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August 7, 1997

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

William F. Caton
Acting Secretary
Federal Communications Commission
Washington, D.C. 20554

Re: Ex Parte Submission
Federal-State Joint Board on Universal Service; CC Docket No. 96-45
Forward-Looking Mechanism for High Cost Support for Non-Rural LECs; CC Docket
No. 97-160

Dear Mr. Caton:

On August 6, 1997, Richard Clarke and Catherine Petzinger, both of AT&T, and I met with the FCC and Joint Board staff members listed at the end of this letter. Joining us by telephone were Mike Lieberman, Farshid Erickson, Jeff Ray, all of AT&T, Dick Chandler of Hatfield Associates, and John Donovan. Also attending the meeting were several representatives of the parties advocating the Benchmark Cost Proxy Model (BCPM). The topics discussed during the meeting were the modeling of the costs of host and remote switches, the relevant loadings on installed switch costs, and the correct method for determining the split between usage and port costs of a switch.

We discussed several issues regarding the relative costs of host and remote switches. We, as sponsors of the Hatfield model, noted that embedded configurations of host, remote and stand-alone switches were not optimal on a forward-looking basis. Thus, to model correctly forward-looking costs would require either a detailed optimization modeling of the costs of placing a host versus a remote versus a stand-alone switch in each wire center, or would require knowing the average cost of switch placements weighted across a forward-looking mix of host/remote/stand-alone switch configurations.

The Hatfield sponsors indicated that to perform a wire center by wire center optimization would require a large number of additional inputs to the model to determine both the host/remote/stand-alone configuration and the particular manufacturer's equipment that minimizes the cost of switching in that wire center. For example, the required data would need to cover items such as growth projections by wire center, the location of maintenance bases, network security concerns, and the different costs and capacities for each switch manufacturer's family of host, remote and stand-alone switches. Because these data are unlikely to be available in accurate and verifiable

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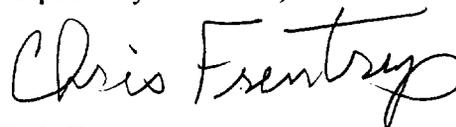
form, and because such a modeling would increase greatly the complexity and computational requirements of the model, the Hatfield sponsors do not recommend such an approach.

As an alternative, the Hatfield sponsors recommended that the methodology currently used in Hatfield, using NBI switch cost data that is blended based on the current mix of LEC purchases of switches, is preferable. Furthermore, if the Commission determined that even greater configuration economies were likely to be achieved in the future, the current blended price for switching investments used in the Hatfield Model could be adjusted downwards to reflect these forward-looking unrealized efficiencies

On the issue of loadings, we noted that the Hatfield switch investments already included loadings for vendor engineered, furnished, and installed (EF&I) costs, and that Hatfield had a further 10% additive to account for telco installation costs. Furthermore, taxes associated with EF&I costs may already be reflected in the tax factors used in the Hatfield Model's expense module. Thus, such costs should not be added to switching investments without first determining whether they are fully captured in other parts of the Hatfield Model.

The discussion of port costs centered on the proposed use of the SCIS model by BCPM to allocate the cost of the switch between port, usage, and a number of other factors. The Hatfield Model sponsors noted that the allocations coming out of the SCIS model are extremely sensitive to the traffic inputs chosen, and to the particular switch technology being modeled, e.g., Lucent 5E versus Nortel DMS-100. We described the switch manufacturers' architectural differences in port components that contribute to this difference, and observed that this could result in a telco's USF support for a wire center becoming sensitive to their choice of Lucent versus Nortel equipment for that wire center. We also pointed out that the mix of integrated digital loop carrier (IDLC) and non-IDLC loops also has great impact on the percent of the switch associated with line port investment because of the different ways in which these different loop types are terminated at the switch. Because the Hatfield sponsors do not believe that it is possible to produce meaningful outputs from SCIS without complete agreement on all of these many inputs, on the mix of manufacturers' technologies deployed in the network, and on the correct price discounts associated with each different piece of the switch, use of SCIS, which is not an open model that has been publicly reviewed, is extremely inadvisable.

Respectfully submitted,



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FCC and State Joint Board Staff Attendees

Chuck Keller, Bob Loube, Bill Sharkey, Natalie Wales, Brad Wimmer - FCC

Lori Kenyon - Alaska PUC

Tiane Sommer - Georgia PSC

Barry Payne - Indiana Office of Consumer Counsel

Roland Curry - Texas PUC

Sandra Makeeff - Iowa Utilities Board

Rick Schuler, Maynard Bowman - New York PSC

Charlie Bolle - South Dakota PUC

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