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January 23, 2003

BY ELECTRONIC DELIVERY

Marlene H. Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Re: *Ex Parte Presentation,* Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, CC Docket Nos. 01-338, 96-98, 98-147

Dear Ms. Dortch:

Today, Paul Bobeczko, Kimberly Scardino, and Christopher Frentrup of WorldCom, Inc. (WorldCom), Michael Pelcovits of Microeconomic Consulting and Research Associates (MiCRA), and the undersigned, counsel for WorldCom, met with William Maher, Jeffrey Carlisle, Scott Bergmann, Thomas Navin, and Richard Lerner of the Wireline Competition Bureau. During that meeting, representatives of WorldCom explained that SBC's and BellSouth's critiques of MiCRA's model and WorldCom's cost-based impairment analysis are largely misplaced, as detailed in the attached presentation.

Pursuant to the Commission's rules, 47 C.F.R. § 1.1206(b)(2), this letter is being provided to you for inclusion in the public record of the above-referenced proceeding.

Sincerely,

/s/ Ruth Milkman

Ruth Milkman

cc: William Maher
Jeffrey Carlisle
Scott Bergmann
Thomas Navin
Richard Lerner

Response to SBC Critique of MiCRA Model

WorldCom

January 2003

WORLDCOM℠

SBC Does Not Dispute Existence of Significant Cost Disadvantages and Variability

- WorldCom, SBC, and AT&T filings all show that competing carriers using UNE-L to serve residential customers have higher costs than incumbent LECs, and that this cost disadvantage is significant
- SBC does not dispute WorldCom's conclusion that the costs of using UNE-L vary significantly, depending on such factors as the size of the central office, and incumbent LEC rates for collocation and hot cuts

Costs, Not Margins, Are Relevant to Impairment Analysis

- *USTA* court: "[A]ny cognizable competitive 'impairment' would necessarily be traceable to some kind of disparity in cost."
- An analysis of margins looks at a single point in time, ignoring the way firms respond in the marketplace
  - The margin presumes a static price, but there is no guarantee that price will persist, particularly if the incumbent is in a position to lower retail prices because it has lower costs
  - CLECs will not incur large sunk costs, if they face the very real risk of price cuts by incumbents whose costs are much lower than theirs

UNE-P Rates as a Basis for Comparison

- Even if the BOCs are correct, and UNE-P rates should be higher, the gap between the UNE-P price and the UNE-L costs would remain approximately the same
  - For example, the BOCs have argued that switching depreciation lives used by state commissions in setting UNE switching prices are too long
  - The MiCRA model uses the same depreciation lives for WorldCom switches that the state commissions use for ILEC switches
  - Consequently, if UNE-P prices were raised to reflect shorter depreciation lives, the UNE-L costs shown in the model would also be higher, so that the cost disadvantage would persist

Inputs Used in MiCRA Model

- OSS: WorldCom has not yet built OSS for UNE-L, but even if model assumed no additional OSS costs, results change only by a few cents
- Collocation: WorldCom used physical collocation in model because this is the type of collocation we use today. Where possible, we avoid virtual collocation because it provides us little control over our equipment (escort required)
- Transport: Rates supplied in SBC ex parte are misleading because they apply only in a limited number of offices where SBC does not have pricing flexibility
- Digitization: Model uses DLC equipment WorldCom actually uses -- this input will vary by carrier. DLC equipment used by SBC has no material effect on cost estimates

Hot Cuts

California, Michigan and Texas Data

UNE-P Volumes vs. Hot Cut Volumes:

CALIFORNIA	October	November	December
UNE-P	188,198	170,602	190,692
Hot Cuts	2,020	1,229	1,228

MICHIGAN	October	November	December
UNE-P	129,020	125,727	137,177
Hot Cuts	1,853	1,313	1,388

TEXAS	October	November	December
UNE-P	217,861	211,877	219,881
Hot Cuts	2,831	1,680	1,293

Collocation Interval

- Average collo interval varies
- Timeframe for SBC would be four months assuming leased transport

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