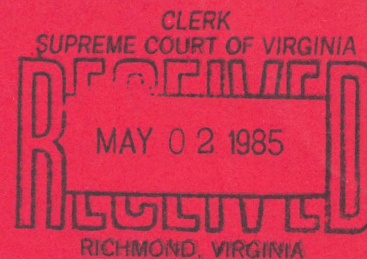


230 Va. 295



IN THE
Supreme Court of Virginia
AT RICHMOND

APR 8 1986

RECORD NO. 841881

GTE SPRINT COMMUNICATIONS CORPORATION OF VIRGINIA,

Appellant,

v.

AT&T COMMUNICATIONS OF VIRGINIA, INC., ET AL.,

Appellees,

RECORD NO. 841882

MCI TELECOMMUNICATIONS CORPORATION OF VIRGINIA,

Appellant,

v.

AT&T COMMUNICATIONS OF VIRGINIA, INC., ET AL.,

Appellees.

JOINT APPENDIX
Volume I

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BEFORE THE
VIRGINIA STATE CORPORATION COMMISSION

* * * * *

In the Matter of

Application and Petition of)
MCI Telecommunications Corporation)
of Virginia for a Certificate to)
Operate as a Telephone Utility)
Pursuant to § 56-265.4:4B of the)
Code of Virginia, for Approval of)
Lease and Service Agreement)
Pursuant to Title 56, Chapter 4)
of the Code of Virginia, and to)
Have Rates and Services Based on)
Competitive Factors.)

Case No. _____

APPLICATION AND PETITION OF
MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA FOR A CERTIFICATE TO
OPERATE AS A TELEPHONE UTILITY
PURSUANT TO § 56-265.4:4B OF THE
CODE OF VIRGINIA, FOR APPROVAL OF
LEASE AND SERVICE AGREEMENT
PURSUANT TO TITLE 56, CHAPTER 4
OF THE CODE OF VIRGINIA, AND TO
HAVE RATES AND SERVICE
BASED ON COMPETITIVE FACTORS

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BEFORE THE
VIRGINIA STATE CORPORATION COMMISSION

In the Matter of

Application and Petition of)
MCI Telecommunications Corporation)
of Virginia for a Certificate to)
Operate as a Telephone Utility)
Pursuant to § 56-265.4:4B of the)
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Case No. _____

APPLICATION AND PETITION OF
MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA FOR A CERTIFICATE TO
OPERATE AS A TELEPHONE UTILITY
PURSUANT TO § 56-265.4:4B OF THE
CODE OF VIRGINIA, FOR APPROVAL OF
LEASE AND SERVICE AGREEMENT
PURSUANT TO TITLE 56, CHAPTER 4
OF THE CODE OF VIRGINIA, AND TO
HAVE RATES AND SERVICES
BASED ON COMPETITIVE FACTORS

MCI Telecommunications Corporation of Virginia ("MCIV"), the Applicant, submits this Application to operate as a telephone utility to provide interexchange telecommunication services within the Commonwealth of Virginia pursuant to Title 56 of the Code of Virginia. MCIV also Petitions to be regulated on a streamlined basis as provided by § 56-481.1 of the Code of Virginia since it intends to provide telecommunication services on a competitive basis. MCIV seeks expedited processing of its Application and Petition. Expedited consideration is necessary

to enable MCIV to effectively compete for Virginia customers in areas where equal access interconnections for competing interexchange carriers will be available. Where equal access is available, customers must select their interLATA long-distance carrier. Any carrier that does not have the ability to offer intrastate interLATA service will be at an extreme disadvantage. Equal access becomes available to certain areas of Norfolk on September 1, 1984.

Description of Applicant

1. The Applicant's address is 1133 19th Street, N.W., Washington, D.C. 20036. Telephone number: (202) 872-1600.
2. The Applicant is wholly owned by MCI Telecommunications Corporation ("MCIT"). MCIT is wholly owned by MCI Communications Corporation ("MCIC"). The address of MCIT and MCIC are the same as the Applicant's.
3. Counsel for the Applicant are: William F. Marmon, Jr., MCI Telecommunications Corporation of Virginia, 1133 19th Street, N.W., Washington, D.C. 20036, (202) 887-2839; and Hulihan W. Moore, Christian, Barton, Epps & Chappell, 909 East Main Street, 12th floor, Richmond, Virginia 23219, (804) 644-7851.
4. A list of the officers and directors of the Applicant is attached as Exhibit 1-A to this Application. Attached as Exhibit 1-B is a list of the officers and directors of MCIT. Attached as Exhibit 1-C is a list of the officers and directors of MCIC.

5. The Applicant is authorized to do business in the Commonwealth of Virginia as a public service company and was incorporated in the Commonwealth as a public service corporation on May 17, 1984. The Applicant's Articles of Incorporation is attached as Exhibit 2.

6. The Applicant is the wholly owned subsidiary of MCIT, the telecommunications operating arm of MCIC. Telecommunication services within Virginia will be provided by the Applicant pursuant to the Lease and Service Agreement between the Applicant and MCIT, attached as Exhibit 3.^{1/} Moreover the financial obligations and liabilities of the Applicant will be guaranteed by MCIT under the same agreement.

Financial and Technical Qualifications

7. The financial qualifications of the Applicant's corporate parents are demonstrated by the most recent Annual Report of MCIC, attached as Exhibit 4, and the most recent SEC Form 10-K of MCIC, attached as Exhibit 5. Exhibit 6 is a letter on file with the Federal Communications Commission ("FCC") which indicates the value of the total communications plant of MCIT and its total operating revenues for the year ended December 31, 1983. These reports demonstrate the strong financial condition

^{1/} MCIV seeks Commission approval of this Lease and Service Agreement to the extent required by Chapter 4 of Title 56 of the Code of Virginia.

of the Applicant's corporate parents. This strength adheres to the Applicant as a member of the MCI corporate family and through the guarantee of MCIT provided in the Lease and Service Agreement.

8. The managerial and technical qualifications of MCI Telecommunications Corporation are well established. MCIT has built its own national telecommunications network of over 17,000 route miles of high-capacity transmission lines serving over one million business and residential customers. The national route map of MCIT is attached as Exhibit 7-A. A diagram of MCIT's existing leased lines and lines under construction in Virginia is attached as Exhibit 7-B.

9. MCIV will enjoy the same leadership and experience that has produced the successful operation of MCIT and MCIC. Each of the three directors of MCIV is also a director of MCIT and of MCIC. Each of the officers of MCIV is also a senior officer of MCIT and/or MCIC. MCIV's Chairman and Chief Executive Officer, William G. McGowan, holds the identical position in MCIC. MCIV's President, Bert C. Roberts, Jr., holds the identical position in MCIT.

10. MCIT is currently authorized to provide intrastate service in the following states: California, Florida, Indiana, Iowa, Kentucky, Maryland, Massachusetts, Minnesota, New Jersey, Ohio, Pennsylvania, Texas, and West Virginia.

11. In Virginia currently MCIT provides interstate service to over 60,000 customers and offers origination service in Richmond, Norfolk, Hampton, Roanoke, Petersburg, Fredericksburg,

Manassas, Leesburg and in Fairfax and Arlington counties. Initially all MCIV service in Virginia will be provided over lines leased from local telephone companies. MCIT has under construction a terminal facility in Richmond that is scheduled to be completed and placed in service this calendar year.

Area of Coverage

12. MCIV will provide intrastate service from each locality and area where MCIT currently provides originating interstate service. Both MCIV and MCIT will expand its areas of originating service as rapidly as feasible. Eventually MCIV intends to provide universal origination service in Virginia. Accordingly, MCIV seeks certification on a state-wide basis.

IntraLATA Service

13. MCIV will comply with the provisions of § 56-265.4:4B of the Code of Virginia and the Commission's Rules which provide that any company certified for interexchange service in the Commonwealth shall not offer intraLATA services until January 1, 1986. No intraLATA service will be offered by MCIV prior to January 1, 1986.

14. MCIV will inhibit, to the extent feasible, intraLATA calling on its system. This will be accomplished in part by the existing operational procedures which block intra-area code calls placed through the MCI system when they are dialed in the normal manner of 1 plus the number. The MCIV system will accept

only ten-digit calls which include the area code plus the number. Since the majority of potential intraLATA calls will be within the same area code, they will be blocked if dialed in the normal manner. Intra-area code calls may be completed only if the customer deviates from normal practice and dials the area code along with the number.

15. MCIV will take additional appropriate steps to insure that all of its Virginia customers are made aware of the fact that it is not authorized or permitted to offer intraLATA service prior to January 1, 1986. MCIV will accomplish this objective with a customer education process, by means of instructions in billing envelopes, promotional and sales literature, and the training of sales and service personnel to explain to customers the interLATA limits of MCIV's authority in Virginia. MCI has successfully implemented such a customer education program in other jurisdictions where it is authorized for interLATA service only. In both Pennsylvania and California MCI has prepared and distributed brochures showing the state LATA map and explicitly explaining that only the local telephone company is authorized to complete calls within a LATA. Samples of the brochures distributed to each MCI customer in Pennsylvania and California are attached as Exhibit 8-A and 8-B, respectively. MCIV believes that the steps enumerated above will reduce intraLATA calling in Virginia to de minimis levels.

16. MCIV is not technically able to block absolutely all intraLATA calling prior to equal access interconnections without blocking interstate calls. For whatever incidental intraLATA

calling that may occur in Virginia, MCIV will compensate the appropriate local carrier on the basis of intrastate access charges. MCIV agrees that the charges determined by agreement or by the Commission -- in the event of unresolvable dispute -- shall be effective as of the date of MCIV's certificate to operate as a telephone utility in Virginia.

Proposed Services

17. The details of the services proposed to be furnished to Virginia residential and business customers on an intrastate basis are supplied in the S.C.C.-Virginia Tariff No. 1 attached as Exhibit 9. MCIV's initial service offering is identical to that currently offered to Virginia customers on an interstate basis. The service offered is MCI's Execunet service, which is a metered use service. A customer can access the MCI Execunet service by making either a local or toll call from any touch-tone telephone to a MCI dial-tone obtained from the local telephone company. The customer then dials an assigned five- or seven-digit personal identification number (PIN), followed by the ten-digit long-distance telephone number of the called party.

18. In areas where equal access interconnections with the local telephone company are available, customers will be able to use the Execunet service by dialing 1 and the ten-digit

long-distance number if they have presubscribed for MCIV service. If customers in equal access areas have not presubscribed with MCIV, they will still be able to access the service by dialing 10222 and then the ten-digit long-distance number.

