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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of	)	
	)	
Tariffs Implementing Access Charge Reform	)	**CC Docket No. 97-250**
	)	

MCI COMMENTS ON DIRECT CASES

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March 16, 1998

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Summary

MCI Telecommunications Corporation (MCI), pursuant to the Designation Order, hereby submits comments on the Direct Cases filed by the price cap local exchange carriers in the above-captioned docket.

MCI respectfully requests that the Commission prescribe, in this investigation, a uniform and verifiable nonprimary line definition. While a "by account" approach is more verifiable at the present time, because the LECs have not been providing the PICC billing information required by the Second Reconsideration Order, a "by service address" approach is reasonable, is most consistent with the Access Reform Order and is less susceptible to gaming by end users.

MCI agrees with the Commission's tentative conclusion that the line port and trunk port exogenous cost changes should be computed by applying the NTS percentage developed by the LECs to local switching revenues, not the Part 69-based revenue requirement. As the Commission observes, it has never adopted by rulemaking a single methodology for computing exogenous cost changes that result from a reallocation of cost recovery among price cap service categories, baskets, or rate elements. Furthermore, in contrast to other recent orders, such as the GSF Order and the Payphone Order, the Access Reform Order does not explicitly require the LECs to compute the exogenous PCI change using Part 69-based cost allocations.

MCI also agrees with the Commission's tentative conclusions that (1) inward-only lines should be included in the PICC line count; (2) STP port costs must be deducted from the SS7 revenue requirement; and (3) reinitialized tandem switched

transport rates should be computed using the same DS1 and DS3 rates and copper-fiber ratio as was used in 1993, not the current rates and technology mix.

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MCI COMMENTS ON DIRECT CASES

I. Introduction

MCI Telecommunications Corporation (MCI), pursuant to the Designation Order,[1] hereby submits comments on the Direct Cases filed by the price cap local exchange carriers in the above-captioned docket.

As MCI has demonstrated in its recent Emergency Petition for Prescription and elsewhere, the fundamental assumptions underlying the Commission's choice of a market-based approach have been undermined by the events of the past year.[2] While the Commission should resolve implementation issues, including those addressed in these comments, the Commission must also revisit its choice of a market-based approach. Without an immediate change in course, above-cost access charges will continue to distort the market for interstate long distance services for the foreseeable future.

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[1]In the Matter of Tariffs Implementing Access Charge Reform, Order Designating Issues for Investigation and Order on Reconsideration, CC Docket No. 97-250, rel. January 28, 1998 (Designation Order).

[2]MCI Emergency Petition for Prescription, CC Docket No. 97-250, February 24, 1998 at 3-7.

II. The Commission Should Prescribe a Uniform Definition of "Primary Line"

In the Designation Order, the Commission states that "the nonprimary residential line counts are lower than we would have expected, given the various published estimates and LEC public statements regarding the growth of second line penetration."[3] The Commission observes that low non-primary residential line percentages could be due to definitions that do not reasonably identify non-primary residential lines, or to the way in which the definitions are applied. The Commission designates for investigation, for all price cap LECs, both the question whether the LECs used reasonable definitions of non-primary lines and the question whether these definitions were applied in a reasonable manner.

As a preliminary matter, the cost of implementing the primary/nonprimary distinction outweighs the benefits, and MCI agrees with those parties that call for the elimination of the primary/nonprimary distinction.[4] The burden on IXCs is exacerbated by the fact that there is no consistency in the nonprimary line definitions tariffed by the LECs. One group of LECs assigns one primary line per account, while another group of LECs assigns one primary line per service address. Furthermore, there are additional variations within each of these groups.

In general, the LECs employing a "by service address" approach to classifying primary lines show a significantly higher nonprimary line percentage than do the LECs

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[3]Designation Order at ¶16.

[4]See, e.g., BellSouth Direct Case at 3; GTE Direct Case at 4-5.

employing a "by account" approach. The use of "by account" nonprimary line definitions explains, to some extent, the difference between the tariffed nonprimary line counts and those reported by the ILECs in their public statements.

