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May 15, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, N.W.
Washington, D.C. 20554

Re: EX PARTE in Price Cap Performance Review for Local Exchange Carriers, CC Docket No. 94-1, Access Charge Reform, CC Docket No. 96-262; Consumer Federation of America, International Communications Association and National Retail Federation Petition Requesting Amendment of the Commission's Rules Regarding Access Charge Reform and Price Cap Review for Local Exchange Carriers, RM 9210; Tariffs Implementing Access Reform, CC Docket No. 97-250

Dear Ms. Salas:

On May 14, 1998, Jonathan Sallet, Mary Brown, and Don Sussman of MCI Telecommunications, met with Commissioner Furchtgott-Roth and Kevin Martin of the FCC to discuss the status of competition in the exchange access market, and key findings from the report entitled Absence of Competition in The Exchange Access Market, which was released on May 7, 1998.

Sincerely,

Don Sussman

cc: Commissioner Furchtgott-Roth
Kevin Martin

MCI Report: The Absence of Competition in Exchange Access Markets

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Key Findings:

- **Competition Is Not Developing at a Pace That Could Place Competitive Pressure on ILEC Access Rates Any Time Soon**

- **By Any Measure, CLEC Market Share Is Approximately 1% of the Local Access Market**

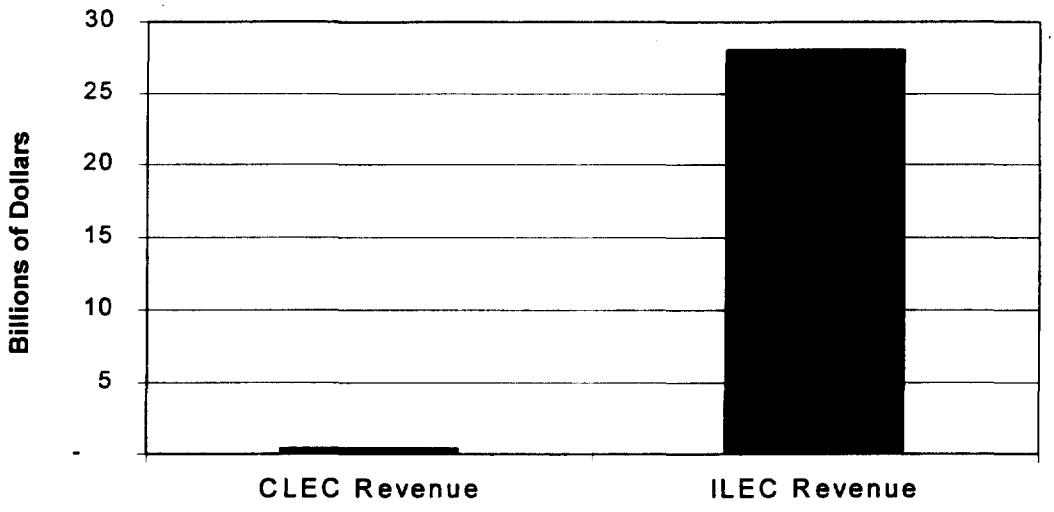
- **To Replicate the Price Cap ILECs' Local Exchange Network Built with Monopoly Funds Would Require $158 Billion of Investment by New Entrants**

CLECs Account for Approximately 1.4 % of Total Switched Access Revenues

ILEC and CLEC 1997 Access Revenues[1]

(Billions of dollars)	Switched Access	Special Access	Total Access
ILEC Revenue	28.0	5.90	33.90
CLEC Revenue	0.4	1.35	1.75
CLEC Percent	1.4%	18.6%	4.9%

1997 CLEC/ILEC Market Share by Switched Access Revenue



[1] ILEC data from 1998 Annual Report on Local Telecommunications Competition, 9th Edition, New Paradigm Resources Group, Inc, Chapter 4, Table 5, at 8. CLEC data from MCI market research.

