Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
National Exchange Carrier Association Inc.	)	**WC Docket No. 02-340**
Tariff FCC No. 5	)	
Transmittal No. 951	)	

AT&T CORP.
OPPOSITION TO DIRECT CASE

David L. Lawson
Michael J. Hunseder
SIDLEY AUSTIN BROWN & WOOD, LLP
1501 K Street., N.W.
Washington, D.C. 20005
(202) 736-8000

Mark C. Rosenblum
Lawrence J. Lafaro
Peter H. Jacoby
Judy Sello
AT&T CORP.
Room 3A229
900 Route 202/206 North
Bedminster, New Jersey 07921
(908) 532-1846

December 5, 2002

TABLE OF CONTENTS

Page

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
National Exchange Carrier Association Inc. **Tariff FCC No. 5** **Transmittal No. 951**	)	**WC Docket No. 02-340**

AT&T CORP
OPPOSITION TO DIRECT CASE

Pursuant to the Investigation Order ("*Investigation Order*") in this matter released on October 31, 2002, by the Chief of the Pricing Policy Division, AT&T Corp. ("AT&T") hereby submits its Opposition to the Direct Case filed by The National Exchange Carrier Association, Inc. ("NECA") on November 21, 2002 ("Direct Case").

I. INTRODUCTION AND SUMMARY

This proceeding is another investigation of a series of anticompetitive proposals by incumbent LECs designed to leverage the recent bankruptcy filings of several competitive local and long distance carriers to gain regulatory approval for radical new tariff provisions that the incumbents would use to disadvantage the remaining carriers that have sound credit and that pose no exceptional bad debt risk. NECA's professed justification – which it never supports and is entirely unfounded – is that the "telecommunications market has changed" and is now "highly risky" – resulting in a "profound increase" in NECA carriers' exposure to uncollectible bad debts for interstate access services. NECA's direct case does not come close to establishing a need for any such tariff revisions.

In fact, NECA's proposals are an incredibly overbroad response to a largely nonexistent problem, and they should be promptly rejected. No aspect of NECA carriers' provision of access services is particularly risky or volatile, and, as demonstrated below, NECA carriers continue to enjoy very low *actual* levels of bad debt expenses that are in no way indicative of any permanent bad debt crisis that is beyond the capabilities of NECA's existing tariff provisions.

In this regard, NECA has grossly exaggerated its claims that the recent downturn in the market has exposed NECA carriers to substantial liability from unpaid access bills. The data on bad debt expense reported by NECA through 2001 show that these carriers have had extremely low bad debt expense. Further, any recent fluctuations in these NECA carriers' uncollectibles are entirely consistent with prior variations, and simply result from normal fluctuations in the business cycle or from other short-term market conditions. NECA predicts a significant increase in uncollectibles in 2002, but that increase is entirely due to NECA's "estimates" of the amounts it will not be able to recover in the ongoing WorldCom and Global Crossing bankruptcy proceedings. But those estimates do not in fact represent NECA carriers' actual uncollectibles, which could be much lower. And in all events, even if NECA carriers were to experience higher uncollectibles because of WorldCom and Global Crossing's failures, any losses from those unique and non-recurring events do not justify broad and unprecedented expansion of NECA carriers' discretion to demand security deposits from remaining viable carriers.

Further, bad debt expense has had no effect on the bottom line for NECA carriers. NECA carriers continue to earn rates of return that are often times above the prescribed returns authorized by the Commission. In these circumstances, NECA's plea for additional security is simply unnecessary. In fact, the NECA carriers' existing authorized rates already account fully for these potential uncollectibles expenses. Under the rate-of-return system, NECA carriers' bad debt expense is reflected in the gross revenues that are used to calculate the 11.25% authorized rate of return. Mid-term changes to rates are permitted only under extraordinary circumstances that NECA could not justify here, given the excessive rate of return earned by NECA carriers. Moreover, the Commission's existing prescribed tariff language already fully protects NECA carriers from customers with a proven history of non-payment, and from customers without established credit. NECA fails to explain why these provisions, which were in place in prior economic downturns, are no longer sufficient.

Furthermore, even if NECA had demonstrated some limited increase in its exposure that is not already appropriately covered by existing rates or by the Commission's longstanding tariff prescriptions relating to non-payment risks, NECA's proposed tariff revisions are by no means a narrowly circumscribed and measured response to any such problem. NECA seeks wide discretion to demand security deposits from its access customers based upon long-term bond ratings issued by any bond rating agency. However, NECA has set the bar so low that virtually *all* non-BOC affiliated carriers in the industry are subject to security deposits, even though the bond agencies themselves report that, on average, the actual annual rate of default for companies with the ratings selected by NECA is a miniscule *4 percent* – proof that NECA's triggers are far too broad. Thus, NECA will be able to eliminate *any* risk of uncollectibles by providing itself with the authority to demand massive deposits from virtually all carriers, even those with a minimal rate of default. For large IXCs, the amounts demanded as "security" deposits could be tens of millions of dollars – enough to disrupt the business plans of even large carriers that are otherwise able to pay their bills.

As the *Investigation Order* (¶ 18) explicitly questioned, the anticompetitive effects of such a system are troubling. NECA has designed the security deposit criteria so that any long-distance or competitive LEC affiliates of NECA carriers will generally be creditworthy and need not provide a security deposit. These provisions could allow NECA carriers to wield the proposed security deposit provisions as an anticompetitive and discriminatory weapon to disadvantage and raise the costs of their rivals. The Commission has repeatedly rejected similar proposals to grant incumbent LECs wide discretion over payment and security deposit terms for that very reason, and these proposed tariff provisions, like previous attempts, should be rejected.

II. NECA PROVIDES NO EVIDENCE OF ANY CHANGED CONDITIONS THAT WARRANT REVISION OF ITS EXISTING TARIFFS.

As the *Investigation Order* recognizes, NECA's proposed tariff revisions "significantly alter" the balance of risk of nonpayment of access charges between NECA and its captive access customers. *Investigation Order* ¶ 9. Accordingly, even before addressing the propriety of the specific tariff revisions proposed by NECA, the preliminary question to which NECA must respond in its direct case is "whether circumstances have changed" in a way that could justify any revision at all in the Commission's longstanding tariff prescription on security deposits. *Id.* NECA's direct case on this fundamental issue is virtually non-existent, and its proposed tariff revisions should be rejected on this ground alone.

