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JUN 3 1998

June 3, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
Washington, DC 20554

Re: **EX PARTE** in 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

Dear Ms. Salas:

Pursuant to the request of the Chief, Common Carrier Bureau, MCI is providing its response to the questions contained in a June 1, 1998 letter from Senators Byron L. Dorgan and Tom Daschle to FCC Chairman William Kennard.

Sincerely,

Mary L. Brown

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Jonathan B. Sallet
Chief Policy Counsel

June 3, 1998

A. Richard Metzger, Jr.
Chief, Common Carrier Bureau
Federal Communications Commission
Washington, D.C 20554

Re: Request for response to June 1, 1998 letter from Senators Byron L. Dorgan and Tom Daschle

Dear Mr. Metzger:

On June 1, 1998, you asked that MCI provide its views on two questions posed by Senators Tom Daschle and Bryan Dorgan in a June 1, 1998 letter to FCC Chairman William Kennard. The senators' letter notes that the Commission is considering a plan that would prevent incumbent local exchange carriers (ILECs) from passing through their universal service obligations to interexchange carriers (IXCs) in ILEC interstate access charges. The questions, and our responses, are provided, below.

As an initial matter, MCI notes that access charge reductions are typically, and incorrectly, counted <u>twice</u> as policy-makers debate the revised charges stemming from Commission orders in universal service and access charge reform. First, MCI is often asked whether we have decreased our retail pricing to fully reflect the change in this input cost. We have more than done so. As noted in MCI's March 2, 1998 letter on access flow through, our retail price reductions have exceeded access reductions by $467 million in the last year. Second, we are also asked why we need to place line items, such as universal service charges, on our retail bills, if it is true that, overall, access reductions and universal service increases, net to no change in IXCs' cost structure.

In MCI's view, this "double counting" in how access charge reductions are "spent" by IXCs is beyond our understanding -- first we "spend" anticipated access reductions responding to the competitive pressures of the long distance market, and then it is suggested that we "spend" the same reductions again, using the cost decreases to offset changes in universal service programs to avoid universal service line items. In MCI's view, the pro-competitive and pro-consumer response to the significant access and universal service changes implemented by the Commission is to give customers what they want -- lower rates and itemized bills that explain what they are paying for. And MCI, in invoices appearing in February and March 1998, credited the Commission with the access charge reductions we had received by explaining to our customers that they had received the benefit of reductions in the form of lower rates. We are aware of no other long distance company that has done the same

(1) Can the Commission ensure that the long distance companies pass through to their customers the full benefit of these access reductions? Further, will residential customers, including basic schedule customers, receive proportionate reductions in their long distance rates?

The Commission has repeatedly found that the highly competitive nature of the long distance industry has consistently driven retail pricing down in excess of access reductions. For example, just last week, Chairman Kennard stated that "consumers are enjoying the lowest long distance rates in history."[1] On February 9, 1998, in a speech before the National Association of State Utility Consumer Advocates, he stated that "long distance rates fell 5.3% between January 1996 and November 1997. Long distance prices are now the lowest that they have ever been." In the May 1997 Price Cap Order, the Commission stated "we see nothing to indicate that market forces will not compel IXCs to flow through access charge reductions."[2] Long distance rates continually fell faster and further than access reductions. In fact, the Commission found that between 1992 and 1995, "declines in access cost per minute account for about half of the declines in toll rates."[3]

In MCI's case, residential customers generally, and basic schedule customers in particular, have received benefits of current and planned access reductions through lower long distance rates, even including the effect of introducing line an express fee to recover the presubscribed interexchange carrier charges. There is no reason to expect this beneficial trend to change. Immediately after the July 1, 1997 access reductions took place, MCI lowered its basic rates, Then, as we reported in our March 2, 1998 response to Chairman Kennard, MCI restructured its rates to include a 5-cent Sunday rate available to any MCI customer who simply picks up the phone and makes calls on Sunday. No preregistration is required, there is no minimum usage level, and the rate is one of the lowest in the industry. Furthermore, our 5-cent Sunday rate is not a temporary promotional offer, but a permanent rate which MCI has promoted heavily through advertising. Consumers are responding to this new rate, changing their calling patterns to buy the inexpensive "Sunday" minutes. To illustrate this trend at the level of the individual consumer, we are attaching charts that were provided in our March 2, 1998 response to Chairman Kennard, comparing what the Commission itself predicted would happen to illustrative residential customer rates in May 1997, and what changes those illustrative customers experienced assuming they had MCI service during that time. There are no surprises here -- residential customers are better off today than they were a year ago.

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1 Press Statement by FCC Chairman William Kennard, May 28, 1998.

2 Price Cap Regulation, Fourth Report and Order, May 8, 1997 at para 185.

3 Telecommunications Industry Revenue: TRS Fund Worksheet Data, 1996, p. 9.

(2) The various changes in customer's long distance bills in the last year have created a great deal of confusion among consumers. If the Commission were to direct local telephone companies to recover their universal service contributions directly rather than through increasing access charges on long distance carriers, what changes, if any, will long distance carriers make to their bills? For example, will carriers continue placing line items identifying costs for universal service programs on long distance carriers' bills? If so, which customer's bills?

