



**MCI Communications  
Corporation**

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Washington, DC 20006

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

March 24, 1999

EX PARTE

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
The Portals  
455 12<sup>th</sup> Street, S.W.  
Washington, D.C. 20554

Dear Ms. Salas:

CC Docket Nos. 96-262, 98-157, 98-227, 99-1, 99-24, 99-65

On March 23, 1999, Alan Buzacott, Don Sussman, and I met with Tamara Preiss, Jay Atkinson, Steven Spaeth, Dana Walton-Bradford, Florence Setzer, and Ed Krachmer of the Common Carrier Bureau's Competitive Pricing Division. We discussed pricing flexibility issues in the context of RBOC petitions for forbearance from regulation as a dominant carrier in the provision of high capacity services and the access charge reform proceeding in general. We distributed the attached document at the meeting.

Sincerely,

Lori Wright  
Senior Manager, Regulatory Affairs

cc: Tamara Preiss  
Jay Atkinson  
Steve Spaeth  
Dana Walton-Bradford  
Florence Setzer  
Ed Krachmer

# RBOC Forbearance Petitions

CC Docket Nos. 96-262 , 98-157, 98-227, 99-1, 99-24, 99-65

MCI WorldCom, March 23, 1999

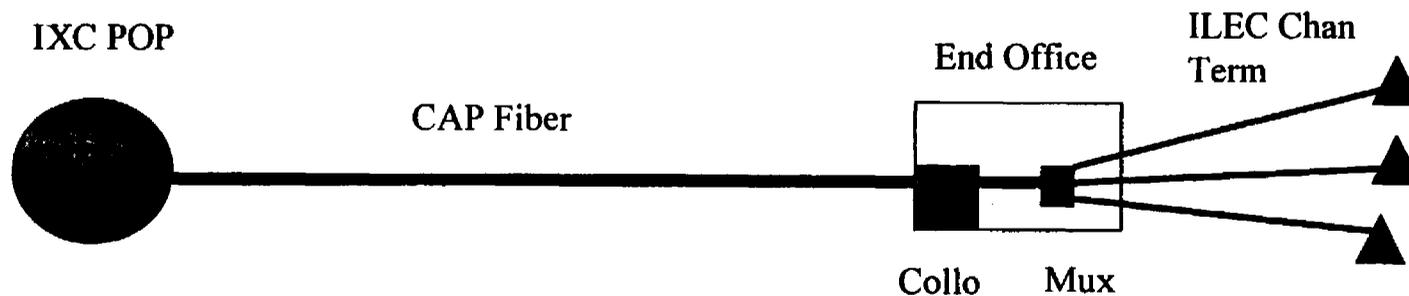
# Supply elasticity

# Few circuits can be provisioned entirely on competitive facilities

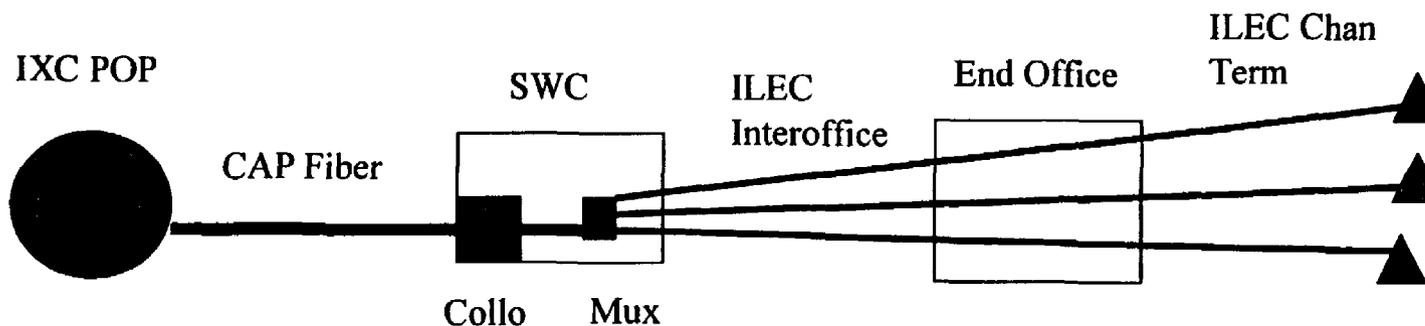
- CLEC buildings represent no more than 5-10 % of high-capacity special access locations
  - U S West data
    - Seattle: CLEC buildings represent about 12% of high-cap special access locations
    - Phoenix: CLEC buildings represent 6% of high-cap special access locations
  - Other RBOCs do not put CLEC building counts into context