A. NECA' s Bad Debt Risk Has Not Risen Significantly And Certainly Poses No Serious Threat Of Revenue Shortfalls.

NECA claims that across-the-board tariff revisions are necessary because the "telecommunications market has changed" and is now "highly risky," so that there is a "permanent[]" and "profound increase" in the risk of uncollectibles to NECA carriers. Direct Case at 2, 4, 5, 14. These hyperbolic claims are demonstrably false. NECA provides *no* evidence that its access service business has become more risky, because the reality is quite different. In fact, NECA has not demonstrated that its uncollectibles expense – particularly as a ratio of its rapidly increasing access revenues – has risen to unprecedented levels. To the contrary, for the NECA carriers, uncollectibles expense as a percentage of revenues remains remarkably low, and is generally declining. NECA certainly has not shown that the recent fluctuations in its uncollectibles expenses are especially volatile or the result of some long-term trend, rather than reflective of general economic business cycles. And NECA's claims of crisis arising from the bankruptcy filings of certain carriers is equally exaggerated: as NECA's direct case makes quite clear, virtually all of the asserted increases in 2002 bad debt expense for NECA carriers relate to the Global Crossing and WorldCom bankruptcies – which are unique and non-recurring events precipitated by allegations of massive accounting fraud designed to fool investors and creditors. Excluding these abnormal events, it is evident that the bankruptcy claims and bad debt expense for NECA carriers in 2002 are no more significant than in past years. And bad debt expense has had no negative effect on the bottom line for NECA carriers: the rates of return earned by NECA carriers over the last few years have been quite stable and at or even above the prescribed rate of return, confirming that NECA retains monopoly control over access markets and thus faces little risk of eroding revenues.

1. NECA Carriers' Uncollectibles Are Small Relative To Revenues, And Have Not Varied Substantially Over Time.

NECA's proposed tariff revisions are plainly unsupported because NECA has not even shown that NECA carriers are experiencing any significant and sustained increase in its uncollectibles expenses. NECA's claims (at 4) that NECA carriers face a "profound increase" in risk of bad debt expense from interstate access services are simply misleading. In fact, the bad debt levels experienced by NECA carriers, like those of other dominant LECs, remain very small in comparison to revenues. Moreover, the levels of uncollectibles fluctuate from year-to-year, depending on a number of factors including general economic conditions and the particular LEC's efficiency in collecting bad debts. The recent increases in bad debt levels experienced by NECA carriers reflect business cycle fluctuations and other temporary events, and not any permanent trend that substantially increases the *future* risks of nonpayment.

The principal data that NECA provides in response to the *Investigation Order*'s requests (¶ 11) for NECA carriers' uncollectibles levels is a chart that lists the absolute amount of interstate uncollectibles expense for the NECA pool from 1990 to 2002. Direct Case at 4. Based on this single chart, NECA asserts that "the level of uncollectible revenue has increased dramatically beginning in 2001," and that this is a "permanent[]" change. *Id.* at 4, 14. However, NECA's data, and especially its claims about that data, are highly misleading, for a number of reasons.

Most significantly, NECA provides only the absolute amount of interstate uncollectibles, but inexplicably fails to compare those figures to its interstate access revenues, which have also increased substantially. The relevant measure of uncollectibles expense is, of course, the *percentage* of revenues that is uncollectible. As shown in the following table, the uncollectibles ratios (uncollectibles expense divided by interstate access revenues) for NECA carriers are quite small, and have *never* exceeded even a quarter of one percent of revenues.

Interstate Uncollectibles Data For NECA Carriers
Traffic Sensitive Pool
As A Percentage of Interstate Revenues
1993-2001[1] Table 1

Year	Interstate Access Uncollectibles (000s)	TS Pool Interstate Revenues (000s)	Uncollectible Ratio
1993-1994	$2,821	$3,093,452	**0.0912%**
1995-1996	$1,937	$2,793,603	**0.0694%**
1997-1998	$2,365	$3,381,741	**0.0699%**
1999-2000	$3,079	$3,359,924	**0.0916%**
2001 (Prelim)	$2,863	$1,987,686	**0.1440%**

As these figures confirm, NECA carriers are not suffering from any bad debt "crisis." Their level of uncollectibles is low by any measure.[2] And, as described below, these overall levels of bad debt expense have still had no cognizable negative impact on the

[1] Sources are FCC 492 forms and Uncollectibles Data submitted by NECA at page 4 of the Direct Case, as adjusted. *See* Exhibit 1.

[2] Indeed, even using NECA's own data, it is evident that, as recently as the year 2000, the *absolute* amount of uncollectibles for NECA pool carriers decreased. Direct Case at 4.

ability of NECA carriers to earn just and reasonable returns – indeed, the NECA carriers have typically exceeded their authorized rate of return on access services.

Nor can the mere fact that there have been fluctuations in the year-to-year levels of uncollectibles expense justify any tariff revisions. NECA carriers' uncollectibles expenses have always fluctuated over time. Such fluctuations are entirely normal and are the result of a variety of factors, such as general economic conditions and the NECA carriers' efficiency at collecting their debts.

Indeed, NECA's principal justification for its proposed tariff revisions relies not on any overall rise in uncollectibles (since uncollectibles have generally been *decreasing*), but rather on the significant amounts of uncollectibles that NECA predicts will arise in 2002 because of the WorldCom and Global Crossing bankruptcy proceedings. Those figures are both seriously flawed and ultimately not indicative of the risks of nonpayment at which security deposit provisions are targeted.

First, these and many other bankruptcy proceedings remain open, and NECA cannot determine the amounts that NECA carriers will recover from these or other bankrupt entities. Thus, the amounts of the claims presented by NECA significantly overstate actual uncollectibles.[3] NECA claims that it has "estimated" that the WorldCom

---

[3] And in fact, by virtue of its status as a dominant supplier of access, NECA carriers have a superior position that makes it more likely to obtain recovery of its claims in bankruptcy. A bankrupt entity's executory contracts can be assumed and assigned pursuant to 11 U.S.C. §§ 365(b)(1) and (f)(1) if the debt associated with such contracts is cured, or paid. Because the ILECs' access services are typically the only option available, a company emerging from bankruptcy or a company acquiring all or part of a bankrupt entity will often seek to assume the existing ILEC access services. In that instance, as a condition for the assumption and assignment of the access services, the bankruptcy code provides for payment of both the pre-petition and post-petition claims. Thus, there is no basis to presume that NECA will not ultimately obtain payment for significant amounts of access it has claimed in bankruptcy proceedings.

and Global Crossing bankruptcies will result in over $70 million in uncollectibles, *see* Exh. B, but NECA fails to explain adequately the basis for those estimates. NECA's confusing and unexplained exhibit appears to derive an "average uncollectibles per line" served by Global Crossing and WorldCom, *id.*, and then to multiply that figure by the total lines served by those companies. However, the uncollectibles per line is itself apparently derived from another "uncollectibles estimate[]" that was "reported" and "gathered" by NECA carriers or their billing vendors. *Id.* However, NECA never explains the underlying basis for these reported estimates, and it is therefore impossible to draw any conclusions about the validity of NECA's estimates of the amount of uncollectibles attributed to WorldCom and Global Crossing.[4]