However, the choice of a "by account" nonprimary line definition does not adequately explain Pacific Bell's unexpectedly low nonprimary line percentage of 3.34 percent, the lowest of any of the LECs other than Citizens. As the Commission notes, Pacific Bell has publicly stated that over 20 percent of its residential customers have more than one access line.[5] While part of the difference between the 20 percent figure and the nonprimary line count included with PacBell's tariff filing can be explained by the fact that Pacific Bell uses a "by account" classification scheme, this cannot explain the entire difference. BellSouth and Bell Atlantic, which also use a "by account" classification scheme, report nonprimary line percentages of 8.70 percent and 10.14 percent, respectively. Accordingly, the Commission should find that Pacific Bell's nonprimary line count is unreasonable, and should, at a minimum, prescribe a nonprimary line count to be used in Pacific Bell's rate development that equals the average nonprimary line count of the other RBOCs that have employed a "by account" classification scheme.[6]

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[5]Designation Order at ¶16.

[6]See In the Matter of 800 Data Base Access Tariffs and the 800 Service Management System Tariff and Provision of 800 Services, Report and Order, CC Docket No. 93-129; CC Docket No. 86-10, rel. October 28, 1996, at ¶102 (Commission allowed Bell Atlantic costs equal to the average of other BOCs).

As MCI demonstrated in its recent Emergency Petition for Prescription, IXCs need clear, standard, and verifiable nonprimary line definitions if they are to have a fair opportunity to recover their costs.[7] Accordingly, as requested in MCI's Emergency Petition, the Commission should, in this investigation, prescribe a uniform and verifiable nonprimary line definition. While a "by account" approach is more verifiable at the present time, because the LECs have not been providing the PICC billing information required by the Second Reconsideration Order,[8] a "by service address" approach is reasonable, is most consistent with the Access Reform Order[9] and is less susceptible to gaming by end users.

III. Inward-Only Lines Should Be Included in the PICC Count

In the Designation Order, the Commission notes that Ameritech does not assess a PICC on inward-only lines and, as a result, does not include demand for these lines in its PICC rate development.[10] The Commission tentatively concludes that Ameritech is required by the Commission's rules to include inward-only lines in its SLC and PICC

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[7]MCI Emergency Petition for Prescription at 17.

[8]See MCI Emergency Petition for Prescription at 20-21.

[9]See Access Reform Order at ¶83 ("Additional telephone lines are a well-established telecommunications product marketed by LECs. This product is supported by a marketing and billing infrastructure that will enable LECs to distinguish non-primary residential lines for purposes of billing different SLCs.") The LECs, in their direct cases, define "additional" telephone lines on a "by service address" basis. See, e.g., Bell Atlantic Direct Case at Attachment A, p. 5.

[10]Designation Order at ¶¶24-25.

counts, noting that the Commission's rules permit LECs to assess the PICC associated with these lines on the end user.

Ameritech disagrees with the Commission's tentative conclusion, arguing that the Commission contemplated assessing the PICC on the end user only in cases where the end user chooses not to have a presubscribed carrier, not when the nature of the service prevents the customer from selecting a presubscribed carrier.[11] Section 69.153(b) of the Commission's rules, however, states simply that "[i]f an end user customer does not have a presubscribed interexchange carrier, the local exchange carrier may collect the PICC directly from the end user."[12] Because an end user customer of an inward only line "does not have a presubscribed interexchange carrier," Section 69.153(b) of the Commission's rules clearly permits Ameritech to assess the PICC on the end user. Accordingly, the demand for inward-only lines must be included in the PICC line count used in rate development. This result would be consistent with the Commission's decision to include the lines of Lifeline customers that have selected toll blocking in the PICC count.[13]

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[11]Ameritech Direct Case at 5.

[12]47 C.F.R. §69.153(b).

[13]In the Matter of Federal-State Joint Board on Universal Service; Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge, Fourth Order on Reconsideration and Report and Order, CC Docket Nos. 96-45, 96-262, 94-1, 91-213, 95-72, rel. December 30, 1997, at ¶119.

