

cost models use the most current vendor contracts for switching. In view of this, the Illinois Commission, unlike the Michigan Commission, has ordered Ameritech to recalculate its switching costs based on the most recent 1996 contracts. However, the current models do not yet reflect these updated vendor contracts. The Commission should require these more recent contracts to be used to determine switching costs.³¹

Finally, the depreciation lives used in the Michigan cost study are much shorter than the FCC-prescribed ranges required by the Commission's criterion 5. Neither Ameritech nor the state commission has presented information which would justify these shorter lives. In fact, as the Commission notes in the Public Notice seeking comment on these models, the Michigan Public Service Commission has not even endorsed the use of the depreciation lives used in the model.

The Commission's current range of prescribed depreciation lives are the result of on-going triennial reviews involving the Commission, the state commissions, and the LEC, of the LEC's plant retirement practices, taking into account planned changes and expected changes in the LEC's situation. As such,

³¹ Ameritech recommends an economic life of 7 years for digital switches. At the same time, Ameritech would use 1991 vendor contract prices for these switches. This means that, for purposes of the cost studies, Ameritech would have fully depreciated the switch facilities that were purchased under the 1991 contracts by the time that the USF has been restructured. Thus, under Ameritech's proposals, the company could receive USF support based on facilities that are no longer on the books. In this respect, Ameritech's "forward-looking cost" proposals are bizarre.

they represent the best forward-looking estimate of reasonable depreciation lives. This Commission should not allow one of these parties to unilaterally substitute its judgment for the results of this process. Especially since the Michigan Public Service Commission apparently does not even endorse the lives used in the Michigan model, the Commission should reject Ameritech Michigan's requested waiver and require the use of depreciation lives within the Commission's prescribed ranges in the Michigan cost model.

B. Ameritech's Shared and Common Costs Study Used in Illinois is not Forward-Looking

The shared and common costs used in the Illinois model for Ameritech are based on a study performed by Arthur Andersen. This study is essentially a stand-alone study that consists of no less than *10 volumes* of approximately *7000 pages* of new accounting data. To appreciate the vastness of this study, the Commission should note that the retail Arthur Andersen study in itself is larger in volume than *the combined volume of all of Ameritech's TELRIC studies* presented in ICC Docket 96-0486/0569. Moreover, the Commission should also note that the Arthur Andersen study is not documented so that an analyst can follow the analysis from page to page to verify the numbers. The contrary is true: the retail Arthur Andersen is an unordered set of work papers containing thousands of sub-studies whose interrelatedness is not explained but must be intuited by the cost analyst through patient and painstaking analyses.

In TELRIC proceedings in Illinois, MCI has demonstrated that -- *when given*

the opportunity -- it will perform an in-depth analysis of Ameritech's cost studies. In fact, MCI had two witnesses file testimony containing over 100 pages on a separate Arthur Andersen study of joint and common costs that was filed in the UNE docket. MCI was able to provide the ICC with valuable testimony, part of which was adopted, because MCI, and other intervenors, had been allowed to do unrestricted discovery and weeks of depositions and extensive cross examination of the Arthur Andersen accountants.

By contrast, in the Illinois USF proceeding -- faced with an Arthur Andersen study that is even more voluminous than its UNE counterpart -- MCI was given only 10 days for analysis, no depositions and restricted discovery at best. This means that cost analysts would have had to digest and evaluate no less than 7,000 pages of intricate and poorly documented material. Clearly, no party, not even Staff, which normally receives far more cooperation from Ameritech than other parties, has been able to do a serious and responsible analysis of the Arthur Andersen study. *The disturbing truth is, the Arthur Andersen study is as of yet unexamined because no party has had an opportunity to effectively examine it.*

The Commission should also recognize that the Ameritech/Arthur Andersen team does not have a track-record that justifies adopting their study "on faith." In the Ameritech states, state commissions aided by the testimony of MCI and others, found that the Arthur Andersen study submitted in the UNE proceeding was riddled with mistakes and hundreds of millions of dollars of over allocations and misallocations of costs. (Even the ICC itself recognized this. For example, see Second