19. After the MCI terminal in Richmond is completed, MCIV plans to expand its service offerings to include services such as MCI Credit Card service, Network service (dedicated connections between a customer's connection and the MCI terminal), and Common Controlled Switching Arrangement (CCSA) service (least cost routing). These services are currently offered in many areas of the United States by MCIT.

20. The terms and conditions of MCIV's proposed tariff are identical with the terms and conditions of MCIT's federal tariff. The rates proposed by MCIV for intrastate service are not identical with current interstate rates. MCIV's proposed intrastate rates are lower in every mileage band than those currently in effect by AT&T of Virginia.

Competitive Service

21. MCIV petitions this Commission for streamlined regulation pursuant to § 56.481.1 of the Code of Virginia. Neither MCIV nor MCIT has any monopoly customers, i.e. customers

who have no readily available alternative choice for an intercity long-distance carrier. Neither MCIV nor MCIT has control of any bottleneck facility that would afford it market power. Neither MCIV nor MCIT has any ability to control price or to price its services in any way except on a competitive basis.

22. Currently AT&T of Virginia is the only provider of interLATA long-distance service in the Commonwealth and that service is provided in all areas. The quality of service available to customers in Virginia will be enhanced by the entry of MCIV since MCIV will provide price and service options not currently available.

23. The FCC has classified MCIV's parent, MCIT, as a "non-dominant" carrier and has reduced substantially the scope of its regulation of MCIT. The FCC has concluded that the marketplace provides the most efficient regulation of carriers like MCIT and has foreborne cost-based, rate-of-return regulation of MCIT's tariffs.

24. This Commission should make the determination that MCIV will offer services on a competitive basis and should exempt it from cost-based, rate-of-return regulation as well as other regulation inconsistent with provision of a competitive service.

Conclusion

The Applicant respectfully requests that this Commission take the following action:

1. Grant MCIV a Certificate to operate as a telephone utility to offer intrastate telecommunication services on a state-wide basis.
2. Approve the Lease and Service Agreement between MCIV and MCIT.
3. Approve MCIV's proposed Tariff contained in Exhibit 9.
4. Grant MCIV's Petition for Streamlined Regulation.

Sworn to me this
2nd day of July, 1984
in Washington, D.C.

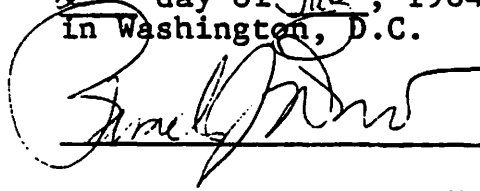

My Commission Expires April 30, 1985

Respectfully submitted,

MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

By: Kenneth G. Cox
Sr. Vice President

Sworn to me this
2nd day of July, 1984
in Washington, D.C.


My Commission Expires April 30, 1985

MCI TELECOMMUNICATIONS
CORPORATION

By: Charles R. Epps
Sr. Vice President

July 2, 1984

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Attorneys for
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CORPORATION OF VIRGINIA

LEASE AND SERVICE AGREEMENT

AGREEMENT, dated this ____ day of July, 1984, made by and between MCI Telecommunications Corporation, a Delaware corporation ("MCIT") and MCI Telecommunications Corporation of Virginia, a Virginia corporation ("MCIV").

WHEREAS, MCIT wishes to provide telecommunication services within the Commonwealth of Virginia, and for this purpose MCIT has created MCIV and holds 100 percent of the stock of MCIV; and

WHEREAS, MCIT is a communications common carrier that is licensed by the Federal Communications Commission to provide interstate telecommunication services and has facilities and personnel providing such services; and

WHEREAS, MCIV has been incorporated under the laws of Virginia and wishes to provide telecommunication services within Virginia subject to receipt of any necessary regulatory approvals; and

WHEREAS, MCIV wishes to obtain from MCIT the use of communications facilities and services needed to provide telecommunication services within Virginia, and MCIT is willing and able to provide the use of such facilities and to furnish such services.

NOW THEREFORE, in consideration of the promises and the mutual agreements herein contained, MCIT and MCIV hereby agree as follows:

1. Facilities and Services of MCIT. Upon request by MCIV;

(a) MCIT shall provide or cause to be provided to MCIV the use of such communications facilities and equipment as may be necessary or desirable to provide high quality telecommunication services within the Commonwealth of Virginia. All terms and conditions of MCIT's tariff filed with the Federal Communications Commission, other than terms relating to rates, shall apply to the provision of telecommunication services by MCIT to MCIV. The facilities and equipment provided for MCIV's use shall be provided and maintained by MCIT in good working order; and

(b) MCIT shall perform or cause to be performed on MCIV's behalf such financial accounting, marketing, legal, administrative and other services as MCIV shall deem necessary and/or desirable in connection with the provision of telecommunication services. Such services shall include, without limitation, financing, advertising and other customer solicitation; customer service; auditing, bookkeeping, billing and collections; insurance administration and the provision of legal advice and assistance, including, inter alia, the obtaining of all necessary permits, licenses and other regulatory approvals for the provision of telecommunication services within the Commonwealth of Virginia.

2. Compensation of MCIT. In consideration for the provision of facilities and equipment and the performance by MCIT of the duties as set forth in Paragraph 1 hereof, MCIV shall reimburse MCIT as follows:

(a) MCIT will collect the revenues due to MCIV from customers using telecommunication services in Virginia.

(b) From this sum MCIT will pay all gross receipts taxes and other charges imposed directly on MCIV solely by reason of its operations in Virginia.

(c) MCIT will pay all of the other costs it has incurred on MCIV's behalf in connection with the provision of the latter's services in Virginia, including, without limitation, depreciation of facilities and equipment devoted to such services and MCIT's cost of capital in connection with the provision of such services.

(d) If there then remains any excess of the revenues MCIT has collected on MCIV's behalf, MCIT will retain such sum as its compensation for its performance of its obligations under Paragraph 1 hereof. If the rates of MCIV are regulated by the Commonwealth of Virginia, and if the costs incurred on the provision of MCIV's services in Virginia, including depreciation and the cost of capital (including a fair rate of return), exceed the revenues collected by MCIT from MCIV's customers, then MCIV will seek authority to increase the rates to be charged for its services in Virginia so that the revenues therefrom will be sufficient to cover all the costs incurred by MCIT in providing such services.

3. Guarantee. MCIT agrees to guarantee the performance of valid contracts entered into by, or on behalf of, MCIV and to guarantee other valid debts and liabilities of MCIV.

4. Limit on MCIT's Undertaking. MCIT does not warrant that its efforts in providing services in Virginia for MCIV will be successful.

5. Past Performance by MCIT. MCIV hereby accepts and approves the provision of all equipment and facilities and the performance of all services which have heretofore been provided or performed or caused to be provided or performed by MCIT in connection with the duties as set forth in Paragraph 1 hereof since the date of incorporation of MCIV.

6. General Provisions:

(a) Binding Effect. This Agreement shall be binding upon and inure solely to the benefit of MCIT and MCIV and their respective successors and assigns.

(b) Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Virginia.

(c) Headings. The headings to the various paragraphs and subparagraphs of this Agreement are solely for the convenience (for reference purposes) of the parties hereto and shall not in any way affect the meaning or interpretation of this Agreement.

(d) Amendment; Entire Agreement. This Agreement contains the entire understanding of the parties hereto with respect to the subject matter contained herein and may be amended only by a written instrument executed on behalf of both MCIT and MCIV. There are no restrictions, promises, warranties, covenants or undertakings between the parties with respect to the subject matter of this Agreement except as expressly set forth herein.

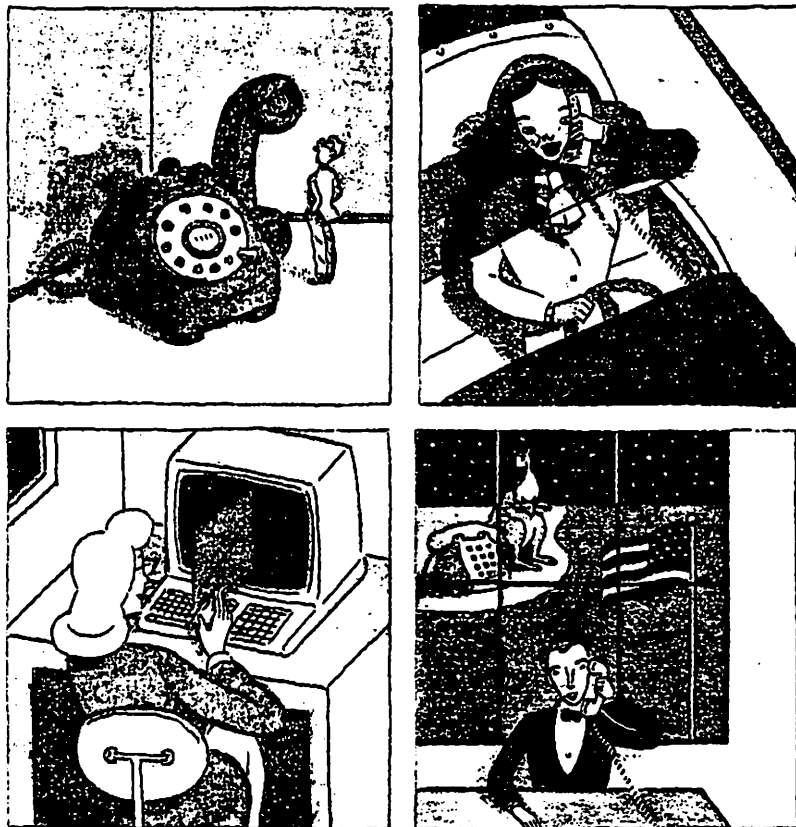
IN WITNESS WHEREOF, MCIT and MCIV have caused this Agreement to be executed on the day and year first above written.

MCI TELECOMMUNICATIONS CORPORATION

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA

MCI COMMUNICATIONS CORPORATION
ANNUAL REPORT 1984

Exhibit 4



CORPORATE PROFILE

MCI Communications Corporation provides a broad range of high-value, low-cost communications services, both nationally and internationally.

MCI Telecommunications, the company's long distance business, owns and operates the nation's second largest coast-to-coast long distance telecommunications network, offering voice and data services to millions of business, government and residential customers.

MCI International provides telex, leased channel and cablegram services worldwide, and is moving rapidly toward introducing competition in the \$4 billion international voice market.

