » Collocated offices defined as competitive area
    - – % Revenues
    - – % Collocated offices

Other Proposals do Not Meet Policy Principles

- Relevant Markets
  - » Geographic area defined as an MSA creates implementation concerns
    - It is <u>not</u> comprehensive --
      - Does not address non-MSA areas
    - It is <u>not</u> administratively simple --
      - Large number of relatively small MSAs
      - MSAs cross LATA boundaries
      - Customers do not purchase service based on MSAs
  - » Pricing flexibility should address all services subject to competition
    - Should recognize single line & multiline switched access
    - Should address DA and Interexchange services

Competition in non-MSA Areas



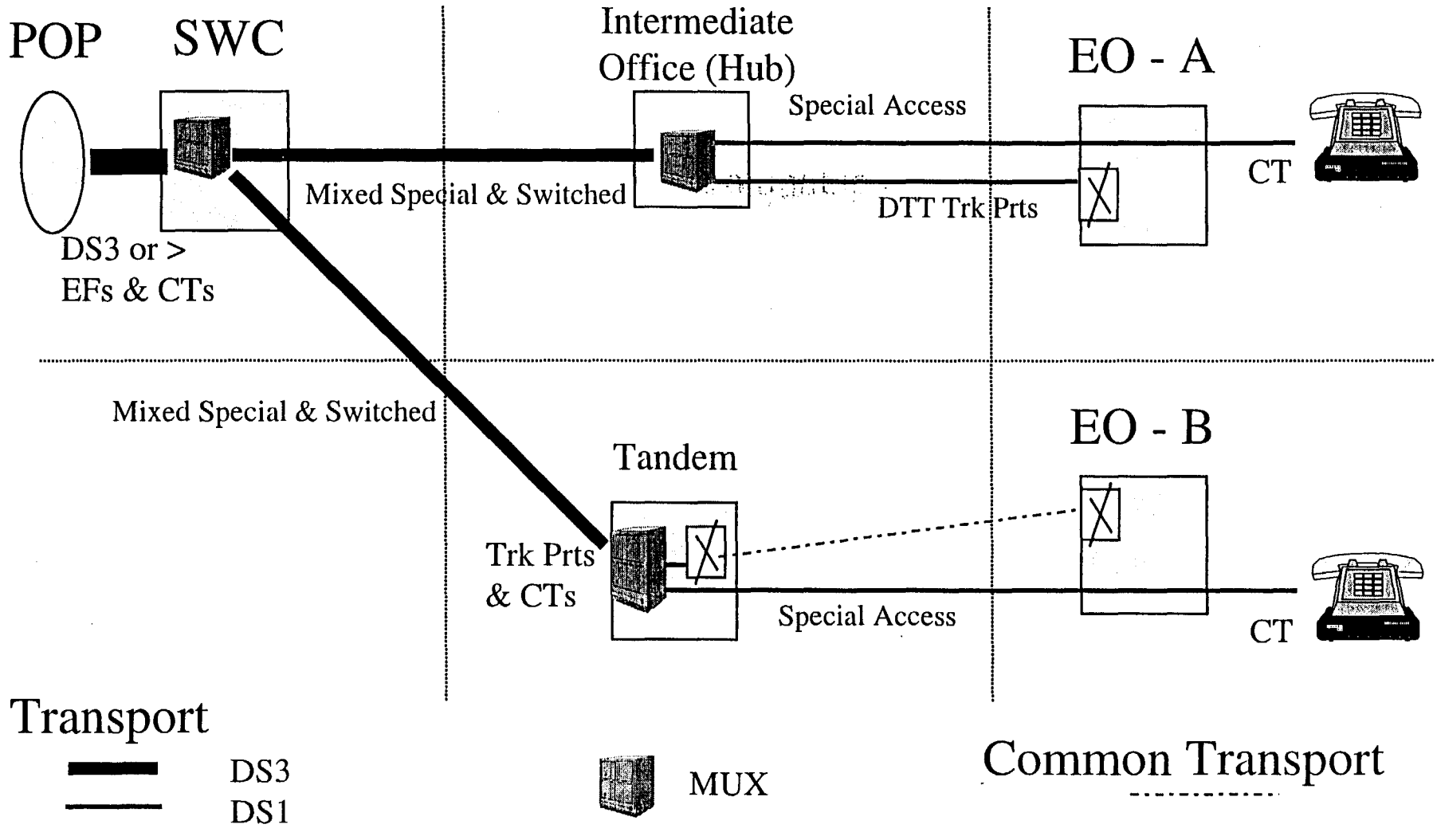


Fiber MSA BA Wire Center Coll WC Serving WC

Other Proposals do Not Meet Policy Principles

- Trigger -- Addressability "measures the effective access that alternative suppliers have to ***customers and demand*** in the [market] .... economic theory predicts that if a sufficient proportion of the market is addressable by competitors, the incumbent firm will be unable to exert power over the market price." (Bell Atlantic Petition for Forbearance, Affidavit of K. McDermott and W. E. Taylor)
