**MCI Communications Corporation**

MCI

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
The Portals
445 12th Street, S.W., TW-A325
Washington, D.C. 20554

Re: **CC Docket No. 96-45; Federal-State Joint Board on Universal Service**
**CC Docket No. 97-160; Forward-Looking Mechanism for High Cost Support for Non-Rural LECs**

Dear Ms. Salas:

Enclosed herewith for filing are the original and four (4) copies of MCI WorldCom, Inc.'s Comments on the Petitions for Reconsideration filed in the above-captioned proceeding.

Please acknowledge receipt by affixing an appropriate notation on the copy of the Comments furnished for such purpose and remit same to the bearer.

Sincerely yours,

Chris Frentrup

Chris Frentrup
Senior Economist
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Washington, DC 20006
(202) 887-2731

MCI WorldCom, Inc.

Enclosure

0+4

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

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| In the Matter of | ) | |
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| Federal-State Joint Board on Universal Service | ) | CC Docket No. 96-45 |
| | ) | |
| Forward-Looking Mechanism for High Cost Support for Non-Rural LECs | ) | CC Docket No. 97-160 |

**COMMENTS OF MCI WORLDCOM, INC.**

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MCI Worldcom, Inc

February 7, 2000

## TABLE OF CONTENTS

SUMMARY . . . . . i

I. INTRODUCTION . . . . . 1

II. THE COMMISSION SHOULD NOT REVISE ITS DEFINITION OF NON-RURAL CARRIERS AT THIS TIME . . . . . 2

III. THE COMMISSION'S ROAD SURROGATE METHODOLOGY LEADS TO OVERSTATED COSTS . . . . . 4

IV. UNDERGROUND CABLE AND STRUCTURE COSTS ARE OVERSTATED 6

V. NATIONWIDE INPUT VALUES REFLECT ECONOMIC COSTS BETTER THAN INDIVIDUAL COMPANY VALUES DO . . . . . 8

VI. CRITICISMS OF THE NRRI STUDY WERE ALREADY ADDRESSED BY THE COMMISSION . . . . . 9

VII. THE COMMISSION WAS NOT INCONSISTENT IN ITS SELECTION OF INPUTS, AS GTE ALLEGES . . . . . 10

VII. PARTIES HAD ADEQUATE OPPORTUNITY TO COMMENT ON THE MODEL AND THE INPUTS . . . . . 12

IX. CONCLUSION . . . . . 13

## SUMMARY

The Commission should not revise its definition of non-rural carriers. Those parties advocating a change in that definition base the necessity of a change solely on the fact that they do not like the effect that use of the cost model will have on the support they receive. However, these carriers have characteristics very similar to the other non-rural carriers, and should therefore have a similar cost structure, which will be captured by the Commission's Synthesis Model.

The Commission should also revise its decision to use a road-surrogate method for determining customer location. The geocode data placed on the record was available for review by interested parties, and the Commission should adopt the use of this data. At a minimum, the Commission must adjust the results of its road surrogate methodology to reflect the demonstrated fact that customers do cluster together.

Underground cable and structure costs are overstated and must be revised. The Commission's model places an excessive amount of underground plant, and uses a methodology that inexplicably increased previous estimates of cable cost. Finally, the Commission inappropriately uses excessively costly manholes in underground distribution.

The Commission should reaffirm its decision to use nation-wide values for most inputs, as these will give a conservative estimate of the input values that are appropriate in a forward-looking economic cost model. In addition, GTE's

claims that the Commission made errors in its use of the NRRI data, was inconsistent in its selection of inputs, and did not give parties opportunity to comment on the final version of the model and the inputs are incorrect, and should be rejected.

**Before the**
**FEDERAL COMMUNICATIONS COMMISSION**
**Washington, DC 20554**

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| Forward-Looking Mechanism for High Cost Support for Non-Rural LECs | ) | CC Docket No. 97-160 |
| | ) | |

**COMMENTS OF MCI WORLDCOM, INC**

MCI WorldCom, Inc. ("MCI WorldCom") hereby submits its comments in response to the Petitions for Reconsideration of two Commission orders in the above-captioned docket.

## I. INTRODUCTION

The Commission had previously adopted a cost model platform to be used to determine the cost of providing universal service.[1] Subsequently, the Commission adopted two Orders which are the subjects of the petitions for reconsideration addressed in these comments.[2] The Ninth Report & Order

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1 See Federal-State Joint Board on Universal Service, Fifth Report and Order, CC Docket Nos. 96-45, 97-160, 13 FCC Rcd 21321 (1998) (Platform Order)

2 Federal-State Joint Board on Universal Service and Forward-Looking Mechanism for High Cost Support for Non-Rural LECs, Ninth Report and Order and Eighteenth Order on Reconsideration, FCC 99-306 (rel Nov. 2, 1999) ("Ninth Report & Order"); Federal-State Joint Board on Universal Service and Forward-Looking Mechanism for High Cost Support for Non-

specified the methodology that would be used to determine the amount of universal service support based on the outputs of the cost model. The Tenth Report & Order adopted the input values to be used in the cost model. Several parties have filed petitions for reconsideration of these two Commission Orders.