MCI Airsignal, a national leader in personal communications, offers a variety of paging, message and mobile telephone services, all using the latest technologies.

MCI Mail is a revolutionary time-sensitive message delivery system that can reach anyone in the U.S. faster and cheaper than overnight couriers or other alternatives.

In each of these business areas, MCI brings proven ability to manage people, capital and new technology at high levels of productivity to meet the demands of the fast-growing information economy.

ABOUT OUR COVER

Our cover illustrates the services of a growing MCI. Top left: As equal access phases in across the U.S., MCI's low-cost service will be available to rotary dial telephone users—a vast new market opportunity for MCI Telecommunications. Top right: Mobile telephone systems are entering a new era with cellular radio technology; MCI Airsignal begins cellular car telephone service in Minneapolis this summer. Bottom Left: MCI Mail offers a better way to deliver time-sensitive messages. Bottom right: MCI International will begin direct dial service to Australia this year, and soon to a host of other countries.

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MARCH 31, 1984

BUSINESS OBJECTIVE

MCI's goal is to be the quality provider of a full range of communications services, domestically and internationally, at low cost.

FINANCIAL HIGHLIGHTS 1984

Revenues: \$1,665,000,000

Net Income: \$156,000,000

Earnings per Share: \$.67

CHAIRMAN'S STATEMENT

Everything we do at MCI is directed toward positioning our company as the leading provider of telecommunications services. All of our capital investment, the diversity of our services, our skill in managing technology, and the productivity of our people are designed to further this goal.

CORPORATE PROFILE

MCI offers its 1.6 million business, residential and government customers a range of voice, data and message services.

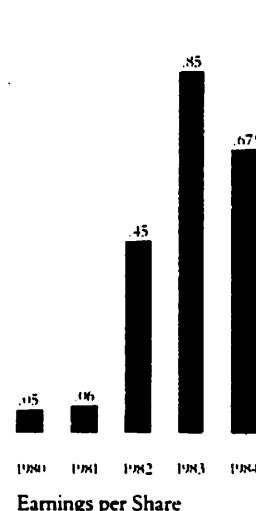
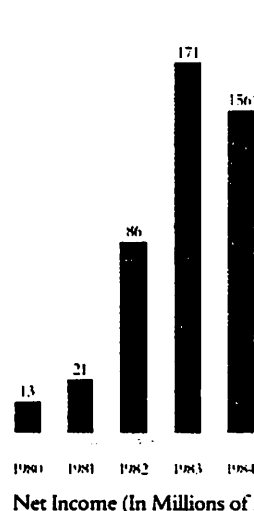
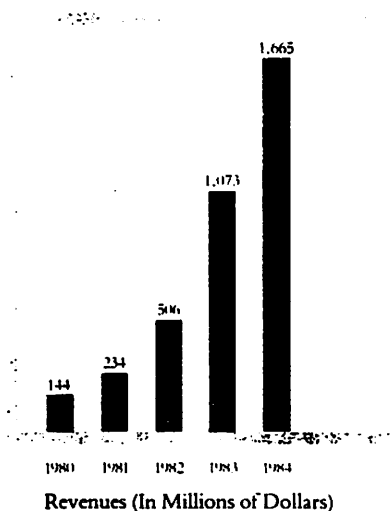
MCI Telecommunications, the company's long distance telephone business, is making major expenditures in fiber optics, microwave, single sideband, satellite, and a complete end-to-end digital transmission capability to take advantage of the conversion of the nation's telephones to equal access. Service is



V. Orville Wright
President and Chief Operating Officer
William G. McGowan
Chairman and Chief Executive Officer

provided in the U.S., plus Hawaii, Puerto Rico, the Virgin Islands and Canada.

MCI International provides private-line voice service to several overseas countries, and data and message services worldwide. Agreements to provide switched voice service have been made with Australia and Belgium. We are testing service to Greece and Spain, and negotiations are underway with a host of countries.

FINANCIAL RECORD

*Includes a provision of \$49.8 million to reflect a decline in the value of telex-related equipment.

MCI Airsignal provides paging and cellular mobile telephone service. MCI has been granted cellular franchises in Denver, Minneapolis, Cleveland and Pittsburgh.

MCI Mail is the low-cost mover of time-sensitive messages, electronically and via hard copy.

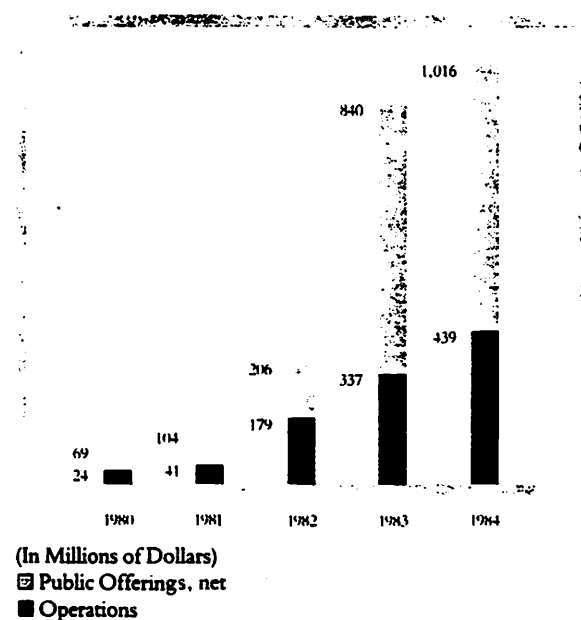
As of April 1, 1984, the company had \$1.1 billion in cash and marketable securities to finance its capital requirements. MCI common stock is traded over-the-counter (National Market System); the NASDAQ symbol is MCIC. Holders of common stock at March 31, 1984 included 67,965 record

holders. MCI warrants and 7³/₄% Convertible Subordinated Debentures are traded over-the-counter; MCI 15%, 14¹/₈% and 12⁷/₈% Subordinated Debentures are traded on the New York Stock Exchange Bond Market.

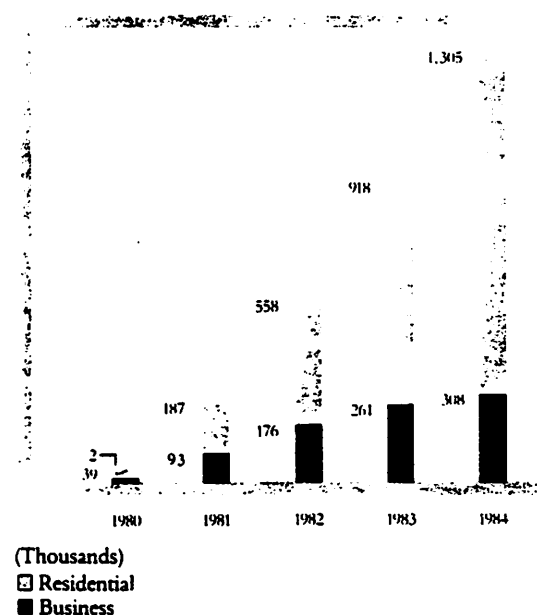
For further information, contact:

Anthony F. Abell, Director, Investor Relations
MCI Communications Corporation
1133 19th Street, N.W., Washington, D.C. 20036
202-887-2028

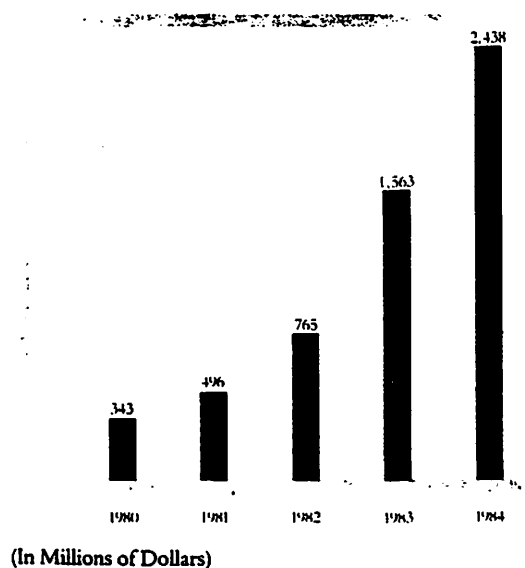
FUNDS GENERATED



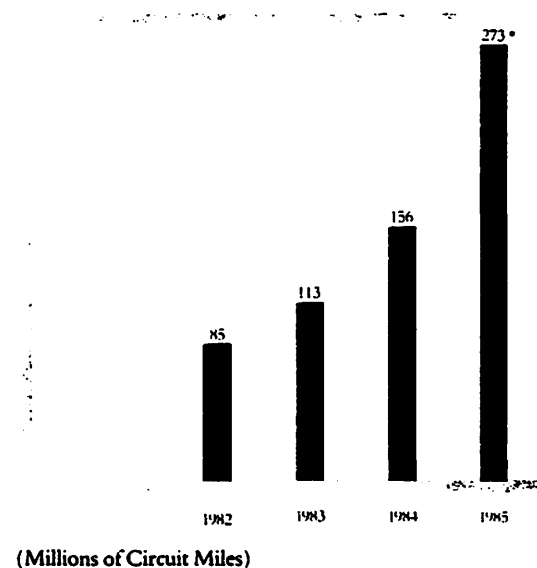
GROWTH IN VOICE CUSTOMERS



INVESTMENT IN COMMUNICATIONS SYSTEM



GROWTH IN CAPACITY



At the close of Fiscal Year 1985, MCI plans to have more than 19,600 route miles of analog microwave radio. This includes more than 5,600 route miles of single sideband which increases radio capacity from 2,100 circuits to 5,400 circuits per radio. The network also will consist of 5,700 route miles of digital radio and 1,700 route miles of fiber optic cable. This results in a nationwide, high-capacity network of more than 27,000 route miles.

HIGHLIGHTS

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Years ended March 31	1984	1983	1982
	(Dollars in thousands, except per share amounts)		
Revenues	\$1,664,729	\$1,073,248	\$506,352
Net income	155,668	170,780	86,451
Earnings per common share*	.67	.85	.45
Active customers:			
Commercial voice	308,000	261,000	176,000
Residential voice	1,305,000	918,000	558,000
Gross investment in communications system	\$2,437,783	\$1,563,252	\$765,276
Annual investment in communications system	889,380	623,010	271,474
Circuit miles	156,000,000	113,000,000	85,000,000
Switch ports installed	494,000	291,000	171,000
Funds generated from:			
Operations	\$ 438,617	\$ 336,536	\$179,111
Public offerings, net	1,016,370	840,087	205,888
Employees	8,756	6,053	3,136

*Restated to reflect two-for-one stock splits in August 1983 and September 1982.

