discrimination. LDDS WorldCom has supported geographic deaveraging of LEC transport rates to more closely reflect cost. It might also be possible to give LECs additional flexibility to reduce prices -- so long as they do so across the board for all access purchasers. We are not opposed to LEC actions to move access prices to cost. Excessive access prices distort the downstream interexchange market and create incentives for inefficient network investment. However, even in the interoffice market LECs have both the incentive and the opportunity to discriminate and cross-subsidize to block local network competitors and favor their own services. The transport "benchmarking" and zone pricing proposals of LDDS WorldCom and others were designed to permit LECs to price rates closer to cost, while ensuring that all rates to all customers in the zone contributed proportionately to joint and common transport costs.

The larger share of access costs that relate to the customer line and port present an even stronger case for discrimination safeguards. The Commission clearly cannot rely on local exchange competition -- even where it develops -- to lower these access rates or protect against access rate discrimination. IXCs will face no competitive choice because they must pay the access rates charged by the local service vendor selected by the end user based on local service prices. If anything, these vendors have a natural incentive to keep local service prices low as they compete between themselves for customer control. They can do so because they can make up the cost through high access charges to IXCs who must come to the local service vendors to originate and terminate service to the vendors'

respective end users. This is not a dynamic for healthy competition, particularly given that the local service vendors also will be competing in the long distance market themselves. It is a dynamic that supports new safeguards against LEC discrimination, not new pricing flexibility.

C. Discrimination Problems Will Increase Further With the Evolution of Full-Service Competition Over the LEC Network Platform

As the Commission considers future regulatory issues surrounding LEC pricing, it also should focus on how the dependence of other carriers on the LEC local network is growing. We are moving into a period of increasing dependence on the LEC network, at the same time as initial competition between LECs and their network service customers also is increasing incentives for anti-competitive pricing and other actions. A better recipe for discrimination could not have been written.

We have discussed above how LEC incentives to discriminate increase as they begin to face competition in the local exchange market, and as the BOCs contemplate provision of interLATA service in competition with their access customers. However, a more profound change is on the horizon as local and long distance services begin to converge.

The Commission has recognized that the development of local exchange access competition depends upon new entrants interconnecting with and using the LEC local network. With such interconnection, in principle CAPs can substitute their network for piece parts of the LEC. They therefore can begin to

offer competitive local services to customers in central business districts located proximate to their local switch. However, this entry model assumes that the CAP will obtain use of LEC loops at cost, as well as obtain cost-based terminating service for local calls directed to LEC customers.

Long distance companies face the same dependence on the platform of the LEC local network as they contemplate offering local service as well as long distance to their customer base. The main distinction, however, is that long distance companies have geographically disparate customer bases. They serve all customers, business and residential; urban, suburban and rural. The scope and breadth of long distance competition in this country has been one of the Commission's finest achievements. Of course, that competition depends completely on non-discriminatory access to the LEC network, secured primarily by the MFJ's interLATA line of business restriction that checks BOC discrimination incentives.

As long distance companies look to offering local service, it is immediately apparent that they also will require use of the LEC local network platform in its broader capacity, just as the CAPs do. However, unlike the CAPs, long distance firms will need to use the LEC platform ubiquitously so that they can offer competitive retail local services across the country to all of their customers.

This problem is particularly serious if the MFJ interLATA prohibition is to be removed. At that point the BOCs will be able to offer retail long distance services overnight. They will have a competitive choice among several wholesale national transmission networks, including that of LDDS WorldCom, that already

offer "carrier's carrier" products at competitive rates. They also will have the benefit of mature administrative systems that can process thousands of customer PIC changes a day.

Long distance companies will require similar wholesale use of the dominant LEC local network platform to provide their own competing retail "one stop shopping" services in response. They will require such a wholesale network service everywhere in the country. And they will require parallel administrative systems that permit them to process customer service orders as quickly and reliably as the LECs accept local service orders themselves.

It goes without saying that these wholesale local network services do not exist today. LDDS WorldCom is actively involved in state local competition proceedings to work towards creating these local network products and administrative procedures. We are confident that they will eventually be developed because they provide the only path to giving customers the same breadth of local service retail choices tomorrow that they enjoy in long distance today.[13]

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[13] This wholesale local network service involves a competing carrier purchasing the LEC network platform at the LEC's cost. Competing carriers would then design their own retail local and long distance services, using as inputs their own facilities, LEC wholesale services, and wholesale interexchange network services.

