Q: Is this an acceptable solution?

A: Definitely not. First of all, the proof is in the pudding. As early as November, PacBell alluded cryptically to a training measure (which I believe related to the FID) that it claimed would eliminate loss of dial tone during migration. PacBell elaborated on this proposal in a meeting with MCI on January 17. Nonetheless, as I mentioned earlier, MCI customers have lost dial tone during migration as recently as this past month. So PacBell's FID solution has not worked. More profoundly, inasmuch as PacBell might yet again propose to reiterate its instructions to LISC personnel to maintain the linkage between C and D orders throughout the downstream processing, or to refine the FID linkage in some fashion, it would still be relying on what is essentially a training solution to cure a systems problem. This is not a responsible answer to a serious problem. MCI customers cannot have adequate assurance that their dial tone will be preserved so long as they must rely on human intervention to recouple and recoordinate disconnect and connect instructions that become unlinked.

Q: In your opinion, what are the principal causes of PacBell's delays in transmitting FOCs and NOCs, and in completing orders?

A: There are two principal causes. First, as I have explained, PacBell is extraordinarily dependent on manual processing. Yet, as PacBell representatives themselves recognize (e.g., Nightingale Transcript, at 106), human intervention inherently entails delay (as well as error). Therefore it is essential for PacBell to eliminate all the typing and re-typing upon which it presently relies. In order to accomplish that, PacBell must ensure that all resale orders can be submitted electronically, and it must implement systems that will

provide automatic "flow-through" processing.

Second, given how manually intensive its processing is currently, PacBell is understaffed. According to Mr. John Stankey's statements at the March 3 CPUC workshop, as of March 3, there were 231 employees at the LISC in various states of training. The LISC expected to hire 230 to 250 more employees from the retail side of PacBell. As further evidence of the understaffing, and according to Mr. Don Griffin's comments at the Pacific-MCI meeting in Denver on January 17, it takes 3 months to train a LISC employee. One of the three key PacBell managers who designed and planned LISC operations at inception observed the backlog in October and recommended to PacBell's Vice President for LISC operations that LISC staff should be increased to 742 employees so that the LISC could handle projected volumes. She received no response to that recommendation. (Deposition Transcript of Lesley Wood (4/14/97), at 95-96)

Not only is the LISC understaffed, many LISC personnel are inexperienced and undertrained. Although it is clear that work at the LISC is complicated and calls for representatives with relevant experience, (Long Transcript, at 33) it is unclear whether a substantial percentage of the representatives do in fact have such experience. One LISC business manager has estimated that less than half of the first 75-80 LISC representatives had prior experience as service representatives or order writers. (id., at 55-56) Similarly, the training given to one manager on the MCI account team consisted of "brief discussion about how resale works." (Korona Transcript, at 14) Her supervisor, meanwhile, had never previously been employed in the telecommunications industry and received no training prior to commencing her employment in November 1996. (Nightingale Transcript, at 57)

Q: Hasn't PacBell already scheduled a system upgrade that will provide the flow-through you seek?

A: PacBell has conveyed during discovery that it intends to implement a flow-through enhancement to its order processing systems on May 31. For several reasons this proposal is much too little, much too late.

First, this flow-through will accommodate only a small set of all orders -- essentially those for POTS only. Orders that cannot now be submitted over NDM would still have to be transmitted by fax, and would not benefit at all from the promised May 31 systems enhancement.

Second, I have no confidence that even the limited flow-through capability the May 31 enhancement proposes will really be in place on May 31. There is no guarantee, of course, that PacBell will roll out on schedule. And whenever the flow-through enhancements are first implemented (whether that it is May 31 or anytime else) we can expect that some substantial period of time may be necessary for de-bugging and other modifications, including personnel training, before it works adequately.