LETTER TO STOCKHOLDERS

To MCI's Stockholders and Friends:

This past year was not only one of continued exceptional growth for MCI, but a period during which we put into place strategies, technologies and resources that position us well for future growth and profitability in the post-divestiture era which began on January 1.

Our revenues for the fiscal year ended March 31 increased by 55 percent, from \$1.07 billion in 1983 to \$1.66 billion this year.

Net income was \$155.7 million, compared with \$170.8 million in 1983, and earnings were \$.67 per share, compared with \$.85 last year.

Earnings did not keep pace with our revenue growth for four reasons:

- The leased-line costs associated with providing universal termination for our customers' calls. These costs will soon begin to decline as we continue to expand our network.
- FCC-mandated increases in the charges for access to the local telephone exchanges during the year to \$234 per line, per month.
- Substantial investments in expanding our network capacity and in growing our paging, cellular mobile telephone and MCI Mail services.
- A pre-tax writedown of \$49.8 million taken in the fourth quarter against the value of international telex-related equipment acquired with WUI, Inc. in June 1982.

Because we are positioning the company for the changing environment in telecommunications, these results do not reflect the underlying strengths of our business, or the opportunities immediately ahead as we receive equal access to the local exchanges and broaden our participation in new markets.

WINDOW OF OPPORTUNITY

The events put into motion on January 1, 1984, are opening an extraordinary window of opportunity—the opportunity and challenge of equal access. With improved call quality, with an end to 22-digit dialing, and with access to the rotary-dial market, which is fully half of the telephones in this country,

MCI, for the first time, can compete equally in a market that is now \$42 billion and is expected to reach \$77 billion by 1987.

This challenge will no doubt test our competitive mettle, but long distance is now a market where cost efficiencies and marketing talents will determine the outcome—areas in which MCI has excelled, and which our principal competitor now must learn.

This competitive advantage is reinforced by our strong financial position. We have \$1.1 billion in cash and marketable securities. As a result of our ample cash resources, we do not expect to return to the public financial markets until late in fiscal 1986. This position is enhanced by a gross investment in our communications system of \$2.4 billion, and stockholders' equity of over \$1.1 billion.

Our first antitrust suit against AT&T will be retried in December. The jury will not be asked to determine guilt; AT&T's culpability was upheld by the Court of Appeals. The jury will be asked only to fix damages.

ACCESS CHARGES

The Federal Communications Commission, in an order issued May 15 to become effective May 25, both reduced the charges that all long distance companies will pay for access to the local telephone company lines by 8.5 percent, and confirmed that our charges will be 45 percent of those paid by AT&T, until we receive access equal in function and quality to theirs. We expect that our monthly charges for access in the transition to full equal access will be about \$330 per line, before giving effect to message unit credits from the local telephone companies that are expected to average about \$20 per line.

The FCC, at the same time, ordered AT&T to lower its long distance rates across the board by 6.1 percent, which is less than the reduction proposed by AT&T last fall. MCI's new pricing structure, which lowers rates, eliminates fees and provides discounts for large volume users, will ensure our competitive position in the transition to full equal access.

The issue of access—who will pay and how much—will continue to be with us for some time. During the coming year, we will revisit access charges in many of the states. Competition in telecommunications is now national policy. We believe there may be federal preemption if the states attempt to thwart that policy, or to unduly inflate its cost. Such actions would both encourage the use of alternatives to the local telephone companies, and discourage the location and growth of businesses in states which pursue such anti-competitive practices.

FULL-SERVICE COMPANY

You have often heard us say that MCI is the nation's long distance telephone company, and this is true. But we are in business to provide a full spectrum of telecommunications services worldwide. There are very few companies today that can claim to be a full-service telecommunications company. We believe MCI is one of those few.

We are building the nation's most cost-effective, customer-responsive telecommunications system, capable of transmitting information in any form. Capacities are being enhanced by state-of-the-art optical fiber, satellite, single sideband and digital radio technologies.

In worldwide markets, we are expanding from telex service to international voice. Our first entry in the voice market was Canada, to be followed soon by Australia and Belgium, representing our first dial-up service to the Pacific Basin and Europe. We are testing service to Greece and Spain, and we are negotiating for voice service with a host of other countries.

In the personal communications markets, we will begin operation of our first cellular mobile telephone service in Minneapolis this summer, and in other cities later in the year. In paging, we plan a nationwide, integrated service.

In the time-sensitive communications market, our new MCI Mail service is faster and more cost-effective than other delivery services.

In high volume data, we are augmenting our transmission network capabilities to incorporate specialized digital links to



V. Orville Wright

President and Chief Operating Officer

William G. McGowan

Chairman and Chief Executive Officer

address the needs of this growing market. By 1987, this market is expected to reach \$14 billion from just under \$4 billion today, driven by the proliferation of desktop computers and digital communications devices. The number of desktop computers, for example, more than doubled between 1982 and 1983 and is expected to increase nearly five-fold by 1987.

MCI GOALS

Those of you who are MCI-watchers and investors of long standing know that we have managed our company for long-term results, and we will continue to do so. On the other hand, the investment community often focuses on the short-term performance of a company. Much of the groundwork to ensure our leadership in this dynamic industry began more than three years ago, with sizeable investments in our communications network and the acquisition and development of new services. These early and substantial investments give us an important competitive edge that reinforces our confidence in the soundness of our current business and our potential for future growth and profitability.

We expect to generate increased market share as equal access is extended across the U.S. during the next few years.

We will continue to be the most efficient and low-cost supplier of telecommunications services.

We will continue to be market-driven, responding to proven demand with the latest technology, combined with our own imprint of productivity and innovation.

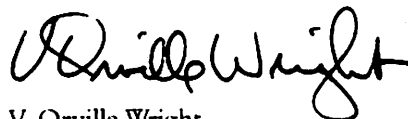
We will continue to invest in our network. Our challenge is to put in place the most advanced communications technology so we can successfully and efficiently serve the increasing sophistication of our customers.

We will continue to bring diversity to our company. Not diversification, but diversity. We are in the information industry, and our business is telecommunications-based services. Our services will be as diverse as the market requires.

Today is a unique time in telecommunications. Divestiture has changed our world. It is a time of confusion, but also great opportunity. The telecommunications market today is one in which no one has an inherent advantage. In this new era, MCI will prosper. Our services are leveraging off one another; they are enhancing one another, and our communications network is providing the means for them all.



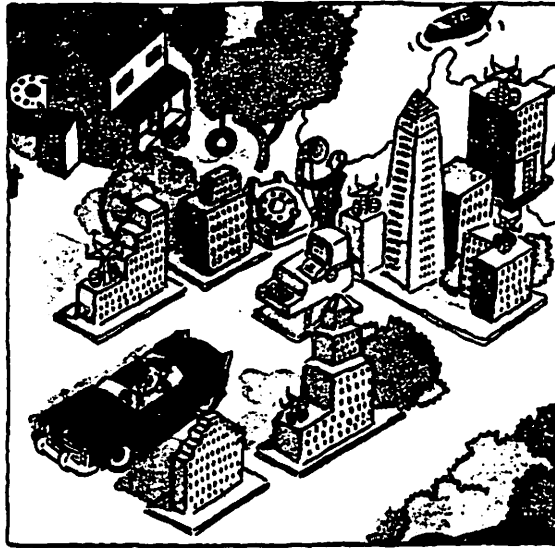
William G. McGowan
Chairman and Chief Executive Officer



V. Orville Wright
President and Chief Operating Officer

May 15, 1984

REVIEW OF OPERATIONS





January 1, 1984, marked the first stage of true competition in the U.S. telecommunications industry. We enter a new era in telecommunications... an industry now poised to bring astonishing changes to every American.

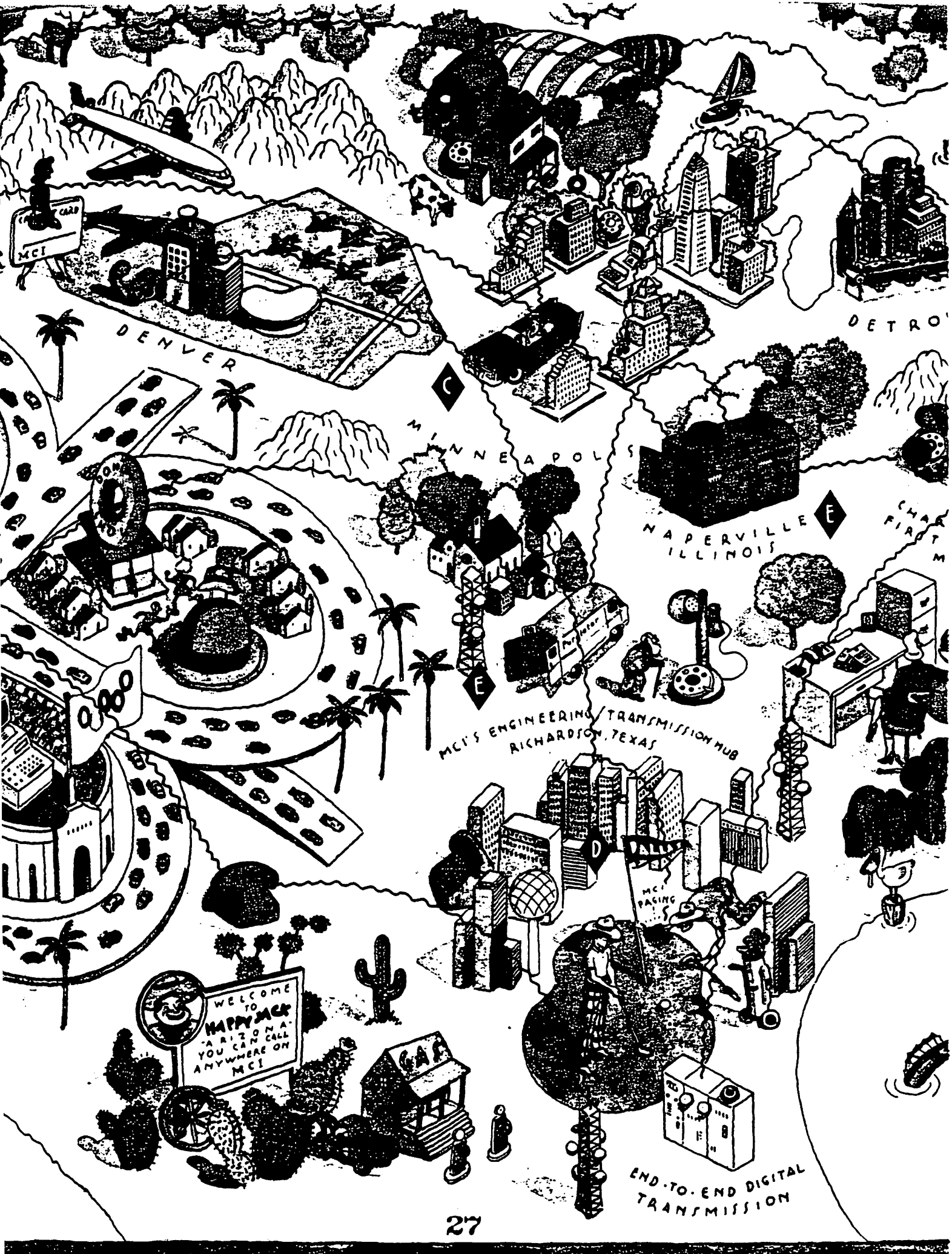
As one news magazine observed: "Never before have so many individuals and organizations been able to interact on such a vast scale. By the end of this century, electronic information technology will have transformed American business, manufacturing, school, family, political and home life."