LDDS WorldCom will be discussing the specifics of wholesale local network service elsewhere in other dockets. For present purposes, we note that this use of the wholesale LEC network platform is fundamentally different from resale of the LEC's retail local services. We do not want to simply act as marketing agents for the LEC's retail products. We want to design our own retail services that may or may not be similar to those of the LEC. Certainly competing retailers will not be able to win end users if their retail rates are higher than the LEC. Instead, they will compete by trying to offer lower local prices, or innovative new combinations of retail local and long distance prices.

For present purposes, however, the point is that as policymakers move to create local service competition, they must expressly recognize that the vast majority of local traffic, like the vast majority of long distance traffic, will continue to ride the LEC network platform for at least the next five to ten years. It follows that LEC discrimination in the pricing of that wholesale network platform can distort both the long distance market and the local market.

Indeed, as the telecommunications market moves toward full-service, "one-stop shopping," LEC discrimination in any respect will threaten even the long distance competition that the Commission has so carefully nurtured over the past decade. First, for example, even if LECs are required to make their wholesale networks available on a non-discriminatory basis for purposes of retail local service competition, LECs still would have an anti-competitive advantage if they have the flexibility to discriminate in favor of themselves with respect to interstate access. The reverse is equally true.

Second, the Commission should recognize that the line between local and long distance service itself is artificial and breaking down in the face of

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Because the LEC competitor will be paying the LEC's network cost, the competitor should then be able to offer all the same services as the LEC, including interexchange access for others to reach what is now the competitor's end user customer. Similarly, to the extent that the LEC would have qualified to receive universal service contribution to support the cost of serving the customer, that support should be "portable." When the subsidized customer moves from one local service provider to another, the customer should carry the right to draw on the universal service fund with it. This approach brings competitive retail choice to all customers throughout the country, even when competing wholesale network platforms may not be built for years, if ever.

competition. This fact has important consequences for access reform. For example, wholesale access pricing should not turn on where a call happens to originate or terminate. In the future retailers are likely to compete in part by offering customers larger "local" calling areas. Indeed, the BOCs already have been doing this at the state level, designing "expanded local calling areas" that effectively reduce the size of the intraLATA toll market. Other carriers must have the same ability to develop new pricing plans, but this is possible only if LEC local network services are priced rationally and, most important, without artificial discrimination.

The erosion of lines between local and toll service will further increase the ability of LECs to use discrimination in the pricing of one or more elements of their wholesale network services to prevent competition to themselves. LDDS WorldCom recognizes that rationalization of access pricing will require much work in the access reform docket and with the states. This work is critical to create competitive retail choice for consumers, particularly during the next decade when the LEC wireline network will be a bottleneck input to both retail local and long distance services.

All of these changes, and the work that is needed to effectuate them, underscore why this docket is premature. But more important, they underscore why discrimination is the preeminent regulatory problem standing before the Commission and state PUCs. We have explained why price cap regulation as it currently stands provides no meaningful protection against unlawful

discrimination. New tools are needed, and those should be the focus of this docket. The most important such tool is structural separation.

II. THE COMMISSION SHOULD CONDITION ADDITIONAL LEC PRICING FLEXIBILITY ON THE STRUCTURAL SEPARATION OF COMPETITIVE LEC RETAIL SERVICES FROM DOMINANT LEC NETWORK PLATFORM SERVICES

For the reasons discussed above, LDDS WorldCom submits that the *Notice* rests on the wrong premises, and asks the wrong questions. Instead of asking how and when the LECs can be deregulated, the Commission should be asking how discrimination protection can be increased so that competition can proceed.

In particular, WorldCom submits that before addressing how LEC services should be regulated, the Commission first must consider whether to require separation of LEC retail and wholesale services. This is particularly true with respect to the Tier I LECs, and the balance of this section is principally directed at them.[14]

The Commission is at a crossroads. It can permit the LECs to sell wholesale network access and interconnection services required by their rivals on an unseparated basis from the LEC's own retail operations. In that case, however,

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[14] WorldCom has previously stated its position that structural separation is a necessary prerequisite to any deregulation of LEC pricing in its oppositions to recent requests by LECs for nondominant treatment of certain services. *See* Opposition of LDDS WorldCom to Bell Atlantic Petition for Regulation as a Nondominant Provider of Interstate InterLATA Corridor Service (Aug. 25, 1995); Opposition of LDDS WorldCom to Ameritech Communications, Inc.'s Petition for Nondominant Status (Aug. 28, 1995).

the Commission and other regulators would be required to heavily regulate both wholesale and retail LEC prices to ensure that discrimination is not present.