Third, given some peculiarities of PacBell's present systems and processes, flow-through will not take as great a burden off LISC employees as might otherwise be expected. There is no doubt that, all things being equal, flow-through is a major, essential improvement. But there are important respects in which things are not all equal. For example, after long discussion, PacBell promised months ago not to reject orders that did not precisely match information in PacBell's own databases -- say, resale orders that listed "Street" instead of "St." That tolerance is made possible because the discrepancies are "corrected" by LISC representatives. Unless PacBell's systems are revised to exhibit

such tolerance themselves, a switch to flow-through processing will result in rejection of many orders that will then have to be massaged back into shape by people, just as they are now. In short, after flow-through the LISC should probably not be as acutely understaffed as it is at present; but it is very unlikely that the pressing need for greater staffing will be entirely eliminated.

Fourth, the question remains: why has PacBell waited to May 31 (at the earliest) to institute flow-through order processing. The need for flow-through should have been apparent to LISC systems and processes designers many months ago. There is no good reason that flow-through processing is not already a reality.

The bottom line is this: flow-through is a necessary means to the end of ensuring that PacBell can accommodate all orders in timely and reliable fashion. But it is not a sufficient means. That PacBell's May 31 flow-through enhancement is not sufficient in this case is conclusively demonstrated by the recent admission of PacBell's VP John Stankey, that PacBell will not have the capacity to handle as many as 4000 orders per day until the end of Third Quarter 1997. That is clearly not sufficient capacity to meet aggregate CLC demand. Tellingly, last December, PacBell promised it would be able to process 4000 orders per day by the end of this past January.

Q: What causes the 411 problems you have already discussed?

A: These problems are almost certainly caused either by delayed data entry or by human errors made by the LISC personnel who are tasked to enter data into the 411 database at the conclusion of the migration. The loss of 411 listing appears to result from the fact that D order removes the end user's listing from the directory. The lack of adequate

staffing at the LISC means that there may be a delay before the customer's listing information is re-entered into the 411 directory. During this period, the customer's listing appears in no directory at all. Errors in 411 listings are made when data are entered incorrectly.

Q: If that is correct, what are the implications for the white pages, and the E911 and 555-1212 database errors?

A: If the 411 problems that we are already aware of are caused by what is essentially a manual data entry error, and given that the white pages and the E911 and 555-1212 databases are populated through separate manual entries, there is every reason to suspect that there already are mistakes in these latter databases of which we will become aware over time.

Q: How should these problems be cured?

A: The obvious solution would be to eliminate this manual intervention by making population of all these databases (and any others) automatic. Indeed, PacBell has proposed an enhancement to its systems so that E911 would be updated automatically. That enhancement was supposed to be implemented on March 31. PacBell has acknowledged, however, that the March 31 enhancement in general, or the automatic repopulation of E911 in particular, was not successful, leaving PacBell still to rely on human entry to repopulate its E911 database after migrations. Even more significantly, PacBell has not yet even attempted to repopulate the 411 or 555-1212 databases through the same automatic process it proposed for E911. Although PacBell has not

demonstrated that the 411 and other databases could not be updated by automatic feed from SORD, it has thus far neglected to make such a change in its downstream order processing.

Q: Does PacBell offer any solution to this problem?

A: Although PacBell has been aware since October 1996 of the errors they have made in entering MCI customer information into their 411 databases, they have not yet changed their processing in any meaningful fashion. In fact, PacBell's practice for resolving individual cases of 411 drop is itself problematic. After MCI reports that a customer has been improperly deleted from the 411 database, a LISC representative is supposed to call the Directory Assistance group and verbally ask them to restore the customer's listing. If someone in the latter group complies, the customer will remain in 411 for only 30 days unless a written order is received in the interim. If no paper order is processed in the LISC within 30 days, the listing is again dropped. Thus, PacBell's processes make it essential for a LISC employee to take two separate steps to ensure that an MCI customer is effectively restored to the 411 database. If the LISC employee forgets to take the second step, the MCI end user will be dropped from 411 a second time. This is an absurdly inefficient procedure.

Although PacBell has not implemented any systemic improvements related to 411 repopulation that I'm aware of, it has made at least two different proposals at different times. In January, PacBell informed us that it would attempt to modify the D Order so as to delay the deletion of customer listings for two weeks. This would provide sufficient time, according to PacBell, for the completion desk clerk to input the new listing

information before the original listing is lost. This plan was never implemented. Then in February, PacBell made a complete about face, suggesting that the problems might be cured by moving the database entry step from the end of the order processing sequence to the beginning.