The instruments of all this change are the telecommunications technologies—glass fiber, microwave, satellite, laser—and the digital language of computers. Integrated, they are radically increasing the volume of information we can manage, the speed with which we can handle it, and the manner in which we can move it.

The beneficiary is the consumer, who will be rewarded with a cornucopia of choices at competitive prices, as exploding technologies, sparked by divestiture and fueled by competition, bring hundreds of new products and services to the marketplace. Ultimately, these technologies will expand our resources and improve the quality of life worldwide.

Illustrated on the following pages are the services of a growing MCI in this new telecommunications era: the ability to call anyone, anywhere in the United States; to call Canada and soon to call Australia, Belgium, Greece, Spain and a host of countries around the globe; to call from your automobile, using cellular radio; to deliver messages through paging; to move data quickly and efficiently; to transmit time-sensitive messages electronically or by printed copy—all via MCI's multi-billion dollar, state-of-the-art network of microwave radio, fiber optics, and satellite, interconnected by the latest computer switching systems.







DIVESTITURE AND EQUAL ACCESS



About 34,000 residential and business telephone users in Charleston, West Virginia, now have the opportunity to choose their long distance telephone company, and to access that company by dialing "1."

Charleston residents began choosing their long distance company on April 15; within a month, MCI had gained about 10 percent of the available market.

Following Charleston, equal access will become available in city after city, beginning in late August. Simultaneously, as equal interconnection is provided to MCI in cities across the country, customers will be asked to designate the long distance company they want—and, for the first time, they can base that decision on price, quality and service competitiveness. Approximately 45 percent of the U.S. is expected to have equal interconnection by year-end 1985, and approximately 70 percent by the close of 1986. Eventually, equal access will be available everywhere in the U.S.

Charleston is a milestone in MCI's 10-year effort to introduce competition into the domestic long distance telephone industry. The task of remodeling the industry began on January 1, 1984, when AT&T divested its 22 local Bell operating companies, under the terms of a court-approved consent decree signed by AT&T and the U.S. Department of Justice.

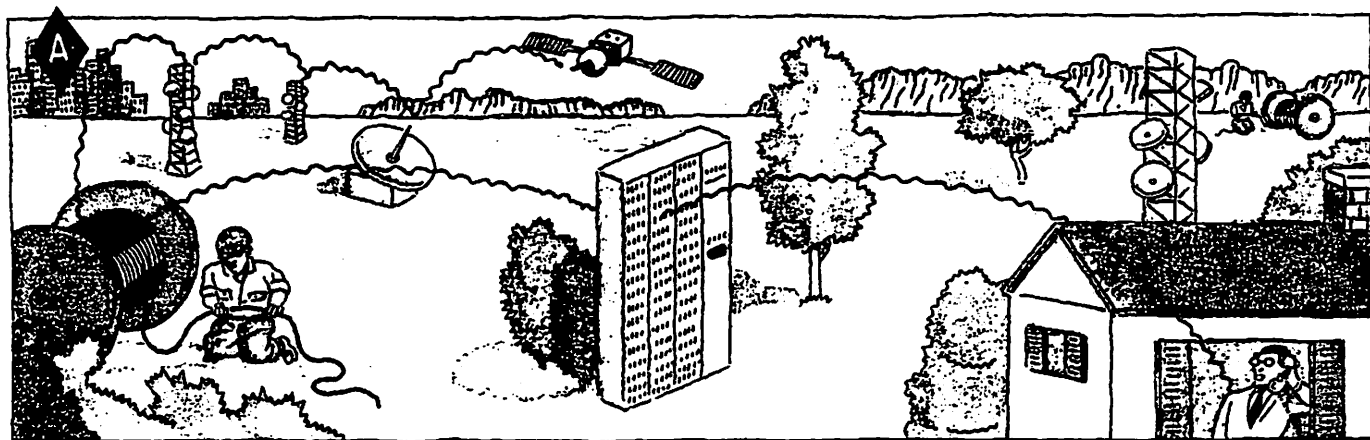
After years of litigation and negotiation, debate and dispute, divestiture opened the door to what MCI had always sought—parity with AT&T. The decree requires the

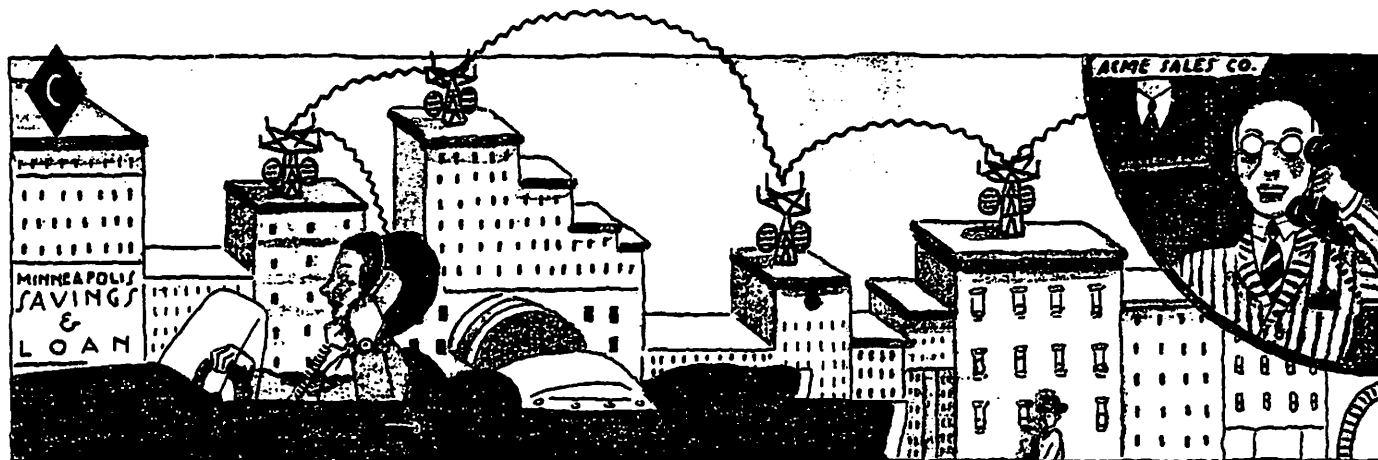
divested operating companies to provide the same quality of access to all long distance carriers. This parity means that MCI will begin to compete on a level playing field for a market that already exceeds \$42 billion, and is expected to reach \$77 billion in 1987.

Equal access is the most extraordinary one-time market opportunity ever afforded any business in the world. It is fundamental to the growth potential and competitive position of MCI. MCI customers will be able to dial "1" or no prefix at all, rather than the 12-digits required today. Our customers will have improved quality. Potential new customers who have rotary dial phones—a market which represents approximately half of the total number of phones in the U.S.—will for the first time be able to use low-cost MCI service. Today, these phones cannot access MCI.

The process for allowing people to choose a long distance service will vary in different parts of the country; however, in each market, MCI will reach potential new customers through marketing, advertising, direct mailings, and a continuing educational program.

We are taking the steps to assure success. We are building the capacity we will need as we gain equal access. We are offering a broad array of new services. With equal access, we will be able to tailor our services to meet the specific needs of our customers. We are sharpening our marketing skills. And, to assure that equal access will be implemented on schedule, we have met, over the past few months, with the regional holding companies and their operating companies. We believe that they can meet their equal access commitment.





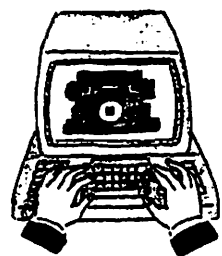
More than this, MCI's communications system is a basic resource that we can employ to bring ever more sophisticated services to our customers. With packet switching, for sending data in short bursts, and long distance digital transmission, we can deliver MCI Mail instantly across the country. As it costs us less to provide these higher value services, it costs our customers less to use them.

With capacity growth, MCI will reach an increasing number of new cities via its own network, rather than with leased lines. To take full advantage of equal access, MCI plans to be in a position to offer universal origination and termination to each of the regional calling areas established by divestiture. This will reduce our use of leased line facilities, and the costs we incur to provide universal termination.

MCI already is offering intrastate long distance service in Texas, Ohio, Florida, Maryland, Pennsylvania, New York and Iowa. In addition, California, West Virginia, Alabama and Indiana have authorized MCI to provide long distance service within the state, and applications are pending in 16 other states.

With new international switches located in the suburbs of Los Angeles and New York City, we are set to offer low-cost MCI service in all parts of the world.

SERVING A GROWING MARKET



MCI is offering an array of telephone services in the equal access environment. There is dial "1," which becomes available in each city as equal access is provided. We also are retaining 22-digit dialing in equal access markets, and we are offering a new dialing arrangement, known as 10222. People who are not MCI customers, but who want to choose

MCI for specific calls, can dial 10222 and access our long-distance system at MCI prices.

This year we will eliminate subscription fees and special rates for calls terminating off the MCI network. We will offer 24-hour calling for all services, discounts for volume users and a new telephone credit card, which can be used virtually everywhere.

