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Bell Atlantic

InfoFone® Services - New York

& Y2k

Impact & Alternatives Analysis

Case 98-C-1079
PPI-BA-NY- 51
Attachment

Privileged and Confidential. Prepared in Contemplation of Litigation

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EXECUTIVE SUMMARY

Prologue

This document is intended as a tool for the Business Marketing organization to evaluate projected revenues and costs over a five year planning period associated with the three primary services provided by the New York IMAS Ericsson switch. These services are Mass Announcement Service (976), Interactive Information Network Service (IINS) and Group Bridging Service (GBS). Costs include estimates to provide a replacement for the existing switch to be Year 2000 compliant. Multiple configurations were considered. Costs included are for planning purposes only and are not intended as docket quality documentation.

Bell Atlantic provides similar services elsewhere in the region. Each jurisdiction has unique service, cost and network considerations. However, due to the urgency of the Year 2000 issue in New York, Business Marketing has focused its initial assessment there. Other jurisdictions will be evaluated in future analyses to determine the overall viability in each jurisdiction.

Estimated revenues, configurations and associated costs are outlined below. Risks must be considered regarding the viability of the product, outside the fully distributed service costs assessment. Due to the unique nature of this service, the New York PSC has played a key role in the requirements placed upon Bell Atlantic. PSC orders and litigation are highlighted on pages 7 and 8. From a financial perspective, the most significant of these issues are the four RICO lawsuits currently pending, where damages with interest and legal fees could possibly be as high as $100M. While a decision to exit the product would not eliminate the current orders or legal proceedings, it is reasonable to assume that continuance of the product would require Bell Atlantic to implement future PSC orders and the threat of litigation would continue to exist.

Despite the costs associated with the provisioning of a new switch, and our internal acknowledgment of financial risks associated with the product, Bell Atlantic must anticipate that the New York PSC is likely to be unsympathetic to cost issues and may advise Bell Atlantic to recover its costs elsewhere. In several recent orders, Bell Atlantic was advised to recover costs through the exogenous cost study process. It is critical that a decision to exit must be accompanied by a Legal/Regulatory strategy which is not service cost based. Similarly, while this document satisfies the internal requirement to assess the overall viability of the product line, it is not suitable for withstanding an extensive evaluation by the PSC for cost study purposes.

Background

The Year 2000 is rapidly approaching. It has already had a significant impact on every industry in the world, especially every computer - based or related transaction system. The IMAS Ericsson switch in Brooklyn will be no exception. This switch has not been upgraded for several years. Bellcore has verified that the existing release and two subsequent releases cannot handle the new millennium, leaving no doubt that the Ericsson and the services which depend upon it are in great jeopardy.

Efforts have been undertaken to evaluate the various solutions to this problem. Ericsson has verified that they will not be able to upgrade the existing switch to "make it current", and that the only alternative would be to replace the switch. This document discusses each of the potential solution scenarios and projected costs and also provides background information regarding the product, pricing, placement and previous promotion. The scenarios include:

a. Replacing the switch and migrating all of the existing InfoFone services onto it.
b. Replacing the switch with a smaller version of the Ericsson for 976 only, and migrating the balance of the InfoFone services to a DMS100 or 5ESS.
c. Withdrawal of 976 as a product offering and migrating the balance of the services to a DMS100 of 5ESS.
d. Outsourcing the switch, (which would entail extensive labor relations issues and is not considered a viable solution).

Revenue and Costs

Revenues and estimated costs of the options above are as follows:

Option	5 Year Revenue	Estimated Costs[1]
a. Entire switch replacement	$62.6M	$66.2M
b. Replacement with smaller Ericsson for 976 and migration of other services to DMS or 5ESS	$62.6M	$61.6M
c. Withdrawal of 976 service and migration of other services to DMS or 5ESS	$41.3M	$32.8M

All solutions have associated risks. Indeed, the continuance of this product line itself is accompanied by existing exposures and litigation which are not expected to abate, and may in fact, increase as we move forward. The current state of the product includes:

1. Implementation in 1998 of PSC Orders providing for:
   a. New blocking option and associated password protection
   b. IINS and GBS detailed billing
2. Potential requirement to eliminate contribution for 976
3. Potential requirement to allow IPs to provide billing and collection themselves
4. Potential requirement to drop our rates (eliminate contribution), in association with compliance filing of 1997

[1] Source: Service Cost Estimates. Costs do not include cut over to a new switch or costs to exit.

5. Ring No Answer litigation pending
6. RICO lawsuits pending with damages, interest and legal fees which could be as high as $100M.

Recommendation

This is a declining market with intense competition from interexchange carriers, and soon competing local exchange carriers. Although the forecasted revenue and costs are as depicted above, the actual risks to the corporation for continuing the product line may far exceed any potential benefit. Risks are discussed in detail throughout this document and particularly in the section identified as Risk Factors.