Q: Is this an adequate proposal?

A: No. There are at least two difficulties with this suggestion. First, because the change could not be effectuated so long as the order backlog remains (Nightingale Transcript, at 86-87), this proposal would require MCI and other CLCs to agree to stop submitting resale orders for as long as it took PacBell to eliminate the current backlog. Because PacBell has shown itself completely incapable of making quick and substantial reductions in the order backlog, the cessation period might last an unacceptably long time. Second and much more significantly, PacBell has not provided any persuasive reason why this sequencing change would correct the problem. If the source of the problem is in fact simple human error in data entry, as appears, that problem should continue no matter where in the process the data entry occurs. If, in contrast, the 411 drops are attributable to a peculiarity in the sequencing of PacBell's automated processing, it should be incumbent upon PacBell to make its diagnosis clear.

Q: Finally, what is the cause of feature loss and how could that problem be cured?

A: Apparently, this problem is also caused by typographical errors, oversights, and other errors committed by LISC order entry personnel when inputting C orders into the SORD. The problems are especially likely to occur, and are particularly damaging, with business

orders that present complex line configurations and multiple hunt groups. The clear solution, of course, is for PacBell to replace its heavily manual processing arrangements with an automated flow-through system. If PacBell had a properly functioning flow-through system, then any problems with feature drop should be due to errors in order entry by MCI. PacBell would be off the hook. Until PacBell implements such a system, however, the least it should do is commit to improving LISC representative training and to increasing LISC staffing. The pressing backlog at the LISC produces overwork and pressure on the LISC personnel that can only increase the probability of the typing errors and carelessness that result in feature loss, among other problems.

Q: How has PacBell addressed this problem?

A: PacBell's response to this problem has not been satisfactory. Indeed, PacBell initially refused to treat lost features as an error at all. Instead, it required MCI to correct the problem by submitting a MACD order as though PacBell had processed the migration correctly but the end user were now requesting a new feature. After several weeks of argument, PacBell did agree, as I noted earlier, to restore lost features through the trouble resolution process rather than by submission of a new MACD order -- but only when it concedes that the feature loss is due to PacBell's own error. Still, PacBell did not propose any effective and acceptable means to reduce the incidence of feature loss. Their only substantive suggestion is for MCI to submit orders for migration "as is" in lieu of orders for migration "as specified." This proposal is inadequate for several reasons.

Most fundamentally, a CLC's instruction to migrate "as is" is not a substitute for an instruction to migrate "as specified" but, rather, is an alternate type of order to be used

in different circumstances. The former can only be used when the end user wants to switch from PacBell to a CLC but otherwise keep all its service arrangements the same. The latter must be used whenever the migrating end user wants to change something in addition to its carrier -- for example, the number or type of lines, vertical features, even the type of billing plan (from measured rate to flat-rate, or vice versa). Accordingly, PacBell's "proposal" amounts to nothing more than a suggestion that MCI stop accepting migration orders from any customer that wants to change its subscription menu. This would deny customer choice and frustrate MCI's service requirements just because PacBell cannot provide quality customer migration order processing.

Q: You said earlier that the four issues you've now discussed were the "principal" problems with PacBell's order processing. Have there been others?

A: There have been many. For example, PacBell has mistakenly migrated to MCI some end users who had requested migration to other CLCs. This irritates the end user and can result in erroneous charges that MCI has engaged in "slamming." Also, we have experienced a repeated failure of PacBell to send jeopardy notices when it discovers that a committed due date will be, or has been, missed. And the limited hours of LISC operation prevent MCI from getting any status reports and overdue orders outside of the hours from 8:00 am to 5:00 pm (PST), Monday through Friday. It is beyond the scope of my testimony, however, to address the full range of problems MCI and its customers have experienced with PacBell's order processing. I have appended, as Attachment 8, a series of declarations from MCI actual or would-be customers that detail some of these other problems in addition to some of the issues I've already discussed.

