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July 14, 2003

BY ELECTRONIC FILING

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

Re: *Oral Ex Parte Presentation, Appropriate Framework for Broadband
Access to the Internet over Wireline Facilities, CC Docket No. 02-33*

Dear Ms. Dortch:

Today, Richard Whitt and Christopher Frentrup of MCI and A. Richard Metzger, Jr. and Ruth Milkman, Lawler, Metzger & Milkman, outside counsel to MCI, met with Jane Jackson and Carol Matthey of the Wireline Competition Bureau to discuss the issues outlined in the attached presentation.

In accordance with FCC rules, a copy of this letter is being filed in the above-captioned docket. If you have any questions, please do not hesitate to contact me.

/s/ Ruth Milkman

Ruth Milkman

cc: Jane Jackson
Carol Matthey



Cost Allocation Issues In Broadband Framework Proceeding

CC Docket No. 02-33

July 14, 2003

Cost Allocation Issues in This Proceeding Cannot Be Ignored

- The statute commands the FCC to prevent non-competitive services from subsidizing competitive services.
 - Section 201(b) requirement that rates be just and reasonable, implemented in Part 64 of the FCC's rules
 - Section 254(k) prohibition against use of non-competitive services to subsidize competitive services

Effective Cost Allocation Rules Must Be in Place Before Any Reclassification of DSL is Considered

- The Commission should continue to classify DSL as regulated common carriage
- If BOCs are permitted to treat DSL as non-regulated service, they must allocate costs of facilities that are used for both DSL and for regulated services
 - For example, loop costs must be allocated on basis of relative use (e.g., bandwidth or 50/50 split)
- In addition, under Part 61, BOCs must make downward exogenous adjustment to price indices

Verizon's Arguments Are Without Merit

- FCC's treatment of Billing and Collection costs is inapposite
- There is a link between BOC costs and prices
- Many local services offered by incumbent LECs are not yet competitive
- Effective cost allocation rules have always been a key tool in the FCC's policing of the boundaries between competitive and non-competitive services