Based upon the projected costs, risks, and inability to increase prices, the Business Marketing recommendation is to exit the product line. It is further recommended that Legal and Regulatory develop a plan to facilitate the withdrawal of the 976, IINS and GBS services in New York.

SITUATION ANALYSIS

Market Factors

The InfoFone® Services - New York product line services both a wholesale and a retail market. On the wholesale level, Bell Atlantic sells transport, billing and collection services to Information Providers who provide passive and interactive programs on various subjects, including, but not limited to: weather, lottery results, sports scores, what's happening on Wall Street, and Horoscopes. On the retail level, these programs are called by residence and business customers.

Competitive, Regulatory & Customer Use Factors

Call volumes have dropped significantly in recent years although the product line remains profitable. Of the 8.6 million potential subscribers in the New York Metro LATA, only 400,000 currently call 976 programs, the product line's most inexpensive information service. The decline in revenue is attributable to a number of factors including competition from inter-exchange carrier 900 services, our own selective blocking service, and a host of less expensive (or free) alternative sources of information, such as: cable television, radio, newspapers, yellow pages, online services, and the Internet.

In 1997, the PSC issued Opinion and Order 97.7 which included a requirement to eliminate contribution from the rate charged to IPs for 976 service and unbundle the associated cost elements. We subsequently filed an Article 78 challenging this component of the Order. The matter has not yet been resolved. Should the courts find in favor of the PSC, the $0.02 per call we now retain as profit over our cost per call for this product will be lost.

The marketplace is experiencing a proliferation of alternative sources of information. These sources range from print media (such as newspapers and magazines) targeting highly specific and niche markets to online services that cater to the not-so-traditional home market. Those that bridge the home and business markets are finding tremendous success. These include services such as CompuServe, America Online, and Prodigy, as well as Internet service providers. Customers are demonstrating a keen interest in fast unlimited information within easy reach.

Co-Dependencies

As one might expect, revenues and call volumes have plummeted downward. One of the key obstacles to increasing usage and revenues is selective blocking service, which currently has 2.4 million subscribers in New York.

Overall, the proliferation of ways and means for accessing information, and the social trend toward instant gratification, combined with stringent requirements placed on us by the PSC in structuring blocking options , have pushed InfoFone® Services products out of the lives of our customers. This trend is unrelenting.

Migration/Alternative Products

There are no alternative offerings by Bell Atlantic to migrate these existing customers to. There is no migration path internally for the information programs, and as many of the existing IINS & GBS IPs have 900 type programs with AT&T today, it's expected that they will continue to migrate their own offerings to that platform, away from Bell Atlantic. AT&T offers nationwide access to their programs, for not much more than the IPs are paying us today for New York-only access.

Strategic, Technological, & Economic Factors

- The IMAS switch which is the switch dedicated for processing InfoFone Services calls is not Year 2000 compliant. The purchase of a replacement switch, along with associated costs will cost approximately $11 million.
- Demand for the product line is decreasing 20% - 25% year over year, and has been since 1993.
- Legal and Regulatory issues including litigation have diminished the derived margin for the product line.
- Correlations are made by the public between Bell Atlantic pay-per-call and 900 services. This has resulted in mis-perceptions about the products and pricing, particularly with respect to 976.
- Blocking[9] Option 4 lumps 976 (Bell Atlantic-New York's most affordable pay-per-call product) in with pricey pay-per-call services. This option currently holds the majority of subscribers to selective blocking service in New York: 1.98 million. Blocking Option 5 (which blocks everything in LATA 132 but 976) was created and approved by the PSC in January of this year. The IPs have fought long and hard for some relief with respect to blocking and have blamed Bell Atlantic for not providing customers with a blocking option that enabled them to access 976 while blocking other more expensive pay-per-call services, saying that if such an option existed, their business would not have declined at the rate it has. Option 5, whose creation was ordered by the commission as a counter to our request to modify Option 4 to eliminate 976 from it's group, currently has 351 subscribers. Since it's inception, consumers have continued to express a preference for "blanket" blocking, Option 4, with it's subscribers growing by 3114 during the time of availability of the new Option 5, disproving the IP argument.
- Consumers are increasingly desiring to keep on top of what's happening in "real time", and are becoming more accustomed to accessing data electronically, particularly via online services and the Internet.

[9] Blocking is a service offered by Bell Atlantic which enables customers to prevent calls from being made from their phones to numbers beginning with specific area codes or exchanges. There are 5 configurations for blocking service.

- Consumers have demonstrated their willingness to pay for online information, and more frequently now have ready access to the Internet from their desktops at work, further reducing their need for the pay-per-call services offered by telephone.

Risk Factors

There are several existing issues related to the product line which may continue to have a significant drain on internal resources. The expense/revenues below are 'order of magnitude'. They are:

RICO Suits: There are 4 such suits that have brought against the company by the IPs. Although it is hoped that these suits will be dismissed, damages with interest could possibly run as high as $100 million.