Before concluding, though, I would like briefly to address recurrent problems with PacBell's trouble resolution processes and practices. Three issues are particularly deserving of attention. First, MCI has experienced chronic difficulty in contacting PacBell's trouble resolution center, the Interconnection Services Center (ISC). Second and relatedly, PacBell often fails to provide MCI necessary status reports on trouble tickets for MCI customers. Third, MCI customers regularly wait longer than PacBell end users for repair services.

Q: What difficulty does MCI encounter in contacting the ISC?

A: In a nutshell, ISC representatives take too long to answer MCI calls and, after answering, place MCI reps on hold too often. MCI tracked and recorded these problems for one week in February. During that period, the average time to answer was 38 seconds, and 49% of calls were placed on hold. As a point of comparison, I understand the CPUC has adopted a standard which provides that trouble report service attendants are supposed to answer 80% of calls within 20 seconds. The ISC's delayed response times frustrate MCI's ability to satisfy our own customer's reasonable expectations for trouble resolution.

Q: What is the related problem with respect to the ISC's failure to provide status reports?

A: When customers have a problem that requires trouble resolution, they want the problem fixed promptly, and they want to know when it will be fixed. PacBell service reps can look directly into PacBell's trouble handling systems to be able to give their end user customers real-time reports on the status of their trouble tickets. MCI cannot do the

same. At the least, therefore, it is essential that PacBell inform MCI when trouble tickets are closed and if scheduled repair dates will not be met. Too often, ISC reps fail to do so. This forces MCI to initiate status checks into the ISC, on which occasions they run into the delays discussed above.

Q: What leads you to conclude that MCI end users experience less prompt repair service than do PacBell end users?

A: The information on which I base this conclusion is necessarily anecdotal, but it is extremely worrisome.

The first problem involves loss of dial tone. I earlier observed that dial tone loss can occur to anyone and is not necessarily symptomatic of a system error. In cases of dial tone loss after migration, MCI reports the trouble to the ISC rather than to the LISC. We have observed that the ISC generally does not schedule repair service for MCI any earlier than five days after the trouble is reported. Indeed, MCI's customers have been told repeatedly by PacBell service representatives in the field that they are a lower priority because they are not PacBell customers, and that if they were PacBell customers, their service would have been restored on the same day. There is no other reason given for the routine 5-day delay. When our representatives are given delayed repair dates, they always argue for an earlier commit time in cases of dial tone loss. Sometimes they are successful. However, customer service should not be stymied by PacBell's unfair and unreasonable rule in the first place.

For example, one MCI customer lost dial tone on January 13, 1997, ostensibly through a "PacBell database error." On January 17, PacBell notified MCI that the

trouble had been cleared. When MCI discovered (and reported to PacBell) that the customer could not receive calls, PacBell offered to repair the line within 6 days. MCI found this unacceptable and escalated this problem to MCI's account team. On another occasion, an MCI customer lost her dial tone on Saturday, December 14, and PacBell gave MCI a dispatch date of December 19, by 5 pm. The customer told MCI that her neighbor who is a PacBell customer also lost dial tone on Saturday and PacBell was out on Sunday to fix the trouble.

Q: Does this conclude your testimony?

A: Yes.

B

EXHIBIT 3

COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION BY MCI FOR ARBITRATION OF CERTAIN TERMS AND CONDITIONS OF A PROPOSED AGREEMENT WITH BELLSOUTH TELECOMMUNICATIONS, INC. CONCERNING INTERCONNECTION AND RESALE UNDER THE TELECOMMUNICATIONS ACT OF 1996	)	CASE NO. 96-431