RBOC Market Share of Switched Access Lines Is Approximately 99%

RBOC Market Share Based on Access Lines[2]

	1996	1997
AIT	99.40%	99.13%
BA	99.32%	98.99%
BS	99.45%	99.08%
SBC	99.56%	99.07%
USW	99.63%	99.00%

2 Based on MCI market research. MCI market data was obtained from government documents, industry reports, interviews with leading industry analysts, and MCI internal information. Sources included, but were not limited to: FCC data, International Data Corp, The Gartner Group, DataQuest, Frost & Sullivan, Bear Stearns, Prudential, Salomon Bros., Goldman Sachs, Connecticut Research & New Paradigm Group, CLEC public records, announcements and filings Annual Reports, 10K reports, and 10Q reports filed with the Securities & Exchange Commission.

ILEC Facilities Dwarf New Entrants' Facilities

ILEC/CLEC Transmission Facilities, 1996 [3]

ILEC	CLEC
12.3 million miles of fiber	1.3 million miles of fiber
1,300 million miles of copper	

ILEC/CLEC Switches[4]

ILEC	CLEC
23,661	1,311

* **Resale local exchange competition does not impart any pressure on the ILEC's access rates because with resale the underlying carrier keeps all access revenue generated by the resale carrier's end users.**

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[3] 1997 Statistics of Communications Common Carriers, Common Carrier Bureau, Federal Communications Commission, December 5, 1997, Table 12.

[4] ILEC based on 1996 ARMIS; LERG Data.

Less than 0.02% of All Buildings Are on CLEC Networks[5]

1997 CLEC Share of Commercial & Residential Buildings

	Business		Residential		Total	
	ILEC	CLEC	ILEC	CLEC	ILEC	CLEC
Number(millions)	4.6	0.015	112	-	116.5	0.015
Percent	99.67	0.33	100	-	99.99	0.013

1997 CLEC Share of Commercial & Residential Buildings, By Region

Region	ILEC Commercial Buildings	Total ILEC Households & Commercial Buildings	CLEC Percent of Commercial Buildings	CLEC Percent of Households & Commercial Buildings
Northeast	739,500	22,700,100	0.435%	0.014%
Midwest	1,161,780	27,696,060	0.164%	0.007%
South	1,785,000	41,989,320	0.335%	0.014%
West	983,280	24,280,080	0.464%	0.019%
Total	4,669,560	116,665,560	0.336%	0.013%

5 CLEC building data based on MCI market research, and represent buildings that take less than 30 days to provision. ILEC housing estimates based on U.S. Bureau of the Census, Estimates of Housing Units and Households of States: April 1, 1990 and July 1, 1996, Table 1 (ST-96-20T). ILEC commercial building information based on US Energy Information Administration, Department of Energy, Commercial Buildings Characteristics, 1995, Table 3. MCI increased the 1995 household and commercial building numbers by 2 percent, to represent a conservative estimate of growth since 1995.

ILEC-Provided Data Demonstrate that CLECs Serve Less than 0.09% of Access Lines in RBOC and GTE Territories[6]

CLEC Market Share by Unbundled Network Elements, March 1998

RBOC Region	Total Lines	Unbundled Network Elements	CLEC Market Share Through UNEs
AIT	20,612,210	68,134	0.33%
BEL	33,396,306	32,431	0.10%
BLS	23,153,182	8,448	0.04%
GTE	17,750,056	387	0.00%
SBC	33,487,936	13,940	0.04%
USW	16,121,235	340	0.00%
TOTAL	144,520,925	123,680	0.09%

* As a measure of how insignificant the number of unbundled loops purchased by CLECs is, the RBOCs and GTE are expected to add 6 million access lines between 1997 and 1998.[7]

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[6] On February 20, 1998, a limited number of large telephone companies were asked to complete--on a voluntary basis -- a short survey on the state of local competition at the end of 1997 for each state in which the company or affiliate (defined by direct or indirect ownership or control of a majority interest) serves as an incumbent local exchange carrier. ILEC UNE data in the following tables is compiled from the electronic survey responses from these ILECs, which the FCC received in March, 1998.