Further, even accepting, *arguendo*, NECA's "estimates," NECA itself admits that virtually all of its 2002 year-to-date uncollectibles arise from the bankruptcy filings of WorldCom and Global Crossing. Apart from these bankruptcies, the amounts of absolute uncollectibles are generally quite small. Those bankruptcies have been linked to massive and unprecedented instances of accounting improprieties. It would obviously be improper to base future policy that will affect all customers on such aberrations that are both unlikely to be repeated (given the serious tightening of accounting and related

[4] NECA makes a separate estimate (which bears no apparent relationship to its estimates of the bad debt expense for Global Crossing and WorldCom) that projects uncollectibles for the 2002/2003 test period to be $15 million. *See* Exhibit B. That estimate is even more flawed, because NECA "selected a default rate of about 11 percent," which is enormously high, given that NECA carriers' historic uncollectibles ratios have always been well below 1% (*see* Table 1, *supra*). The basis for NECA's assumption is that Moody's has reported that speculative grade companies in 2001 defaulted at a 10.2% rate. *See* Exhibit B. But Moody's also reported that the default would fall in 2002 to 6.8%. Moreover, that is the default rate for speculative grade companies – but several of NECA carriers' customers (including two of the largest, AT&T and Sprint) are not speculative grade. There is simply no valid basis for NECA to presume that it will be unable to recover 11% of its revenue in 2002 and 2003.

regulation by the Securities and Exchange Commission and other regulators) and not redressible through security deposit provisions (which must rely upon what is reported and cannot account for what is hidden or misrepresented).[5]

The *Investigation Order* seeks to determine whether NECA can demand security deposits from remaining *viable* carriers. If anything, the downfall of MCI WorldCom and others should strengthen the remaining viable carriers who will inherit additional customers. Moreover, as described in the declaration of Professor Bradford Cornell that AT&T has previously submitted in other proceedings, the bankruptcy data presented by NECA tends to show that bad debt expense for the listed companies will generally *not* be occurring in the future. Cornell SBC Tariff Investigation Dec. ¶¶ 16-17.[6] NECA nonetheless repeatedly contends that its uncollectibles will continue to increase, but it offers virtually no evidence to support that prediction.[7]

---

[5] Where a company engages in serious accounting fraud that is designed to mask its true financial state, the reported information relied upon by credit managers would likely show that no unusual credit terms or security deposits are needed. In this regard, it is significant to note that NECA carriers and other incumbent LECs are among the many suppliers (including AT&T) that have large claims against the MCI WorldCom estate. The tariff revisions that NECA and other incumbent LECs seek would likely not provide additional security in cases where companies engage in fraud or other improper practices.

[6] *See* Cornell Decl., attached to AT&T Corp. Opposition to Direct Case, WC Docket No. 02-319, *In the Matter of Ameritech Cos., Tariff FCC No. 2, Transmittal No. 1312, et al.* (filed Nov. 14, 2002) ("Cornell SBC Tariff Investigations Dec.").

[7] NECA attaches a few articles offering the opinions and predictions of various investment companies or consultants. *See* Exh. D. The first (by RHK), which claims that carriers emerging from bankruptcy may be able to offer lower prices than now-viable carriers (apparently so significant that it will trigger additional bankruptcies), is contradicted by the second (by Precursor), which claims it "has found little actual evidence" that bankrupt carriers will be "financially capable of pricing disruptively." *See id.* That article also claims that there are "emerging signs of long-term stabilization," which is consistent with the view that bad debt expense fluctuates with the business cycle. These articles simply do not provide any basis to presume, as NECA does, that its bad debt expense will continually worsen and cannot be controlled with existing deposit

In short, NECA has not come close to meeting its burden of demonstrating that an overhaul of longstanding security deposit provisions is necessary to protect NECA carriers from extraordinary and nontransitory increases in the risk of nonpayment by carrier customers for access services.

2. NECA Carriers Continue To Earn At Or Even Above The Prescribed Rate of Return On Access Services.

NECA's contentions (at 5) that the financial impact of interstate access uncollectibles is significant simply ignore the historical rates of return that NECA carriers have earned as the dominant providers of interstate access services. In 2001, a period of time in which NECA claims that uncollectibles rose to dangerous levels that it can no longer control with existing tariff provisions, NECA nonetheless concedes that it earned above the Commission-prescribed 11.25% rate of return on its interstate access services. Direct Case at 5. On the common line component, NECA carriers earned 11.70%, and on the traffic sensitive component, they earned 12.80%. NECA carriers' rates of return on interstate access services also typically exceeded 11.25% in previous years: in 2000, for example, the rates of return were 11.72% and 11.37%. In fact, the rates of return earned for the traffic sensitive component have exceeded the authorized rate of return in *every year* since 1991 – despite what NECA describes as "steady" growth in the absolute amounts of uncollectibles expenses in those years (though in fact, as described above, uncollectibles as a percentage of revenues have been declining). *Id.* at 4-5.

NECA's pleas that the Commission must immediately intervene to provide NECA carriers with additional protections designed to collect even more access revenues simply

---

provisions. *See also infra* Part I.B. (explaining that bankruptcies may strengthen remaining carriers, making uncollectibles lower).

cannot be reconciled with the marketplace reality that NECA's access revenues are already more than reasonable. NECA seeks to capitalize on its claims that the "pervasive" "financial weakness" in the telecommunications sector (Direct Case at 6) justifies its ploy to gain authority to demand tens of millions of dollars in "security" from interexchange carriers, but the evidence shows that the industry downturn has not yet had any affect on NECA carriers' ability to earn monopoly profits in the provision of access services.

It is particularly vital to limit the ability of dominant LECs like the NECA carriers to demand security deposits from access customers because those customers have no choice of providers and no remedy against a dominant LEC that insists upon unreasonable credit demands – which is why the Commission has always recognized the need for prescription in this context that minimizes dominant LEC abuse of security deposit and termination requirements. Because NECA carriers clearly maintain substantial market power in the provision of access services, they retain the incentive and ability to impose unfair and discriminatory terms and conditions, like the security deposit revisions it proposes here – both to increase its own revenues, and, where NECA carriers have formed long distance and competitive LEC affiliates, to raise its long distance rivals' costs.

