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ORIGINAL

February 12, 1999

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

VIA HAND DELIVERY

Ms. Magalie Romans Salas
Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Room TWB-204
Washington, D.C. 20554

Re: Joint Application of AT&T Corp. And Tele-Communications, Inc. for Transfer of Control to AT&T Licenses and Authorizations Held by TCI and Its Affiliates or Subsidies, CS Docket No. 98-178

Dear Ms. Salas:

On February 11, 1999, Lisa Smith, Larry Fenster and I met with Thomas Krattenmaker, Royce Dickens and John Norton, of the Cable Services Bureau to discuss MCI WorldCom's position in the above-referenced proceeding. The attached written presentation summarizes the issues discussed.

Two copies of this Notice are being filed pursuant to section 1.1206(b)(2) of the Commission's Rules.

Sincerely,

Kecia Boney

Kecia Boney

cc: Anita Walgren
Jane Mago
Rick Chessen
Helgard Walker
Thomas Krattenmaker
Royce Dickens
John Norton

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Rules Preventing Cross Subsidization Are Necessary to Protect AT&T/TCI's Cable Customers and Preserve Competitive Neutrality

- The combined AT&T/TCI will have markedly different incentives to use TCI's cable customers as subsidy sources than other cable companies.

- AT&T is now the only company that will incur the significant costs associated with providing telephone services over a cable system.

    - The merger with TCI, and the deals with Time Warner and other cable companies, demonstrate that AT&T is bearing nearly all of the risk of providing telephony over cable. AT&T will pay Time Warner $1 billion even if it gets no customers.

    - No other major player will effectively be able to partner with cable companies now that AT&T has already locked up cable access to 90% of the country's most lucrative MSAs.

    - Remaining cable companies are not likely to provide telephone service on their own. They will partner with AT&T, so AT&T will bear the entire risk of providing telephony over cable.

- No other cable company will have such a strong incentive to charge the full monopoly cable rate.

    - Shortfall from TCI and Time Warner deals could reach $1 billion per year.

    - This will translate into tremendous pressure for cable rate increases each year if AT&T tries to hold its shareholders completely harmless through cable rate increases.

    - Although it is unlikely AT&T could raise cable rates this much, the risk posed to TCI's cable customers is significant, and differs substantially from other cable customers. This is a serious risk, which should be addressed.

    - Vertical integration of the cable industry will allow ATT&/TCI to raise the cost of cable programming as another way to recover the monies necessary to cover that shortfall.

    - As AT&T/TCI takes on the majority of the risk associated with entry into telephony via cable infrastructure, its cable and cable programming customers will be called upon to bear a greater and growing burden of the bulk of the cable industry.

- Existing rules do not prevent the merged company from using its cable customers to subsidize its telephony operations.

- CPS customers will become subsidy sources once CPS regulation ends March 31, 1999.

- Basic customers will become subsidy sources through exogenous rate adjustments under the rules governing basic tier.

Conditions

- Limit Basic and CPS rate increases for TCI to increases that would be justified under benchmark regulation, which was supposed to emulate a competitive market.

- Categorize Internet services as "per channel services" to prevent exogenous pass-through of Internet programming costs.

- Prohibit pass-through of franchise fees based on taxation of internet and telephone revenues.

- Allocate internet investments and expenses incurred above the franchise level to each franchise according to each franchise's share of TCI's internet customers to prevent franchises located in poor communities from subsidizing internet costs of franchises in affluent communities.

- Commission has both legal authority and to set price limits on Basic and CPS rate increases in the context of its merger review.