[7] Earnings releases, Credit Suisse First Boston, March 11, 1998.

"Market Forces" Have Had No Impact on RBOC Pricing of Interstate Access Services

RBOC Pricing of Access Services as of 4/1/98[8]

RBOC	Trunking Basket	Traffic Sensitive Basket	Common Line Basket
Ameritech	5.7% Below Cap	**At Cap**	**At Cap**
Bell Atlantic	**At Cap**	**At Cap**	**At Cap**
BellSouth	**At Cap**	**At Cap**	**At Cap**
SBC	**At Cap**	**At Cap**	**At Cap**
PacBell	**At Cap**	**At Cap**	**At Cap**
Nevada Bell	6.1% Below Cap	**At Cap**	**At Cap**
US West	**At Cap**	**At Cap**	**At Cap**

* Even for interstate transport services, the services for which CLEC competition has been developing for nearly ten years, all the RBOCs except Ameritech and Nevada Bell are pricing at cap.

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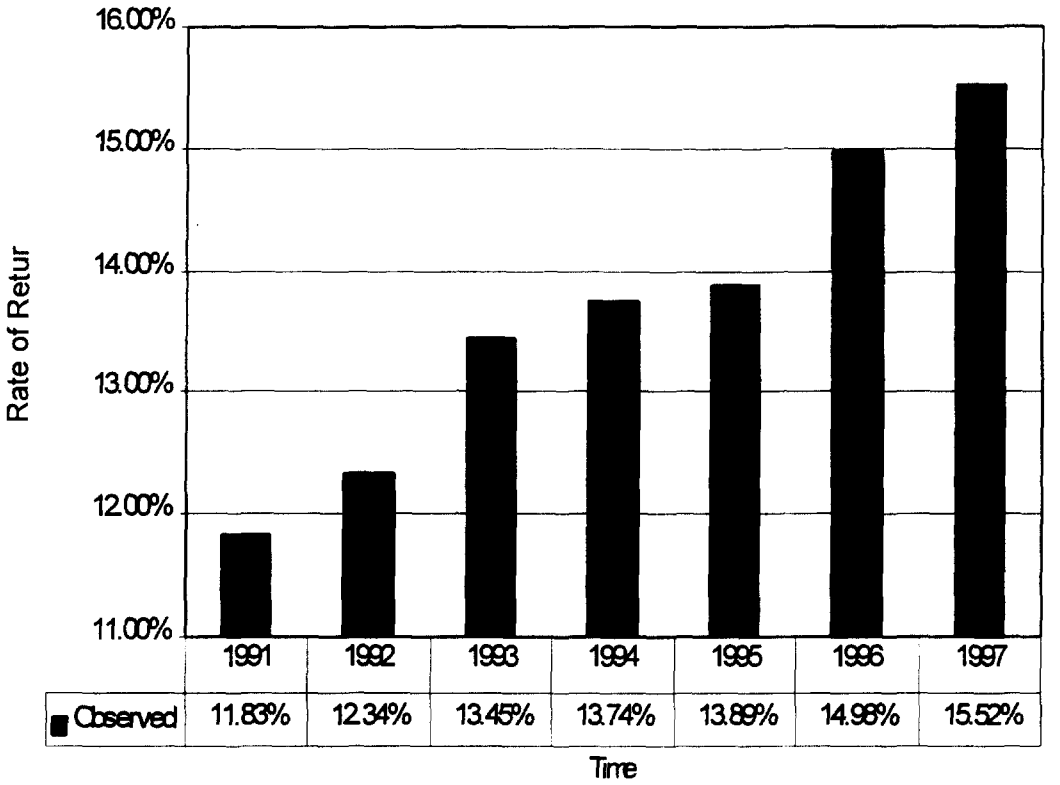
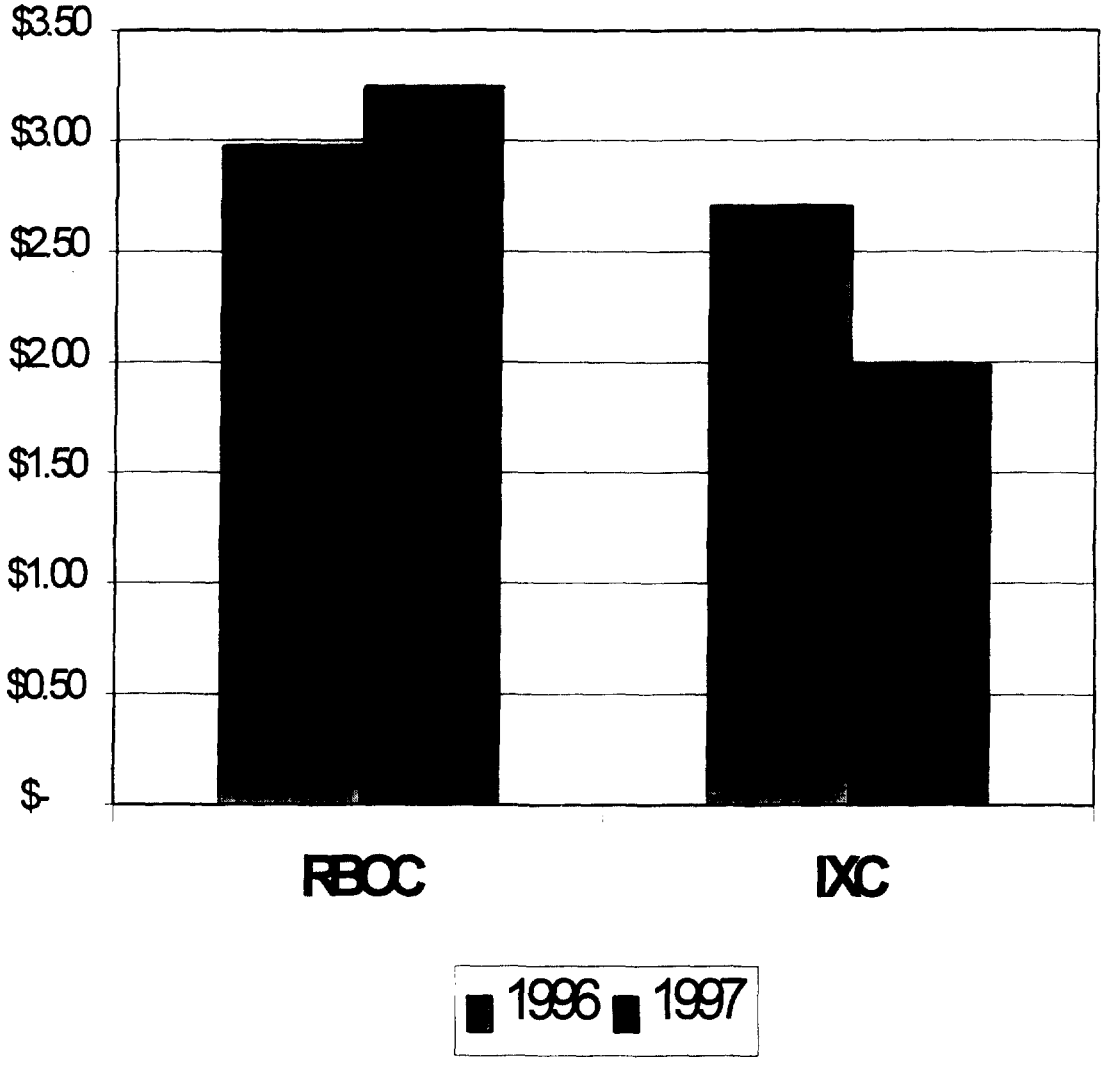
[8] Source: ILEC Tariff Review Plan Filings, April 1, 1998.