B. NECA Carriers' Existing Rates Adequately Compensate Them For The Risk of Uncollectibles.

Any expansion of NECA's security deposit tariff provisions is both unnecessary and improper because the rates charged by NECA carriers already account for uncollectibles expense in the rates that NECA carriers may charge access customers, as the *Investigation Order* recognizes (¶¶ 3, 11). NECA cannot circumvent this feature of rate-of-return regulation by adopting what is in effect a massive rate increase through new security deposit tariff provisions that would radically alter the balance of risk as between NECA carriers and their captive access customers.

The *Investigation Order* specifically directed that "[a]s part of its direct case, NECA shall explain why it believes its rates do not adequately compensate its carrier participants for the risk of uncollectibles." *Investigation Order* ¶ 11. As the *Investigation Order* explained, "NECA's rates include a $15,000 revenue requirement component for uncollectible debts." *Id.* The *Investigation Order* directed NECA to submit data as to the "level of uncollectible debts" and then to "address whether the variation in uncollectible levels for 2000 and 2001 is merely a normal fluctuation in uncollectibles, which would be covered by the business risks anticipated in the 11.25 percent authorized rate of return, or whether it reflects some long term trend that warrants expanded security deposits." *Id.* In addition, given that NECA has also proposed a significant increase in the revenue requirements component for uncollectibles, the *Investigation Order* required NECA to "address why both forms of relief are necessary, or what modifications to either form of relief could be made if the other proposed tariff revision were allowed to take effect." *Id.* ¶ 10.

NECA's Direct Case provides no serious response to the *Investigation Order's* inquiries. NECA nowhere explains why it needs *both* an increase in its revenue requirements and tariff revisions providing for additional security deposit measures. Further, as described above, NECA fails to explain that there have been increases in bad debt expense that reflect a long-term trend as opposed to a one-time event or normal business cycle fluctuations. Indeed, it fully concedes that the primary basis for its proposed tariff revisions are the WorldCom and Global Crossing bankruptcies, which do not constitute a long term trend. As described above, NECA carriers' uncollectibles expense has fluctuated over time – variability that is entirely consistent with business cycles and other short-lived events. Moreover, NECA provides no basis to credit its claims that "several other companies still [are] teetering on the brink of bankruptcy." Direct Case at 6. In fact, the very difficulties in the telecommunications industry over the past few years that NECA claims require relief will help reduce the risk of bad debt expense going forward. As Professor Cornell describes, given the capital market conditions, few new firms (and even fewer financially unstable firms) will be entering telecommunications markets. Cornell SBC Tariff Investigation Dec. ¶ 17. And the firms that have declared bankruptcy will either cease to exist or will emerge from bankruptcy with little or no debt and thus will not present extraordinary future risk of non-payment. *Id.* ¶¶ 16-17. Thus, as in the past, NECA carriers' level of uncollectibles expense ratio will almost certainly continue to ebb and flow, but cannot be expected, on average, to rise materially.

Any claim that the 1996 Act induced the entry of numerous carriers into the market and thereby increased volatility has no merit. Nothing in the Act or the Commission's decisions implementing the Act necessarily makes it more likely that NECA carriers and other incumbent LECs will have higher levels of bad debt. The Act did not change the regulation of access services through the rate-of-return system, which means that today, as in the years prior to the Act, NECA is properly compensated for the risk of uncollectibles. And the Act – which was designed largely to open *local* markets to competition – did not create any change in the risks of nonpayment by access purchasers. The long distance industry has been subject to intense competition for many years, and well before the passage of the Act.

For all these reasons, rate of return regulation ensures that NECA carriers are already properly compensated for the risk of uncollectibles.

C. NECA Carriers Are Adequately Protected By The Commission' s Longstanding Prescription Allowing Security Deposits From Customers With Unusual Risks of Non-Payment.

NECA's existing tariffs contain longstanding, Commission-prescribed language that allows NECA carriers and other incumbent LECs to collect security deposits from customers with a poor payment history or with no established credit.[8] Those provisions have protected NECA carriers and other incumbent LECs for over 15 years – in both good and bad economic times – and they remain more than sufficient today. Given that the level of its interstate uncollectibles was far less than 1 percent in 2001, there is no conceivable need to allow NECA the flexibility to secure even more access revenues with deposits.

The unfortunate reality is that NECA's proposed tariff changes are not aimed at deadbeat or bankrupt customers, but rather at healthy customers – which often happen to be NECA's competitors. And therein lies a fatal flaw in NECA's claims – it has not even attempted to show that radical changes to the Commission's prescribed tariff language are required to protect it from the possibility that its credit worthy customers will not pay, or that those customers are not likely to pay their bills in the future.

[8] *See* Memorandum Opinion & Order*, Investigation of Access and Divestiture Related Tariffs*, 97 F.C.C.2d 1082, 1168-70 (1984) ("*1984 Access Order*").

III. THE SPECIFIC REVISIONS THAT NECA PROPOSES ARE UNLAWFULLY VAGUE AND WOULD PROVIDE NECA CARRIERS WITH UNFETTERED DISCRETION TO DEMAND SECURITY DEPOSITS FROM ITS COMPETITORS.

A. NECA Has Not Demonstrated That Its Proposed Security Deposit Triggers Are Sufficiently Correlated With Non-Payment Risks.

The Act requires that a tariff be "just and reasonable," and not "unreasonab[ly] discriminat[ory]," and the Commission's rules further mandate that tariff provisions "contain clear and explicit" statements in order "to remove all doubt" as to the proper application of the tariff.[9] NECA's initial tariff filing plainly violated all of these criteria. As explained by the *Investigation Order* (¶ 18), NECA's initial tariff filing raised serious "concerns about whether the tariff language clearly and unambiguously sets forth a standard that can be objectively administered in a nondiscriminatory manner." NECA likewise "has not shown that [NECA's new criteria for demanding a security deposit] . . . are valid predictors of the likelihood of a customer paying its access bill, or that they are better predictors of whether a customer will pay its bills in the future that the customer's past payment history." *Investigation Order* ¶ 18. Accordingly, the Commission ordered NECA to "explain how [NECA's proposed criteria] . . . is a valid predictor of whether the carrier will pay its interstate access bill" (*id.*), and "how such varied data can be applied in a manner that will not produce arbitrary and/or discriminatory results." *Id.* The Commission emphasized that a satisfactory response to these critical issues "is especially important here because in some cases the entity upon which the carriers participating in the NECA tariff would impose the security deposit would also be a competitor." *Id.*

[9] *See* 47 U.S.C. §§ 201, 202; 47 C.F.R. § 61.2.

NECA's Direct Case barely addresses these serious concerns. In particular, NECA utterly fails to show that any of these triggers is necessary or a better predictor than those set forth in its existing tariffs. Thus, NECA provides no sound basis for its proposals to include a trigger that allows NECA carriers to collect a security deposit if a customer's account balance has fallen in arrears in any two months out of any consecutive twelve month period. *Investigation Order* ¶ 5. As AT&T has already explained about similar proposals from other dominant LECs,[10] this new and onerous term unlawfully "impose[s] significant sanctions" for very "insignificant violations" of a tariff.[11] That trigger simply does not "prove[]" that a particular carrier has exhibited a "history of late payments," as the existing tariffs require.

