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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

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CCB/CPD 98-12

In the Matter of)
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MCI TELECOMMUNICATIONS CORPORATION)
)
Petition for Prescription of Tariffs)
Implementing Access Charge Reform)
)
Tariffs Implementing Access Charge Reform)

CC Docket No. 97-250

COMMENTS OF WORLDCOM, INC.

March 18, 1998

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COMMENTS OF WORLDCOM, INC.

In a Petition for Prescription¹ ("Petition") filed on February 24, 1998, MCI Telecommunications Corporation ("MCI") asks the Commission to "re-visit and significantly modify its Access Reform policies by July 1, 1998, as many of the fundamental assumptions on which the Commission based its decisions have not been realized."² MCI also declares that "[a]bsent significant modifications -- the most notable of which include immediately lowering access rates to forward-looking economic cost and requiring ILECs [incumbent local exchange carriers] to recover PICCs directly from end users -- long distance carriers will continue to be competitively disadvantaged, long distance consumers will be harmed, and competition in local markets will be seriously jeopardized."³ WorldCom, Inc.

¹ On February 26, 1998, the Commission placed the Petition on public notice for comments. Public Notice, DA 98-385, released February 26, 1998.

² Petition at ii.

³ Petition at 9.

("WorldCom") joins MCI in strongly urging the Commission to modify its Access Reform policies significantly.

I. Introduction and Summary

WorldCom joins MCI in calling for the Commission to revisit the policies it adopted in the Access Charge Reform Order⁴ in May of 1997. In that order, the Commission recognized that the then existing "inefficient system of access charges retards job creation and economic growth in the nation"⁵ and set out to reform that system. The Commission also recognized that to "fulfill Congress's pro-competitive mandate, access charges should ultimately reflect rates that would exist in a competitive market."⁶ In order to accomplish moving access charges to competitive levels, the Commission adopted an approach that relies heavily on the competitive marketplace to force access charges down, saying that "[w]e are confident that the pro-competitive regime created by the Act and implemented in the Local Competition Order and numerous state decisions will generate competition over the next several years in many cases, and we would then expect that access price levels to be driven to competitive levels."⁷

⁴ See In the Matter of Access Charge Reform, Price Cap Performance Review for Local Exchange Carriers, Transport Rate Structure and Pricing, End User Common Line Charge, CC Docket Nos. 96-262, 94-1, 91-213, 95-72, First Report and Order, 97-158, released May 16, 1997 review pending sub nom. Southwestern Bell Telephone Co. v. FCC, Nos. 97-2866 et al. (8th Cir.) ("Access Charge Reform Order").

⁵ Access Charge Reform Order at ¶30.

⁶ Access Charge Reform Order at ¶42.

⁷ Access Charge Reform Order at ¶48.

Although it may have been appropriate for the Commission, in May of 1997, to have had confidence in the pro-competitive local entry rules that it had adopted only months earlier, certainly there can be no such confidence today. The Eighth Circuit Court of Appeals stopped much of the Local Competition Order in its tracks, and, with it, stopped much of the developing competition. As competitive entry into the local marketplace has become more difficult, there has been no marketplace force to exert downward pressure on access rates. The Commission recognized the possibility that competition might fail to develop and, thus, reserved to itself "the right to adjust rates in the future to bring them in line with forward-looking costs."⁸ WorldCom suggests that, given the damage done to competition by the Eighth Circuit's decisions, the future is NOW and the Commission should move swiftly to bring ILEC access rates to competitive levels.

In addition to moving access rates to forward-looking economic cost, the Commission should adopt MCI's proposal to make the ILECs responsible for recovery of their non-traffic sensitive costs directly from end users rather than from interexchange ("IXCs") in the form of PICCs. The collection of these flat-rated charges from IXCs, who in turn are assessing them to end users, is economically inefficient and forces all carriers to waste resources that could be better spent on pro-competitive, pro-consumer activities.

In the interim, while it is reexamining the policies that it adopted in the Access Charge Reform Order, the Commission should adopt MCI's recommendations to make the administration of PICCs less burdensome. First, an ILEC should not be permitted to bill PICCs to IXCs until the ILEC is capable of delivering to IXCs PICC bills that have

⁸ Access Charge Reform Order at ¶48.

sufficient detail to permit the IXC's to audit the bill and reconcile it against the IXC's systems. ILEC's should also be required to populate the Customer Account Record Exchange ("CARE") database with PICC customer line information. Second, the Commission should adopt standard definitions for primary residential lines, non-primary residential lines, single-line business line and multi-line business line. Third, the Commission should standardize the date on which the ILEC's take their monthly PICC snapshots. Fourth, the Commission should grant Sprint's December 31, 1997 Petition for Declaratory Ruling regarding the application of PICCs when an IXC as legitimately discontinued service to a customer for non-payment or other tariff violation.

