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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

July 24, 1997

Peter F. Cowhey
Chief, International Bureau
Federal Communications Commission
2000 M St. NW -- Room 800
Washington, D.C. 20554

Re: EX PARTE in Merger of British Telecommunications plc with MCI Communications Corp., General Docket No. 96-245

Dear Mr. Cowhey:

One of the key benefits that MCI sees coming out of our merger with BT is the ability to draw upon two of the world's leading examples of systems that have created, and continue to create, increasing competition in telecommunications markets. The U.S. and the U.K., through methods and choices that are in some respects different, but in other respects remarkably similar, have embarked upon public policies that have provided or will provide a wealth of choices in telecommunications providers at all levels of service, with the attendant price and service quality competition that rivalry brings.

In the discussion, below, I review some of the key elements of existing and proposed U.K. policy.

Facilities competition

New entrants in the U.K. have the ability to construct their own networks, lease portions of BT's network, obtain interconnection services from BT, or lease other operator's facilities and interconnect with them. Most competitors for basic telecommunications services are, to some degree, facilities-based, although recent proceedings initiated by Oftel are looking to improve the ability of resellers to attack the market.

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Substantial facilities-based competition exists at all levels of the market. New entrants, including foreign-owned companies, are free to invade all sectors of the U.K. market, and they have. While U.K. telecommunications policy does not distinguish between "local" and "long distance" or "exchange" and "interexchange", it is possible to divide the types of operators into those companies that primarily provide access services, defined as loop and the first point of switching, and those that provide long-haul domestic and international services.

Overbuilding of BT's access network is substantial and growing, due in part to the U.K.'s policy of requiring cable television franchisees to adhere to build-out requirements, its licensing of fixed wireless providers, and the competitive opportunities presented by the U.K.'s open entry policies:

- Unlike the vast majority of U.S. cable companies, U.K. cable companies provide telephony and depend upon it for their revenue stream. Approximately 35 percent of U.K. homes are passsed today by cable systems capable of offering telephony services, a number that will expand to 70 percent by the year 2000. The comparable number of homes passed by telephony competitors in the U.S. is approximately zero.

- Cable networks are also targeting businesses – in the city of London, self-healing fiber optic rings enable cable companies to compete for business customers as well as residential.

- Competitive local carriers who are not cable franchisees have also established themselves as a competitive force for business customers – companies such as MFS and COLT have constructed or are constructing extensive fiber optic facilities in urban areas.

- Cable & Wireless Communications/Mercury ("CWC/Mercury") provides both local cable telephony services in large areas of the U.K., extensive local facilities in city centers outside of their franchise areas, and a widespread long distance switching and transmission network.

- Fixed wireless is also emerging as an alternative to wireline services at comparable prices. For example, Ionica began commercial service about 1 year ago. Its license

requires it to serve 75% of the U.K. population by the year 2000. Scottish Telecom has similar ambitions in Scotland.

In long haul networks, a number of competitive alternatives exist, and many of these providers serve large business users for local, long-haul and international calling. CWC/Mercury has built the most extensive competing trunk network in the U.K. , and operates over 50 switches. Energis and Scottish Telecom have used utility rights of way to construct extensive optical transmission systems, and have installed several switches. These companies, along with many others, have built tens of thousands of miles of transmission facilities, a substantial portion of which is fiber optic. In the U.K., as in the U.S., long haul transmission capacity is substantial relative to total traffic.

At the international level, the U.K. government's decision in 1996 to open up the international facilities market to competition has resulted in over 50 licenses being granted to acquire and own international facilties, including facilities that serve traffic between cable landing facilities and the public switched network. In addition, several of these licensees are constructing their own backhaul facilities to compete against BT and CWC/Mercury for the provision of these services. The international undersea circuits themselves are owned privately (in the case of private undersea cables) or by consortia of a number of operators in most cases. As in the U.S.,where AT&T controls the landing facility for undersea cables owned by the consortia, BT controls the majority of U.K. landing facilities and is subject to regulation to ensure that operators can interconnect their backhaul circuits to the undersea cable.