IV. Methodology for Calculating Exogenous Cost Changes for Line Ports and End Office Trunk Ports

In the Access Reform Order, the Commission concluded that the NTS costs associated with local switching should be recovered on a flat-rated, rather than usage-sensitive, basis.[14] In their tariff filings, the price cap LECs computed the NTS costs of local switching using a two-step process. First, using a proprietary cost model such as SCIS, the LECs computed the percentage of local switching investment that is nontraffic sensitive. Second, the LECs applied the NTS percentage to their local switching revenue requirement, computed using Part 69 cost allocations and a rate of return of 11.25 percent.

In the Designation Order, the Commission seeks comment on its tentative conclusion that the exogenous change should be computed by applying the NTS percentage developed by the LECs to local switching revenues, not the Part 69-based revenue requirement.[15] The Commission also seeks comment on its tentative conclusion that, even if price cap LECs use local switching revenues for the purpose of determining the exogenous cost change, the LECs should continue to use Part 69 revenue requirements to calculate the BFP.

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[14] Access Reform Order at ¶125.

[15] Designation Order at ¶48.

A. The Exogenous Change Should Be Computed with Reference to Local Switching Revenues

The LECs argue that the references to "cost" in the Access Reform Order require them to compute the exogenous PCI change using Part 69 cost allocations and a rate of return of 11.25 percent.[16] In general, they contend that this is the only reasonable interpretation of the term "cost," and that the use of Part 69 cost allocations to compute the line port exogenous change would be consistent with the methodology used for previous exogenous changes.

However, as the Commission observes, it has never adopted by rulemaking a single methodology for computing exogenous cost changes that result from a reallocation of cost recovery among price cap service categories, baskets, or rate elements.[17] Furthermore, in contrast to other recent orders, such as the GSF Order[18] and the Payphone Order,[19] the Access Reform Order does not explicitly require the LECs to compute the exogenous change using Part 69-based cost allocations.

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[16]See, e.g., Bell Atlantic Direct Case at Attachment C, p. 1.

[17]Designation Order at ¶47.

[18]In the Matter of Access Charge Reform; Transport Rate Structure and Pricing, Third Report and Order, CC Docket No. 96-262, rel. November 26, 1997 at ¶49 (GSF Order) ("This exogenous cost change must reflect each LEC's new revenue requirement, include all effects arising from this increased allocation to the nonregulated billing and collection category, and must be based on an 11.25 per cent return on capital investment.").

[19]In the Matter of Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, Report and Order, CC Docket No. 96-128, rel. September 20, 1996 at ¶185.

The Commission is correct to conclude that local switching revenues are the best measure of the "costs" that must be reallocated pursuant to the Access Reform Order. The fundamental presumption of the Commission's price cap plan is that ILEC rates will reflect some measure of cost, because the rates are limited by a price cap index that tracks changes in LEC productivity and because the LECs have considerable flexibility to raise and lower their rates on individual rate elements. As the Commission observes, it is likely that, after seven years of price cap regulation, Part 69 revenue requirements have a very attenuated relationship to the costs actually recovered through a particular rate element.[20]

Because the attenuated relationship between costs recovered through local switching rates and the Part 69 local switching allocation is especially apparent,[21] it is clear that basing the reallocation of line port costs on Part 69 allocations would be inconsistent with the Access Reform Order. A substantial portion of the ILECs' local switching costs -- over 75 percent in the case of several ILECs[22] -- would continue to be recovered through per-minute charges. This would be at odds with the 50 percent NTS cost figure that USTA provided and the Commission cited in the Access Reform Order.[23]

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[20]Designation Order at ¶48.

[21]See Bell Atlantic, Exhibit C-3N, lines 4014, 4014*.

[22]See MCI Petition to Suspend and Investigate, December 23, 1997, Attachment A.

[23]Access Reform Order at ¶131.

That the Commission intended, in this instance, "cost" to be measured with reference to current LEC revenues is confirmed by the text of the rule governing the creation of the trunk port element. Pursuant to Section 69.106(f)(1) of the Commission's rules, "[p]rice cap local exchange carriers shall separate from the projected annual <u>revenues</u> for the Local Switching element those <u>costs</u> projected to be incurred for ports . . . on the trunk side of the local switch."[24] It would be impossible to "separate" local switching "costs" from "revenues" if, as the ILECs contend, they were fundamentally distinct.