  - » Revenues
    - Are <u>not</u> verifiable and are open to dispute
  - » Collocated offices
    - Does <u>not</u> weigh access to customers nor demand
    - Does <u>not</u> recognize facilities based competitors

Assignment of Revenues
Is Not Verifiable



A Measure of Only Collocated Offices
Does Not Weigh Access to Customers Nor Demand

- New York MSA
  - An office in Manhattan is not the same as one in Westchester
    - Bedford Village 5 DS1 Equivalents
    - 42nd ST., NYC 8,000 DS1 Equivalents
  - 57% of offices are collocated
  - >95% of DS1 equivalent demand is in collocated offices
- Washington, DC MSA
  - An office in DC is not the same as as one in suburban Virginia
    - HILLSBORO, Va. 0 DS1 Equivalents
    - MIDTOWN, DC 8,000 DS1 Equivalents
  - 36% of offices are collocated
  - >75% of DS1 equivalent demand is in collocated offices

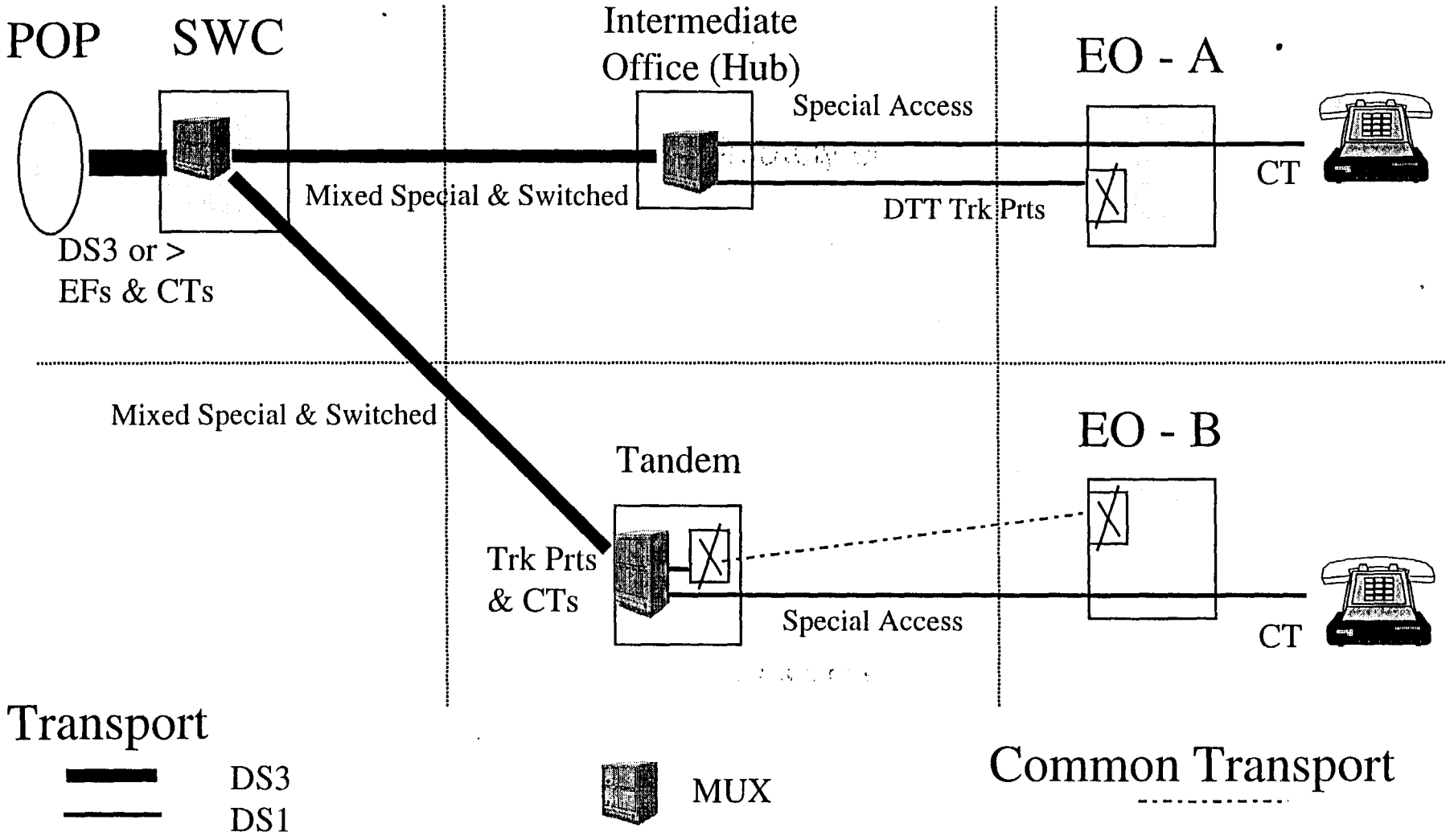
The Triggers for Flexibility Should Be Explicit, Measurable and Verifiable