Alternatively, the Commission can condition LEC retail pricing flexibility on structural separation of such services from the LEC's dominant wholesale network operations. In that case the Commission could develop less stringent rules for LEC retail services because the retail entity would be obtaining its network inputs from the wholesale company on an arm's length basis, on the same terms as other retail companies. Regulators could then focus their scrutiny more closely on the monopoly network company, ensuring that this firm does not discriminate in favor of its affiliate. As true facilities-based network competition develops, LECs could apply for consent to shift services from the non-competitive wholesale company to the less (and eventually un-) regulated retail company.[15]

We strongly believe that the Commission should take steps now to require Tier I LECs to separate their retail and wholesale operations along these lines. But at a minimum, the Commission should reserve less stringent regulation for those LECs who voluntarily separate their operations in this fashion. By taking

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[15] The LEC's existing retail customer base presents special issues given that the LECs today control 100% of that market. In the context of the RBOCs, LDDS WorldCom has proposed that effective upon such creation of a retail competitive affiliate, the RBOC network company would continue to serve the existing base but would be prohibited from taking on new accounts. The new RBOC retail subsidiary would thereafter compete with other retailers for customers, and the customer base of the network company would erode as customers shift in response to this marketing, move their premises, etc. At some point state regulators can decide whether to move any residual customer base out of the network company through balloting or allocation.

that basic step, the LECs will have substantially reduced the discrimination problem, and therefore qualified for reduced retail regulation.

Indeed, we see no other way that policymakers can achieve their twin goals of creating local exchange competition on the one hand, and safely allowing the BOCs into the long distance market on the other. With structural separation LECs can offer competitive services that require little regulatory oversight, at least once a "shakedown cruise" is completed. So long as other competing carriers can obtain the network elements they need from the LEC local network company, and so long as that network company truly operates on a non-discriminatory arm's length basis, policymakers should be able to let the market drive retail prices. The streamlining called for in the *Notice* may make sense there.

Similarly, structural separation can help control the worst opportunities for LEC self-dealing, and therefore reduce the need for even more stringent discrimination restrictions on the wholesale network company. In these circumstances a modified form of price cap regulation could be satisfactory to prevent the LEC wholesale network company from charging all retail companies, including its own affiliate, inflated access prices. Even there, however, additional safeguards will be needed to prevent discrimination in, for example, the interconnection charges that new competing network companies require.

Broad relaxation of regulation of LEC wholesale network platform prices will be appropriate when and where other wholesale local networks are available to retail competitors. LDDS WorldCom will not prejudge when such local

network competition is sufficient. Today there are four national fiber networks and multiple smaller regional interexchange networks to ensure competitive "carrier's carrier" IXC choice. Perhaps LEC wholesale pricing can be relaxed where there are four local "carrier's carrier" network choices for retail service providers.[16] But meanwhile, LEC discrimination issues will be the central regulatory problem facing the Commission in the telecommunications area for the future, unless and until multiple local networks reduce LEC bottleneck power in that arena.

Structural separation at least provides a means for reducing regulation of LEC retail prices as (one hopes) LECs begin to face retail local service competition. Through structural separation, the Commission at least can insulate the retail market from the worst discrimination in the pricing of the wholesale local platform. Separation therefore could permit the retail market to operate relatively freely, with little oversight of retail prices LECs charge end users. The Commission instead could focus its attention and resources on the monopoly network side, and the wholesale prices LECs charge all competing carriers, as well as their affiliate.

Structural separation will serve many other pro-competitive purposes in the "one stop shopping" retail world to come. For example, LECs can discriminate in many ways besides price. Thanks to divestiture, LECs have had only limited incentives to engage in non-price discrimination. But in the future

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16 One relevant question may be whether wireless services ever become complete substitutes for wireline local services. That day will be at hand when end users demonstrate substitutability by disconnecting their wireline service. Until then, wireless service should be viewed as a separate "mobile" market.

policymakers will have to monitor to see if the LEC is favoring itself with respect to service order processing, provisioning of new installations, maintenance, billing, use of customer information, and disclosure of plans for local network changes. These are not areas where regulators should have to micro-manage. They do not have the resources to do so. With structural separation of the LEC's retail service arms, non-price discrimination will be deterred, and easier to detect.