B. BFP Issues

The Commission tentatively concludes that, even if line port costs are reallocated to the common line basket using revenues as a surrogate for costs, price cap LECs should use their Part 69 revenue requirements to recalculate the BFP.[25] The Commission believes that the BFP would still be calculated pursuant to fully-distributed embedded costs and revenue requirements.

There are significant issues that must be addressed if the Commission adopts its tentative conclusion. The LECs, in their direct cases, assume that they would project the line port component of the BFP in much the same manner as they have computed their line port "costs" in their tariff filings: by multiplying a "line port percentage" derived from SCIS by their local switching revenue requirement, where the local switching

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[24]47 C.F.R. §69.106(f)(1) (emphasis added).

[25]Designation Order at ¶52.

revenue requirement would be based on Part 69 cost allocations and an 11.25 percent rate of return. This methodology suffers from two primary flaws: First, there will be a significant mismatch between the exogenous cost change and the line port component of the BFP. Second, in contrast to the January 1, 1998, filing, the LECs would have to project their line port costs. This would require the LECs to (1) project their local switching revenue requirement every year and (2) project their line port percentage every year. Both of these projections would be problematic. The projection of a local switching revenue requirement would be problematic because the LECs have had no experience projecting their local switching revenue requirement under price caps. The projection of a line port percentage would be problematic because it would rely on a proprietary model that is highly sensitive to the LECs' choices of inputs and assumptions.[26]

To avoid these problems, the Commission should provide the following guidelines. First, the initial line port investment reallocated from the local switching to the common line element pursuant to Section 69.306(d) should be sufficient that, when a "line port revenue requirement" is computed at 11.25 percent, this revenue requirement equals the exogenous cost change computed by applying the line port percentage to the local switching revenue requirement.[27] While Section 69.306(d) requires line port investment to be reallocated from the local switching element to the common line

[26]In the Matter of Open Network Architecture Tariffs of Bell Operating Companies, CC Docket No. 92-91, Order, 9 FCC Rcd 440, 446-454 (1994).

[27]Operating expenses and depreciation allocated to the "line port revenue requirement" would follow investment, as required by the Part 69 rules.

element, nothing in the Commission's rules or orders specifies that the reallocated investment amount is to be computed in the manner the LECs suggest -- by applying a SCIS-derived percentage to the local switching investment defined by the Part 69 rules. Allocating sufficient line port investment to the common line element to ensure that the line port revenue requirement equals the exogenous change would be consistent with Section 69.306(d), and would ensure that there is no mismatch between the line port component of the BFP and the exogenous cost change. Computing the initial line port component of the BFP in this manner would also be consistent with the current structure of the CAP-1 chart. Bell Atlantic should be required to correct its handling of line port costs in its recent transmittals, where not all of the line port costs are reflected in the modified BFP.[28]

Second, the Commission should make clear that a LEC's projection of the line port component of the BFP in the July 1, 1998 annual filing and subsequent annual filings will not be considered reasonable if it differs significantly from the initial line port cost computed in the manner described above. In particular, there is no evidence that per-line port costs would decline faster than GDP-PI - X. If anything, it would be expected that average per-line port costs would increase over time as analog switches are replaced with digital switches. The record shows that the line port costs of analog switches are significantly higher than for digital switches.[29]

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[28]NYNEX Transmittal No. 488, March 3, 1998; Bell Atlantic Transmittal No. 1033, March 3, 1998, CAP-1 Chart, lines 800-900..

[29]Access Reform Order at ¶131.

V. STP Port Costs Must Be Deducted from the SS7 Revenue Requirement

In the Designation Order, the Commission tentatively concludes that SWBT, PacBell, and Nevada Bell should be required to deduct STP port costs from the SS7 revenue requirement reallocated from the TIC to the traffic sensitive basket.[30] SBC disputes this conclusion, contending that "[t]here were no specific instructions in the Access Reform Order to make such an adjustment and so, such an adjustment cannot be required without modification of the Access Charge Reform Order."[31]

Contrary to SBC's contention, the Commission clearly stated in the Access Reform Order that only those "SS7 costs that are recovered by the TIC should be removed from the TIC and allocated to the traffic sensitive basket."[32] Pursuant to the Local Transport Order, STP port costs were recovered through the dedicated signalling transport element, not the TIC.[33] Because STP port costs have never been recovered by the TIC, the Access Reform Order does not permit these costs to be removed from the TIC, as part of the SS7 revenue requirement, and allocated to the traffic sensitive basket.