The provision could apply, for example, to an IXC that twice in a year had paid less than its full access bills by only *de minimus* amounts. Especially given the complexity of the intercarrier billing process, such minor discrepancies are hardly unexpected, and do not provide any justification for NECA carriers to demand deposits that necessarily would be grossly disproportionate to these access bill payment discrepancies. The Commission has refused to permit dominant LECs impose such disproportionate penalties on captive customers for insignificant tariff violations (like those here), which in no way establish a "proven history of late payments." *1984 Access Tariff Order*, 97 F.C.C.2d at 1155.

Further, because NECA has stated (at 10) that several NECA carriers generally include disputed amounts as past due (and that all apparently have the discretion to do so)

---

[10] Petition of AT&T Corp., *Ameritech Operating Companies Tariff FCC No. 2, Transmittal No. 1312*, *et al.* at 16-18 (filed August 9, 2002).

[11] *1984 Access Tariff Order*, 97 F.C.C.2d at 1155.

and thus eligible to trigger a security deposit, NECA's proposal are even more unreasonable. An IXC faced with an inaccurate of clearly overstated access bill would be confronted with the "Hobson's choice" of either paying the excessive charges or laying itself open that a NECA carrier would use the refusal to pay an erroneous access bill as the basis for a substantial security deposit that dwarfs the amount in dispute. Moreover, this term provides NECA carriers with a perverse and anticompetitive incentive to bill less accurately or even engage in intentional over-billing and other efforts that set traps for IXCs to be unable to pay their access bills on a timely basis.

The primary security deposit trigger proposed by NECA is based on long-term bond ratings issued by certain credit rating agencies. This trigger is also overbroad, subjective, and not correlated with an inability to pay for access charges.[12] NECA proposes to demand a security deposit where the "customer's credit worthiness is below a commercially acceptable level," which NECA defines as a customer or parent company having "a corporate debt securities rating with respect to any outstanding general debt obligations of at least BBB according to Standard & Poor's or an equivalent rating from other debt rating agencies." *See Investigation Order* ¶ 5.[13] NECA claims that these

[12] NECA also proposes to trigger a security deposit when "the customer's average monthly billing for the preceding three months has increased beyond the amount initially used to estimate the currently held security deposit." *See Investigation Order* ¶ 5. Although this language is unlawfully vague, it appears that it would apply only to customers that already have provided a deposit pursuant to the Commission's existing prescription.

[13] NECA's proposal is particularly vague and unlawful in that it allows a security deposit to be collected based on ratings from other, unspecified "bond rating agencies." There are three nationally recognized statistical rating organizations (Moody's, S&P, and Fitch), but numerous other entities that provide bond or other similar ratings. Under NECA's tariff, a NECA carrier could seize upon the ratings issued by any of these other numerous entities to demand a security deposit. Because a customer cannot reasonably

measures are "objective," "clearly defined," and, based on statistical support, "target those companies that are most likely to default." Direct Case at 1, 20. These claims are demonstrably without merit.

First, NECA's long-term bond rating triggers are hopelessly overbroad, and encompass virtually all carriers in the industry, regardless of their ability to meet their access payments on a month-to-month basis. NECA claims these provisions are reasonable because it states, based on a claim by one of the bond rating agencies (Moody's), that "[o]ver 90% of all rated companies that have defaulted since 1990 would have received ratings of commercially unacceptable based on the proposed tariff standards." Direct Case at 20; *id* at 16. But even if true, that fact provides no support for NECA's proposal to demand security deposits payments from all speculative grade companies. NECA's trigger applies to a much broader group of companies, and the risk of default for the companies NECA targets is much lower. As AT&T has previously described, Moody's own data show that, over the last 30 years, about *96 percent* of companies that are below investment grade *do not default* in a given year.[14] Accordingly, a below-investment grade long-term bond rating is not at all correlated with a customer's inability to pay monthly access bills, and the overwhelming majority of companies with such ratings continue to pay all of their obligations. NECA, however, seeks the authority

---

track its ratings with all of these unspecified companies, NECA's proposal to rely on unspecified rating agencies must be rejected as improperly vague.

[14] *See* Cornell SBC Tariff Investigation Dec. ¶ 24 (citing Moody's Investor Service, Special Comment "Default & Recovery Rates of Corporate Bond Issuers: A Statistical Review of Moody's Ratings Performance 1970-2001," at 33 (Ex. 27) (Feb. 2002)) (available at http://www.moodys.com/moodys/cust/research/venus/Publication/Special%20Comment/noncategorized_number/74171.pdf) ("Moody's Statistical Review").

to demand security deposits from *all* such companies. With only 4 percent of below-investment grade rated companies likely to default in a given year, it is plain that NECA's proposal to allow it to demand security deposits from every one of these companies is overbroad, and not at all consistent with how the market judges these companies' risk of default.

The overbroad and widespread impact of NECA's long-term bond rating trigger can also be seen by examining a list the long-term bond ratings of some of the largest long distance carriers. AT&T has compiled the long-term bond ratings of the nation's largest IXCs (or a parent company) issued by three credit rating agencies (Moody's, S&P, and Fitch).[15] The results of this compilation are striking: virtually *all* of the long distance carriers that are not affiliated with BOCs are very close to or already fall within NECA's proposed long term bond rating triggers. Of the top ten carriers not affiliated with BOCs, only one, AT&T, has a long term bond rating that does *not* fall within the NECA-defined trigger.[16] Moreover, of the top 40 carriers, only *five* additional carriers (apart from BOC-affiliated companies) maintain ratings sufficiently high to avoid

---

[15] *See* Exhibit 2, attached hereto. For carriers that do not have bond ratings, NECA proposes to use a Dun & Bradstreet composite credit appraisal or a D&B "Paydex" score. *See Investigation Order* ¶ 5. NECA provides no detail about these tools, but they are not appropriate for use in these circumstances. Paydex is system that depends on the *voluntary* disclosure by suppliers of a customer's payment habits. Not all of a company's suppliers likely will participate, and any sample of suppliers is not likely to be representative. Thus, one or two suppliers can skew the Paydex data for a customer. Moreover, there is no way to validate the data provided by the suppliers, and it typically includes, for example, even amounts that are subject to legitimate billing disputes. Because of these flaws, any reliance solely on these mechanisms would be arbitrary and would not be a valid predictor of non-payment of access services.