PSC Orders Recently we have been hit hard by PSC Orders prohibiting us from recovering our costs for the implementation of their Orders. This includes the implementation of Blocking Option 5 and the associated Password Protection (approximate cost $1 million), the IINS & GBS Reports project (approximate cost estimate $750k), the Order 97.7 related to 976.

Order 97.7 - Contribution

This Order required us to eliminate contribution from our rate to the IPs. We have filed an Article 78 challenging the PSC's authority here and hope to prevail. If we don't, however, our rate to the IP will drop to $0.18 per call, with the end user rate remaining the same.

Order 97.7 - Billing & Collection

This Order required us to "unbundle" the rate elements associated with 976 into 3 components: call origination & transport, call processing, and billing & collection. In briefs filed subsequent to our compliance filing this past August, the IPs have argued that we intentionally failed to comply with the Order by not making a billing & collection an option that they could do themselves. This issue is still being argued with the Commission. If they prevail, implementation of such an offering has been estimated at $1 million to implement and will significantly increase our exposure with respect to deliverables for the IPs. It will also increase the demands on customer support personnel.

RNOA The "Ring-No Answer" issue was raised during the 93C-0451 proceeding and relates to a difference of timing at end office switches versus the Ericsson for measurement of completed calls. The IPs had battled our desire to migrate to automated/AMA vendor payments then argued their entitlement to payment for all "RNOA's" because for a time, the end offices were billing customers for calls that lasted less than 2 seconds while the Ericsson timing was set to 2 seconds. A detailed analysis and call behavior study were undertaken. It was learned that callers to 976 programs typically remain on the line

longer than 2 seconds, even though casual dialing patterns may be far less. In fact only .01% of 976 callers during the study period hung up in less than 2 seconds following connect with the 976 number they had dialed. The IPs have requested that the Commission order us to pay them for all RNOA's during the period in question, plus interest [approximate cost: $1 million], possibly more depending on interest rate and simple or compounded interest calculation). The matter is currently residing with the Consumer Services Division.

8.27.97 Filing — The cost study associated with the compliance filing of last summer has been heavily challenged by the IPs. They have requested that the commission order us to drop our rate to them to $0.07 per call [versus the $0.20 today]. Our state regulatory team has advised that this matter may soon evolve into a full blown rate case.

LNP — Local Number Portability which is provided for in the new Ericsson switch will enable the IPs to migrate their programs to CLEC's. This was part of what was requested by them during the 93C-0451 proceeding. We could spend the money for the switch and lose the programs it was purchased to manage.

Legal Support — Currently there are 2 external law firms providing support to Bell Atlantic. This type and the extent of support are costly to Bell Atlantic, resulting in eroded/eliminated financial benefit to the corporation for facilitating these services.

Sourcing Factors

The Ericsson platform provides a functionality unique in the country; that of broadcast technology. It is also the only Ericsson switch remaining at Bell Atlantic/North. Other vendors have been informally approached and have indicated less than lack-luster interest in such an undertaking, because there are no other customers for such an offering. It would require them to develop software which doesn't exist for them today, and require them to pass those costs directly on to us, making their end pricing simultaneously non-competitive, and very expensive.

It's expected that continued support of the switch and associated upgrades over time will continue to drive the cost of maintaining the switch beyond the value of the services it is facilitating.

OBJECTIVES/ALTERNATIVES

- **Purchase & install a replacement switch for the existing Ericsson in place today.**

Issues/Risks:

- The latest version of the switch hardware and software facilitates local number portability. We could spend the estimated $11 million on the new switch and lose some or most of our customers to local exchange carriers.
- The demand for the services is continuing to decline. A replacement switch will not result in increased demand for the product line.
- The IPs have challenged our rate filing associated with PSC Opinion & Order 97.7. They have challenged the costs and structure of our rates. State Regulatory has advised that this could evolve into a full-blown rate case proceeding before the Commission. The rates they are challenging are based on 3 rate elements: call origination & transport, call processing, and billing & collection. These rates also reflect no contribution, as required by the Order. Our Article 78 proceeding has not yet been resolved, so we may or may not prevail in the retention of margin in the rate, further diminishing the value of the product to us.
- Incentive regulation may prevent us from recovering the cost of the new investment from subscribers. Currently, the rates charged and revenues/losses derived per call are:

product:	976	IINS (540 & 970)*		GBS (550)	
	per call	initial min	each add'l min	initial min	each add'l min
our cost	$0.18	$0.14	$0.12	$0.14	$0.12
our IP rate	$0.20	$0.26	$0.07	$0.20	$0.05
end user rate	$0.40	SSP**	SSP	$0.30	$0.11
IP rate vs cost	$0.02	$0.12	- $0.05	$0.06	- $0.07
avg call dur	57 sec	540: 2 min, 970: 10 min		7 min	

* our IP rate for these calls includes a 12% surcharge for the difference between their per-call revenue and our initial & additional minute charges.
** SSP is Subscriber Selected Pricing. This product provides for the IP to set their own per-minute rate.