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[30]Designation Order at ¶62.

[31]SBC Direct Case at 11.

[32]Access Reform Order at ¶217.

[33]Local Transport Order at ¶100.

The other LECs have correctly adjusted their SS7 revenue requirement to exclude their STP port costs.[34] SBC should be required to do the same.

VI. Recomputing Tandem Switched Transport Rates

In the access reform proceeding, the incumbent LECs contended that use of the 9,000 minutes per month per circuit assumption contributed to the TIC. Based on this record, the Commission found that continued use of the 9,000 minutes of use assumption was no longer reasonable, and directed the LECs to recompute their tandem switched transport rates using actual voice-grade common transport circuit loadings. The Commission instructed the LECs to use any increase in common transport revenues to decrease the TIC.

As the Commission notes in the Designation Order, several LECs' recomputed tandem switched transport rates were less than their current tandem switched transport rates. These LECs proposed to increase their TIC by the amount that their tandem switched transport rates would decrease if they were set at the lower, recomputed rate. For example, U S West proposed to decrease its tandem switched transport rates by $17.9 million and increase its TIC by an offsetting amount.

The lower tandem switched transport rates computed by the LECs resulted from two factors. First, contrary to their statements in the access reform proceeding, several LECs claimed in their tariff filings that their actual voice grade minutes of use was

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[34] See Bell Atlantic/NYNEX Workpaper STP, Line 4-5; U S West Workpaper 7, Line 5A.

actually more than 9,000 minutes per voice grade circuit. Second, because DS1 and DS3 special access rates have generally declined relative to tandem switched transport rates since 1993, recomputing tandem switched transport rates using 1996 special access rates tends to decrease tandem switched transport rates.

In the Designation Order, the Commission tentatively concludes that, to satisfy the Access Reform Order, the reinitialized tandem switched transport rates should be computed using the same DS1 and DS3 rates and copper-fiber ratio as was used in 1993, not the current rates and technology mix.[35] Having isolated the effect on the 1993 TIC that was due to the incorrect 9000 minutes of use assumption, the LECs could then determine the percentage of the original TIC that was due to the 9000 minutes of use assumption and apply this percentage to the June 30, 1997 TIC SBI. The Commission seeks comment on this conclusion.

A. The Exogenous Cost Change Should be Computed Using 1993 Data

The price cap LECs disagree with the Commission's tentative conclusion that they should recompute their tandem switched transport rates using their 1993 DS1 and DS3 rates and fiber-copper ratio. It is clear, however, that the goal of the Access Reform Order was to correct the impact of erroneous assumptions made in 1993 on the current level of the TIC. The methodology described in the Designation Order accurately identifies the portion of the June 30, 1997 TIC due to the 9,000 minutes of use assumption, and permits its removal. The LECs' approach, using current rates and 1996

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[35]Designation Order at ¶79.

circuit usage, corrects for the effects of the 9,000 minutes of use assumption only if circuit usage, and relative levels of tandem switched transport rates and DS1/DS3 rates, have remained relatively unchanged since 1993.

None of the LECs have provided in their direct cases the 1993 circuit usage data that would permit recomputation of their 1993 tandem switched transport rates. One LEC, Bell Atlantic, claims that such information is not available.[36] While 1996 usage data may, in some cases, be representative of the LECs' 1993 tandem switched transport usage, it is not clear that this is the case for all LECs. As noted above, several LECs are now claiming that their 1996 circuit usage was well in excess of 9000 minutes. The Commission should require these LECs to recompute their 1993 tandem switched transport rates using the circuit loading figure they provided to the Commission in their comments in the access reform proceeding. This earlier data, rather than the updated data provided in the LECs' tariff filings, is likely to be more representative of circuit usage in 1993.