Finally, structural separation is preferable to the kind of prohibitions on bundling and joint marketing that would otherwise be necessary to prevent discrimination. For example, absent separation it would be necessary to prevent LECs from bundling local and toll service, or such services and other product lines. The bundling prohibition would be critical as part of broader regulatory oversight of retail prices to ensure that LEC retail rates contain a fair share of common and joint costs, and otherwise contain the wholesale charges that the LECs impose on their competitors in their wholesale service rates. LDDS WorldCom submits that structural separation is preferable to such restrictions on LEC retail marketing. However, without separation, bundling restrictions will be critical.

For all of these reasons, LDDS WorldCom submits that the Commission should redirect this proceeding to an examination of how to establish structural separation, and how to regulate the separated and residual unseparated LEC operations. In doing so, it should at all times recognize the limitations of price cap regulation as a discrimination control. If the Commission does not choose structural separation, then it must develop new safeguards reaching both LEC

wholesale and retail services. Those safeguards must address increasing LEC incentives to discriminate in pricing, as well as in non-price areas.

III. RESPONSE TO *NOTICE* QUESTIONS

For the reasons set forth above, WorldCom approaches the questions raised in the *Notice* with misgiving. Again, we do not think those questions focus on the discrimination problems that are the main issue in the transition to full-service competition. Furthermore, our answers would be different depending upon whether the LEC has separated as discussed above. Nevertheless, we will attempt to respond to certain of the Commission's questions on the fear that the Commission may not pause to reconsider the fundamental premises underlying the *Notice*. We hope, however, that this fear is unjustified.

A. Questions 1a, b & c: Structural Separation Must Be Implemented Before the Commission Can Consider Changing the Treatment of New and Restructured Services

The first set of questions deals with the appropriate treatment of new services, defined as services that add to the pre-existing slate of LEC offerings, and restructured services, defined as services that replace previous LEC offerings. The Commission tentatively proposes to create a streamlined procedure for introduction of some new services, but requests comment on whether such modifications could lead to anti-competitive conduct. In addition, the *Notice* requests comment on how services eligible for simplified treatment would be identified, whether Alternative Pricing Plans ("APPs") should be treated as new services, and whether the

definition or regulatory treatment of restructured services should be changed. *Notice* at ¶¶ 39-53.

Consideration of these issues only serves to highlight the reasons for our insistence that structural separation of LEC wholesale and retail operations be addressed before any modifications to the price cap structure are contemplated. If structural separation is in place, we believe that substantial deregulation of the LECs' retail operations, including the conditions under which those entities introduce new and restructured services, would be appropriate. Under a separated environment, competitive forces in the market for end user business would drive decisions to develop new retail offerings or to modify existing offerings. As long as the underlying network elements necessary for competitors to the LECs' retail arms are being provided on cost-based, nondiscriminatory terms, other providers of retail services would be in a position to respond to such market changes as well as to drive market changes themselves through their own development of new offerings. This would create incentives for innovation that would directly benefit end users, while requiring minimal if any regulatory intervention.

New and restructured wholesale network services present a different situation, even with structural separation. The Commission must be concerned that all potential retail providers have the same advance notice regarding the availability of such services; the LEC retail affiliate cannot be favored. Obviously pricing must not be structured in a discriminatory fashion to directly or indirectly favor the LEC affiliate. The Commission also must consider whether such services

are vehicles for discrimination against CAPs. Even so, however, structural separation might permit the Commission to somewhat reduce regulatory requirements, and permit the LEC wholesale network services operations to deploy new network services more rapidly.

In the absence of structural separation, however, any weakening of the test for new services would give the LECs a license to engage in self-dealing. WorldCom has previously explained that the existing test for new services gives the LECs broad latitude to engage in strategic and discriminatory pricing.[17] As we have explained above, BOC long distance entry and the move to full service competition will give the LECs a golden opportunity to use that latitude to favor their own operations. Instead of streamlining, the Commission would be required to strengthen protections against discrimination in the new services test. Furthermore, because the line differentiating new services from restructured services is artificial and subject to manipulation by the LECs, the Commission should unify its treatment by applying the new services test to restructured services as well.

Again, however, this discussion simply demonstrates that the *Notice* puts the cart before the horse. Structural separation is a threshold issue that must be addressed prior to considering any changes to the price caps structure.

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[17] *See* Ex Parte Presentation of LDDS WorldCom in CC Docket No. 94-1 at 5 (Aug. 17, 1995); *see also* WilTel Comments in CC Docket No. 94-1 at 27-30 (May 9, 1994).