Interconnection policy

U.K. facilities-based operators require interconnection with BT's network, and many of them choose to lease portions of BT's network to provide service. The U.K.'s interconnection policy is simple and straightforward – BT must provide interconnection to its network at any point where it is reasonably practicable to do so, unless Oftel decides that interconnection at a particular point should not be required.

New entrants have tended to interconnect at BT's local, tandem, or international switches, depending upon where the new entrant wishes to interconnect, the number of interconnection points it desires, and the geographic scope of its network. If the competitor does not have a transmission network (e.g., switched reseller), interconnection occurs at the competitor's premise. Interconnectors pay only for those

portions of the BT network that they actually use. Because there are no loop charges (these are recovered from end users), a competitor who interconnects at the local switch pays on a recurring basis only the local switching per minute rate. A new entrant interconnecting at a tandem switch pays the tandem switch charge to terminate a call – no other charges apply.

In addition to interconnection services that allow facilities-based competitors to carry calls, standard interconnection services tariffed by BT include: operator assistance, directory assistance, emergency services, number portability, access to BT's directory database, white pages listings of other carriers' customers, customized telephone directories, and supply of telephone directories.

Significantly, new entrants can request new forms of interconnection with BT at any time – at different points in the network, with new BT services, or at different levels of unbundling. BT has a license obligation to provide any interconnection services required by Oftel, and where interconnection is required, to negotiate prices, terms and conditions for such interconnection. Failure to do so allows the requesting party to ask that Oftel resolve any interconnection dispute. Once an agreement is reached, that agreement must be made available to all interconnectors on a non-discriminatory basis.

Other signficant feature of U.K. interconnection policy include:

- New entrants pay no U.S.-style "access" charges – they pay only one low interconnection rate. While interconnection pricing in the U.K. is already substantially below any U.S. interstate access charge, the rate is expected to drop by a total of between about 19 - 23 percent this year as a result of a regulatory decision to move to forward-looking costs. This will leave U.K. interconnection rates at levels close to those advocated by MCI at the FCC in our Hatfield model. In addition, U.K. rates will be subject to price cap regulation that will cause further reductions relative to inflation of 8 percent per year for the next four years, beginning October 1, 1997.

- Interconnection occurs at a manhole outside BT's switching facility or at the competitor's premises. BT cannot favor itself or discriminate, in pricing or service quality, against other operators in the interconnection that it provides. BT must publish reports on an annual basis demonstrating its performance as against specified performance targets.

- BT must maintain a list of standard interconnection services and publish both its charges for interconnection and its interconnection agreements with other operators.

Thus, from the perspective of a new entrant on the U.S. - U.K. route who wants to offer end-to-end service, here are the myriad of choices for a facilities-based carrier seeking to originate a call from a U.K. customer to the U.S. :

1. A new entrant can install its own access network to the customer's premises, such as has been done by the cable companies or companies like MFS. Alternatively, the particular end user might be served by having the new entrant lease a BT private line from the customer premises to the new entrant's network. Beginning next spring, BT will be required to offer an Internet access service on a resale basis to competitors that allow them to connect to end user premises, and BT may be required to interconnect its Internet access service with that of other facilities-based providers.

2. Within the local access network, a new entrant may construct its own local switch or lease switching capacity from another new entrant to the extent another new entrant offers local switching.

3. After the first point of switching (i.e., the trunk side of the switch) , the new entrant may either build its transmission network, lease a transmission network, or declare a point of interconnection with BT's network. The new entrant need not construct any additional facilities, and can employ BT's network to complete its calls. Transmission is available for lease on a dedicated basis.

4. The new entrant may also choose to carry its calls to a BT tandem switch, and declare a point of interconnection there, or to a BT international switching center.

5. A new entrant, whether using one of its own switches as an international switch or using BT's international switches, also has choices in carrying backhaul traffic from the international switch to the cable head end. The new entrant may build its own backhaul facility or lease transmission from BT or another facilities-based operator.