B. The Access Reform Order Does Not Permit the LECs to Increase the TIC if they Choose to Reduce their Tandem Switched Transport Rates

Regardless of whether the Commission finds that the transport rates should be recomputed using 1993 or 1996 data, the Access Reform Order clearly does not permit the LECs to increase their TIC SBI as a result of recomputing tandem switched transport rates. The Access Reform Order states only that "[a]s they develop transport rates based

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[36]Bell Atlantic Direct Case, Attachment F, p. 3.

on actual minutes of use, we require the LECs to use any increase in common transport revenues to decrease the TIC."[37] Accordingly, the LECs should recompute their tandem switched transport rates using the revised minutes of use assumption and, if they show an increase, reduce the TIC. If they show a decrease, on the other hand, no adjustment to the TIC SBI upper limit or tandem switched transport SBI upper limit is contemplated by the Access Reform Order. These LECs may choose to decrease their tandem switched transport rates, but are not required to do so. As the Commission has tentatively concluded in the Designation Order, Section 69.111(c) of the Commission's rules does not apply to the price cap LECs.

To determine whether a downward revision to the TIC SBI upper limit is required, the recomputed tandem switched transport rates must reflect the same number of multiplexers as the original rates. In their filings, some price cap LECs, such as SWBT,[38] did not include the DS3/DS1 multiplexer in computing their new rates; in order to isolate the impact of the 9,000 minutes of use assumption, the multiplexer should be included in developing the recomputed rates. The exogenous cost change associated with the second multiplexer in the tandem-end office link should be computed separately.

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[37] Access Reform Order at ¶208 (emphasis added).

[38] SWBT Exhibit 10-A; 16-1.

VII. LEC USF Obligations Should Not Be Allocated Among Price Cap Baskets Based on Revenues Reported on Form 457

In the Designation Order, the Commission concludes that the price cap LECs' allocations of USF contributions among the common line, interexchange, and trunking baskets warrant further review.[39] The Commission notes that some LECs used revenues reported on Form 457 to allocate their USF obligation among the baskets, while other LECs used a combination of revenues as reported on the SUM-1 page of the TRP with internal company billing records. The Commission seeks comment on whether it should require all price cap LECs to use the same methodology and, if so, which methodology it should adopt.

The Commission should not permit the LECs to use Form 457 revenue information to allocate their USF obligations among baskets. As most LECs agree, the information reported on Form 457 is not sufficiently detailed to allow accurate allocation of their USF obligation to price cap baskets and categories.[40] Accordingly, the Commission should require the LECs to allocate their USF obligations among the price cap baskets and service categories using R, where R is the base period demand for end user services multiplied by current rates. This methodology is consistent with the approach taken by the Commission to allocate other exogenous costs, such as LECs' sharing obligation, among the baskets. Most LECs have employed this approach to allocating their USF obligations among the baskets and service categories.

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[39]Designation Order at ¶93.

[40]See, e.g., U S West Direct Case at 25.

The Commission should require Ameritech to revise the allocation of its USF obligation among the price cap baskets. Ameritech has allocated its USF obligation among the baskets using information reported on Form 457 but has then allocated the amount allocated to the trunking basket among the trunking basket service categories using internal company records. As the Commission observes in the Designation Order, there is a significant discrepancy between the trunking basket end user revenues reported on Ameritech's Form 457, $1.2 million, and the trunking basket end user revenues based on its internal company records, $67.7 million.[41] Although the Designation Order clearly requires Ameritech to explain in detail the reason for the difference between these two figures, Ameritech has failed to do so. Based on the trunking basket end user revenues reported by similar LECs, the $67.7 million figure is more representative of Ameritech's trunking basket end user revenues.[42] This figure should, accordingly, be used to allocate Ameritech's USF obligation among the baskets.

[41]Designation Order at ¶96.

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VIII. Conclusion

MCI requests that the Commission require revisions to the LECs' interstate access tariffs that are consistent with the above comments.

Respectfully submitted,
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March 16, 1998

STATEMENT OF VERIFICATION

I have read the foregoing, and to the best of my knowledge, information, and belief there is good ground to support it, and that it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on March 16, 1998.

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CERTIFICATE OF SERVICE

I, John E. Ferguson III, do hereby certify that copies of the foregoing Comments of MCI on Direct Cases in the Matter of Tariffs Implementing Access Charge Reform were sent, on this 16th day of March, 1998, via first-class mail, postage pre-paid, to the following:

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