B. Questions 4a & b: Piecemeal Revision of Part 69 Through the Waiver Process Is Inappropriate

WorldCom has long been on record as a strong supporter of fundamental access reform. We firmly believe that any necessary changes in the Part 69 rate elements for switched access should be considered in the context of broad-ranging access reform. As a result, we oppose any change to the price cap rules to make it easier for LECs to get waivers of the Part 69 rules pending the completion of access reform. Piecemeal, *ad hoc* consideration of Part 69 issues is clearly inappropriate.

Once again, however, we view the ultimate question of what degree of flexibility the LECs should be accorded in developing new services that depart from the prescribed Part 69 structure as dependent on the threshold issue of structural separation. As we have discussed above, separation will ameliorate some of the discrimination risks associated with LEC introduction of new service offerings. In the absence of separation, strict regulatory scrutiny of LEC services will be required to ensure that the LECs do not favor themselves in the availability, rates, and other terms of newly introduced switched access elements.

C. Questions 10a, b & c and 11a & b: The Timing and Conditions of LEC Price Caps Relief Must Be Keyed to the Elements Needed to Promote Full Service Competition

The *Notice's* discussion of the timing and conditions for granting additional pricing flexibility to the LECs highlights the Commission's failure to

consider the implications of the transition to a market where lines between local and long distance services disappear. The Commission requests comment on issues related to removal of barriers to local competition, but does not even mention the potential impact of BOC entry into the long distance market. As we have discussed above, with that entry barriers to the provision of local service will have much broader implications, because only carriers that can offer local service will be able to participate in the market for full service packages. And the ability of other carriers to offer local service at all depends on their being able to use the LEC's wholesale local network platform on non-discriminatory terms.

Therefore, reduced regulation of LEC pricing should not be discussed unless the LEC first makes available a wholesale network platform at cost-based rates for use by other providers in developing their own retail services. In addition, the wholesale network operations of the LEC must be structurally separated from its retail service arm.

The competitive checklist included in the *Notice* is flawed because it does not include these critical elements. For example, the Commission includes unbundling of local loops and switches as one checklist element. Loop unbundling, however, is not an adequate substitute for a complete wholesale network platform. Unbundled loops will be useful only in the limited areas where a facilities-based competitor to the LEC is operating and can combine loops with its own switching facilities to offer switched service. Users outside of the largest metropolitan areas where CAPs are present will remain captive customers of the LECs.

In other words, the "competitive checklist" in the *Notice* does not reflect the minimum steps necessary to permit competition in the market for full service telecommunications packages. The Commission should focus its efforts now on establishing a framework for such competition. After that foundation has been laid, it can appropriately consider measures to give the LECs additional pricing flexibility.

D. Question 18: Nondominant Treatment of the LECs Cannot Be Considered Until Safeguards Are In Place to Protect Competition

Likewise, the *Notice's* questions regarding the development of procedures for declaring the LECs nondominant are clearly premature. LDDS WorldCom opposed the petitions filed by Bell Atlantic and Ameritech requesting nondominant treatment of certain interexchange operations.[18] In our oppositions, we noted that the Commission's own precedents suggest that the need for structural separation must be addressed prior to considering nondominant treatment of LEC long distance affiliates.[19] We explained that the LECs' control of the access to customers needed by all interexchange carriers gives them the ability and incentive to discriminate. Those incentives will be heightened once the BOCs enter the long

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[18] *See* Opposition of LDDS WorldCom to Bell Atlantic Petition for Regulation as a Nondominant Provider of Interstate InterLATA Corridor Service (Aug. 25, 1995); Opposition of LDDS WorldCom to Ameritech Communications, Inc.'s Petition for Nondominant Status (Aug. 28, 1995).

[19] *See, e.g.,* Opposition to Bell Atlantic Petition at 3, *citing Fifth Report and Order, Policy and Rules Concerning Rates for Competitive Common Carrier Services and Facilities Authorizations Therefor,* 98 FCC 2d 1191, 1198 at n.23 (1984).

distance market because they will be able to leverage their control over access to harm competition in the market for full service packages. As a result, nondominant treatment cannot be considered until structural separation and other safeguards to prevent BOC self-dealing are in place.