- Our newly incurred investment will raise the above noted costs by approximately 10%.

- The PSC proceeding tied to the replacement of the Audichron Switch to the Ericsson resulted in findings by the administrative law judge of willful misconduct and gross negligence. Undertaking the replacement of this switch could easily result in a replay of history. These legal proceedings are not only costly, but result in bad press about Bell Atlantic in the country's leading newspapers including The New York Times and the Wall Street Journal, as well as local newspapers such as The Daily News and New York Post.

- This path creates no new business opportunity for Bell Atlantic, increases its costs, and does not reduce litigation exposure.

- **Replace the Ericsson with a honed down version, just for 976, and migrate 540, 970, & 550 services to a 5ESS or DMS100**

  Issues/Risks:

  - This will cost us more than an entirely new Ericsson for all the products since existing switches through which IINS & GBS services would be handled would need to have capacity increases. The current estimate is: $12.8 million.

  - The issues that we'd have with entirely replacing the Ericsson for all the services apply here as well.

- **Exit 976 and migrate 540, 970 & 550 to a 5ESS or DMS100**

  Issues/Risks:

  - The PSC would have to buy in on this. As the 976 IPs are particularly vocal with the PSC, they may be resistant to going along with a "partial amputation" of the product line. The IPs will still have access to them because of their other locally offered services (IINS & GBS).

  - There is no existing direct replacement for the revenue associated with the product line.

  - Our opportunities to reduce costs (customer service, product line management, I.S., legal, & regulatory) is minimized by exiting only one of the products due to the nature of the services.

- **Out Source the switch - possibly to the IPs themselves.**

  - Labor Relations issues would be significant, and in light of the other issues, this would probably not be a worthwhile undertaking.

- Withdraw the product line from the market place[3].

Issues/Risks:

- Intervention is likely.
- The revenue stream will cease to exist, with not another product line readily in place to backfill the revenue lost.

[3] Pac Tel withdrew their pay-per-call services and prevailed in court.

THE PRODUCTS

Mass Announcement Service (MAS/976) is a broadcast service whereby customers call a local number beginning with the exchange 976 to hear a 57 second message. Once the message is played, the caller is automatically disconnected. The caller is charged a flat rate of $0.40 for each call. Program content is the responsibility of the information provider and runs the gamut, including, but not limited to: weather, time, lottery results, and sports scores.

Of all of the products and services tied to the InfoFone brand name, 976 generates the greatest amount of revenue, and as such is the cornerstone product for the InfoFone Services product line.

MAS is deployed on the Ericsson switch in Brooklyn, which has the unique ability for broadcast messaging. 976 calls are routed through the Ericsson, regardless of origination, then forwarded to the 56th Street switch in Manhattan (acting as a tandem to the Ericsson), then routed according to the appropriate service bureau where the recorded announcement resides. These transfers are transparent to the caller who hears the message on the number they called almost instantaneously. MAS is distinguished by its ability to complete thousands of calls per program simultaneously over 3 voice grade circuits.

MAS IPs purchase transport, call processing, billing & collection services, out of the 900 Tariff, as one bundled rate element. The end user sees charges for calls made to 976 as one lump charge, stating the number of calls made, in the local portion of their bill.

The revenue from each call is shared equally by Bell Atlantic and the IP. These revenues are based on call count volumes recorded by each end office, and CABS reports for the interexchange carrier component.

InfoFone Services are unique to the Bell Atlantic line of product offerings. They depend on motivated, creative external information providers to establish programs which create strong and recurring interest in the public, so that they will call, and call often. Of the 8.6 million potential subscribers to MAS within the New York Metropolitan LATA, approximately 400,000 call 976 programs.

InfoFone competes with the inter-exchange carrier 900 number services. Competition from a myriad of sources is becoming more prevalent. There is also fierce competition among information providers. This drives higher advertising expenditures for the IPS as they must advertise more often and more effectively to maintain their call volume levels. There are currently 25 MAS IPS and 58 active programs.

Interactive Information Network Service (IINS/540 & 970) callers can use the buttons on their touch-tone phones to respond to selections offered by the various programs, e.g., signs of the zodiac for horoscopes, or different cities for weather reports. The caller can also reach a live person, if the IP provides one, for services like medical advice, home repair tips, and more.

These numbers begin with 540 and 970 exchanges. The 970 numbers are reserved for adult programming and are available in the New York Metropolitan LATA only. Calls can run for any length of time. The IP sets the price for the service. Callers in the area where the program is provided can reach it by dialing seven digits.

IINS is an intra LATA service offering; no inter LATA traffic can be carried. Since the IPS often want their programs to be available to all consumers in the tri-state area, this limitation provides national 900 number carriers with a significant advantage.