## II. THE COMMISSION SHOULD NOT REVISE ITS DEFINITION OF NON-RURAL CARRIERS AT THIS TIME

Two local exchange carriers, Puerto Rico Telephone Company (PRTC) and Roseville Telephone Company (Roseville), seek to have the Commission reconsider its decision to apply the new cost model-based Universal Service Fund (USF) mechanism to their companies. Roseville asks the Commission to modify its definition of non-rural telephone companies, which is those companies that serve more than 100,000 lines. Such a definition designates Roseville, which serves approximately 128,000 lines, a non-rural carrier, and therefore applies the new USF mechanism to it. However, this results in Roseville receiving no support once the hold-harmless provision is removed, which Roseville claims is an absurd result. PRTC, on the other hand, argues that the model must be flawed, since it would provide no support to PRTC, despite the fact that it now receives over $130 million in combined USF and Long Term Support (LTS). Thus, PRTC asks that the Commission not apply the new mechanism to it, so that it may continue to receive its current level of support.

The Commission should deny both petitions. Roseville has presented no

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Rural LECs, Tenth Report and Order, FCC 99-304 (rel Nov. 2, 1999) ("Tenth Report & Order").

evidence that the cost model is incorrect in its case; it merely objects to the outcome. The only justification it attempts to give for treatment as a rural carrier is that it is smaller than most of the other non-rural carriers and thus cannot achieve the economies of scale that those carriers can achieve. However, according to Roseville's own data, its average line density is approximately 1,500 lines per square mile.[3] This places it well above the average for rural carriers, at 13 persons per square mile, as well as the average density of non-rural carriers, at 150 persons per square mile.[4] Since line density is a primary driver of the cost of universal service, Roseville should have the same cost characteristics as the other non-rural carriers.

Similarly, PRTC claims that the fact that the cost model provides zero USF support, when current embedded cost-based USF and LTS funding for it is over $130 million, indicates that the cost model is flawed as it applies to PRTC, and should not be used in its case. However, this ignores the fact that PRTC's embedded costs are excessive. In fact, PRTC was recently sold to GTE precisely because it was believed that such a move would allow PRTC to achieve cost savings. As was noted by several parties in the proceeding regarding the proposed merger of GTE and PRTC, PRTC's embedded costs are

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[3] Roseville at 2.

[4] See The Rural Difference, Rural Task Force White Paper 2, January 2000, at 8. This report, which can be downloaded at http://www.wutc.wa.gov/rtf, was prepared by the Rural Task Force, an independent advisory panel appointed by the Universal Service Joint Board to provide guidance on Universal Service issues affecting rural telephone companies.

unusually high.[5] Given this, it is hardly surprising that a cost model, which unlike the USF and LTS funding that PRTC currently receives is not based on PRTC's inefficient expenditures, finds that no USF support is necessary.

In any case, it is not clear that PRTC will continue to receive its current LTS funding. The Commission's rules require PRTC, as a result of its merger with GTE, to leave the NECA pool, which will eliminate its draw on LTS. Although PRTC has also filed a request for waiver of that requirement, it is speculative at best for PRTC to assume that it will retain that funding.

PRTC claims that the cost model is flawed because it shows lower costs than its embedded costs. However, it appears that its embedded costs do not reflect economic efficiency. The Commission should not revise its distinction between rural and non-rural carriers solely to allow PRTC to continue to receive excessive support from subsidy funds that it apparently does not even need.

## III. THE COMMISSION'S ROAD SURROGATE METHODOLOGY LEADS TO OVERSTATED COSTS

The Commission has rightly concluded that geocoded data - the latitude and longitude coordinates of customer locations - will yield the least-cost, most

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5 See, e.g., Comments of Sprint in Application of GTE Holdings (Puerto Rico) for Transfers of Control of the Radio Licenses Held by the Puerto Rico Telephone Company, File No. LB-98-58, filed October 2, 1998, at 3-5. In these comments, Sprint notes that PRTC's ratio of revenue per employee is much lower than in other similar companies, and that its labor compensation is higher. This suggests that a large part of PRTC's expenses and resulting need for support may be due to inefficiencies rather than true need.

efficient outside plant design.[6] Based solely on concerns about the availability of that data for review by interested parties, the Commission decided to reject use of the geocoded customer location data from PNR Associates, the only data available on the record, and instead relied on a road surrogate methodology. This methodology uses Census Bureau data, and assumes that customers are evenly spaced along roads.

