costs is especially disingenuous because AT&T fully expects to be freed of Price Cap regulation before a decision is likely to be rendered in this proceeding. Indeed, there is widespread speculation that the Commission will consider -- and grant -- AT&T non-dominant carrier status at its meeting later this month, despite its actions leading up to this proceeding.

Finally, AT&T's contribution margin under Contract-Tariff No. 360 undermines its position thoroughly. Incorporating tentative, but likely, 1995 Mexico settlement cost reductions, AT&T's "loss" through August 1995 may be approximately $800,000, and not $2,206,566 as AT&T has claimed. (This excludes, as it should, the impact of AT&T's LRIC, exclusive of net settlements.) Projecting this important development concerning likely Mexican accounting rate reductions out over the three year term of MCI's service entitlement, AT&T's margin not only will become positive, it will become so positive that it will offset any initial losses AT&T has suffered. Indeed, based on MCI's projected usage in minutes over the three year contract term, AT&T would profit by $1.3 million over its net settlement costs by serving MCI in accordance with the current contract-tariff provisions.[35]

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[35] This amount was derived based on the assumptions explained below:

	Profit Over Net Settled Cost
Year 1	($2.9M)
Year 2	($1.3M)
Year 3	$5.5M
Total	$1.3M

(cont'd next page)

This analysis is based on reasonable assumptions concerning future settlement cost reductions. In fact, since much of the analysis hinges on the profitability of Mexican traffic, the likely reductions in settlements with Mexico are critical to any analysis of Contract-Tariff No. 360, which potential reductions (and their impact upon Contract-Tariff No. 360 and the Mexican traffic that MCI is delivering to AT&T) continues to be ignored by AT&T. In a very real sense, it is as difficult for AT&T to address and refute this critical development as it is for MCI to address and refute AT&T's position that it would incur a loss when if it is required to honor its commitment to provide a free month of service.[36]

AT&T'S APPROACH TO COSTING IN THIS PROCEEDING IS DEFICIENT

AT&T states that the appropriate measure of its costs is LRIC which, for international services, includes net settlement costs, the costs of the international half circuit, and the cost

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Assumptions: The Contract-Tariff No. 360 billing rates are based on after-discount rates. The time-of-day mix is assumed to be 55% standard and 45% discount and economy, with the exception of Mexico where a 15% standard and 85% discount mix is assumed. The net settlement rates from AT&T's February 6, 1995 transmittal letter are used in Year 1. In Years 2 and 3, the net settlement costs are assumed to decline by 5% per year, with the exception of Mexico because of anticipated overall accounting rate reductions in net settlement costs for 1995, 1996 and 1997 of 15%, 15% and 37%, respectively.

[36] See AT&T Direct Case at 20.

of the domestic leg of the call.[37] Even assuming, for the sake of argument, that this is true, AT&T consistently has contradicted itself in its representations of its LRIC and net settlement costs. On the one hand, it attempts to dismiss disparities between its quoted costs and those ascertainable from current public filings by stating that the former were developed based upon projected traffic imbalance ratios, anticipated marketing programs and industry growth, and historical accounting rate reduction trends. However, when challenged on its assumptions, AT&T has taken refuge by stating that it "assumed its costs would remain static through 1997."

It is apparent that AT&T has adopted a strategy of withholding the specific information used to derive its costs in order to avoid having its assumptions challenged and rejected. In this regard, it is most ironic that AT&T argues that projected costs should be used as the basis for considering substantial cause, when it bases its analysis on costs remaining constant for the entire three year term of service.

It is also clear that, based on an analysis of historical data submitted by MCI and those prepared by Commission staff itself, net settlement costs will continue to decline. The Accounting Rates to Mexico alone, as noted, are likely to decline by 55% by 1997. Certainly, reductions of this magnitude would more than offset, if not dwarf completely, any potential adverse effect from traffic imbalance ratios.

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[37] Id. at 13.