6. Once at the undersea cable head end, the new entrant has further choices. Assuming the new entrant will be among those who qualifies and takes advantage of the European Union's resolution of the BT-MCI merger, a qualifying new entrant in the U.K. has the ability to buy I.R.U. capacity on TAT 12/13 from Concert, may obtain capacity on another cable or satellite, or may buy capacity for resale.

While this analysis demonstrates the degree to which piece parts of the BT network are available to those originating traffic, terminating traffic is regulated under the same principles – the new entrant pays only for what they use of BT's network. Rates for terminating a call are based on the point of interconnection, with higher rates applying for call termination where the call is delivered higher in the BT network switching hierarchy, and lower rates if the calls are delivered to BT's local switch.

Resale policy

The plentiful supply of long haul transmission capacity in the U.K. , and the increase in the number of providers, has led to an increase in the number of companies that are engaged in resale. As in the U.S., the resellers purchase bulk quantities of long distance or international capacity from facilities-based operators at low rates, and then sell that capacity in smaller amounts to end users who would not otherwise generate sufficient traffic to obtain bulk discount prices. Depending on the type of license they have, some resellers (e.g., international simple resellers), are entitled to buy all of BT's interconnection services for use in providing service to customers, and may combine any elements obtained from BT with their own offerings.

Other resellers who operate under "class" licences are not entitled to buy BT's interconnection services, but may buy, re-package and resell any of BT's retail services. Although the UK has not in the past seen much resale activity from service providers who are not also network operators, Oftel has recently expressed its desire to see an "independent service provider" sector develop and is therefore encouraging BT to develop new products to meet their needs. These may range from standard retail products unbundled to remove those elements which service providers may not wish to buy from BT (e.g., billing, customer support, marketing) and priced to reflect these avoided costs, to new products developed specifically to meet the emerging needs of the sector. BT is cooperating with independent service providers to identify their requirements and to specify and develop appropriate products.

Private Circuits

The full range of BT's private circuit products is available for use – and is used -- by other operators and may be used in substitution for a new entrant's own infrastructure either in its core network or to connect the new entrant's customer to the nearest convenient point on its own network. Prices for these services compare favorably to U.S. carrier tariffs. Two examples:

"Keyline Baseband" circuits offer a clear copper path between two points in the same exchange (central office) area. Annual charges range from about $600 for 2-wire, to $900 for 4-wire, with upfront charges of about $1,600 (using an exchange rate of 1.6). BT provisions this service in 20 working days.

"Links from a Point of Connection" are E-1 private circuits connecting an competitor's network, BT's network, and a customer's premises. They enable an operator to extend its own network by having BT provide in effect a half-circuit connection to the customer. To establish a circuit where BT already has network facilities available, the competior would pay an upfront charge of about $2,700, and an annual lease payment of about $4,800 (for circuits under 15km in length). Provisioning for this service is 30 working days for the first circuit, and 10 days for additional circuits.

Conclusion

The success of the policy choices that each country makes can only be measured, in the final analysis, by the existence of sustainable, robust competition at all levels of the market, and the ability for competition to sustain itself even after regulatory controls begin to diminish. It is evident that both U.S. and U.K. regulators believe that markets in their countries have not yet achieved that final stage when competition can substitute for regulation. In the U.S. market, much work remains to be done, and MCI has been clear that federal and state regulators must roll up their sleeves and address the critical market-opening decisions necessary to bring competition to local markets. As is evidenced by the above discussion, regulators in the U.K. have been confronting many of the same problems, and reaching many of the same decisions, as regulators here with respect to the regulation of the incumbent. While not precisely

mirroring U.S. policy, U.K. policies have correctly focused on the critical elements that enable competition to move forward.

Yours very truly,

Michael H. Salsbury (MLB)

Michael H. Salsbury

cc: Reed E. Hundt, Chairman
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