Finally, WorldCom agrees with MCI that the public interest would be served if the ILEC's were required to include on their access bills a line item indicating the amount of universal service contribution that is passed through to IXC's in each access element. This is necessary to comply with the Telecommunications Act of 1996 requirement that universal service subsidies be made explicit and so IXC's and other can determine the full amount of their universal service expenses.

II. Interstate Access Charges Must Be Lowered to Forward-Looking Economic Cost

WorldCom agrees with MCI that the Commission should reduce ILEC access charges to forward-looking economic cost. Although WorldCom filed comments in CC Docket 96-262 supporting a market-based approach similar to the one ultimately adopted by the Commission in its Access Charge Reform Order, both WorldCom's support and the Commission's order were premised on the availability of near-term, widespread competition in the local exchange that would incent the ILEC's to lower their interstate access rates.

Unfortunately, as detailed in MCI's Petition and WorldCom's Comments on Petitions for Rulemaking of the Consumer Federation of America, International Communications Association, and National Retail Federation,⁹ subsequent events, particularly emanating from the U.S. Court of Appeals for the Eighth Circuit, have undermined the validity of the fundamental premise upon which the market-based approach was adopted.¹⁰

In light of these subsequent developments that have raised serious questions regarding the pace at which widespread local competition will develop, the Commission should recognize that the market-based approach is no longer a viable method for bringing access rates to forward-looking economic costs. As MCI requests, the Commission should then adopt new access charge reform rules to mandate that access charges be set at their forward-looking economic cost by July 1, 1998.¹¹

III. ILECs Should Recover PICC Charges Directly from End Users Rather than from IXC's

WorldCom believes that MCI is correct in urging the Commission to require ILECs to recover the PICC from end users rather than from IXCs. As MCI suggests, "[t]his

⁹ See Comments of WorldCom, Inc., Petitions for Rulemaking of the Consumer Federation, International Communications Association, and National Retail Federation, RM-9210, filed January 30, 1998.

¹⁰ In addition, the ILECs are resisting attempts to use IP telephony to put competitive pressure on access rates, arguing instead that these new services should be subject to the traditional -- and overpriced -- access charge regime.

¹¹ Clearly, the ILECs, with the vested interest in maintaining their inflated access charges at as high a level as possible, will oppose MCI's request. The Commission may also receive opposition from certain new entrants, or representatives of new entrants, which also earn access revenues under the ILECs' inflated pricing umbrella they seek to preserve. Good public policy should not countenance the protection the excessive profits earned by ILECs at the expense of true competition in the marketplace.

modification would end the guessing on which IXCs currently must base their PICC cost recovery, significantly reduce the risk of uncollectibles that will, no doubt, result in upward pressure on long distance rates, and allow all carriers to recover costs in the most efficient, cost-causative manner."¹²

When the Commission chose to shift the non-traffic sensitive costs of access charges to a flat-rated recovery mechanism, it had two basic choices. The Commission could have ordered the ILECs to recover these costs directly from end users -- the cost causers -- in the form of increased SLCs or the Commission could have -- and ultimately did -- order the ILECs to recover these costs from IXCs in the form of PICCs. The Commission chose the latter approach. Unfortunately, experience has demonstrated that, of these two alternatives, the ILECs assessment of PICCs to the IXCs is the less economically efficient means for them to recover these non-traffic sensitive costs.

In order to assess the new flat-rated PICC charges to IXCs -- a type of charge that never before had been applied to IXCs -- the ILECs are spending significant time and resources to develop or modify their systems to bill these charges. IXCs, in turn, are devoting similar time and resources to develop systems to audit these new ILEC bills. In addition, since most, if not all, IXCs have opted to recover their PICC costs from their customers, the IXCs are spending time and resources to develop or modify their own billing systems to charge flat-rated fees to their end users. Because of the FCC's requirement that the ILECs assess PICCs to IXCs, resources that could be devoted to productive use

¹² Petition at 9.

benefitting consumers are being diverted to systems development simply to adapt to the changes brought about by access reform.

In contrast, had the Commission chosen to have the ILECs recover the PICCs directly from end users in the form of an increased SLC, no major modifications to billing systems would have been necessary. The ILECs have been charging SLCs to end users since the mid-eighties. The ILECs would have only needed to change the amounts of the SLCs to accommodate the access reform changes ordered by the Commission. The ILECs would not have incurred significant costs to make these changes; the IXCs would not have been forced to incur any additional systems development costs as a result of access charge reform. Substantial resources of time and money could have been used for more pro-consumer, pro-competition activities.