Similarly, there is historical data to substantiate that the other components referenced by AT&T as part of its LRIC will also continue to decline. Local Exchange Carrier access rates consistently and steadily have been declining. Costs associated with procuring international half-circuits have also declined substantially, due to the availability of improved technology in cable and satellite systems. As for remaining overhead components, these embedded costs will continue to be diluted by virtue of continued growth within the industry alone. The fact that AT&T did not factor any reduction in these costs into its analyses is of significance, given that these cost components account for approximately 31% of AT&T's overall projections of its total costs.[38]

Even with the limited information furnished by AT&T, there are disparities concerning its alleged costs. For instance, the LRIC for Mexico originally reported by AT&T in its February 6 transmittal letter -- exclusive of net settlements -- was $0.146.[39] To avoid having to explain why this LRIC for the

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[38] This determination is based upon Attachment 2, Chart A, page 6 of AT&T's February 6, 1995 transmittal letter. AT&T's total average all-inclusive LRIC cost per minute was $0.4107 (i.e., Grand Total Net LRIC Loss of $11,734,156 divided by Grand Total Minutes of 28,572,758). AT&T's total average LRIC, exclusive of net settlements, was $0.1283 (i.e., Grand Total Net LRIC Loss of $11,734,156, minus Grand Total Net Settlement Loss of $8,068,678, divided by Grand Total Minutes of 28,572,758). Hence, AT&T's LRIC exclusive of net settlements represents approximately 31% of the over all total cost (i.e., $0.1283 divided by $0.4107).

[39] This was derived in a similar manner as applied in the footnote immediately above. In contrast, AT&T's projected total worldwide average LRIC, excluding net settlements, was $0.1283.

"second highest international calling destination outbound from the United States" would be approximately 14% higher than the comparable average for the rest of the world, AT&T subsequently restated these costs as $0.1174 during the standard period and $0.1088 during the economy period.[40] Even its restated costs, however, are questionable, as they are only slightly below the worldwide average. Given the magnitude of Mexican traffic volumes and the fact that there is no justifiable explanation as to why LRIC, exclusive of net settlements, would vary on a time-of-day basis, AT&T's alleged costs remain highly suspect.

With regard to India, the only other country for which AT&T provided specific cost data, the net settlement cost went from $0.5389 per minute, based on information furnished with its February 6 transmittal letter, to $0.6626 when MCI began service.[41] AT&T also claims that the LRIC, exclusive of net settlements for India, is $0.1839 per minute, or approximately 43% higher than the comparable worldwide average, even though India is among the top 25 outbound destinations. The bases for these alleged costs are not known and, in any event, probably would defy reason.

Another factor that undermines the validity of AT&T's alleged costs in Contract-Tariff No. 360 is the multitude of

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[40] The revised LRIC, exclusive of net settlements, was derived by subtracting AT&T net settlements per minute from the AT&T LRIC per minute referenced in Attachment A of AT&T's Direct Case.

[41] See AT&T Direct Case at Attachment A.

other AT&T services that offer similar "below-cost" rates to those in the subject offering.[42] In fact, one such offering, AT&T Contract-Tariff No. 1, Plan O, Option B, which was filed in the same timeframe as the revisions which are the subject of this proceeding, offers rates that are below either AT&T's quoted net settlement cost or current Contract-Tariff No. 360 rate levels to at least 22 of the 47 alleged "below-cost" countries.
This suggests that, contrary to AT&T's protestations in this proceeding, the Contract-Tariff No. 360 rates will indeed be remunerative for AT&T. For strategic competitive reasons, AT&T simply wishes to avoid furnishing MCI with service pursuant to those rates, which clearly is wrong.

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[42] See, e.g., AT&T Contract-Tariff Nos. 1, Plans O and N, 497, 749 and 853.

CONCLUSION

For the reasons set forth above and in MCI's Direct Case, AT&T has failed to make a substantial cause showing under any reasonable application of that standard and, accordingly, its proposed tariff modifications that are at issue in this proceeding must be rejected.

Respectfully submitted,

MCI TELECOMMUNICATIONS CORPORATION

By: _____

Donald J. Elardo
1801 Pennsylvania Ave., N.W.
Washington, D.C. 20006
(202) 887-2006

Its Attorney

Dated: October 6, 1995

CERTIFICATE OF SERVICE

I, Vernell V. Garey, do hereby certify that a true copy of the foregoing "MCI Opposition" was served on October 6, 1995, by first class mail, postage prepaid, upon the following:

Daniel J. Stark, Esq.
David J. Ritchie, Esq.
Shari Loe, Esq.
AT&T Corp.
Room 3233B2
295 North Maple Avenue
Basking Ridge, NJ 07920

Kathleen Wallman, Esq. (BY HAND)
Chief, Common Carrier Bureau
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Washington, D.C. 20054