Calls and revenue from IINS programs have leveled off. Negative publicity discouraged people from calling 900 numbers and, unfortunately IINS programs. IINS is in the mature stage of its product life cycle. There are currently 155 IINS IPS and 1159 active programs.

Group Bridging Service (GBS/550) is like a conference call, in that a number of callers within a geographic area can talk to each other at the same time. Common Group Bridging Service programs include date and teen lines. A live monitor must check each Group Bridging program periodically to ensure the service is being used properly.

Numbers begin with the 550 exchange. Calls can run for any length of time. Charges vary depending on the length of the call. Callers in the area where the program is provided can reach it by dialing seven digits.

There are currently 9 GBS IPS and 77 active programs.

Most of the InfoFone Services IPS offer more than one of the different types of services to their end users. That is to say, most of the 976 IPS also provide IINS programming, and many of the IINS IPS also provide group bridging programs.

Circuit 9 is a product which has been "grand fathered". It currently has 2 remaining customers. The forecast for this product for 1998 is $94,000

PRICING

The overall MAS pricing strategy is to maintain the current retail and wholesale prices. The aforementioned PSC Order, and the outcome of the Article 78, however, may effect this. Incentive regulation would constrain our ability to raise rates to recover the new investment costs.

In 1994, the retail price for 976 calls was raised from $0.36 to $0.40 from non-coin phones, $0.25 to $0.40 from coin phones. We reinforce with the public through our advertising that 976 services are flat rate. 976 programs are still the lowest priced of any pay-per-call service. When one calls, there are programs on subjects of national interest as well as New York specific information.

Prior to 1994, the company retained $0.24 of the $0.36 charged for a non-coin 976 call, and $0.13 of the $0.25 charged for each coin 976 call. Each 976 call made today from a coin or non-coin phone results in $0.20 of revenue for Bell Atlantic and $0.20 for the IP. Here is a comparison of 2 of Bell Atlantic's pay-per-call products versus industry 900 number services:

Wholesale Competitive Pricing Comparisons					
		976	540	MCI - 900[1]	AT&T - 900[2]
Establish Service		$787	$125	$2000	$2200
Recurring Charge		$85.80	$21.38	$150	$500/initial $125/ongoing
Per Minute		$0.20	$0.26/1st min $0.07/add'l min	$0.89	$0.32
Billing & Collection		included	12% end user revenue	10% end user revenue	10% end user revenue

Pricing is the primary edge that IINS has over the competition. The demand curve for IINS is downward sloping. If price is lowered, total revenue would decrease. Demand is inelastic. Many factors effect elasticity: 1) availability of a substitute, 2) the importance of an item in the customer's budget, 3) the urgency of the customer's need and its relation to other needs.

In addressing price, it is important to recognize that there are 3 IINS pricing elements to be managed. The first is the initial charge for each line. The second is the monthly charge for transport, billing & collection. The third element is the price for usage.

For transport, and full billing & collection, Bell Atlantic charges $0.26 for the first minute of each call, $0.07 for each additional minute, and 12% of the difference between what Bell Atlantic charges the IP and what the IP charges the end user. IPS can choose any price to charge callers (the retail segment).

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[1] Does not include the cost of access links

If an IP wants to charge callers $1 a minute, a 3 minute call would cost the caller $3. Bell Atlantic would charge the IP $0.71, calculated as follows:

1. $3.00 - ($0.26+$0.07+$0.07) = $2.60
2. $2.60 x 12% = $0.31
3. $0.31 + $0.26 + $0.07 + $0.07 = $0.71

The pricing for Group Bridging Service is more straightforward. A 3 minute call would cost the caller $0.52. This call would result in a charge to the IP of $0.30, calculated as follows:
$0.20 (1st min)+ $0.05 (2nd min) + $0.05 (3rd min) = $0.30

Promotion

There are no promotional activities planned for InfoFone Services in 1998. In 1997, the only promotional activity was a highlighted directory listing campaign carried over from 1996. Promotion of MAS during over the past several years has included:

1. Promotion for the entire family of 976 programs occurred in various formats. This included 2 articles in the Extra brochure which is mailed with the phone bill to our residence and business customers every month, the free sampling platform, the 976 program guide, the White Pages, as well as newspaper ads. The 976 Program Guide was also made available in the lobby of 1095 Avenue of the Americas, and mailed to every (then NYNEX) employee, both management and non-management at their work locations throughout the New York Metro LATA.

2. During 1995 we produced and aired cooperative advertising campaign television commercials which were program-specific for subjects shown in market research to be of high interest to consumers: weather and lottery. We also aired these same commercials on the internal "NYNEX TV" to get our own employees more familiar with 976.

3. We conducted a targeted mailing to established 976 users who call us, but infrequently. Their 976 usage patterns were tracked for 3 months. This mailing did not facilitate the behavior modification hoped for; increased calls to 976 programs by a majority of the targeted group.

