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

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

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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 13, 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 of AT&T and Dick Chandler of Hatfield Associates. 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 split between usage and port costs of a switch, the correct capacity constraints for the switch, modeling of the signaling/interoffice transport network, and modeling the costs of host and remote switches.

In response to the BCPM sponsors' request at last week's meeting to use the SCIS model to allocate switch costs between port and usage, the FCC staff requested that the sponsors of the BCPM model discuss with Bellcore ways of placing the SCIS model or portions thereof on the public record. We sponsors of the Hatfield model reiterated our concern that the resulting allocations from SCIS would be highly sensitive to the traffic inputs chosen, and to the particular switch technology being modeled. We pointed out that, if SCIS is used, the Commission will have to determine both the reasonable inputs to be used for each switch type - and there can be as many as 50 inputs that will affect the result - and the correct forward-looking mix of switch types. We urged the Commission, if it allowed the use of SCIS, to set up a review process for determining both the correct inputs and the effect these inputs have on the results. We also indicated that if SCIS was used for any purpose, it would be imperative that all other aspects of BCPM switch modeling be consistent with the implications from the particular use of SCIS.

The staff asked whether the capacity constraints on the switch reflected in the Hatfield model, i.e., minutes, lines, and processor capacity should be reflected in the cost model. BCPM stated that, by using SCIS, these constraints would be reflected in their new switching module. We noted that SCIS does not adjust processor capacity in costing the switch; rather, the processor capacity

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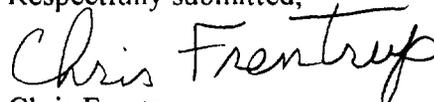
must be selected a priori as a user input into SCIS. We also noted that for forward-looking switches, processor capacity is exhausted only for switches with a large number of lines.

In regard to issues dealing with interoffice transport, we described how the Hatfield Model engineered its interoffice network. In response to a question from the staff, we indicated that while we had not yet reviewed fully the comments provided by GTE, it appeared to us that they had a faulty understanding of Hatfield's modeling principles and may have a view of supported universal service that exceeds the Commission's accepted definition.

We also indicated that because modern networks find it economical to use more direct trunks and fewer tandem-switched trunks, the Hatfield Model does not place as many tandem switches as exist in embedded networks. The model seeks to place at least one tandem in each LATA, and sizes the placed tandems to handle the full load of local, toll and access traffic that are offered to them -- consistent also with the quantity of direct trunking engineered by the model.

The staff indicated its desire to have the models be able to reflect a different cost curve for host and remote switches. This would require that the cost of the switch be identified by the type - host, remote or stand-alone - of switch, that there be some method of allocating part of the cost of the host to the customers served by the remote, and that the model identify which switches should be considered to be hosts, remotes, or stand-alones. We argued that, while it may be possible to identify separate cost curves for hosts, remotes, and stand-alone switches, and to select a classification for each modeled switch, it is certain that the current placement of host/remote/stand-alone switches reflected in the Local Exchange Routing Guide (LERG) is not optimal from a forward-looking perspective, and should not be used.

Respectfully submitted,



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FCC and State Joint Board Staff Attendees

Chuck Keller, Brian Clopton, Mark Kennet, Bob Loube, Bill Sharkey, Natalie Wales, Brad Wimmer - FCC

Brian Roberts - California PUC

David Dowd - Florida PSC

Tiane Sommer - Georgia PSC

Barry Payne - Indiana Office of Consumer Counsel

Sandra Makeeff - Iowa Utilities Board

Charlie Bolle - South Dakota PUC

Rowland Curry - Texas PUC