# Collocation allows competitive supply for only part of a circuit

- At a minimum, the ILEC has bottleneck control over the DS3/DS1 mux and DS1 channel termination
  - ILECs control pricing of these elements (and, therefore, for the circuit as a whole)

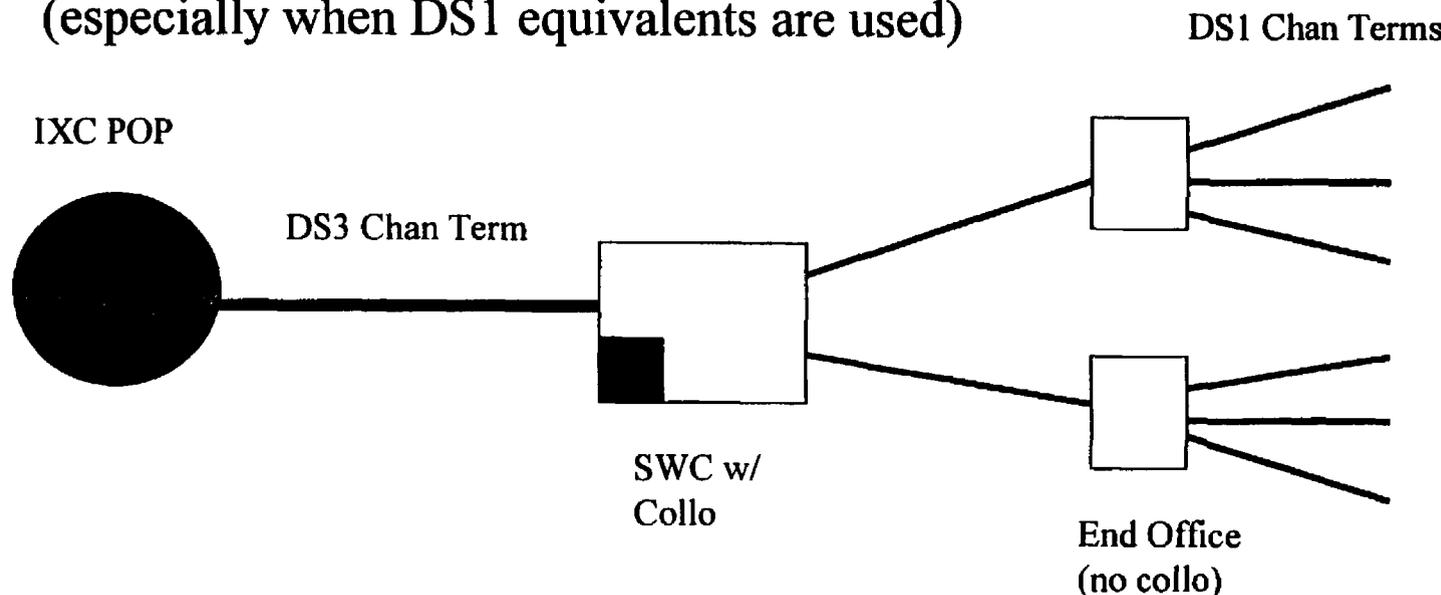


- In addition, competitive alternatives to ILEC interoffice mileage exist only on a limited number of routes
  - CLECs are typically collocated in only a fraction of the end offices in each city
  - often, the only portion of a circuit that can be provided over competitive facilities is the IXC POP - SWC chan term (“entrance facility”)



# RBOC “Addressable market” statistics are misleading

- Counting IXC POP-SWC chan terms shows a significant portion of the market to be addressable even if competition for interoffice is limited (especially when DS1 equivalents are used)



- Even if only end user chan terms are counted, the use of DS1 equivalents weights a few customer locations very heavily (e.g. ISPs) 6

# Additional buildout is capital intensive and time consuming

- RBOC petitions underestimate building add cost
  - Ignore fees for rights of way & equipment placement agreements
  - Underestimate or ignore transmission equipment costs
  - Underestimate construction costs
- RBOC petitions underestimate time to add a building
  - Ignore time to obtain rights-of-way and negotiate equipment placement agreement (at least two months, typically considerably longer)

# Pricing behavior

## All 4 RBOCs are pricing trunking basket services at or near cap

	PCI	API
Ameritech	60.0353	59.8939
Bell Atlantic	56.3658	56.3649
SBC- PB	58.4494	58.0472
SBC-SWBT	60.8870	60.8867
U S West*	55.5596	55.1853

\* U S West prices slightly below cap as part of a settlement to a 1988-89 overearnings case.