- Bell Atlantic Proposal
  - » Transport - Standard DS1 Equivalent Channel Terminations (CTs) or Trunk Ports
    - DS0 Voice grade or DDS CT = 1/24th of a DS1 equivalent
    - DS1 CT = 1 DS1 equivalent
    - DS3 CT = 28 DS1 equivalent
  - » Switched Access
    - – Multiline or single line access lines
  - » Triggers are explicit, measurable and verifiable
- Competitors' arguments
  - » Overly weights DS3 demand
  - » Overly weights Serving Wire Center demand without consideration for interoffice facilities

Possible Modification of Trigger to Address Competitors' Arguments

- Possible modification of trigger
  - » Weight DS3 CT demand at DS1 cross over point
    - Rate for 7 DS1 CTs is approximately equal to the DS3 CT rate
  - » Weight DS3 CT demand for interoffice facilities
    - Special access interoffice revenue is approximately 35% of total special access revenue
  - » Calculation of DS1 equivalents
    - DS1 Equivalent = (DS3 CT Rate/DS1 CT rate) * (1-.35)
    - Adjusts for alleged over weighting of DS3s and Serving Wire Center demand

Assignment of Revenues
Is Not Verifiable



Weighting DS3 Demand and Interoffice Facilities Addresses Objections and Recognizes the Concentration of Demand in the Market