Interim Order, ICC Docket 96-0486/96-0569, pages 47 through 55.) In view of those flaws, for example, the Michigan Commission concluded that the original Arthur Andersen study was fundamentally unsound:

The Commission agrees with MCI, AT&T, and the Staff that Ameritech Michigan's allocations of shared and common costs contain significant flaws. Ameritech Michigan's use of budgeted data relied too much on embedded costs and did not project forward-looking costs over a long run horizon. Ameritech Michigan's analysis did not adequately account for reasonable cost savings due to efficiencies that can be expected from deploying forward-looking technologies in a competitive environment. Moreover, the Commission is persuaded that Ameritech Michigan's methodology produced inflated allocations (pages 18-19 of the July 14, 1997 Order in ICC Case No. U-11280).

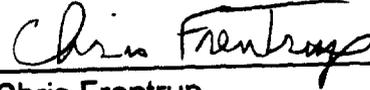
There is substantial reason to believe that the Arthur Andersen study on which Illinois bases its estimates of joint and common costs results in overstated costs. Since no party has been able to examine this study, the Commission should reject its use in setting universal service support.

VI. CONCLUSION

MCI urges the Commission either to reject these states' models and inputs, or require them to make modifications to bring the models into compliance with the Commission's criteria as discussed herein.

Respectfully submitted,

MCI Telecommunications Corporation



Chris Frentrup
Senior Economist
1801 Pennsylvania Avenue, N.W.
Washington, D.C. 20006
(202) 887-2731

June 25, 1998

STATEMENT OF VERIFICATION

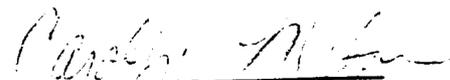
I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on June 25, 1998.



Chris Frentrup
1801 Pennsylvania Avenue, NW
Washington, DC 20006
(202 887-2731)

CERTIFICATE OF SERVICE

I, Carolyn McTaw, do hereby certify that on this 25th day of June, 1998, I caused a copy of the foregoing Comments of MCI Telecommunications Corporation to be served upon each of the parties listed on the attached Service List by U.S. First Class mail, postage prepaid.



Carolyn McTaw
Carolyn McTaw

SERVICE LIST

I Carolyn McTaw, hereby certify that on this day of June 26, 1998, I served by first-class United States Mail, postage prepaid, a true copy of the foregoing Comments, upon the following:

Barry Payne
Indiana Office of Consumer Counsel
100 North Senate Avenue
Room N501
Indianapolis, IN 46204-2208

Sheryl Todd (plus 3 copies)
Federal Communications Commission
Accounting Policy Division
Universal Service Branch
2100 M Street, NW, Room 8611
Washington, D.C. 20554

Dennis Crawford
Montana Public Service Commission
PO Box 202601
Helena, MT 59620-2601

Phoebe Forsythe Isaacs
Government of Puerto Rico
Telecommunications Regulatory Board
of Puerto Rico
235 Arterial Hostos Ave
Capital Center
North Tower, Suite 901
San Juan, PR 00918-1453

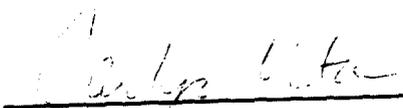
Dave Rosenbaum
Nebraska PSC
Nebraska Public Service Commission
300 The Atrium, 1200 N Street
P.O. Box 94927
Lincoln, NE 68509-4927

Jason Hendricks
Illinois Commerce Commission
State of Illinois Building
160 North LaSalle Street
Ste C-800
Chicago, IL. 60601

Milan Holly
Michigan Public Service Commission
Mercantile Bldg
6545 Mercantile Way
Lansing, Michigan 48909-7721

Mary Steel
Senior Operations Analyst
North Carolina Utilities Commission
430 North Salisbury Street
Dobbs Building
Raleigh, NC 27603

Bridget Szczech
Senior Operations Analyst
North Carolina Utilities Commission
430 North Salisbury Street
Dobbs Building
Raleigh, NC 27603



Carolyn McTaw