## RBOC high-capacity rates have generally increased 1996-present

		6/30/96 SBI	Current SBI	
Ameritech	DS1	75.4418	89.5460	Increase
	DS3	72..6822	69.9853	Decrease
SBC-PB	DS1	73.9997	74.4240	Increase
	DS3	71.1511	69.6390	Decrease
SBC-SWBT	DS1	76.2932	75.8826	Decrease
	DS3	78.0613	78.0852	Increase
U S West	DS1	81.9040	85.1944	Increase
	DS3	90.4887	101.2373	Increase

## With the X-factor targeted to the TIC, high-capacity rates have increased 1997-present

		6/30/97 SBI	Current SBI	
Ameritech	DS1	74.3389	89.5460	Increase
	DS3	67.3584	69.9853	Increase
SBC-PB	DS1	74.3895	74.4240	Increase
	DS3	71.0756	69.6390	Decrease
SBC-SWBT	DS1	73.5939	75.8826	Increase
	DS3	77.8090	78.0852	Increase
U S West	DS1	81.5777	85.1944	Increase
	DS3	88.6471	101.2373	Increase

# Even for 5-yr. Term plans, Zone 1 & 2, little downward pressure on rates

## U S West

<b>Zone 1</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	92.00	92.00
DS1 mileage - fixed	90.40	87.88
DS1 mileage - variable	11.50	11.35
DS3/DS1 multiplexer	204.00	240.00

<b>Zone 2</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	100.00	100.00
DS1 mileage - fixed	90.40	87.88
DS1 mileage - variable	11.50	11.35
DS3/DS1 multiplexer	204.00	240.00

Even for 5-yr. Term plans, Zone 1 & 2,  
little downward pressure on rates

**Ameritech - IL**

<b>Zone 1</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	112.50	112.50
DS1 mileage - fixed	42.51	24.80
DS1 mileage - variable	13.84	13.84
DS3/DS1 multiplexer	508.80	508.80

<b>Zone 2</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	116.25	115.80
DS1 mileage - fixed	42.51	24.80
DS1 mileage - variable	13.84	13.84
DS3/DS1 multiplexer	508.80	508.80

# Even for 5-yr. Term plans, Zone 1 & 2, little downward pressure on rates

## SWBT-TX

<b>Zone 1</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	108.00	108.00
DS1 mileage - fixed	37.50	37.50
DS1 mileage - variable	11.20	11.20
DS3/DS1 multiplexer	580.00	533.60
<b>Zone 2</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	108.00	108.00
DS1 mileage - fixed	37.50	37.50
DS1 mileage - variable	11.20	11.20
DS3/DS1 multiplexer	580.00	580..00

# Even for 5-yr. Term plans, Zone 1 & 2, little downward pressure on rates

## Bell Atlantic -South

<b>Zone 1</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	160.00	157.60
DS1 mileage - fixed	45.00	45.00
DS1 mileage - variable	10.50	8.43
DS3/DS1 multiplexer*	425.00	392.33
<b>Zone 2</b>	<b>6/30/96</b>	<b>Current</b>
DS1 chan term	160.00	160.00
DS1 mileage - fixed	45.00	45.00
DS1 mileage - variable	10.50	8.43
DS3/DS1 multiplexer*	425.00	402.35

\*Note: BA introduced term plans for mux eff. 12/30/96

**Market share**

# Quality Strategies reports

- QS market definitions (e.g., “provider” / “transport”) are unclear and not aligned with industry-standard terminology
- For the “transport” market, QS overstates ILEC market share gains by focusing only on the “entrance facility” piece
  - QS doesn’t appear to distinguish the case when CLEC transport replaces only the entrance facility from the case when CLEC transport replaces both the entrance facility and interoffice
- For the “provider” / “LDC” market, the use of end user surveys makes the market share data unreliable
  - End users may not accurately report the provider of the facility (e.g., T1 special access or private line ordered from a CLEC often uses an ILEC chan term; users may report as a CLEC facility)

## Quality Strategies reports (cont'd)

- Use of DS-1 equivalents
  - weights CLEC market share gains much more heavily than if a revenue share were used
- Sampling issues (geographic distribution etc.)
- QS results showing ILEC market share falling to 50-60 percent are inconsistent with IXC experience: ILECs continue to represent 80-90 percent of IXCs' high-capacity costs (Sprint, AT&T, MCIW comments)

# Conclusion

- End-to-end competitive supply is very rare
  - few competitive alternatives to ILEC end user connections
- In larger cities
  - some competitive supply for the IXC POP-SWC portion of a circuit (“entrance facility”)
  - limited competitive alternatives to the SWC-EO portion of a circuit (“interoffice”/ “channel mileage”)
- ILEC pricing behavior over the last three years confirms that competitive alternatives are limited; rates only go down when the price cap forces them down