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EX PARTE OR LATE FILED

June 8, 1998

Magalie Roman Salas
Secretary
Federal Communications Commission
Washington, D.C. 20554

Re: EX PARTE in Universal Service Reform, CC Docket No. 96-45

Dear Ms. Salas:

On June 5, 1998, I responded to questions posed by Jim Schlichting, Deputy Chief, Common Carrier Bureau, concerning recovery of universal service costs. Mr. Schlichting asked MCI for its view of a proposal to recover the residential portion of universal service subsidies on a flat, per residential account basis on interexchange carrier bills. He also asked for MCI's views if the Commission were to eliminate "flow back" of the incumbent local exchange carriers' (ILEC) share of universal service in access charges, in addition to creating the flat residential fee.

MCI would not be able to implement on its bills a flat, per residential account charge by July 1, 1998, and is not immediately able to offer an assessment of when such a charge could be implemented. More fundamentally, however, such a recovery method would disadvantage carriers, like MCI, that have substantial residential revenues attributable to dial around or collect products relative to presubscribed products. In MCI's case, our revenue "share" per account would be higher than those carriers whose residential revenues are derived more from presubscribed accounts. As a result, our "per account" charge would put us at a competitive disadvantage -- either MCI would have to charge a higher fee, making our schedule of rates and charges less competitively attractive, or we would have to under-collect universal service costs. Elimination of the ILEC flow-back does not correct this discriminatory result. In either case (with the flow back or with flow back eliminated), MCI estimates that the per account charge on an industry average basis would be more than \$1.00. If MCI were required to tariff such a charge, the rate would likely be set above the industry average, for the reasons discussed above.

One suggestion MCI offered for improving this idea to make it equitable as among interexchange carriers is for the Commission to identify an industry-average per residential account charge, order the interexchange carriers to apply the charge to each month's

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residential bills, and have the universal service administrator(s) collect only that which the interexchange industry collects from its residential customers. Stated differently, interexchange carriers would not be required to fund to a preestablished "revenue level" and would only be required to bill the fee, and turn over any fee revenues received to the universal service administrator(s). This alternative ensures that no interexchange carrier would be required to charge a higher amount due to its unique characteristics in the residential market. Over a short period of time, the actual collection rate would become known and is likely to stabilize.

Sincerely,


Mary L. Brown

CC: Jim Schlichting