The systems changes that are being made are by no means complete. As noted in more detail below, the ILECs are still developing their PICC billing systems and IXCs, who are just receiving their first PICC bill detail, are still developing the means to reconcile their PICC bills. The Commission can still reduce the amount of unproductive resource expenditure by requiring that the ILECs collect the PICC charges directly from end users rather than from IXCs.

In addition to the waste of resources on systems development, the course chosen by the FCC places significant burdens on the IXCs and their customers which the ILECs would not bear if ordered to collect these flat charges from their end users. MCI

describes the problem well with its discussion of zero-usage customers.¹³ The contrast boils down to this: IXC's do not send bills to all of their customers every month; ILEC's do.

Traditionally, IXC's have not sent monthly bills to customers -- often a sizeable percentage -- who have generated no long distance charges in a given month. With the new monthly PICC charges, IXC's are left with three choices -- none of them reasonable -- with regard to these customers. First, the IXC can either bill the customer to recover the PICC in the month that it is incurred, but, in doing so, increase its billing costs and its uncollectibles. Second, the IXC can wait until the customer has long distance usage before attempting to recover PICC's, but this would result in back billing which would again increase the uncollectibles and would also force the IXC to carry the cost of the PICC's for some time without any offsetting revenue. Finally, third, the IXC can recover the PICC expense of zero-billers by increasing the rates charged to customers who do generate usage every month. Regardless of which approach an IXC chooses to take, additional costs are placed on consumers.

If ILEC's were ordered to collect the new flat charges directly from end users, they would not be forced into these difficult choices. Due to the nature of local telephone service, ILEC's send local service bills to all of their customers every month; the PICC, or increased SLC, would simply be an addition to that regular monthly bill. No additional cost would be forced onto either industry or onto consumers.

¹³ Petition at 8.

The Commission should move to the most economically efficient way for flat-rated access charges to be collected. The Commission should require ILECs to collect these charges directly from end users.

IV. Interim Steps To Be Taken Until Access Charges Are Lowered To Cost and the ILECs Recover PICCs Directly From End Users

Until the Commission further reforms access charges to bring them in line with forward-looking economic cost and until the Commission requires that ILECs recover PICCs directly from end users, the Commission should take several immediate steps to make the current system of PICCs more manageable and rational. Adopting these proposals as quickly as possible will make it easier for IXCs to audit their PICCs bills and to apply appropriate PICCs to customers. Ultimately, significant costs will be saved to the consumers' benefit.

A. Require the ILECs to Collect PICCs from End Users Until They Can Provide Auditable PICC Information to IXCs in Advance of Billing the IXCs

Like MCI, WorldCom has only just received PICC billing detail from the ILECs and has just begun to attempt the difficult task of reconciling those bills. Reconciliation is made challenging for several reasons. First, at least one major ILEC, SBC Corp., sent WorldCom the PICC billing detail in a format that does not comply with the OBF guidelines. SBC has informed WorldCom that it does not plan to convert to the OBF format until October, 1998 at the earliest. This has forced WorldCom into an untenable position. WorldCom can either pay SBC's PICC bill blindly, spend considerable amounts to develop the software necessary to translate and reconcile the SBC bill, or simply refuse to

pay without sufficient OBF compliant PICC detail. IXC's should not have to make these choices. The Commission should not allow ILECs to charge PICCs to IXC's before providing IXC's with sufficient information to audit the PICC bills. If an ILEC cannot, or will not, provide this information, the ILEC either should not be permitted to recover these costs, or should be required to recover its PICCs from its end users directly.

Second, even with readable PICC bill detail, IXC's has no way to verify that the ILEC is applying the appropriate PICCs to end users' lines. This is because the PICC distinctions -- primary vs. non-primary; single-line vs. multi-line; centrex with less than nine lines vs. centrex with nine or more lines; PRI ISDN vs. BRI ISDN -- are all determined by the type of local service the customer receives not the type of long distance service. Regardless of the problem caused by ILECs applying inconsistent definitions to determine which PICCs apply, discussed further below, the IXC's have no way of verifying that an ILEC is assessing the appropriate PICC on its PICC bill. IXC's simply do not have this type of information regarding a customer's local service. A partial solution that would significantly aid in this verification would be for the ILEC to populate a "class of customer" indicator on the Customer Account Record Exchange ("CARE") transactions.¹⁴ This would enable IXC's to match the PICC bill to the CARE information to ensure that the ILEC has categorized the customer the same for both purposes. This is only a partial solution because IXC's would still have to rely on information coming from the ILECs' CARE databases to verify the ILECs' PICC bills. Nevertheless, it is a start. Again, the FCC should require the

¹⁴ At recent OBF meetings, IXC's have demanded that ILECs provide class of customer information as part of the CARE transaction. The ILECs have strongly resisted this demand.