As AT&T notes in its petition for reconsideration, the Commission's concern about the availability of the PNR data is misplaced. Parties were indeed able to review this data in the same manner that parties were able to review the cost data submitted by the local exchange carriers (LECs), under proprietary agreement. Many parties have in fact reviewed the PNR data, both in this proceeding and in various state proceedings. In fact, the PNR data have received more scrutiny by parties than the Census Bureau data on which the Commission relies for its adopted road surrogate methodology.

In adopting the road surrogate methodology, the Commission assumed that customers are dispersed evenly along roads. This assumption will yield a maximum dispersion of customers, and thereby maximize the cost of the network that the cost model builds. In making this assumption, the Commission ignored the substantial record evidence, provided by both LECs and other parties, that customers are not uniformly dispersed but tend to cluster together. At the very least, if the Commission does not adopt the geocoded data, it should revise its

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6 Tenth Report & Order at para 37.

road surrogate methodology to adjust the loop distances to reflect the tendency of customers to cluster.

## IV. UNDERGROUND CABLE AND STRUCTURE COSTS ARE OVERSTATED

The Commission made three determinations regarding the cost of underground cable and structure that are inconsistent with the record and must be reversed or revised. First, although it affirmed its tentative decision to use the results of the NRRI study to set cable costs, in the case of small underground cables, the Commission adopted values that were more than double its prior estimates of those costs based on the same study, without providing any explanation for the change.[7] As AT&T notes in its petition, the Commission should reverse this decision, and adopt its previously proposed values.

Second, the Commission adopted a distribution plant mix that overstates the amount of underground plant. This is evidenced by comparing the Commission's adopted values with the data filed by Bell South, which show a maximum percentage of underground distribution plant that is one fifth that of the value adopted by the Commission. In the Tenth Report & Order, the Commission stated that it was not considering the Bell South data because it preferred to adopt nation-wide values. As AT&T notes in its petition, this is a

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[7] AT&T at 9.

non sequitur.[8] In originally proposing the use of this data, AT&T and MCI WorldCom were not suggesting that the values should be set based on one company's data. However, these Bell South data certainly indicate that the Commission's adopted values are overstated. In addition, there are no other data on the record, let alone data that suggest that nation-wide values should be so much higher than Bell South's plant mix.

Finally, the Commission includes the cost of manholes in its underground distribution plant, on the grounds that manholes are necessary to allow for splicing. However, the record shows that in those rare instances where underground distribution plant occurs, it runs only a short distance, such as under a street. In these instances, a manhole would not be necessary. Even if splicing were necessary, costly full-size manholes are not necessary to accommodate the single copper splices that would occur on distribution cable. Therefore the Commission should either remove manholes costs altogether from underground distribution, or at a minimum should use the smaller PenCell PEM-2436 Buried Cable Enclosure previously advocated by AT&T and MCI WorldCom.[9]

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8 AT&T at 10.

9 See AT&T/MCI WorldCom July 23, 1999 Comments at 24.

## V. NATIONWIDE INPUT VALUES REFLECT ECONOMIC COSTS BETTER THAN INDIVIDUAL COMPANY VALUES DO

GTE advocates that the Commission adopt company-specific values for several specified inputs.[10] This is necessary, GTE claims, because nation-wide values for these inputs will not capture the incumbents' cost characteristics, and will not lead to sufficient support, as required by the Communications Act of 1996 (the Act).

GTE has incorrectly interpreted the Act to mean that incumbents must receive support that will reflect their own current costs. To be sufficient, the support level must be neither less nor more than is necessary. The Act did not grant incumbent LECs the right to receive support that will guarantee them their current level of expenses, if those expenses reflect non-economic costs. A rightly-sized universal service support fund should support only economically efficient costs. A properly designed forward-looking cost model, such as the Commission's Synthesis Model, must compute the true economic cost of providing universal service. Nation-wide input values provide a better estimate of an efficient carrier's practice than do individual company values.[11] It is

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10 See, e.g., GTE at 14-15 (cable and structure costs), 17 (Expense:Investment ratios), 21 (structure sharing).

11 In fact, one can argue that nation-wide values are a conservatively high estimate of the results an efficient carrier could achieve, for two reasons. First, they are an average of the results from the current incumbents, none of whom has faced sufficient market discipline to rein in their costs. Second, the nation-wide averages reflect the results of several companies, who have achieved different levels of efficiency. Basing inputs on this average across companies will not capture the most efficient practice possible.

precisely because the Act requires that universal service support be sufficient that the Commission was correct to use nation-wide rather than company-specific values.