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O R D E R

The Telecommunications Act of 1996, Pub. L. 104-104, 110 Stat. 56 ("the Act") was enacted to open all telecommunications markets to competition. See Conference Report, H.R. Rep. No. 458, 104th Cong., 2d Sess., at 113 (1996). Section 251 of the Act requires incumbent local exchange carriers to negotiate interconnection agreements in good faith with new entrants to the local exchange market. Section 252 permits the parties to those negotiations to petition a state commission to arbitrate unresolved issues. Subsection (b)(4)(C) states that the state commission "shall resolve each issue set forth in the petition and the response, if any, by imposing appropriate conditions as required to implement subsection (c) upon the parties to the agreement." Subsection (b)(4)(A) requires the Commission to "limit its consideration . . . to the issues set forth in the petition and in the response." Subsection (b)(4)(C) requires the Commission to resolve the issues presented not later than nine months after the date on which the incumbent local exchange carrier received the request for negotiations.

On March 26, 1996, MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. (hereinafter collectively "MCI") submitted a request for negotiations to BellSouth Telecommunications, Inc. ("BellSouth"). The parties were unable to agree on numerous issues. On September 3, 1996, MCI submitted its petition for arbitration to this Commission. Pursuant to Section 252(b)(4)(c) of the Act, this proceeding is to be concluded by December 26, 1996.

Numerous issues have been raised in this proceeding, and have been argued by the parties in filed documents and testimony, at hearing, in briefs, and in their best and final contract offers and accompanying explanations. Some issues are broad, involving policy and law; others are specific pricing issues. Our discussions of the issues enumerated in the petition and not yet resolved by the parties are included in the body of this Order. Decisions regarding specific pricing are included in Appendix 1. As a final introductory matter, the Commission notes that the parties have submitted their disagreements regarding contract terms. Many of the issues so raised are of minimal, if any, significance. In addition, BellSouth describes certain issues as "open" but not in disagreement. The Commission does not consider these issues subject to arbitration and orders the parties to reach a compromise on these issues and to include final, agreed upon language in the final contract. The Commission's resolution of the issues presented should enable the parties to decide upon language for the two-year contract and submit it for approval pursuant to Section 252(e)(1), within 60 days of the date of this Order.

The emphasis of the Act is on free negotiation between the parties. Accordingly, should BellSouth and MCI wish to alter any aspect of the contract based on decisions

reached herein, they may negotiate such alteration and submit it to this Commission for approval. Further, the Commission encourages the parties to return to the Commission on rehearing with any specific, narrowly-defined issues they believe are appropriate for rehearing. Finally, the Commission will require appropriate studies to be submitted by BellSouth to enable the Commission to make necessary adjustments as described infra.

I. SERVICES TO BE OFFERED FOR RESALE AND RESTRICTIONS THEREON

MCI states the Act requires BellSouth to offer for resale without exclusion any telecommunications service that it provides at retail to end-user customers who are not telecommunications carriers. BellSouth states that the following services should be excluded from resale: Lifeline/Link-Up service; promotional and trial retail service offerings of less than 90 days; N11, 911, E911 services; and legislatively or administratively mandated discounts. BellSouth further contends that the services available for resale should be subject to the same terms and conditions, including use and user restrictions, contained in BellSouth's General Subscriber Services tariffs. BellSouth also argues that grandfathered services should be made available only to customers of the service at the time the service was grandfathered. Contract Service Arrangements ("CSA"), BellSouth says, should be available for resale but without discount from the retail price. Finally, BellSouth suggests that MCI be subject to the joint marketing prohibition found in Section 271(e) of the Act.

The Act leaves little room for argument on the issue of which services must be available for resale. As MCI points out, Section 251(c)(4) requires BellSouth to "offer for resale at wholesale rates any telecommunications service" it provides "at retail to

subscribers who are not telecommunications carriers." BellSouth is also forbidden to "prohibit" or to "impose unreasonable or discriminatory conditions or limitations on, the resale of such telecommunications service." Id. State commissions may, however, prohibit a reseller from offering a resold service that is available at retail to a certain category of customers from offering that service to a different category of customers. Therefore, with the modifications and exceptions discussed herein, BellSouth shall offer all services for resale at wholesale discount.