Market research has shown that branding our product is very important, so throughout all of our promotional activities we sought to familiarize consumers and IPs alike with the InfoFone product name. Furthermore, neither users nor non-users of MAS programs knew how to find the specific 976 telephone numbers they should call to get the desired information. Our 1.800.InfoFone number and telemarketing was used to help customers overcome these hurdles. There will be more on the telemarketing team in the Placement section of this plan.

The objectives of these efforts was to inform wholesale customers that there is opportunity for success in New York for an entrepreneur with unique, innovative offerings, and that NYNEX was the company to partner with. We wanted our retail customers to know how to get access to the easy, fast, accurate information they needed right then.

With respect to IINS, the media mix planned for 1996 for the retail market was a combination of television supported by print and direct mail targeted appropriately. To establish internal and external awareness of the product, we planned accelerated participation in the following events: local and national trade shows, marketing events, state fairs, internal awareness sessions, and staffed lobby exhibitions. Due to lack of funding, these plans were not actualized.

Placement

InfoFone Services - New York, and Mass Announcement Service in particular are highly specialized services which require subject matter expertise in the technology, marketplace, and our target market. In addition, this role demands continual direct contact with our wholesale established and prospective customers, and, from time to time, our retail customers as well. The MAS-specific characteristics have a universe of importance to the product line. For these reasons, MAS is not placed with Systems Marketing which more typically deals with large business customers and non-usage-driven products, preventing them from being positioned to manage the unique set of demands associated with this product line.

We established an 800 number (1.800.442.TALK) for use by prospective IPs to make inquiries. This number has been incorporated into all of our industry-focused literature. When dialed, it forwards the caller to the dedicated customer service center, managed by Artie Zanfini. The service representatives who receive the calls qualify the callers. If it's a retail customer who has called, they are qualified regarding the program categories of interest or information required and if necessary, are then sent a 976 Program Guide, or redirected as needed.

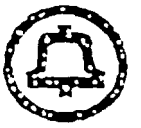
For wholesale customers, the distribution channels for MAS are our marketing support team (customer service center/BMO) and Service Bureaus. Both sell MAS to Information Providers and provide ongoing support to them as they endeavor to develop new applications or encounter service-related difficulties.

Service Bureaus provide space, equipment, even program development to IPS. In the past, they helped us to close sales with new, inexperienced IPs, as well as those located outside of metropolitan New York. There have been no new IPs for this product line, however, for 2 years.

Retail placement rests with the telemarketing team at the BMO who responds to retail customers using the 1.800.442.TALK number, and the IPs themselves. This team assists callers in locating the numbers of specific programs they are seeking. The IPs use various means for getting the word out about their 976 programs.

There is one central office (CO) in each New York LATA that is equipped to offer IINS. The 540 exchange is used for IINS programs of general interest, and is available throughout New York State, while the 970 exchange, used for IINS "adult" programming is available only in the New York Metro LATA. Calls from anywhere within the LATA are handled by the serving CO for that LATA.

As with MAS, prospective IINS IPs are served by the service representatives within Artie Zanfini's organization via the 1.800.442.TALK line, as well as industry service bureaus. These groups answer basic questions, mail out promotional literature, then address the qualified leads. Prospective IPs are provided with individualized counseling on what to consider before entering the market and specifics on how to get started.



New York Telephone
A NYNEX Company

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February 12, 1996

EXPRESS MAIL OR HAND DELIVERY

Honorable Frank S. Robinson
Administrative Law Judge
New York State Public Service Commission
Three Empire State Plaza
Albany, New York 12223-1350

Re: Cases 93-C-0451 and 91-C-1249: Direct Presentation of New York Telephone Company

Dear Judge Robinson:

Pursuant to the Procedural Ruling Issued November 28, 1995, New York Telephone Company ("NYT") herein submits its direct presentation. In its direct presentation, NYT addresses the following issues:

Issue 1. Call Counts: NYT submits evidence concerning the recent call count test, its results, and the conclusions to be drawn.

Issue 3. Number Portability: Whether, assuming its technical feasibility, number portability should be permitted for 976 numbers.

Issue 4. Inter-company compensation: The arrangement that will apply in the case of a competing local exchange carrier handling a 976 call.

Issue 10. Number reservation procedure.

Issue 11. Procedures to be followed with respect to NYT's receipt of proprietary information from 976 providers.

Isssue 12. Competition from NYNEX: NYT's plans and/or its intentions to offer services, either directly or through affiliates, that would tend to compete against 976 providers.

NYNEX Recycles

NYT will provide responsive presentations to those remaining issues not addressed in our direct presentation. Additionally, our responsive presentations will address matters raised by the other parties in their direct presentations.

