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ATTORNEYS AT LAW

February 9, 2000

EX PARTE – By Electronic Filing

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

Re: Coalition for Affordable Local and Long Distance Service Proposal –
CC Dockets 96-262, 94-1, 96-45, 99-249

Dear Ms. Salas:

On February 7, 2000, I spoke with Chairman William E. Kennard by telephone regarding my meeting with members of the Common Carrier Bureau staff. During the conversation, I discussed the points submitted in the attached letter to Larry Strickling, dated February 4, 2000, and the charts attached thereto.

In accordance with FCC rules, I am filing copies of this letter in each of the above-captioned dockets.

Sincerely,

John T. Nakahata

Counsel to the Coalition for Affordable Local and
Long Distance Service

JTN/krs
Attachment
cc: William E. Kennard, Chairman,
Federal Communications Commission

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February 4, 2000

Mr. Larry Strickling, Chief
Common Carrier Bureau
Federal Communications Commission
445 12th Street, S.W.
Washington, DC 20554

Dear Mr. Strickling:

I am writing to respond to an ex parte submitted by MCI Worldcom dated December 9, 1999, and to clarify several misleading impressions created by that ex parte.

Inflation Changes. Inflation rate variation renders attempts to project access charges under current rules extremely difficult and projections can be highly misleading, particularly in "out years." The attached simplified illustration (Attachment A) demonstrates this variability. Under the current price cap rules, relatively modest increases in inflation above today's historic lows will greatly change the overall projected access revenues. Even an increase of 2 percentage points over the next 2 years greatly increases the net present value of access payments over the next 5 years. The CALLS plan is not subject to the same range of uncertainty and variation in the "out-years" because the price cap formula is modified in those years such that the X-factor equals inflation.

Competition Lowers Prices. In evaluating the CALLS plan, it is also critical to recognize that increased competition will lower prices. Although the access charge projections submitted by CALLS in September 1999 expressly did not factor in potential price decreases from competition, those numbers were intended only to provide a starting point for further evaluation and analysis. The CALLS plan does not set minimum prices, only caps on prices. Any comparative assessment against a hypothetical "baseline" estimate must include some estimate of price decreases that would flow from increasing competition.

Attachment B illustrates this point by example. As competition drives prices below the caps, the total revenues would fall. This illustration does not attempt to capture revenue loss from loss of lines, but only the impact of falling prices. As Attachment B illustrates, if average prices are 10% below the CALLS caps in 2003 and 2004, total line charges (including universal service) would actually be below today's levels. The net present value of the competition effect illustrated in Attachment B is approximately $2 billion, using a rate of 11.25%. The same adjustment should not be applied to a "current rules" projection because the status quo will not encourage the development of competition in all markets to nearly the same extent, and because different starting points for competitive reductions could create potential "double-counting."

Prices Below Cost. Because the price caps formula operates only on prices and not with respect to costs, the price caps formula has the potential to drive prices for particular services below cost, even using "forward-looking" definitions. Sprint has previously argued that its common line rates already recover less than their estimates of the interstate share of forward looking costs for loop and line port. Comparisons of projections under current rules with the January 2000 Hybrid Cost Proxy Model results raise the question of whether price caps are driving prices for some companies below forward looking costs.

X-factor and Pricing Flexibility. The pending review of the X-factor on remand from the United States Court of Appeals for the District of Columbia Circuit, and the implementation of the Commission's pricing flexibility order also create additional uncertainty as to appropriate projections of future prices and aggregate revenues. For example, services provided under Phase I and Phase II pricing flexibility are removed from price caps.

These potential adjustments are not mutually exclusive; in fact, adjustments to "baseline" projections and adjustments to CALLS projections are cumulative. When these adjustments are made, the CALLS plan potentially yields similar or better results than current rules.

If you or your staff has further questions, or would like to follow up on the issues raised here, please contact me at (202) 730-1320.

Sincerely,

John T. Nakahata

Counsel to the Coalition for Affordable Local and Long Distance Service

JTN/krs
Attachments

ATTACHMENT A

Sensitivity of Access Projections to Changes in Inflation - Simplified Illustration

	Scenario 1		Scenario 2		Scenario 3		Scenario 4	
	Total	Inflation	Total	Inflation	Total	Inflation	Total	Inflation
Jul-99	23,166,180,478		23,166,180,478		23,166,180,478		23,166,180,478	
Jul-00	22,007,871,454	1.50%	22,007,871,454	1.50%	22,007,871,454	1.50%	22,007,871,454	1.50%
1-Jul	20,907,477,881	1.50%	21,127,556,596	2.50%	21,127,556,596	2.50%	21,347,635,310	3.50%
2-Jul	19,862,103,987	1.50%	20,493,729,898	3.50%	20,493,729,898	3.50%	20,920,682,604	4.50%
3-Jul	18,868,998,788	1.50%	19,878,918,001	3.50%	20,083,855,300	4.50%	20,711,475,778	5.50%
4-Jul	17,925,548,849	1.50%	19,282,550,461	3.50%	19,682,178,194	4.50%	20,711,475,778	6.50%
NPV	87,284,350,046		89,164,946,554		89,495,999,142		90,845,786,053	

ATTACHMENT B

Illustrative Effect of Competition on CALLS Line Charges

	Competition Effect % Prices below Cap	Line Charges without Competition	Line Charges Adjusted for Competition Driving Prices Down
Jul-99	0.00%	11,884,555,419	11,884,555,419
Jul-00	0.00%	12,553,146,854	12,553,146,854
1-Jul	2.50%	12,653,893,976	12,337,546,626
2-Jul	5.00%	12,684,891,309	12,050,646,743
3-Jul	10.00%	12,689,662,698	11,420,696,429
4-Jul	10.00%	12,689,662,698	11,420,696,429