Grandfathered Services

BellSouth's contention that grandfathered services should be available only on the same terms and conditions as they are made available to BellSouth's customers is appropriate, and conforms with the FCC's rules.[1] Similarly, this Commission discussed grandfathered services in Administrative Case No. 355[2] and supports BellSouth's and the FCC's limitations on the resale of these services.

Contract Service Arrangements

CSAs allow BellSouth to price services below tariffed rates to meet competition. BellSouth proposes to make CSAs available for resale at no discount, because in BellSouth's opinion CSAs reflect a competitive price. The Commission allows LECs to offer CSAs in order to be able to compete with other providers of similar services.

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1 Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, First Report and order, CC Docket No. 96-98 (August 8, 1996), ("FCC Order"), at Paragraph 968.

2 Administrative Case No. 355, An Inquiry Into Local Competition, Universal Service, and The Non-Traffic Sensitive Access Rate, Order dated September 26, 1996.

Apparently the availability of a CSA has allowed BellSouth to compete effectively; therefore, the rates included in a CSA can be considered competitive. To allow ALECs to offer CSAs at a further discount would put BellSouth at a competitive disadvantage. Therefore, the Commission will require that CSAs be available for resale at no additional discount.

Means-Tested Service

The FCC Order allows states to prohibit the resale of means-tested service offerings to end-users not eligible to subscribe to such service offerings. However, the FCC does not prohibit the resale of local service to qualifying low income subscribers. Link-Up assists certain subscribers receiving low income assistance by providing a credit of up to $30.00 against installation and service charges of a LEC for connection to the network. If a subscriber qualifies for Link-Up assistance, there is no limit to the number of times the subscriber can drop, then re-establish, the service and benefit from the payment. BellSouth points out that its Link-Up program is funded through the interLATA National Exchange Carrier Association ("NECA") process in which it is reimbursed for the discount given to the eligible subscriber. If the program is available for resale, BellSouth opines, it would be funding a reseller's offering of such a program.

It is not the intent of the Commission to allow one carrier to subsidize or fund the means-tested programs of other carriers. If a subscriber receives the benefit from Link-Up when he connects to the network through one carrier and then switches carriers, the original carrier will not be responsible for providing a Link-Up benefit if that subscriber drops off the network and then comes back on with the second carrier. Each carrier will

be responsible for funding its own Link-Up benefit. The Commission will allow Link-up service to be resold under the above conditions.

Promotions

The FCC and this Commission have previously concluded that short-term promotional services, which last for a period of 90 days or less, are not subject to resale. The Commission affirms its decision herein.

N11 and 911 Services

BellSouth asserts that N11, 911 and E911 services should not be resold because they are not retail services provided to end-users, but are instead offered to governmental entities that in turn provide the actual services to end-users. BellSouth also points out that N11 service is not currently offered by it in Kentucky. When N11 services are offered by BellSouth, the Commission will consider the question of resale based upon the relevant facts existing at that time.

Emergency services of 911 and E911 are sold at retail to governmental bodies at tariffed rates. Therefore, these services shall be available for resale at the wholesale discount. Because these services are only available to a limited class of customers, MCI shall adhere to the restrictions contained in BellSouth's tariff.

The Commission has included access to 911/E911 services, where available, in its basic definition of local exchange service. When BellSouth resells a local exchange line, it shall include the provision of 911/E911 service with that local exchange line. However, the discount rate shall not be applied to the surcharge applicable to the

provision of 911/E911 service. That is collected on behalf of the governmental entity. MCI will be required to collect and remit the appropriate tax to each governmental entity.

Mandated Discounts

BellSouth opines that if any discounted rates it is required to provide to entities such as educational institutions are available for resale, BellSouth would be funding the reseller's offering of such services. Since these services are already offered at some discount from the retail rate, they should not be required to be subject to the wholesale rate obligation, and the Commission will not require them to be offered for resale.

Joint Marketing

BellSouth argues that MCI should be subject to the prohibition of Section 271(e)(1) of the Act. A telecommunications carrier with more than 5 percent of the Nation's presubscribed access lines is prohibited from bundling resold telephone exchange service obtained from the incumbent Bell Operating Company ("BOC") with its own interLATA services. The prohibition period is 36 months from the date of the Act's enactment or until a BOC is authorized to provide in-region interLATA services, whichever comes first. MCI is prohibited from joint marketing in accordance with the Act.