It is not clear to MCI that a great deal of confusion among residential consumers has resulted from changes in long distance bills. We believe that MCI customers are pleased with their lower long distance rates. Moreover, we have received far fewer consumer questions about the express fee for the National Access Fee, in which we flow through ILEC presubscribed interexchange carrier charges, than we anticipated.

In any event, a decision to require ILECs to recover their share of universal service obligations through some recovery mechanism other than access charges is an obvious step forward from today's system, where IXCs and our customers must fund the lion's share of universal service programs. In MCI's view, eliminating "flow back" of ILEC universal service obligations would remove approximately $1.1 billion from IXC recovery and place recovery in the hands of the ILECs.[4] It does not, however, comply with the statutory requirement that telecommunications carriers fund universal service on an "equitable and non-discriminatory" basis. IXCs continue to fund approximately $2.7 billion of remaining universal service obligations in direct payments to the universal service administrator. MCI continues to believe that the local telephone companies are more efficient collectors of these charges.

MCI would recover its share of the $2.7 billion by continuing to apply a percent of revenue fee on residential and business customers' bills, although the charges in the aggregate would be of course somewhat lower than they will be if the IXCs are required to recover the full $3.8 billion obligation that we are otherwise expecting beginning July 1, 1998. Stated differently, any decrease in universal service cost would result in MCI recalculating our Federal Universal Service Fee in an effort to flow through cost reductions to our customers.

MCI recognizes, of course, that this is not the only possible means of recovery. On May 21, 1998, MCI explained to the FCC how a flat fee on local telephone bills could be structured in order to provide sufficient funding for the Commission's annual cap on schools, libraries, and rural health care providers at about $1 per month. As we explained, such a fee, collected by the local exchange carriers and wireless providers,

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[4] MCI assumes a collection rate of $2.1 billion annually for schools, libraries, and rural health in calculating the value of the flow back. To the extent that this size of the fund is different, the flow back will vary from that described here.

would be an "efficient mechanism" that would remove difficulties associated with any system that relies on long-distance carriers to collect such fees.

On June 2, 1998, MCI tariffed new universal service fees for residential and small business customers, as those fees would be applied to July invoices. In preparing the fee levels that we tariffed, MCI assumed that the schools, libraries, and rural health funds would be fully funded beginning in the third quarter of 1998. We also took into account competitive conditions in our decision to set the fees, and concluded that MCI could not for competitive reasons set the fees high enough to ensure complete recovery of universal service revenues attributable to residential and small business customers. The fees were tariffed at 5 percent and 5.9 percent, depending upon the product. MCI in the very near future expects to file a tariff for its large business market products, displaying the percentage charge that we believe is necessary to recover universal service costs in the event that the current rules remain in place.

MCI has consistently expressed the view that there is plenty of opportunity for the Commission to deliver on its promise of universal service, including support for schools and libraries, and to deliver on the promise of the Telecommunications Act of 1996 for lower telecommunications rates. The solution is for the Commission to renew its consideration of ILEC access charge levels, which are today approximately $10 billion above cost. MCI has suggested that as a first step, the Commission take up the pending reconsideration in the price cap docket to immediately trim approximately $1.8 billion from interstate access. Then, no later than January 1999, the Commission should disregard its current, and failed, "market-based" approach to access reform. It should implement prescriptive cuts that will bring access to cost, noting the virtual absence of competition in the access market.

Sincerely,

Jonathan B. Sallet

Two Line Family in Charleston

- Young couple with two lines, college friends and relatives living throughout the South.
- Current long distance bill is $60/month under a $0.10/minute calling plan

FCC Prediction	MCI Customer
• Under FCC proposal, family's savings on total bill (local and long distance) is about 4% ($2.50).	• Under MCI One, MCI's most popular plan, family's savings is about 11% ($6.45).

Funeral Parlor - Anywhere, USA

- Funeral parlor has three lines, mainly for incoming calls. Owner makes 15 minutes of long distance calls/month.

FCC Prediction	**MCI Customer**
• Current LD bill is $7 • Under FCC proposal, total bill increases by about $13.00/month.	• Under MCI rates and Per Line PICC recovery of $2.75 per line, bill increases by $12.

Travel Agency in Sioux Falls, SD

- Three phone lines for two agents. Each agent makes about 2.5 hours of long distance calls per day.
- Total long distance bill (all lines) is about $790 per month, about $930 including local.

FCC Forecast

- Total bill under FCC proposal declines by about $52, or about 6%.

MCI Customer

- Under MCI One with Per Line PICC recovery, bill increases by only $11.25 (1.6%).
- With 20% MCI One rebate, bill declines by $135 (18%).

Senior Citizen in Miami

- Calls grandchildren in California for 10 minutes every other week.
- No calling plan, long distance bill is about $4.00 per month.

FCC Forecast

- Under FCC proposal, local bill is unchanged, long distance bill falls by about 8%.

MCI Customer

- With 5 Sundays and by timing her calls, long distance bill decreases by 17-48%.
- If 50% calling off peak and 50% on Sunday, bill declines by 17%.
- If all calling on Sunday, bill declines by 48%.