ILECs to provide class of customer information -- sufficient to identify the type of PICC to be applied -- as part of the CARE transaction. If an ILEC cannot, or will not, provide this information, it should be prohibited from assessing PICCs to IXC's and should be required to collect the PICCs from its local customers.¹⁵

B. Prescribe Standardized, Independently Verifiable, Definitions for PICC Line Types

The ILEC PICC bills are also difficult to reconcile and verify because different ILECs are using different definitions to determine the PICC line type to apply to customers' lines. MCI raises the problem created by vague definitions of primary residential versus non-primary residential lines.¹⁶ WorldCom agrees that this is a significant issue that must be resolved by the Commission.

An additional problem experienced by WorldCom is that ILECs have differing interpretations of what constitutes a multi-line business line versus a single-line business line. Some ILECs approach this on a location basis; others on an account basis. This is another area where uniformity would greatly assist PICC bill reconciliation and would help the IXC's to assess PICCs to their customers more accurately.

¹⁵ MCI suggests that this CARE information would only be available on a prospective basis and suggests this solution does not address the embedded base. MCI at 19. WorldCom believes that once an ILEC's CARE databases are updated with the necessary class of customer information, IXC's should be allowed to download this information, at no charge, for their entire customer base. There is no reason that this information should be limited to prospective use.

¹⁶ Petition at 17-19.

C. Standardize the Date Used by ILECs to Decide Which Customers' PICCs Are Assigned to a Particular IXC

MCI raises another significant issue regarding the lack of standardization of the dates used by the ILECs to determine which customers' PICCs are assessed to which IXCs.¹⁷ Because customers occasionally move and change local and long distance carriers, there should be one uniform date on which a snapshot can be taken for purposes of applying PICCs. This will help prevent an IXC from being assessed a PICC charge by two different ILECs for the same customer.

D. Grant the Sprint Petition to Remove the PICC Responsibility from IXCs for End Users that Are No Longer Their Customers

WorldCom agrees with MCI that the Commission should grant Sprint's December 31, 1997 Petition for Declaratory Ruling.¹⁸ Sprint asked the Commission to rule that an IXC that has terminated a customer for nonpayment or other violation of any term or condition of the IXC's tariff is not liable for PICCs associated with such a customer's lines if the IXC has made timely notification to the ILEC that it has discontinued service to the customer.

WorldCom filed extensive initial and reply comments in support of Sprint's petition.¹⁹ Without repeating the detail of those comments, WorldCom believes that the

¹⁷ Petition at 25.

¹⁸ Sprint Corporation Request for Declaratory Ruling Regarding the Application of PICCs, CC/CPD 98-2, filed December 31, 1997.

¹⁹ See Comments of WorldCom, Inc., Sprint Petition for Declaratory Ruling, CCB/CPD 98-2, filed February 10, 1998 and Reply Comments of WorldCom, Inc., Sprint Petition for Declaratory Ruling, CCB/CPD 98-2, filed February 25, 1998. WorldCom incorporates these comments here.

absence of the relief sought by Sprint will lead to increased costs to IXCs -- costs that will be borne by consumers -- and to increased telecommunications fraud as some end users seek to avoid IXC PICCs. The Commission should issue the ruling requested by Sprint.

V. The Commission Should Require the ILECs to Identify the Universal Service Charges that Are Included in Their Access Bills to IXCs

As part of universal service reform, the Commission permitted ILECs to recover their contributions to the various universal service funds through the access charges that they charge to IXCs and, less frequently, to end users. The ILECs have done this simply by increasing their interstate access charges. In doing so, the ILECs have not complied with the mandate of the Telecommunications Act of 1996 that universal service subsidies be specific and explicit. IXCs and other purchasers of interstate access have no method of determining the full amounts that they are contributing to the federal universal service programs. WorldCom agrees with MCI that the ILECs should be required to "include a line item breaking out the amount of universal service that is passed through to IXCs in each access element."²⁰

VI. Conclusion

For the reasons stated herein, WorldCom urges the Commission to act favorably on the MCI Petition for Prescription. Bringing access rates to cost and requiring the ILECs to assess the PICCs to end users rather than IXCs will create the most

²⁰ Petition at 26.

economically efficient access charge system and will help foster greater telecommunications competition.

Respectfully submitted,

March 18, 1998

A handwritten signature in black ink, appearing to read "Catherine R. Sloan", written over a horizontal line.

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CERTIFICATE OF SERVICE

I, Cecelia Y. Johnson, hereby certify that on this 10th day of February, 1998, true copies of the foregoing "COMMENTS OF WORLDCOM, INC." were hand delivered to each of the parties listed below.


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