Respectfully submitted,

Amy D. Kanengiser

Attachment
cc: Honorable John C. Crary (5 copies)
All parties

The PSC took a leadership role in the number portability process when it directed a trial of service provider number portability in September, 1995.[13] The trial is underway to examine the interconnection and operational issues associated with a database type of solution for service provider number portability. Recently, the Commission endorsed Location Routing Number as a long term solution for service provider number portability.[14]

The long term solution for number portability will require all local exchange service providers to deploy the necessary software modifications and common channel signaling in each of their respective central office switches. Interexchange carriers will also have to modify their switches and signaling in a similar fashion. The deployment of a number portability database and the associated operations support systems also need to be developed and implemented. Once all these modifications and network upgrades are deployed, long term number portability should become an operational reality.

At this juncture, NYT believes that the implementation of a long term number portability solution should enable 976 IPs to be served by other local exchange service providers. However, the ability of 976 IPs to be served by more

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[13] See Case 94-C-0095, Order Authorizing Trials of Service Provider Number Portability in Manhattan and Rochester (Issued September 25, 1995). This trial will not involve actual customers.

[14] See 94-C-0095, January 4, 1996 Memorandum to the Commission from the Communications Division, Approved and So Ordered (Issued January 23, 1996).

than one local exchange carrier raises a host of market and public policy issues which, at this stage, NYT can only partially anticipate. For example, in New York State, 976 service is defined by NYT's tariff as a fixed length, fixed charged service. It has existed as a broadcast service for over twenty years. When 976 IPs can be served by competing local exchange carriers, will these other local exchange service providers maintain 976 as a broadcast service? Will their rates be comparable or different than NYT's tariffed charges? Will all 976 calls continue to be fixed length with fixed charges? Perhaps most critically, each new local exchange carrier that would be a candidate for 976 number portability would have to install a switch comparable to or at least compatible with the existing IMAS technology. To date, there is no indication of such commitments.

If uniformity or at least compatibility among all local exchange carriers offering 976 service is not required, customer confusion is sure to follow, and the integrity of 976 service as a low price, broadcast service could be lost. Moreover, 976 providers are just one set of customers to be considered in the development and deployment of a long term number portability solution. Accordingly, number portability for 976 service should be considered only in connection with the full deployment of long term number portability for all local exchange service providers. Addressing the issue in this proceeding at this time, with only NYT and not the other local exchange service providers, is unlikely to produce a coherent result that can be implemented.

ISSUE 4:
Intercompany Compensation

The parties were asked to address the arrangement that will apply in the case of a competitive local exchange carrier ("CLEC") handling a 976 call. That arrangement exists today. Since June 30, 1994, NYT has had in place an intercompany compensation arrangement to compensate a CLEC which delivers 976 calls to the NYT network.

Initially, intercompany compensation for 976 calls was the subject of interim agreements between NYT and each of three CLECs.[15] Each of the three CLECs operating in the metroLATA approached NYT and requested interconnection agreements for the exchange of local and intraLATA toll traffic. These requests resulted in negotiations between NYT and the CLECs. The intercompany compensation negotiations included compensation for 976 calls. These interim agreements were superseded by the Commission Order wherein NYT was directed to file a tariff for these arrangements. NYT filed its PSC Tariff No. 914 effective October 20, 1995.[16]

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[15] These three CLECs -- Teleport Communications Group, Metropolitan Fiber Systems, and Cablevision Lightpath -- are the only three CLECs operating in the metroLATA today.

[16] The rates effective in this tariff are temporary pursuant to Commission Order. See Case 94-C-0095, Order Instituting Framework for Directory Listings, Carrier Interconnection and Intercarrier Compensation (Issued September 27, 1995).

The intercompany compensation rate for the termination of intraLATA local exchange traffic is tariffed at approximately $0.01 per minute of terminating access.[17] The originating carrier bills its customer for the call at its established rate and pays the terminating carrier a local exchange access rate of approximately $0.01 per minute. This reciprocal compensation arrangement between local exchange carriers is designed to compensate each carrier for the use of its facilities in the process of terminating a competing local exchange carrier's call.

However, the parties negotiated and the tariff contains a different arrangement for 976 traffic originating on a CLEC's network and terminating on NYT's network. NYT agreed to waive the terminating access charge of approximately $0.01 per minute as negotiated for other types of calls and agreed that it would pay the CLEC $0.02 for each 976 call. NYT agreed to this innovative approach for the termination of 976 traffic as an incentive for local exchange carriers to deliver 976 traffic to our network.

The 914 tariff reads in pertinent part:[18]

> When the CLEC delivers calls to telephone numbers with the NXX designation of 976 or 394, the CLEC shall bill and collect the applicable rate set forth in the P.S.C. No. 900 tariff from its end users, retaining $0.02

[17] The tariffed day rate is $.0098 per access minute. The tariffed evening rate is $.0073 and the night rate $.0029. One CLEC operates under an alternative compensation arrangement that is a flat monthly charge, which is also provided under the 914 Tariff.

[18] See 914 Tariff, 1st Revised Page 37.

