MCI Telecommunications Corporation
1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 887 2551
FAX 202 887 2676

Mary L. Brown
Senior Policy Counsel
Federal Law and Public Policy

DOCKET FILE COPY ORIGINAL

EX PARTE OR LATE FILED

RECEIVED
JUN 2 1998
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

June 2, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
Washington DC 20554

Re: Universal Service Reform, CC Docket No. 96-45; Price Cap Performance Review, CC Docket No. 94-1; Access Charge Reform, CC Docket No. 96-262; Tariffs Implementing Access Charge Reform, CC Docket No. 97-250

Dear Ms. Salas:

On May 29, 1998, Don Sussman and I met with Kyle Dixon of Commissioner Michael Powell's office to discuss issues in the above-captioned dockets . Attached is the presentation that we used for our meeting.

Sincerely,

Mary L. Brown

Mary L. Brown

CC: Kyle Dixon

# Implementation of Access Reform and Universal Service Orders - 2H98

# May 27, 1998

# Outstanding Issues

- **Universal Service**
  - Establishment of Contribution Factors - 2H98
  - Possible Flat Fee for Collection of Some/All Universal Service
  - MCI Declaratory Ruling on Collection of Universal Service

- **Access Charges**
  - Price Cap Reductions
  - Calculation of Access Flow Through
  - Emergency Petition to Establish Workable System/Tariff Investigation
  - Treatment of PICCs - 2H98

# Universal Service - 2H98 Contributions

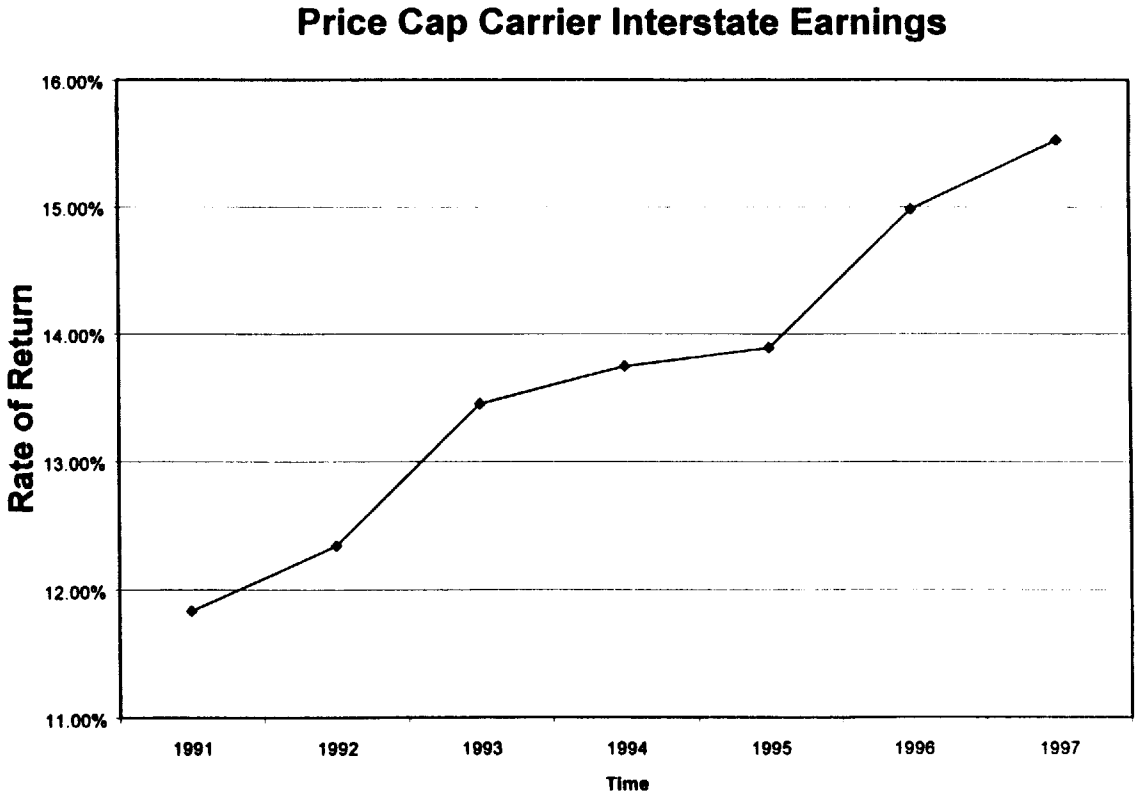
- **Timing**
  - MCI must file tariff on June 1, 1998 in order to implement new level of changes in July bills.
  - MCI will begin its recovery of USF from residential customers after foregoing $107 M in 1H98
  - MCI will assume full funding of S&L and RHC
- **Notice**
  - June 8 is last opportunity for change in Mass Market invoices in July
  - MCI was not able to give notice in June bills because FCC has not set contribution factors
  - MCI has never received notice from ILECs on the amount of USF it is being charged (subject of Emergency Petition)

# By June 1, Resolve MCI Declaratory Ruling on Permissible USF Collection Methods

- **FCC, Not States, Should Interpret USF Order**
  - Florida: Show Cause Order Issued, June 8 MCI files Reply
  - Virginia: MCI filed motion for summary judgment May 22nd; VA SCC will file their opposition May 29th; MCI reply June 2nd
- **MCI Is Assessed on Total Revenue, Should Be Able to Assess Customers on Total Revenue**
- **IXCs Deserve Uniform Ruling Applied Uniformly**
  - Problem grows in July