Tariff Terms and Conditions

BellSouth states that the telecommunication services available for resale are subject to the terms and conditions, including use and user restrictions, contained in BellSouth's general subscriber services tariff. The Commission agrees that the general subscriber tariff of any incumbent LEC should be the basis for the terms and conditions

of resale offered to competitors. For example, CENTREX features and functions (BellSouth MULTISERV service) will be offered for resale, as proposed by BellSouth, with the same functions, features and service levels that BellSouth provides to its end-users.

II. BRANDING OF RESOLD SERVICES

MCI argues that directory assistance service and operator services should be branded as it requests and that it should have the option of providing its own branding material. BellSouth opines that it is not required by the Act to brand operator or directory services on an individual brand basis, and that such branding is not technically feasible.

However, the FCC has concluded that where operator, call completion or directory assistance is part of a service or service package, failure of the LEC to comply with branding requests presumptively constitutes an unreasonable restriction on resale except in cases when it is technically not feasible.[3] The LECs should, however, be compensated for costs incurred in complying with branding requests by the carrier which made the request.

The Commission finds, therefore, that in those instances where branding is technically feasible it should be provided for operator services. However, the Commission will not require BellSouth to brand directory assistance for MCI because it does not brand its own.

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[3] See FCC Order, Paragraph 971.

Where branding does take place, BellSouth shall determine the additional cost it will incur to provide it and bill MCI for such costs. MCI or BellSouth may petition the Commission for resolution of any billing disputes. Should BellSouth initiate branding of its directory assistance, it must also offer competitors the option to have their calls branded.

BellSouth argues it should not be responsible for leaving MCI branded cards at MCI customer locations when BellSouth employee or agents interact with MCI customers. The Commission finds, however, that drop-off cards should be branded if MCI provides the cards to BellSouth and absorbs their cost.

III. RESALE RATES

Section 252(d)(3) of the Act directs that wholesale rates be based on retail rates minus avoided costs, e.g., costs attributable to any marketing, billing, collection and other costs that will be avoided by the local exchange carrier.

The FCC interprets this portion of the Act as requiring states to make an objective assessment of what costs are reasonably avoidable when a LEC sells its services at wholesale.[4] The FCC's prescribed methodology encompasses a number of Uniform System of Accounts, Part 32 ("USoA") accounts which, in its judgment, include expenses a LEC would not incur in a wholesale environment. The FCC allocated directly avoidable costs as well as a portion of general support expenses (Accounts 6121-6124), corporate

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[4] FCC Order at paragraph 911.

operations expenses (Accounts 6711, 6712 and 6721-6728), and uncollectibles (Account 5301) to the avoidable expense category.

In the FCC's methodology the directly avoidable costs included 100 percent of the expenses in the call completion and number service accounts (Accounts 6621 and 6622) and 90 percent of the expenses in product management, sales, product advertising and customer services (Accounts 6611, 6612, 6613 and 6623). Call completion and number service expenses are totally avoided because, under the FCC's interpretation of avoided costs, these accounts are comprised of expenses which a LEC would no longer incur if it ceased retail operations and provided all of its services through resellers.[5] With regard to product management, sales, product advertising and customer services, the FCC allows 10 percent of the expenses to be considered nonavoidable because some expenses would be incurred for wholesale products and customers and some new expenses might be incurred in addressing resellers' needs.[6] Finally, the FCC rules are rebuttable presumptions.[7] These portions of the FCC order have been stayed by the Eighth Circuit Court of Appeals and, consequently, are not binding.

MCI's avoided cost study follows the FCC's methodology, and is based on BellSouth financial data filed with the FCC Automatic Reporting Management Information System ("ARMIS") 43-04. It produces an 18.89 percent discount rate.

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5 Id.

6 Id. at Paragraph 928.

7 Id. at Paragraph 909.