E. Questions 2a & b; 3; 5a, b & c; 6a, b & c; 7a, b & c and 16a & b Unless Adequate Safeguards Are In Place, LECs Will Use Any Additional Pricing Flexibility to Discriminate

Until the Commission has addressed the discrimination issues raised by the transition to a full service market, it cannot consider granting the LECs additional pricing flexibility. As we have discussed, the potential for discrimination here is huge. The LECs' own data demonstrate that access rates greatly exceed the underlying economic cost of using the LEC network, which is itself declining.[20] As long as that disparity exists, the LECs will have every incentive to keep access rates charged to competitors high to maximize their own revenues and increase the costs of their access customers. Furthermore, once they have entered the long distance market, they will have every incentive to "impute" lower access costs to their own retail long distance operations. As a result, they will be able to underprice their rivals and cross-subsidize their own interLATA services.

We have explained that the most effective way to address this problem is to require structural separation of the LECs' wholesale and retail operations. If separation is in place, any discrimination by the wholesale network provider in

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[20] *See* CompTel Ex Parte in CC Docket No. 94-1 at 2 (Aug. 3, 1995).

favor of its affiliate or others will be easier to detect, and incentives to discriminate will be decreased. In addition, separation would permit the LEC to consider substantial deregulation of the LEC's retail arm, as long as safeguards to ensure that the retail operation purchases network inputs on the same terms and conditions as its rivals are effective. Instead the Commission can focus its regulatory resources on pricing of the wholesale product where the LECs maintain monopoly control and competitive forces are inadequate to discipline prices or prevent discrimination.

In contrast, if the Commission does not require separation, it cannot adequately police the potential for LEC self-dealing. We have previously argued that discrimination attempts can be contained by implementing a system of indexing that would tie rate changes to underlying cost relationships.[21] This is true with respect to a LEC's ability to discriminate among its access customers. However, indexing cannot prevent a LEC from imputing to its own long distance operations a lower access cost than the rate it charges long distance rivals. If the Commission permits the LECs to offer services on an unseparated basis, it will have no means of detecting discrimination by a LEC in favor of itself.

The *Notice* describes a wide range of measures for according the LECs additional pricing latitude, but they all have the same basic effect. They would give the LECs the ability to selectively reduce prices without regard to either the underlying service cost or the effect on competition. The LECs would have every

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21 *See* WilTel Comments in CC Docket No. 94-1 at 32 (May 9, 1994).

reason to use that authority to favor their own operations while maintaining the highest possible rates for services provided to their competitors. The Commission cannot justify granting the LECs such a license to discriminate. It must delay consideration of any further pricing flexibility for the LECs until after the threshold issues of access reform, structural separation, and the need for a wholesale network platform have been addressed.

CONCLUSION

The *Notice* is fundamentally flawed because it fails to address the pressing need to improve controls on LEC price discrimination. Better safeguards are needed because price caps themselves are not a useful mechanism to address discrimination problems. In the long distance market the primary check on discrimination has come from competitive market forces, with price cap baskets and bands serving only as weak supplements to those market forces. But no such competition exists in the local exchange arena today.

Indeed, LEC incentives to discriminate are increasing as they begin to compete more directly with carriers who depend upon access to the LEC network to provide retail long distance and new local services. The *Notice* fails to recognize this dynamic, and therefore barely mentions the issue of discrimination at all.

The Commission faces two options as it confronts this increasing danger of discrimination. First, it can move toward structural separation of LEC retail and wholesale network services. This approach would permit reduced regulation of retail services LECs sell to end users, with greater attention paid to

the rates charged by the wholesale network company to the LEC retail affiliate and all other competing retailers. In that environment price cap regulation might be sufficient to control overall prices of the wholesale company, supplemented by more limited safeguards to prevent direct or indirect discrimination in favor of the LEC retail affiliate.

In contrast, however, far more Commission involvement in both LEC retail and wholesale pricing will be necessary without structural separation. The Commission would have to closely regulate all LEC retail service offerings and price changes to make sure that they are not the product of discrimination by the LEC network operations in favor of itself. LDDS WorldCom is skeptical that the Commission has the resources to effectively control discrimination in this environment, and fears that the result would be contamination of the vigorous long distance competition that exists today. But at the least, the Commission would be forced to pursue a much more regulatory set of policies than exist under the current price cap system.

For the foregoing reasons, LDDS WorldCom urges the Commission to choose structural separation and less LEC price regulation over structural integration and more regulation. In any event, the Commission must choose

between these two options before going further in this docket, for the changes necessary to price caps depend heavily on the option selected.

Respectfully submitted,

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I hereby certify that copies of "Comments of LDDS WorldCom" were hand delivered this 11th day of December, 1995, addressed to the following:

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