> per call and remitting the remainder to the Telephone Company, unless the CLEC obtains tariff approval from the NYPSC specifically permitting the CLEC to charge its end users a rate different than the rate set forth in the P.S.C. No. 900 Tariff for these services.

The applicable rate in the NYT's 900 tariff for each 976 call is $0.40. Under the 914 tariff, each CLEC is to remit to NYT $0.38 for each 976 call it delivers to NYT. Out of this $0.38, the respective IP is to receive $0.20 per call.

In addition to the tariffed $0.02 per call for delivering 976 calls to NYT's network, each CLEC will receive an additional $0.0115 per billing record provided to NYT. When combined with the waiver by NYT of the terminating access charge of approximately $0.01 per minute, a CLEC recognizes approximately $0.04 per 976 call terminated on NYT's network.[19]

ISSUE 10:
Number Reservation Procedure

From time to time, IPs request the reservation of a particular 976 number significantly in advance of the time they wish to initiate service. As with 976 and other telephone numbers, customers -- including IPs -- may request specific numbers for their ease of dialing or their mnemonic value.

To satisfy requests for specific customer-requested telephone numbers, NYT provides Gold Number Service which it offers pursuant to tariff. See

[19] The CLEC only provides originating access and billing and collection to its customers.

Attachment 3. This tariff governs the availability, terms, conditions, and the rates for this service. NYT proposes that this tariff afford the means by which 976 IPs reserve 976 numbers. It is already the vehicle by which all IPs -- other than 976 IPs -- reserve specific telephone numbers.

ISSUE 11:
Receipt of IP Proprietary Information

From the record of the November 20, 1995 conference, it is not altogether clear what new or special concerns the IPs may have with respect to the handling of what they may wish to define as their "proprietary information." First, NYT already is governed by the applicable CPNI rules and, to the extent they are germane, the Commission's Privacy Principles. We know of no supportable allegations where those strictures have been compromised with respect to any of the IPs. Second, except for the CPNI NYT obtains through its provision of 976 service (for example, individual IP program call count data), NYT does not want and will refuse to accept any information which an IP claims to be proprietary. We have seen no showing why our receipt of such information is necessary to our role in providing tariffed services. Moreover, given the contentious history of our relationship with some of the IPs, we see no reason to create opportunities for more conflict.

ISSUE 12:
Competition from NYNEX/NYT

Throughout this proceeding, the IPs have asked repeated questions about NYNEX' intentions to enter other businesses that are directly competitive or at

least arguably cross elastic with IP provision of 976 messages. There is no need to pursue these issues here. Any quick scan of the public media will reveal the momentous changes going on in the telecommunications, entertainment, and information services industries. Legislative reform and regulatory changes have opened up immense new market opportunities. Consistent with all of our obligations as a common carrier and in strict compliance with all applicable laws, rules, and regulations, NYNEX intends to be a full participant in these opportunities.

Thus, without disclosing proprietary plans which may from time to time be developed and changed, it is safe to assume that in one form or another NYNEX will offer services that compete with the IP's 976 messages. This may occur directly or through various other types of offerings such as video information that would be cross elastic with IP messages. NYNEX may choose to enter such businesses directly, or through various equity interests, joint ventures, partnerships or other alliances.

None of this, however, should have any bearing on this proceeding. The circumstance where one entity is, at the same time, a supplier, customer, and competitor to another is seen all across the telecommunications arena and laws, rules, and regulations are already in place to ensure full and fair competitive opportunities.

In the area of information services, rules prescribe an open network architecture (ONA) plan and provide accounting rules to avoid any opportunity for cross-subsidy. Network disclosure rules prevent carrier affiliates from having a

headstart in accommodating carrier network changes and regulations governing Customer Proprietary Network Information (CPNI) safeguard market data. In addition, service levels on provisioning and maintenance are reported to ensure equal treatment.

To the extent competition may be affected by the activities of NYT, all service offerings are governed by tariff and regulatory law and rules provide for full public notice and comment opportunities. Under NYT's Performance Regulation Plan ("PRP"), all NYT new services must satisfy a minimum price level that requires NYT to impute certain tariff rates when the new service includes a bottleneck element.[20] The PRP also provides that the Commission may suspend a new service tariff "if there is a reasonable potential for anticompetitive effect and a finding that implementation of the new service as filed would result in significant financial or irreparable harm to competitors."[21] Accordingly, the Commission has adequate safeguards already in place to prevent alleged anticompetitive actions by NYT.

Because of the plethora of FCC and PSC rules and the cost of compliance and reporting, it may be fair to say that any further NYNEX and NYT entries into competitive markets are disadvantaged, not favored. In any event, given the attention this issue has received from regulators and the full panoply of existing

[20] See PRP § IV(H)(4).

[21] See PRP § IV(H)(6).

and developing safeguards, no additional requirements are presented with respect to 976 IP offerings.