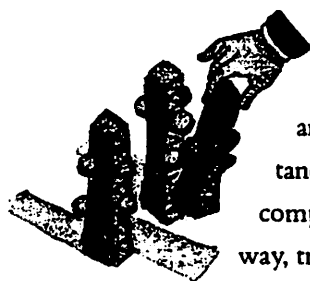
MCI is expanding its marketing dramatically through a new computerized telemarketing center. More than 1.5 million potential new customers are called each month.

During the year, MCI introduced the nation's first public telephones that can be activated by national credit cards—MasterCard or Visa. Card-caller public telephones will be introduced in airports and other busy locations in 1984. MCI also is pursuing cooperative arrangements with the local Bell operating companies, whereby customers can access MCI directly on public telephones. Mountain Bell, a division of U.S. West, has introduced the first equal access public telephones, "gold phones" at Denver's Stapleton International Airport. Boston's Logan Airport has more than 170 equal access phones in place.

For our business customers, MCI is offering an expanded WATS service and an improved corporate account service. A new T1 service, introduced in April for volume business applications, is a very cost-effective means to transmit large amounts of data. Later this year, we will introduce a software-defined network that will allow sophisticated users to have virtually a private network and cater to their own particular voice and data needs.

MCI "Advantage" offers maximum savings and convenience to small business customers. This "miracle in a small box"—in this case a microprocessor inspired by MCI, built to our specifications and installed at a customer's location—automatically dials the customer's access number and author-

MCI's SUPER HIGHWAY



Microwave (FM, single sideband and digital), optical fiber, and satellite, the latest digital, tandem and packet switches—all comprise MCI's communications highway, transmitting every manner of communication—voice, data and image.

The network is second to none in its technological efficiency and in the array of services it can provide our customers. MCI has invested over \$2 billion in its coast-to-coast communications system. Nearly 17,000 route miles of high-capacity transmission facilities cover the spectrum of state-of-the-art, long-distance technologies. Every switch is a "smart" switch, totally adaptable to our customers' needs; approximately one half of our available switching capacity is digital, and as much as 75 percent of our capacity will be digital by the end of this fiscal year.

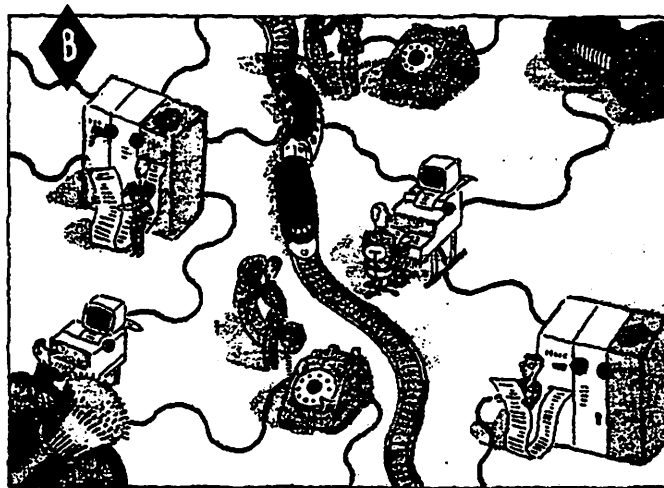
MCI's is the second largest microwave system in the country. This past year, we began construction of a new microwave route across mid-America, opening the first portion for service between Kansas City and Denver. When completed, the route will extend from Baltimore to San Francisco. We also constructed additional microwave systems in Southern California, Arizona, Florida, Michigan, Indiana, Ohio, Maryland and Virginia.

Optical fiber is the emerging technology for very high-capacity routes, and it is increasingly becoming more cost effective than other technologies in many applications. These pure glass fibers, thinner than a human hair, have almost unlimited capacity. MCI has purchased more than 100,000 miles of optical fiber, and leased 4,300 miles of railroad rights-of-way on which to install it.

MCI's first single mode fiber system was completed between Dominguez Hills and downtown Los Angeles during the year. In March, MCI put into service its 229-mile fiber optic system between Washington, D.C., and New York. The system, linking Washington, Baltimore, Wilmington, Philadelphia, Trenton, Newark and New York, is the world's longest and highest-capacity single mode fiber optic system in operation. Single mode is the most advanced fiber optic technology available. The electronics operate at a rate of 405 million bits per second, providing capacity for more than 6,000 simultaneous voice conversa-

tions over a pair of optical fibers—one each for transmitting and receiving. A 1,000-page book can be transmitted in one-twelfth of a second; the cable, between New York and Washington, containing 22 pairs of fiber, can carry 120,000 simultaneous conversations.

We also completed a fiber system between Chicago and Downer's Grove, Illinois, and we are constructing systems in Florida from Orlando to Tampa and from Riviera Beach to Miami. Links from Mobile to New Orleans, Houston and



Dallas; from Chicago to Cleveland, and from Chicago to Milwaukee are planned in 1984.

MCI uses satellite to augment its terrestrial network and to reach remote cities where other means of transmission are not available. Galaxy II, the Hughes Communications satellite, was launched last September, carrying 12 MCI transponders into space. A second satellite, with another 12 MCI transponders, is expected to be launched in 1984.

Over the next two years, MCI plans to expand its network, increasing capacity not only to serve normal growth in demand, but to handle the anticipated surge resulting from equal access. This past fiscal year, MCI spent almost \$900 million expanding its communications system, and this year we will invest about \$1 billion.

MCI is installing single sideband and digital radios on its existing microwave systems. Single sideband radios will boost MCI's current 14,000 circuits per FM route to 37,000 circuits; digital radios will add another 14,000 circuits per route, capable of carrying voice and data simultaneously.

By the end of fiscal 1985, circuit miles will number almost 275 million, an increase of 76 percent over today's capacity. It will be a nationwide, high-capacity network of more than 27,000 route miles.

ization code and can be used by rotary dial phones to access MCI. Advantage customers increased nearly five-fold last year, from 13,000 to 70,000.

MCI makes it a point to introduce innovative advertising and marketing promotions to the industry. Burt Lancaster joins Merv Griffin and Joan Rivers, all MCI customers, in our first use of celebrity spokespersons. This effort is supported by attention-getting and business-holding promotions. American Express has, for the past two years, marketed our services to its cardholders, and our American Express customers are now approaching 250,000. We also have reached an agreement with Sears, Roebuck and Co., whereby Sears Merchandise Group promotes our long distance service to its credit card customers.

MCI is the official supplier of telex and international electronic message services at the 1984 Olympic Games, and we will provide service for the press corps at the Democratic and Republican National Conventions.

Of the many and exciting prospects at MCI, none is more exciting than extending our reach internationally, as we introduce new technologies and our low prices to every part of the globe. This year will be a time of rapid movement toward MCI's goal to become an international communications company.

We have reached agreements with Australia and Belgium to inaugurate direct dial service later this year, after opera-

tional arrangements have been completed. This year, the Federal Communications Commission also approved testing of direct dial service to Greece and Spain, and we are in the midst of promising discussions with other countries in all parts of the world.

MCI began dial-up service to Canada last year, and this service has achieved levels of use that MCI and our Canadian partners did not expect to attain before 1985. We also offer dedicated, or leased private line, service to the United Kingdom and Belgium.

The extension of direct dial service overseas opens the way to dramatic expansion for MCI. MCI's purchase of Western Union International in 1982 gave us a valuable understanding of the international marketplace, and an entry into a \$4 billion market that we did not serve—a market which is growing at approximately 20 percent a year, faster even than the domestic long distance market.

INTRODUCING NEW SERVICES



Quality, cost-effective long distance service is the heart of MCI, but our goal is to become a full-service telecommunications company. As our customers become more sophisticated in the services and products of the information age, they will demand equal sophistication from us.

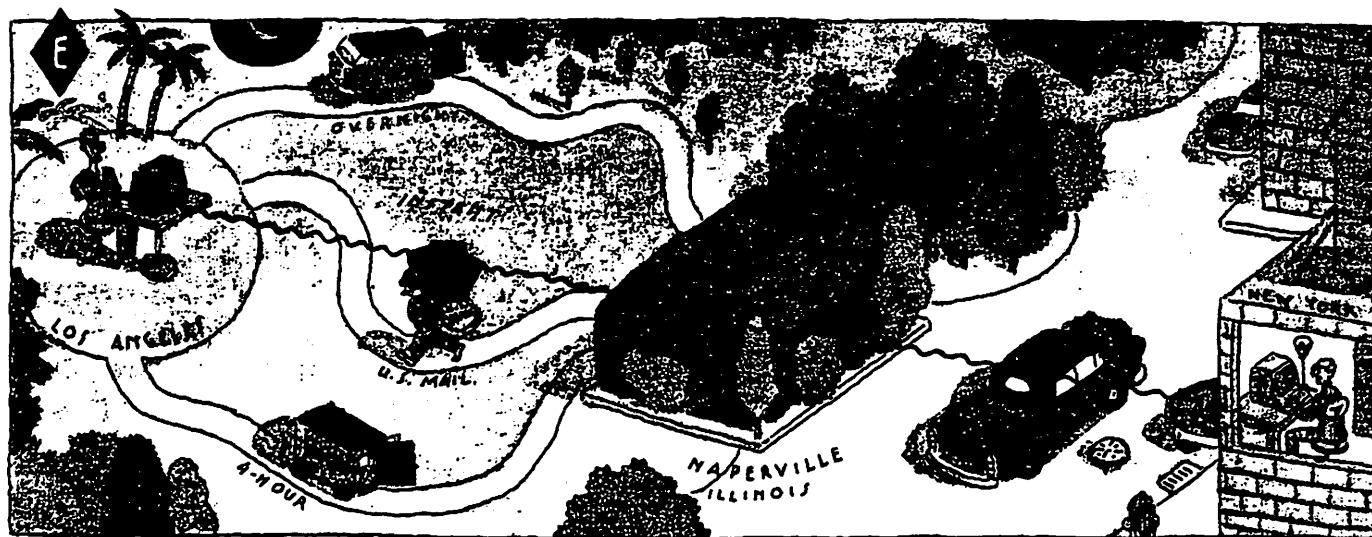
MCI is strongly positioned in the new areas of paging and cellular telephone service. In the next year, MCI will provide new cellular car telephone service in Minneapolis-St. Paul, Pittsburgh, Denver-Boulder and Cleveland. MCI also has received initial approval from the FCC to provide service in the greater Los Angeles area and has applications pending in other large metropolitan areas.