## VI. CRITICISMS OF THE NRRI STUDY WERE ALREADY ADDRESSED BY THE COMMISSION

GTE makes a number of criticisms of the Commission's use of the NRRI study to estimate cable and structure costs: (1) some relevant costs were excluded;[12] (2) high cost contracts were removed from the data set:[13] (3) the Huber adjustments were inappropriate;[14] (4) geographic and ordinal variables were used incorrectly;[15], and (5) the pole cost equations have an insufficient number of observations to give meaningful results.[16] Each of these points was raised by GTE in its comments or in ex partes prior to release of the Tenth Report & Order, and each of these objections was answered by the Commission in the Tenth Report & Order. GTE has added nothing new to call the Commission's explanations into question, and thus none of these criticisms is valid.

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12 GTE at 9.

13 Id.

14 Id.

15 GTE at 12-13.

16 GTE at 13.

## VII. THE COMMISSION WAS NOT INCONSISTENT IN ITS SELECTION OF INPUTS, AS GTE ALLEGES

GTE argues that the Commission was arbitrary and capricious in its selection of inputs, in that it inconsistently applied the criteria it used to select various inputs. However, in each of the cases cited by GTE, either the Commission adequately explained why it took different approaches, or GTE has simply misinterpreted the Commission's actions.

First, GTE claims that the Commission was inconsistent in rejecting the use of some data because it produced biased results. Specifically, GTE claims (1) that the Commission rejected use of a company-specific algorithm for determining plant mix because it produced biased results, even though (2) the Commission accepted the use of NRRI data despite the fact that the NRRI study produces biased results due to its use of inappropriately specified geographic variables. The Commission was not inconsistent in this case, because it, rightly, did not agree with GTE's claim that the NRRI study was biased. The Commission selected nation-wide plant mix values because the only algorithms on the record for determining plant mix on any level more granular than nation-wide gave biased results.[17] However, the Commission did not accept use of the NRRI study despite acknowledging that it produced biased results, for the simple reason that it did not acknowledge that the study produced biased results.[18]

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[17] See Tenth Report & Order at para. 235.

[18] See Tenth Report & Order at para. 125.

Second, GTE claims that the Commission inconsistently rejected use of the Turner Price Indexes (TPIs) to adjust embedded switch costs to current dollars while accepting the use of the TPIs to adjust the data in the NRRI study.[19] Once again, GTE is incorrect. The Commission declined to use the TPIs to adjust switch costs because it "prefer[red] to rely on public data when available."[20] In the case of switch costs, the Commission found it could adjust the costs using an alternative method that relied on publicly available data, and did so.[21]

Third, GTE claims that the Commission was inconsistent to use a Bell Atlantic state filing to support a Buying Power adjustment, but ignore another part of that same document that claimed that the fiber splicing costs in the NRRI study were too low. This "all-or-nothing" approach to the acceptance of information in a filing is certainly novel. The Commission is under no obligation to accept every claim that may be made in a filing simply because it has accepted one piece of information from that filing.

Fourth, GTE claims that by using the Buying Power adjustment based on Bell Atlantic Maine data, the Commission has recalibrated all costs to the Bell Atlantic Maine level, in contradiction of its claimed aversion to company-specific data. However, the Buying Power adjustment developed from Bell Atlantic

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19 GTE at 22.

20 See Tenth Report & Order at para. 314.

21 Id.

Maine data is simply a comparison of that company's cost to the results of the NRRI model. By applying that ratio to the results of the model, the Commission has simply applied the best available estimate of the difference between large and small company costs for cable and structure. Use of that factor does not make the computed costs equal to those of Bell Atlantic Maine.

## VII. PARTIES HAD ADEQUATE OPPORTUNITY TO COMMENT ON THE MODEL AND THE INPUTS

GTE claims that the Commission must release the final version of the model and the inputs, and give all parties one final chance to comment. This is absurd. Under this reasoning, if the Commission were to do as GTE requests, and then decide to make changes after receiving comments, it would then have to put this new version out for further comments, and so on ad infinitum. GTE and all parties have had ample opportunity to comment on all inputs, and have had since October 1998 the substantially final version of the Synthesis Model.[22] Such changes as have been made in the inputs have been made after all parties have had every opportunity for comment. GTE's request for another final round of comments is simply a recipe for regulatory gridlock, and should be rejected.

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22 Such minor adjustments as were made to the model since its adoption were ministerial in nature, and did not change the way inputs were used in the model.

## IX. CONCLUSION

For the reasons discussed herein, the Commission should adopt the use of geocoded customer location data, revise its cable and structure costs, and reject the petitions of PRTC, Roseville, and GTE.

Respectfully submitted,

MCI WorldCom, Inc.

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February 7, 2000

## 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 February 7, 2000.

Chris Frentrup
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## CERTIFICATE OF SERVICE

I, Carolyn McTaw, do hereby certify that on this 7th day of February, 2000, I caused a copy of the foregoing Comments of MCI WorldCom, Inc. to be served upon each of the parties listed on the attached Service List by U.S. First Class mail, postage prepaid.

Carolyn McTaw

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