[16] The list of carriers was compiled by examining the Commission's data listing long distance carriers by revenue.

NECA's security deposit triggers.[17] And with regard to the BOC-affiliated carriers, it is evident that each of them would be eligible for a deposit except for its close connection with a BOC.[18] With about three-quarters of the long distance companies failing to meet NECA's criteria (and more that would not if those criteria did not improperly favor BOC affiliates), it is evident that NECA's long-term bond ratings are overbroad, and are simply a pretext that NECA carriers can use to demand tens of millions of dollars in security deposits, even though the bond rating agencies' own statistics show that the annual default rate for below-investment grade companies is only 4 percent.

Second, even if the long-term bond ratings did not in fact apply so broadly to virtually all non-BOC affiliated interexchange carriers, NECA has not shown that these long-term bond ratings are an accurate measure of a customer's inability to pay access charges on a monthly basis. Neither NECA nor any other LEC proposing to use these types of triggers has produced evidence or studies that directly relate credit impairment to ability to pay access bills. Further, as the bond rating agencies fully admit, the very purpose of these long-term bond ratings is *not* to measure a carrier's immediate ability to

---

[17] The five are Cable and Wireless, Touch America, Inc., Electric Lightwave, Equant Operations (a subsidiary of France Telecom), and ALLTEL Communications.

[18] Under the Act, a BOC long distance affiliate is intended to be separate from the BOC, and in particular is not permitted to obtain credit under any arrangement that allows the affiliate's creditors to have recourse to the BOC's assets. 47 U.S.C. § 272(b)(4). Thus, under the Act, the affiliate must be creditworthy based on its own financial condition, not that of its parent. Thus, NECA's proposed tariff provision that allows the BOCs' affiliates to avoid a security deposit based on the ratings of the parent is both discriminatory and in violation of section 272. Given that the BOC long distance affiliates are new companies, they likely should be deemed under NECA's existing tariff to have "no established credit," and thus to qualify for a security deposit. Yet NECA apparently intends to exclude them, largely based on the long-term bond ratings that have been developed for the BOC entities as a whole.

pay its month-to-month obligations like access charges.[19] Rather, these agencies consider a wide variety of factors about a company's long-term financial condition to assess the chances it will be unable to pay off its bonds and other debt securities over a long term horizon.[20] Thus, a company can have low long-term bond ratings, yet still maintain an unquestioned ability to pay any short-term obligations. The long-term bond rating measure proposed by NECA – unlike the Commission's existing tariff prescription that examines a proven history of nonpayment – are simply not aimed to measure the risk of non-payment of access charges.

Third, NECA's claims that these long-term bond ratings are "objective" and worthy of deference are exaggerated. The three bond rating agencies are simply offering their opinion as to the risk presented by a certain company – and, like all opinions, they are based on subjective judgments that often turn out to be spectacularly wrong. Indeed, the three most prominent bond rating agencies have recently come under fire for their inadequate processes and methodologies used in issuing their ratings.[21] Moreover, as the

---

[19] Statement of Robert Konefal, Managing Director, Moody's Investors Service, FCC En Banc Hearing, (Oct. 7, 2002) ("our ratings reflect Moody's *opinion* on the relative creditworthiness of a *fixed income security*") (emphasis added); Standard & Poor's, *Standard & Poor's Corporate Ratings Criteria*, at 5 (1996) (the intent of the bond ratings is to measure creditworthiness of "a particular debt security").

[20] To determine long term debt ratings, bond rating agencies will examine factors like the specific characteristics of a company's debt instruments (*e.g.* standard / plain vanilla bond, coupon, zero-coupon, convertibility provisions), the maturity date of the instruments, the expected corporate cash flow over the life of the debt instruments, the capital structure of the issuer (*e.g.*, debt-to-equity ratios), and the expected business environment over the life of the debt instruments. Many of these items have little to do with an issuer's ability to pay immediate obligations.

[21] *E.g.* Report of the Staff to the Senate Committee on Governmental Affairs, *Financial Oversight of Enron: The SEC and Private Sector Watchdogs*, (Oct. 8, 2002) ("rating agency reform is needed if the actual performance of these organizations is to live up to public expectations").

bond rating agencies admit, they rely extensively on financial information that is publicly available (or provided by the rated company), and do not engage in any independent effort to verify the accuracy of that information.[22] Because NECA's proposal is largely prompted by the bankruptcies of WorldCom and Global Crossing, it is certainly significant that NECA's proposed solution would not have addressed either of these bankruptcies.

To be sure, long-term bond ratings are not totally irrelevant to a credit analysis of whether a customer should be required to pay a security deposit, but as AT&T explained in its opposition to BellSouth's Direct Case, neither AT&T nor any other company would rely solely on a single piece of data like a long-term bond rating as the basis for demanding a security deposit from a customer – particularly from its largest customers that have demonstrated their ability to pay and that may respond to any requests for a deposit by taking their business to a supplier with less onerous credit requirements.[23]

Thus, there is no question that NECA's amended tariff proposal suffers from the same problems as its initial tariff filing. NECA's amended tariff proposal does not remotely "remove all doubt" as to the proper application of its tariff – to the contrary, if there is anything certain about its proposal, it is that NECA has defined its security deposit triggers so broadly that it can effectively require a security deposit from most any carrier in the industry.

---

[22] Konefal Statement at 2 ("we do not audit the financial information provided to us").

[23] *See* Declaration of Raymond Blatz, attached to AT&T Opp. To BellSouth Direct Case, WC Docket No. 02-304, *BellSouth Telecommunications, Inc. Tariff FCC No. 1, Transmittal No. 657* (filed October 24, 2002).

B. NECA' s Proposed Tariff Revisions Would Provide It With Enormous Discretion In Requiring Security Deposits, Which It Could Use To Discriminate Against Competitors By Raising Their Costs.

The triggers selected by NECA and the resulting discretion to demand security deposits provide NECA carriers with the discretion to saddle virtually every carrier-customer with massive deposit requirements. As a result, neither the Commission nor interested parties can, based on the record in this proceeding, predict which carriers will be subject to such deposit requirements. NECA's tariff is therefore unlawfully vague, and because NECA could use – and has the incentive to use – that discretion to impose large costs on its competitors, NECA's tariff also is unlawfully discriminatory.

This is especially troubling, "because in some cases the entity upon which [the NECA carrier] would impose the security deposit would also be a competitor." *Investigation Order* ¶ 18. Absent sufficient safeguards, a NECA carrier could, for example, rely on tariffs to demand that virtually all unaffiliated IXCs provide substantial security deposits, but then determine, that the NECA carrier's affiliated operations are deemed sufficiently creditworthy to be excused from such a requirement.