Cellular technology brings new advantages to car telephone service: clear transmission, greatly expanded capacity, a competitive price, and nationwide compatibility. As a result of these innovations, the mobile telephone market in the U.S. is expected to grow from less than 200,000 conventional mobile telephone users today, to more than one million cellular car telephone users by the end of the century.

Cellular technology also promises the truly portable phone. Within a few years, it will be as common to carry a portable phone in one's briefcase as it is now to carry a pocket calculator.

Paging is also undergoing dramatic change. It has evolved from a "locator" service to a message delivery service, where





a user can receive information on a display screen or in printed form. At the same time, the industry is experiencing significant growth. In 1980, there were 1.2 million pagers in use; by 1985, nearly 5 million will be in service, and the number could reach almost 20 million by the end of this decade.

Paging also will soon be nationwide. In partnership with American Express, Metromedia and Communications Industries, MCI has applied to the FCC to provide coast-to-coast message delivery service, by linking our local paging operations across the country to form a message network capable of providing service to more than 100 of the largest metropolitan areas of the country.

MCI Mail, our newest service and a product of our entrepreneurship, is revolutionizing time-sensitive message delivery.

Introduced last September, MCI Mail messages begin as a type of electronic mail, but the service's ingenious advance is that it can be used with any electronic communicating device—incompatibility is eliminated—and will deliver a message to anyone, anywhere, electronically or on paper, at prices as much as 90 percent lower than comparable time-sensitive services. MCI Mail is delivered to hard-copy recipients in bright orange envelopes.

Communications are sent instantly to Naperville, Illinois, and delivered according to the option chosen by customers when they initiate a message. "Instant" delivers a message electronically in seconds for \$1. "Four-hour" delivers paper copy to any address in 15 major cities with courier assistance within four hours for \$25. "Overnight" delivers paper copy to 20,000 cities in the U.S. with courier assistance by noon of the following business day for \$6. "Next-day" delivers to the addressee through the U.S. Postal Service for \$2. Telex Dispatch sends messages worldwide to any telex address.

MCI Mail can store customers' letterheads and signatures for personalized mail. And we have added volume service, which prints and mails product announcements, sales promotions, price changes, invoices, and other volume mailings, in cities close to the recipients' addresses, saving time, effort and money.

MCI Mail's value is limitless. It reduces mailing preparation time, cuts delivery time and gives customers complete control of the communications process, all for less money. Subscribers have grown to 110,000, and we expect to have 200,000 by the end of 1984, as increasing numbers of people become acclimated to electronic communications. By 1987, it is estimated that there will be almost 60 million personal computers in place in the U.S., compared to 10 million today.

There is no reason to restrict MCI Mail to the continental U.S., and we do not plan to. This year, print centers will be expanded elsewhere in this country, including Hawaii, and to other parts of the world, as we roll out MCI Mail internationally. This, coupled with international message and data service, has been named MCI World Message Service. We are bringing together our experience in international and domestic telex, international cablegram, and our innovation in MCI Mail. We will provide instant and hard copy delivery to points throughout the world.

Telecommunications is entering a golden age; it will make significant contributions toward vitalizing our economy and bringing the world even closer together. Telecommunications will change for the better the way most of us do business, and the way all of us live. We are confident of our ability to bring this new era to our customers. This is MCI's world—welcome to it!

REPORT OF MANAGEMENT

The management of the Company is responsible for the financial information and representations contained in the financial statements and other sections of the annual report. The financial statements have been prepared in conformity with generally accepted accounting principles appropriate under the circumstances to reflect, in all material respects, the substance of events and transactions which have occurred. In preparing the financial statements, it is necessary that management make informed estimates and judgments based on currently available information to record the results of certain events and transactions.

The Company maintains a system of internal controls designed to assist management in meeting its responsibility for reporting reliable financial information. The system is designed to provide reasonable assurance that assets are safeguarded and transactions are recorded and executed with management's authorization. Internal control systems are subject to inherent limitations with regard to the necessity to balance costs against the benefits produced. The Company believes that the existing system of internal controls provides reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The board of directors pursues its oversight role for the financial statements through its audit committee, which is comprised solely of directors who are not officers or employees of the Company. They are responsible for engaging, subject to stockholder approval, the independent accountants. The audit committee meets periodically with management and the independent accountants to review their activities in connection with financial reporting matters. The independent accountants have full and free access to meet with the audit committee, without management representatives present, to discuss the results of their examination and the adequacy and quality of internal controls and financial reporting.

The report of our independent accountants, Price Waterhouse, appears below. Their examination of the financial statements includes a review of the Company's system of internal controls in accordance with generally accepted auditing standards.



Peter K. Laros
Chief Accounting Officer

REPORT OF INDEPENDENT ACCOUNTANTS



To the Board of Directors and Stockholders

MCI Communications Corporation

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, sources of funds invested in communications system and stockholders' equity (pages 19-33) present fairly the financial position of MCI Communications Corporation and its subsidiaries at March 31, 1984 and 1983, and the results of their operations and the changes in their financial position for each of the three years in the period ended March 31, 1984, in conformity with generally accepted accounting principles consistently applied. Our examinations of these statements were made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.



May 3, 1984
Washington, D.C.

SELECTED FINANCIAL INFORMATION

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Years ended March 31,	1984	1983	1982	1981	1980
(In thousands, except per share amounts)					
<i>Summary of operations:</i>					
Sales of communications services	\$1,664,729	\$1,073,248	\$506,352	\$234,204	\$144,345
Operating expenses	1,355,390	778,137	339,326	182,866	107,176
Income from operations	309,339	295,111	167,026	51,338	37,169
Interest and other expense, net	109,764 *	54,520	37,994	27,815	23,824
Income before extraordinary item	155,668	170,780	86,451	18,742	7,125
Net income	155,668	170,780	86,451	21,114	13,345
<i>Earnings per common share**:</i>					
Primary:					
Income (loss) before extraordinary item	.67	.85	.45	.04	(.01)
Net income	.67	.85	.45	.06	.05
Assuming full dilution:					
Income before extraordinary item	.67	.81	.43	.04	.00
Net income	.67	.81	.43	.06	.04
<i>Balance sheet:</i>					
Total assets	\$3,507,361	\$2,070,467	\$860,398	\$466,892	\$309,843
Long term debt	1,721,504	895,891	400,018	242,707	172,852
Stockholders' equity	1,135,743	765,632	240,782	148,047	78,847
Gross investment in communications system	2,437,783	1,563,252	765,276	496,251	343,122
Annual investment in communications system	889,380	623,010	271,474	155,654	110,252

*Includes a provision of \$49.8 million to reflect a decline in value of telex-related equipment.

**Restated to reflect two-for-one stock splits in August 1983 and September 1982.

MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

The substantial rate of growth experienced by MCI in the past three fiscal years and its impact on financial condition and operating results are discussed below:

CAPITAL RESOURCES AND LIQUIDITY

In fiscal 1984, MCI invested \$889.4 million in its communications system compared to \$623.0 million in 1983 and \$271.5 million in 1982. During fiscal 1983, MCI also completed the acquisition of WUI, Inc. for \$195.1 million. The continuing increase in capital expenditures represents MCI's commitment to expand its domestic communications network into new geographic areas, to increase the capacity of existing routes and to provide additional switching capabilities as rapidly as possible. This rapid development of its communications system is an integral part of MCI's plan to meet anticipated demand for its services resulting from the availability of equal access and to reduce its dependence on intercity facilities leased from other common carriers.

During fiscal 1985, MCI plans to continue this effort with estimated capital spending of one billion dollars. This includes the construction of ten new routes (six of which are fiber optic), major expansion of capacity utilizing single-sideband and digital technologies along the most heavily used routes and the addition of terminals in order to expand the reach of its network. In addition, MCI's capital program includes the construction of cellular telephone systems, the expansion of the MCI Mail network, and development of international voice services.

During fiscal 1984, capital resources were provided primarily by funds on hand, funds from operations, and the net proceeds of \$986.3 million received from the sale of 9 1/2% Subordinated Notes and warrants in August 1983. In December 1983, MCI also sold and leased back, under an operating lease, 12 transponders on the Galaxy II Satellite.

MCI expects to finance its fiscal 1985 capital expenditures with funds on hand, funds generated from operations, and increased use of equipment lease financing. In addition, MCI plans to finance by an operating lease the 12 transponders on the Galaxy III Satellite, expected to be delivered in the last half of 1984. The Company also has available a \$300 million revolving line of bank credit. Long term debt as a percentage of total capitalization was 60% at March 31, 1984 compared to 54% at March 31, 1983 and 62% at March 31, 1982.

REVENUES

Sales of communications services increased to \$1.7 billion in fiscal 1984 from \$1.1 billion in 1983 and \$506 million in 1982. The growth in revenue is primarily attributable to an increase in the number of customers and cities served by MCI's communications network, the provision of universal call termination beginning in fiscal 1983 and the introduction in fiscal 1983 of a mini-switch which provides preprogrammed dialing of a customer's access number and authorization code. Rate increases in fiscal 1982 and 1983 and the acquisition of WUI, Inc. in fiscal 1983 also contributed to the revenue growth during these years. There were no significant rate increases during fiscal 1984.

In May 1984, the Federal Communications Commission (FCC) directed American Telephone & Telegraph Company (AT&T) to file tariffs providing for a 6.1% decrease in its prices for long distance metered services, including WATS, effective May 25, 1984. Also in May 1984, MCI announced, effective July 15, 1984, the elimination of monthly fees and the initiation of volume discounts on its residential and commercial metered long distance services; and, effective June 1, 1984 the restructuring of its MCI WATS service for large businesses.

LOCAL INTERCONNECTION

Local interconnection expense increased to \$309.2 million in fiscal 1984 from \$172.7 million in 1983 and \$76.2 million in 1982. Local interconnection expense increased primarily as a result of additional facilities required to meet the increased number of customers being served and significant increases in the rates charged for access to the local telephone exchanges. As a percentage of revenue, local interconnection expense increased to 19% in 1984 from 16% in 1983 and 15% in 1982.

The rates MCI pays for local interconnection facilities for its metered long distance services were initially established pursuant to an agreement negotiated in 1978 by MCI, AT&T and other concerned parties under the supervision of the FCC. Since then, these rates have increased significantly. The facilities MCI receives are inferior, or unequal, to those received by AT&T, and MCI receives a discount of 70% from the rates paid by AT&T.