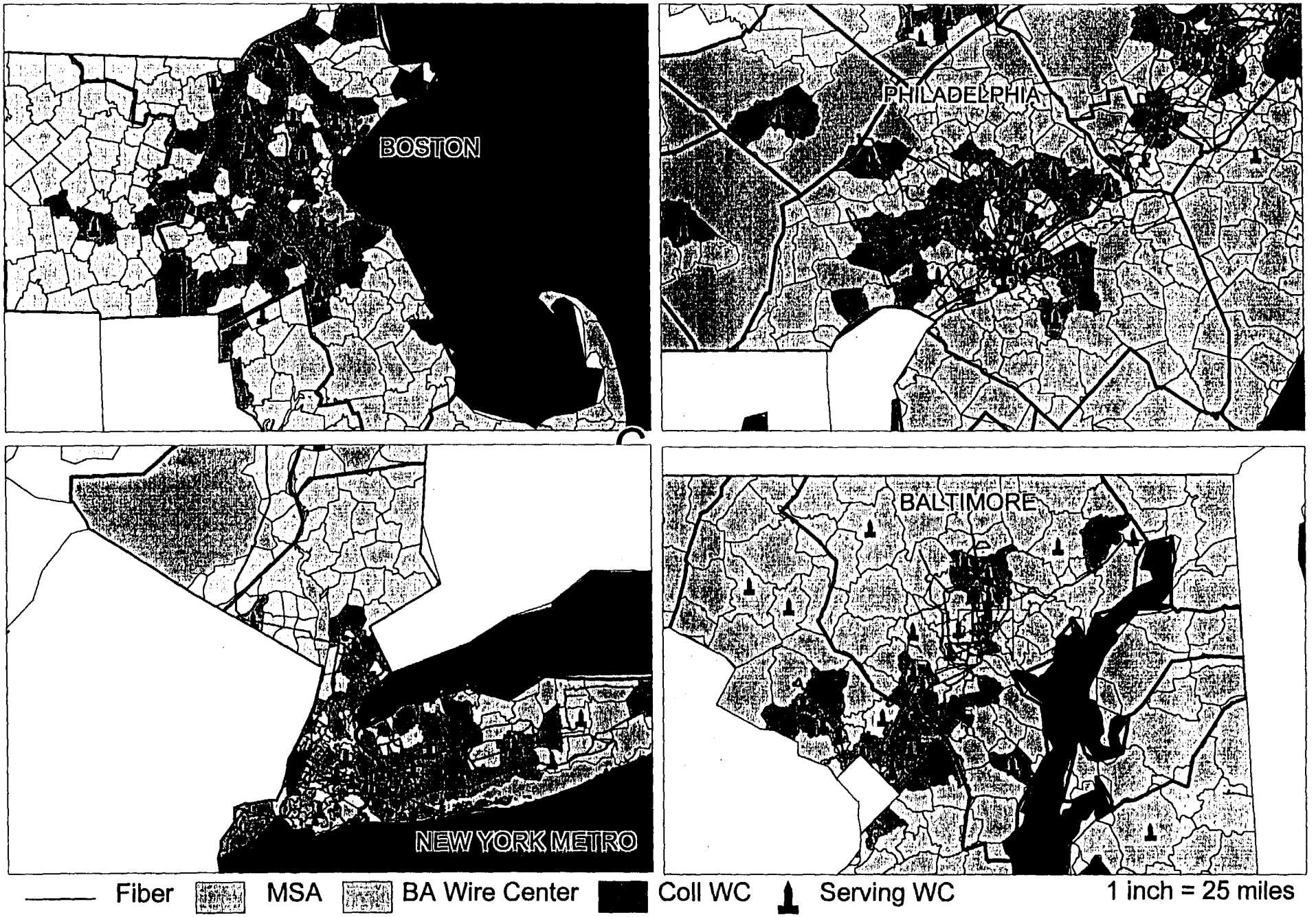
MSA-Name	Count of Wire Centers	Count of Coll WCs	% Collocated WCS	% Standard DS1 Equ	% Weighted DS1 Equ
BOSTON - LAWRENCE -	120	60	50%	93%	89%
NEW YORK	105	60	57%	96%	93%
BALTIMORE	73	9	12%	38%	32%
PHILADELPHIA	132	41	31%	93%	87%

<u>% Competitive</u>

% Standard DS1 Equ - measured using standard DS1 equivalents (i.e., DS3 = 28 DS1s and a DS0 = 1/24th of a DS1) provided in collocated offices divided by the total DS1 equivalents provided in the MSA.

% Weighted DS1 Equ - DS1 equivalents are calculated by weighting DS3 CTs as 7 DS1 equivalents * .65. The % equals the number of weighted DS1 equivalents provided in collocated offices divided by the total weighted DS1 equivalents provided in the MSA.

Status of Competition in Sample MSAs



Removing Services from Price Cap Regulation

No effect on a lower formula adjustment (LFAM) for the remaining price cap regulated services

- An LFAM would be easily adjusted to exclude the portion of the LFA attributable to "removed" services
  - » All interstate costs and revenues continue to be reported on Form 492A
  - » Reprice "removed" services to levels consistent with comparable price cap regulated services
  - » Reduce LFAM by amount attributable to pricing differential above
  - » Allocate adjusted LFAM between price cap regulated and "removed" services

Other Concerns

- Response to RFPs
- Facilities-based Competition