ILEC Profitability Has Not Been Negatively Impacted by CLEC Activities, or by the Commission's Decision to Increase the ILEC Productivity Factor to 6.5%

ILEC Earnings on Interstate Price Cap Services, 1991-1997



RBOC 1997 Earnings Grew 11.3% While IXCs' Earnings Decreased 11.2%



RBOC and GTE Monopoly Earning on Access Services Continue to Be Excessive

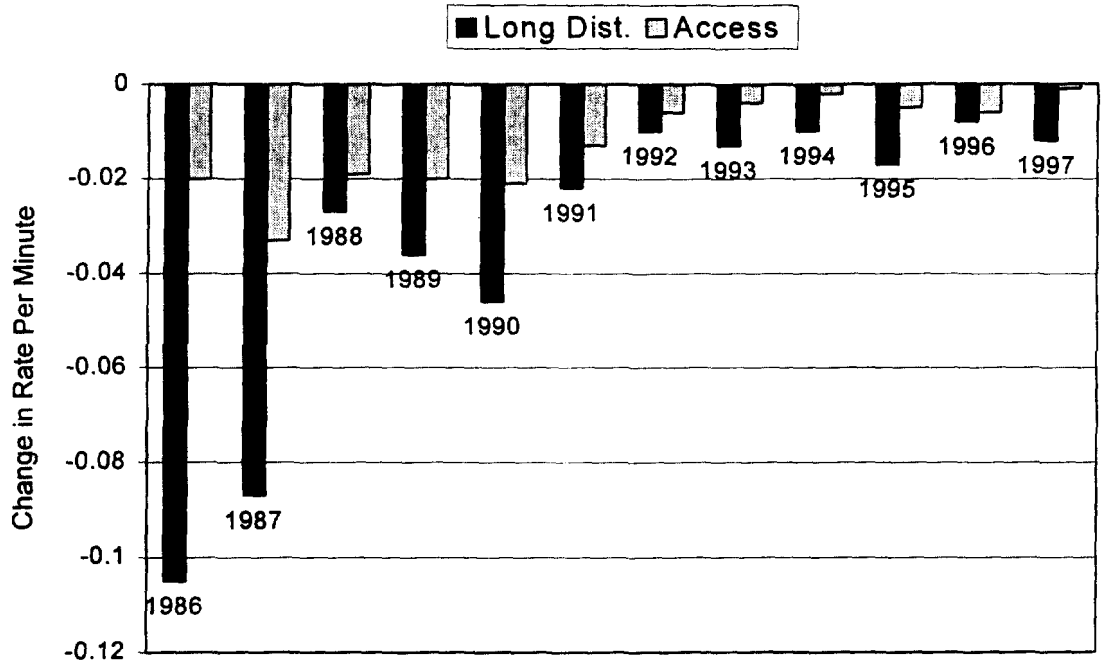
1996 RBOC & GTE Earnings [9]

1996 RBOC & GTE	Net Revenue	Operating Cash Flow	Operating Cash Flow Margin
Local	$45B	$9.8B	21.8%
Access	$27.6B	$19.2B	69.4%
IntraLATA Toll	$9.3B	$5.9B	63.2%

[9] Based on 1996 ARMIS data.

History Has Shown, Long Distance Carriers Continually Have Passed Through at Least the Amount of Access Reductions, If Not More, in Their Long Distance Rates

Change in Long Distance Average Revenue Per Minute and Average Access Rates Per Minute[10]



[10] Data from Declaration of Robert E. Hall, In the Matter of Applications of WorldCom, Inc., for Transfer of Control of MCI Communications, CC Docket No. 97-211.

On July 1, 1998, the Commission Should:

1) **Increase Price Cap ILECs' Productivity Factor to 8.5% (yielding $460 incremental reduction)**

   - **ILEC choice of productivity factors between 1990 and 1996 show ILEC productivity of at least 8.5%.**
   - **Interstate total factor productivity studies Show an X-Factor of at least 8.5%.**

2) **Order Price Cap Adjustments to Reflect a Productivity Factor of at Least 8.5% since 1995 (yielding $1.8 billion incremental reductions)**

On January 1, 1999, the Commission Should:

1) **Abandon the Market-Based Approach of Access Reform**

2) **Prescribe Interstate Access Charges to Forward-Looking Economic Cost**