Significantly, under the methods that NECA proposes to use, it is likely that a NECA carrier's affiliated operations would be deemed to be sufficiently creditworthy so that no deposit would be required. That is because NECA proposes to examine the long-term bond ratings of the customer *or* its parent. For long distance operations affiliated with a NECA carrier, therefore, that affiliate will be excused from any deposit requirement so long as the NECA carrier is itself creditworthy. But given that these NECA carrier-affiliated operations are generally new companies, they likely should be deemed under NECA's existing tariffs to have "no established credit," and thus to qualify for a security deposit. Yet NECA apparently intends to exclude them, largely based on the long-term bond ratings that have been developed for a NECA carrier as a whole.

Because of this feature of NECA's proposals, a NECA carrier will be able to exempt its own affiliate from any security deposit costs, and yet impose substantial costs on the NECA carriers' affiliates' rivals – a classic instance of a LEC acting anticompetitively by raising its rivals' costs.[24] This discriminatory conduct would be all the more troubling because these long distance affiliates would be precisely the types of companies for which a security deposit could be appropriate. *See* Cornell SBC Tariff Investigation Dec. ¶¶ 8-9, 27-30. That result is unreasonably discriminatory and flatly anticompetitive.

Moreover, even if a NECA carrier required its affiliated operations to post a deposit – in an amount similar to those posted by competing IXCs – there would still be little hardship on the NECA carrier, because such deposits would constitute a classic "left-pocket, right-pocket" transfer that inflicts no real costs on the NECA carrier as a whole. In both cases, the unfettered right to demand a security deposit from any IXC would, as the Commission recognized in 1984, be a powerful anti-competitive and discriminatory weapon,[25] and one that result directly in increased costs for any of the NECA carrier's long distance rivals. To prevent NECA carriers from obtaining this

[24] *See* AT&T SBC Opp., Cornell Decl. ¶¶ 8, 21, 27-30; Salop & Krattenmaker, *Anticompetitive Exclusion: Raising Rivals' Costs To Achieve Power Over Price*, 96 Yale L.J. 209 (1986).

[25] *See 1984 Access Order*, 97 F.C.C.2d at 1168-70 (LEC proposals to expand security deposit provisions were "unreasonably onerous" in scope and had "anticompetitive effects" where proposals applied so broadly and could be applied selectively to carriers chosen unilaterally by the LEC).

additional method of harming interLATA competition, it is critical that NECA carriers be precluded from arbitrarily assessing large deposits on its competitors.

The bottom line is this: NECA's tariff provides NECA carriers with significant discretion to impose tens of millions of dollars of deposit requirements on its customers. Such discretion is unlawful because it violates the Commission's rule that a tariff "must contain clear and explicit" statements in order "to remove all doubt" as to the proper application of the tariff and because it is unreasonably discriminatory in violation of the Act.[26] Accordingly, NECA's tariff must be rejected.

IV. NECA' S PROPOSED PROVISIONS TO SHORTEN THE TERMINATION PERIOD ARE UNREASONABLE.

NECA's proposal to reduce the time in which it may terminate access services from 30 days to just 10 is equally unreasonable. NECA's tariff revisions would apply not only for carriers that have not paid their access bills because of financial difficulties, but whenever *any* IXC – even those that present no payment risks – fails to pay, for whatever reasons, an access bill in full. The Commission has recognized for many years that such accelerated termination provisions are not reasonable when they apply generally to IXCs that pose no risk. *See 1987 Access Tariff Order* at 304. Such provisions give the dominant LECs far too much leverage in negotiating billing or other disputes with IXCs. The ability to so promptly terminate access services – which would disrupt the long distance services of an IXC's customers – is a powerful threat in the hands of dominant LECs, which could and would be used in a discriminatory fashion.

Moreover, reducing the time for IXCs and other carriers to respond to a NECA carrier's claims that bills have not been paid increases the likelihood of service

[26] *See* 47 C.F.R. § 61.2; 47 U.S.C. §§ 201, 202.

disruptions. The existing 30-day period provides time for carrier customers and the NECA carriers to work out honest billing and payment errors. The 30-day period also provides carriers with temporary cash shortfalls to address those problems and pay outstanding bills (with interest where appropriate) without disrupting services to carriers' customers. Reducing the termination intervals by more than half would substantially increase the likelihood that service would be terminated in these situations.

Notably, these service disruptions would not be limited to interstate services. Interstate and intrastate traffic are routinely carried over the same lines and switches.[27] To the extent that NECA "turns off" a carrier's interstate traffic, that carrier's intrastate traffic will be shut down as well. In this regard, the Commission should be mindful that NECA's proposed restrictions could have a substantial impact on intrastate matters within the jurisdiction of the states.

V. CONCLUSION

For the foregoing reasons, the Commission should find that NECA's Transmittal No. 951 is unjust, unreasonable, and discriminatory. Accordingly, the Commission should reject the proposed tariff revisions.

[27] In general, inter- and intrastate traffic is calculated for billing purposes. The inter- and intrastate traffic is not physically separated on different lines and switches.

Respectfully submitted,

/s/ Judy Sello

David L. Lawson
Michael J. Hunseder
SIDLEY AUSTIN BROWN & WOOD, LLP
1501 K Street., N.W.
Washington, D.C. 20005
(202) 736-8000

Mark C. Rosenblum
Lawrence J. Lafaro
Peter H. Jacoby
Judy Sello
AT&T CORP.
Room 3A229
900 Route 202/206 North
Bedminster, New Jersey 07921
(908) 532-1846

December 5, 2002.

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Opposition to the NECA Direct Case was served the 5th day of December, 2002, on the following:

Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, S.W.
Room TW-A-325
Washington, D.C. 20554
By Electronic Filing

Qualex
Portals II
Federal Communications Commission
445 12th Street, S.W.
Room CY-B402
Washington, D.C. 20554
By Electronic Filing

Julie Saulnier
Pricing Policy Division
Wireline Competition Bureau
Federal Communications Commission
445 12th Street, S.W.
Room 6-C222
Washington, D.C. 20554
By Electronic Filing

Richard A. Askoff
80 South Jefferson Road
Whippany, NJ 07981

By First Class Mail

/s/ Peter M. Andros
Peter M. Andros

EXHIBIT 1

Exhibit 1
Table 2
Traffic Sensitive Pool
Uncollectible Ratios
1993-2001

FCC Monitoring Period	**Date FCC 492**	**Total TS Interstate Operating Revenues**	**Net Operating Income**	**Rate Base (Av Net Inv.)**	**Average Annual Rate of Return**	**Un-collectibles[1]**	**Uncollectibles Ratio**
1/93 to 12/94	9/29/95	$3,093,452	$487,631	$1,951,030	12.50%	$2,821	**0.0912%**
1/95 to 12/96	9/30/97	$2,793,603	$365,177	$1,593,061	11.46%	$1,937	**0.0694%**
1/97 to 12/98	9/30/99	$3,381,741	$415,829	$1,692,781	12.28%	$2,365	**0.0699%**
1/99 to 12/00	9/28/01	$3,359,924	$452,097	$1,914,803	11.81%	$3,079	**0.0916%**
1/01 to 12/01 (Prelim)	3/29/02	$1,987,686	$295,869	$2,294,283	12.90%	$2,863	**0.1440%**