# True Access "Reform"Needed -- Rates Unreasonably High

## FCC Should Establish Productivity Factor of At Least 8.5%, Reinitialized to 1995, Yielding About $1.8 Billion



# Market-Based Access Reform Is A Myth -- No Downward Pressure on Rates

| RBOC | Total Lines | Unbundled Network Elements | CLEC Market Share |
|---|---|---|---|
| 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% |

# Productivity Factor Should Increase to At Least 8.5%

- **Interstate-Only Productivity**
  - Reflects lower cost/min of interstate traffic (interstate more concentrated than local)
  - Fulfills Section 201 legal requirement that FCC set interstate prices on interstate costs
  - Higher, 8.5% factor based on experience & new data
    - 1997 Earnings at record 15.6%
    - ILEC pricing at cap
- **Failure To Go Back to 1995**
  - Suppresses LD demand, harming IXCs
  - Leaves access too high, harming LD rate payers…with no offsetting benefits
  - Gives ILECs time value of money
- **August Implementation Possible**

# Access Charges -- Calculation of Access Flow Through

- **FCC Declares LD Industry Fully Competitive in 1995**
- **Interstate Prices Have Dropped Faster Than Access**

  "We see nothing to indicate that market forces will not compel IXCs to flow through access charge reductions"

  Price Cap Fourth Report & Order, May 7, 1997, Para 185

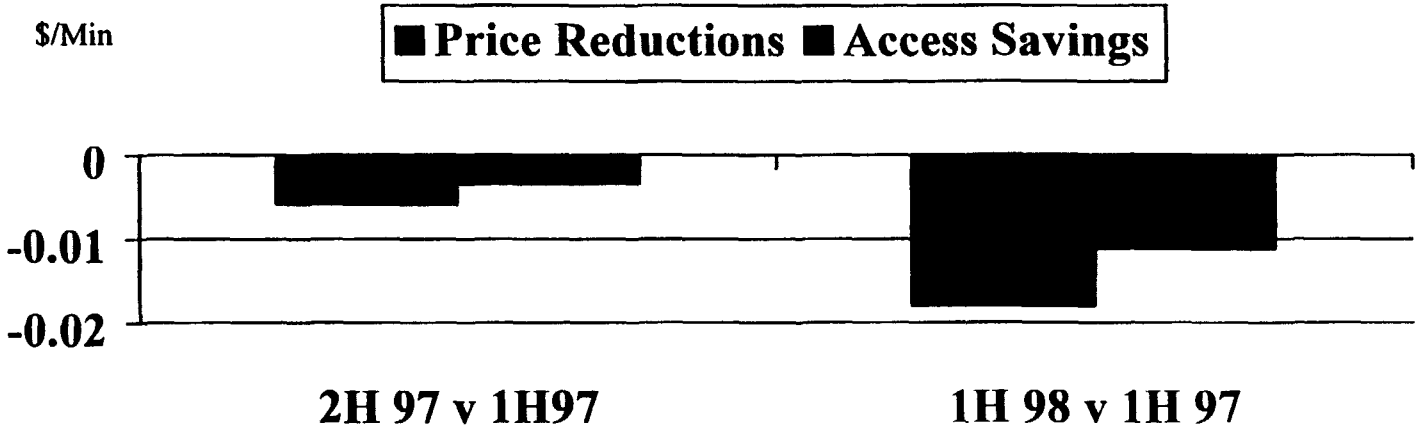
- **Proposed Data Collection Requests Revenue or Cost Data in 21 Categories**
  - Burdensome -- will cost millions to implement
  - Re-regulates LD Pricing
  - Fundamentally unfair to judge past actions by new rules
  - Quarterly reporting misunderstands and misrepresents retail environment.
  - Actual costs recaptures deficiency gains --even price caps for ILECs does not do this

# MCI Passed Through Access Charge Reductions to End Users

Actions:

- $.05 on Sunday
- New Product
- 20% Cash Back for SB
- Customer Migration to Lower Rate Products
- Contract renegotiations

| | |
|---|---|
| Access Savings | ($756M) |
| Total Price Reductions | 1,223 |
| Extra Customer Savings | $467 |



# FCC Must Rule on Issues Raised in MCI's Emergency Petition

- **Eliminate distinctions between primary and non-primary lines, or immediately prescribe a standardized, independently verifiable, definition of primary and non-primary;**
- **Hold the ILECs responsible for collection of PICC until such time as they can provide all necessary information to IXCs in advance of billing;**
- **Require the ILECs to provide auditable line count information, by telephone number, immediately;**
- **Standardize the date used by ILECs to decide which customers' PICCs are assigned to a particular IXC;**
- **Require ILECs to provide to each IXC the amount of USF pass through each IXC is receiving in its access bills every month.**

# After Analyzing PICC Invoices Received, Over Half of Billings are Incomplete or Inaccurate

- 46% ($20.9M) of Invoice Charges Based on Missing or Incomplete LEC Information
- $1.8M of Complete Invoices Contain Incorrect Billing (MCI has Commissioned Independent Test Via Price Waterhouse)
- $1.4M In Discrepancies Found Between LEC Invoiced Data and MCI Customer Information

↓

- MCI Is Withholding $24M in PICC Payments Until End-To-End Audit Performed
- FCC Must act Immediately to Resolve PICC Implementation Flaws

# 6-Month Suspension of PICCs Would Be Misguided

- **$1.8b Shift To CCL Means Per Minute Access Rates Will Increase**

- **LD Rates Would have to be Raised, Wreaking Havoc With Consumers And Marketing**
  - MCI would incur unnecessary, substantial costs