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March 7, 2000

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
445 Twelfth Street, Room TWB-204
Washington, DC 20554

Re: Notice of Written Ex Parte
In the Matter of Access Charge Reform CC Docket No. 96-262; Price Cap
Performance Review for Local Exchange Carriers, CC Docket No. 94-1

Dear Ms. Salas:

In AT&T's March 7, 2000 Ex Parte related to the reference proceedings, page 12 was inadvertently missing from the filing. Please include a copy of the attached page in the record of the referenced proceeding.

Two copies of this Notice are being submitted to the secretary of the FCC in accordance with Section 1.1206 of the Commission's rules.

Sincerely,

Attachment

cc: J. Atkinson R. Lerner
C. Barnekov J. McKee
L. Collier F. Setzer
A. Goldschmidt N. Uri

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List A B C D E

- The most extreme assumption, shown on the first row of Table 1, is that of the Gollop study presented in USTA's comments. As explained in AT&T's reply comments (Appendix A, pp. 1-3), the revenue adjustments associated with Gollop's cost of capital index produce a 19% rate of return in 1998, so that, despite a substantial decline in interest rates, the LECs' cost of capital is assumed to increase from 10.3% in 1990 to the 19% level in 1998.
- The next two rows in Table 1 show X-factors that result from not making any adjustment for excess earnings – the approach used in the FCC's 1997 TFP study. Under this approach, the cost of capital is assumed to equal the actual returns realized in 1990 and 1998 shown in the table.
- In the next row, the cost of capital is assumed to remain constant at 11.25%, resulting in total company and interstate X-factors of 6.16% and 8.35% respectively. Because it is the *trend* in ROR that matters, the ROR level assumed here does not affect these results significantly.
- The next two rows show X-factors resulting from the constant risk premium approach described above and AT&T's cost of capital, as presented in AT&T's reply comments. Because the change in ROR from 1990 to 1998 is almost identical in the two scenarios, resulting X-factors are also very similar. A more detailed comparison of X-factors resulting from these two assumptions is provided in Table 2.
- Finally, the FCC's 1999 TFP study is shown in the last row. (Even though the FCC's use of Moody's Baa bond series leads to an 8.68% cost of capital for 1998 in the Imputed X Study, its capital cost adjustments in the TFP study produce an ROR of only 6.49%.)

The key factor driving these results is the change in rate of return from the first year to the last year of the study period. It is therefore critical that reasonable estimates of the LECs' cost of capital be used in the TFP analysis. Ideally, the FCC should reach a decision in its rate of return prescription proceeding and use that to develop its capital cost index. Otherwise, it should modify its methodology as described above.