Geraldine Matise, Esq. (BY HAND)
Acting Chief, Tariff Division
Common Carrier Bureau
Federal Communications Commission
Washington, D.C. 20554

David A. Nall (BY HAND)
Deputy Chief, Tariff Division
Common Carrier Bureau
Federal Communications Commission
Washington, D.C. 20554

Vernell V. Garey

STATE OF NEW YORK)
: ss.:
COUNTY OF WESTCHESTER)

AFFIDAVIT

NICK ABATE, being duly sworn, deposes and states based upon his beliefs and recollections as follows:

1. I am currently Manager of Finance for MCI International. In that capacity, I had responsibility for evaluating those international marketplace offerings which MCI might acquire for incorporation into its network, taking into account service/facility needs, quality requirements and price, among other things. I in fact have been directly involved in MCI purchases from AT&T Corp. (AT&T) over the past several years, and I am familiar with AT&T's international offerings under AT&T Tariff FCC No. 1, 12 and its contract-tariffs.

2. MCI's placement of an order for AT&T Contract-Tariff No. 360 service on December 7, 1994 resulted from MCI's inability, over approximately a five-month period, to conclude negotiations with AT&T that would have resulted in an all-inclusive customized service arrangement; that is, one in which all MCI acquisitions of AT&T services would have been consolidated into a single service arrangement. (The particular event which drove MCI toward this objective was the then-imminent expiration of the AT&T Tariff 12 service to which MCI subscribed.)

3. AT&T did not negotiate in good faith with MCI during this period, at one point proposing rates which, after discounting, were significantly higher than could otherwise be obtained by subscribing to AT&T Tariff No. 1 Term and Volume Discount Plans,

even though AT&T demanded an annual revenue commitment that was 15-times greater than those which were generally tariffed. (A subsequent offer received from AT&T during this period was only marginally better than this offer.)

4. Given the pending expiration of the Tariff 12 service arrange-ment and AT&T's refusal to reasonably negotiate a follow-on service arrangement, I began to evaluate other existing AT&T offerings. As a result of my efforts, MCI ordered AT&T Contract-Tariff No. 1289, as an interim stopgap measure, and then as noted in Paragraph 1, AT&T Contract-Tariff No. 360 and subsequently Contract Tariff 419 when AT&T refused to render any further offers. All of these services were ordered during their respective availability periods.

5. For all the reasons set forth in the Affidavit of Anthony Cirieco, which is appended as Attachment A to MCI's Direct Case herein, dated September 22, 1995, MCI is reliant on AT&T Contract--Tariff No. 360, as currently constituted, to satisfy, at least in part, its service/facility needs.

6. MCI did not learn of any AT&T plan to modify the currently effective AT&T Contract-Tariff No. 360 service offering until December 19, 1995 -- twelve days after MCI tendered its order for Contract-Tariff No. 360 service -- by virtue of its receipt of the AT&T letter attached to this affidavit. As said letter shows, no detail is furnished concerning the planned changes which, it would appear, were even then unknown to AT&T. The formal AT&T contract-tariff order form pertaining to Contract-Tariff No. 360 service was finally executed by MCI approximately two weeks before

AT&T filed Transmittal No. 3076 which, of course, revealed for the first time the detail of its proposed changes.

FURTHER AFFIANT SAYETH NOT.

Nick Abate

NICK ABATE

Subscribed and sworn before me
this 5th day of October, 1995.

Harriette S Altman

Notary Public

HARRIETTE S ALTMAN
Notary Public, State of New York
No 5061285
Qualified in Bronx County
My Commission Expires January 31, 1997

5000 Hadley Road
South Plainfield, N.J. 07080

December 19, 1994

Mr. Nick Abate
MCI International, Inc.
Two International Drive
Rye Brook, NY 10573-1098

Dear Nick,

This is in response to your letter dated December 7 1994, ordering Contract Tariff 360.

We have determined that the current price structure of CT360 does not result in positive net revenue for AT&T. Accordingly, please be advised that AT&T intends to file tariff revisions later this week that will remedy this issue.

In light of this development, we believe it makes sense to put the processing of your order on hold until these revisions take effect. If at that point, you remain interested in CT360, we will forward the appropriate order form at your request.

Sincerely,

David M. Hollenbeck
Branch Manager

c:ct360v1