[1] NECA does not separately report uncollectibles for the portion of the traffic sensitive pool that also concurs in the NECA common line pool. The uncollectible data in AT&T's Table 2 is based on the uncollectible data submitted by NECA at page 4 of the Direct Case. However, it is necessary to adjust that data to ensure an appropriate comparison with the interstate operating revenues reported by NECA. To estimate the portion of the common line uncollectibles that are incurred by traffic sensitive pool members, total common line uncollectibles are multiplied by the ratio of traffic sensitive pool member common line operating income to total common line pool members operating income. Notably, NECA's uncollectibles data do not match the amounts NECA previously reported on the RORCOS-1(H) TRPs – if those amounts were used, the uncollectible ratios would be even smaller.

EXHIBIT 2

Table of Long Term Debt Rating For Selected Telecommunications Companies (November 2002) by Nationally Recognized Statistical Rating Organizations (NRSROs)

(Non-BOC Companies Falling Outside NECA Criteria Shown In Bold)

COMPANY	S&P			Moody's			Fitch		
	Rating	Investment Grade	Watch	Rating	Investment Grade	Watch	Rating	Investment Grade	Watch
RBOCs									
BellSouth	A+	YES	Negative	Aa3	YES	Negative	A+	YES	Negative
Qwest (US West)	B-	NO	Negative	Caa1	NO	Negative	B	NO	Negative
SBC	AA-	YES	Negative	Aa3	YES	Negative	AA-	YES	Negative
Verizon	A+	YES	Negative	A1	YES	Negative	AA	YES	Negative
Interexchange Carriers									
AT&T Corp.	**BBB+**	**YES**	**Negative**	**Baa2**	**YES**	**negative**	**BBB+**	**YES**	**Stable**
WorldCom Inc.	D	NO		Ca	NO	negative	D	NO	
Sprint Corp.	BBB-	YES		Baa3	YES	negative	BBB	YES	Stable
Qwest Corp. [ratings shown for parent; Qwest Comm. Int'l]	B-	NO		Caa1	NO		N/A		
Concert Global Networks USA, LLC	N/A			N/A			N/A		
IDT Corp.	N/A			B2	NO		N/A		
Global Crossing Corp.	N/A			N/A			N/A		
VarTec Telecom, Inc.	N/A			N/A			N/A		
LCI Int'l Telecom Corp. (Qwest Corp. Subsidiary)	B-	NO		Caa1	NO		CCC+	NO	Negative
Verizon Long Distance [ratings shown for parent; Verizon]	A+	YES	negative	A1	YES	negative	AA	YES	negative

Table of Long Term Debt Rating For Selected Telecommunications Companies (November 2002) by Nationally Recognized Statistical Rating Organizations (NRSROs)

(Non-BOC Companies Falling Outside NECA Criteria Shown In Bold)

Global Crossing Telecommunications, Inc.	N/A			N/A			N/A		
Broadwing Communications Services, Inc.	BB	NO	Negative	B1	NO	Negative	BB	NO	Negative
Teleport Communications Group Inc. [ratings shown for parent; AT&T Corp.]	**BBB+**	**YES**	**Negative**	**Baa2**	**YES**		**BBB+**	**YES**	**Negative**
Excel Telecommunications [ratings shown for parent; Teleglobe Group]	N/A			C	NO		D	NO	
Cable & Wireless Plc.	**A**	**YES**		**A3**	**YES**	**Negative**	**A-1**	**YES**	**Negative**
Williams Communications, LLC	N/A			N/A			N/A		
Verizon Select Services, Inc. [ratings shown for parent; Verizon]	A+	YES	negative	A1	YES	negative	AA	YES	negative
Touch America, Inc.	**BBB+**	**YES**		**Baa1**	**YES**		**N/A**		
McLeodUSA Telecommunications Services	N/A			N/A			N/A		
Southwestern Bell Communications Services [ratings shown for parent SBC]	AA	YES	Negative	Aa3	Yes	Negative	AA-	YES	Negative
Broadwing Telecommunications Inc. (ratings shown for Parent; Broadwing (Cincinnati Bell))	BB	NO		B1	NO		BB	NO	
Network Plus, Inc.	N/A			N/A			N/A		
BellSouth Long Distance, Inc. [ratings shown for parent; Bellsouth]	A+	YES	Negative	Aa3	YES	Negative	A+	YES	negative

Table of Long Term Debt Rating For Selected Telecommunications Companies (November 2002) by Nationally Recognized Statistical Rating Organizations (NRSROs)

(Non-BOC Companies Falling Outside NECA Criteria Shown In Bold)

Primus Telecommunications, Inc.	CCC+	NO		Caa2	NO		N/A		
Business Telecom, Inc.	N/A			N/A			N/A		
Americatel Corporation	N/A			N/A			N/A		
ITC DeltaCom Communications, Inc.	D	NO		Ca	NO		N/A		
Talk America Inc. (f/k/a) talk.com Holding Corp.	N/A			N/A			N/A		
Evercom Systems, Inc.	D	NO		Ca	NO	Negative	N/A		
General Communication, Inc. (GCI Inc.)	BB	NO	Negative	B2	NO		N/A		
Electric Lightwave, Inc.	**N/A**			**Baa2**	**YES**		**BBB**	**YES**	
Teleglobe Group	N/A			C	NO		D	NO	
PT-1 Long Distance, Inc. (or Star Telecommunications)	N/A			N/A			N/A		
Equant Operations Inc. [ratings shown for parent; France Telecom]	**BBB**	**YES**		**Baa3**	**Yes**		**BBB**	**YES**	
SNET America, Inc. N/A [ratings shown for parent SNET Corp.]	AA-	YES	stable	Aa3	YES	Negative	AA-	YES	
ALLTEL Communications, Inc.	**A**	**YES**	**Negative**	**A2**	**YES**	**Stable**	**A**	**YES**	**Stable**
Level 3 Communications, LLC	CCC	NO		Caa3	NO		N/A		
Norlight Telecommunications, Inc.	N/A			N/A			N/A		
Lightyear Communications	N/A			N/A			N/A		
Working Assets Funding Services, Inc.	N/A			N/A			N/A		