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MCI WORLDCOM

Bradley C. Stillman
Senior Policy Counsel
Strategic Advocacy

1801 Pennsylvania Avenue, NW
Washington, DC 20006
202 887 3340
Fax 202 887 3116

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May 16, 2000

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

EX PARTE

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

CC Docket Nos. 94-1; 96-45; 96-98; 96-262; 98-137; 99-249

Dear Ms. Salas:

Today, Mary Brown, Alan Buzacott and I of MCI WorldCom met with Dorothy Attwood, legal advisor to Chairman Kennard regarding the above referenced matters.

In the meeting, the attached presentation was discussed. In addition, there was discussion regarding the series of *ex parte* submissions highlighting WorldCom's concerns about placing restrictions on the use of Enhanced Extended Loop (EEL's).

In accordance with section 1.1206(b)(2) of the Commission's rules, 47 C.F.R. § 1.1206(b)(2), an original and one copy of this memorandum are being filed with your office.

Sincerely,

Bradley Stillman

cc: Dorothy Attwood

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The Use Restriction Will Harm Special Access Competitors and Customers

- ILECs say that they already meet pricing flexibility triggers
  - Phase I: 182 MSAs (with 88% of revenues)
  - Phase II: 142 MSAs (with 72% of revenues)
- Many routes and services will have no competitors
  - Phase I: collos in offices with 30% of revenues
  - Phase II: collos in offices with 65% of revenues
- If the use restriction is extended
  - The Commission should modify its procedural rules to allow 12 months to review pricing flexibility requests
  - Target special access X-factor reductions to DS1, VG

The Depreciation Proceeding is Procedurally Questionable

- December 1999 decision permitted depreciation relief only under specific circumstances
- ILEC proposal does not follow that plan -- the ILECs are trying to renegotiate the December 1999 conditions.
- No record evidence to support the ILEC proposal

Depreciation Deregulation Would Undermine Local Competition

- NARUC Comments: "there will certainly be more pressure for the FCC and states to use the [ILEC] financial depreciation rates as inputs to the proxy models"
  - 24 states have used FCC depreciation factors in setting interconnection/UNE rates
- UNE price increases would offset any increased incentive for local residential entry from the CALLS plan
- ILEC proposal would not provide data for updating FCC life and salvage ranges

No Basis for Above-the-Line Treatment

- Depreciation Order conclusions:
  - FCC depreciation rates are reasonable
  - There is no reserve deficiency
  - NARUC: "the FCC's precedent of above-the-line amortizations for reserve deficiencies is not relevant"
- Above-the-line treatment
  - Risks interstate and intrastate rate increases
  - ILEC "commitments" are inadequate
  - Bolsters ILEC argument that financial factors should be used in cost models

Proposed Amortization Creates the Risk of Rate Increases

- One-time adjustment:
  - Increased depreciation expense offset by reduced rate base
- Five-year amortization:
  - Depreciation expense increases immediately, but rate base is reduced only slowly
  - Amortization increases risk of low-end adjustment <u>even if ILECs do not seek recovery of amortization expense</u>

Consumers Will Pay More Under CALLS