In a series of orders, the first of which was issued in February 1983, the FCC changed the method by which the rates MCI will pay for local interconnection facilities are to be calculated. Specifically, the FCC has decided that, until equal access is achieved, MCI and other common carriers (other than AT&T) will continue to pay a flat monthly rate per access line for local interconnection facilities and that the rates to be paid by MCI and such common carriers will initially be at a 55% discount from the rates payable by AT&T. The 55% differential is to be adjusted in 1985 to reflect changes in the consumer price index and will be reviewed by the FCC during the following year. Effective on May 25, 1984, the rates that MCI will pay for unequal access will increase significantly both per access facility and as a percentage of revenue. As equality of interconnection is achieved, MCI is to pay the same rates as those paid by AT&T, which rates will be calculated on a per minute basis on all traffic using local exchange facilities. Additionally, as MCI increases the use of access facilities for intrastate service, the local interconnection charges are expected to increase as a percentage of revenue.

Pursuant to the settlement agreement between AT&T and the U.S. Department of Justice to terminate the U.S. Government's antitrust suit against AT&T, the divested Bell Operating Companies shall begin to provide equal access interconnections to all long distance common carriers over a period starting not later than September 1, 1984 and ending in 1986. Although the quality of interconnection will improve under equal access and certain features, such as rotary dial access will be made available to MCI, the cost of equal access will also increase significantly over the charges MCI now pays, or will pay, for unequal access during the transition period to equal access.

FACILITIES LEASED FROM OTHER COMMON CARRIERS

The expense for facilities leased from other common carriers increased to \$320.7 million in fiscal 1984 from \$137.2 million in 1983 and \$47.0 million in 1982. The increases resulted primarily from MCI's policy to continue to expand its geographic coverage for originating and terminating traffic by providing services to certain cities in advance of the construction of its own network to those cities and to provide universal termination for certain of MCI's services. As a percentage of revenue, expenses for these facilities increased to 19% for fiscal 1984 from 13% in 1983 and 9% in 1982. MCI expects that the expenses for facilities leased from other common carriers will decrease as a percentage of revenue during the next year as traffic carried over leased facilities is transferred to MCI's expanded network.

OTHER OPERATING EXPENSES

System, marketing, administrative and general expenses increased to \$542.4 million in fiscal 1984 from \$364.5 million in 1983 and \$160.4 million in 1982. These expenses reflect the continued expansion of the support areas required to meet MCI's customer growth, increased marketing and sales efforts to promote new and existing services, and start-up expenses of MCI's new services. As a percentage of revenue, these expenses were 33% in fiscal 1984 compared to 34% in 1983 and 32% in 1982.

Depreciation expense increased to \$183.1 million in fiscal 1984 from \$103.8 million in 1983 and \$55.7 million in 1982. The increase resulted from MCI's continuing investment in its communications system. As a percentage of revenue, depreciation expense was 11% in fiscal 1984 compared to 10% in 1983 and 11% in 1982.

INTEREST

Interest expense increased to \$161.8 million in fiscal 1984 from \$75.3 million in 1983 and \$53.6 million in 1982. The increase was primarily as a result of interest cost incurred on debentures issued by MCI during the three year period. Interest expense was partially offset by interest income of \$103.7 million in 1984, \$21.3 million in 1983 and \$18.6 million in 1982. After interest income, the net interest expense as a percentage of revenue was 3% in 1984 compared to 5% in 1983 and 7% in 1982.

OTHER EXPENSE

In March 1984, MCI's international telex subsidiary recorded a provision against pre-tax earnings of \$49.8 million for the decline in the value of certain of its telex-related equipment. The provision recognizes the diminution in value of the equipment caused by the increasingly competitive climate and accelerated pace of technological change brought about by the recent deregulation of the international telex industry.

STATEMENT OF OPERATIONS

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Years ended March 31,	1984	1983	1982
	(In thousands, except per share amounts)		
<i>Revenues:</i>			
Sales of communications services	\$1,664,729	\$1,073,248	\$506,352
<i>Operating expenses:</i>			
Local interconnection	309,216	172,661	76,203
Facilities leased from other common carriers	320,692	137,221	47,001
Communications system engineering, operations and maintenance	205,032	147,190	48,711
Sales and marketing	182,273	101,838	50,743
Administrative and general	155,069	115,470	60,964
Depreciation	183,108	103,757	55,704
Total operating expenses	<u>1,355,390</u>	<u>778,137</u>	<u>339,326</u>
Income from operations	309,339	295,111	167,026
Interest expense	161,798	75,322	53,634
Interest (income)	(103,655)	(21,255)	(18,571)
Provision for decline in value of telex-related equipment	49,800		
Other expense, net	<u>1,821</u>	<u>453</u>	<u>2,931</u>
Income before income taxes	199,575	240,591	129,032
Provision for income taxes	<u>43,907</u>	<u>69,811</u>	<u>42,581</u>
Net income	<u>\$ 155,668</u>	<u>\$ 170,780</u>	<u>\$ 86,451</u>
 Earnings per common share:			
Primary	\$.67	\$.85	\$.45
Assuming full dilution	\$.67	\$.81	\$.43

See accompanying notes

BALANCE SHEET

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

March 31,	1984	1983
<i>Assets</i>		
	(In thousands)	
Current assets:		
Cash and short term investments	\$1,132,734	\$ 541,991
Accounts receivable	302,060	161,607
Other	52,938	9,566
Total current assets	1,487,732	713,164
Communications system:		
System in service	1,774,939	1,161,769
Other property and equipment	351,752	201,695
	2,126,691	1,363,464
Accumulated depreciation	(466,764)	(239,086)
Construction in progress	311,092	199,788
Total communications system, net	1,971,019	1,324,166
Other assets and deferred charges	48,610	33,137
Total assets	\$3,507,361	\$2,070,467

See accompanying notes

March 31,	1984	1983
<i>Liabilities and stockholders' equity</i>		
	(In thousands)	
Current liabilities:		
Accounts payable and accrued liabilities	\$ 362,984	\$ 224,633
Accrued interest payable	44,830	26,541
Accrued income taxes	23,451	22,207
Long term debt due within one year	49,414	48,038
Total current liabilities	<u>480,679</u>	<u>321,419</u>
Deferred income taxes and other	169,435	87,525
Long term debt	1,721,504	895,891
Stockholders' equity:		
Preferred stock, 20,000,000 shares authorized, none issued		
Common stock, \$.10 par value, authorized 400,000,000 shares, issued 235,746,702 and 117,068,594 shares	23,575	11,707
Capital in excess of par value	784,108	581,533
Retained earnings	332,352	176,684
	<u>1,140,035</u>	<u>769,924</u>
Common stock held by subsidiaries, at cost, 2,720,436 shares	(4,292)	(4,292)
Total stockholders' equity	<u>1,135,743</u>	<u>765,632</u>
Total liabilities and stockholders' equity	<u>\$3,507,361</u>	<u>\$2,070,467</u>

STATEMENT OF SOURCES OF FUNDS INVESTED IN COMMUNICATIONS SYSTEM
MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

Years ended March 31,	1984	1983	1982
	(In thousands)		
<i>Funds provided from operations:</i>			
Net income	\$155,668	\$170,780	\$ 86,451
Items included in results of operations not affecting working capital:			
Depreciation and amortization	196,165	108,643	60,761
Provision for decline in value of telex-related equipment	49,800		
Deferred income taxes	30,984	52,913	31,649
Employee stock ownership plan	6,000	4,200	3,602
Total from operations	438,617	336,536	182,463
Less—Dividends on preferred stock			(3,352)
	<u>438,617</u>	<u>336,536</u>	<u>179,111</u>
<i>Funds provided from external financing:</i>			
Increase in long term debt:			
Sale of subordinated debt	819,265	840,087	205,888
Capital lease obligations	12,485	19,988	5,040
Mortgage payable	30,350		
Notes payable	3,567	10,480	
Increase in equity:			
Sale of warrants with subordinated debt, net	197,105		
Other	11,518	13,687	9,119
Retirement of long term debt	(50,731)	(42,576)	(53,454)
Deferred gain on sale of assets	52,193		
Other, net	(8,305)	(17,864)	(2,811)
	<u>1,067,447</u>	<u>823,802</u>	<u>163,782</u>
<i>Funds used to acquire net assets of WUL, Inc., excluding working capital of \$18,584:</i>			
Communications system		191,368	
Long term debt		(20,894)	
Other assets, net		6,084	
		<u>176,558</u>	
<i>Changes in components of working capital, excluding debt due within one year (Brackets denote a change representing funds employed as working capital):</i>			
Cash and short term investments	(590,743)	(397,504)	(131,790)
Accounts receivable	(140,453)	(83,116)	(46,056)
Other current assets	(43,372)	(4,116)	(1,636)
Accounts payable and accrued liabilities	138,351	95,167	90,087
Accrued interest payable	18,289	15,088	9,480
Accrued income taxes	1,244	13,711	8,496
	<u>(616,684)</u>	<u>(360,770)</u>	<u>(71,419)</u>
<i>Investment in communications system</i>	<u>\$889,380</u>	<u>\$623,010</u>	<u>\$271,474</u>

See accompanying notes

STATEMENT OF STOCKHOLDERS' EQUITY

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

	Preferred stock	Common stock		Capital in excess of par value	Retained earnings (deficit)	Common stock held by subsidiaries	Stockholders' equity
		Shares	Par value				
(In thousands)							
Balance at March 31, 1981	\$1,087	37,818	\$ 3,782	\$224,665	(\$77,195)	(\$4,292)	\$148,047
Common stock issued:							
Conversion of preferred stock, net	(1,079)	10,206	1,020	(2,065)			(2,124)
Conversion of debt, net		24	2	587			589
Purchase of minority interest of a subsidiary, net		127	13	2,937			2,950
Employee stock plans		566	57	9,062			9,119
Redemption of preferred stocks	(8)			(890)			(898)
Preferred stock dividends					(3,352)		(3,352)
Net income					86,451		86,451
Balance at March 31, 1982	0	48,741	4,874	234,296	5,904	(4,292)	240,782
Common stock issued:							
Conversion of debt, net		18,839	1,884	338,499			340,383
Stock split effected in the form of a 100% stock dividend		48,841	4,884	(4,884)			
Employee stock plans		648	65	13,622			13,687
Net income					170,780		170,780
Balance at March 31, 1983	0	117,069	11,707	581,533	176,684	(4,292)	765,632
Common stock issued:							
Conversion of debt, net		31	3	817			820
Stock split effected in the form of a 100% stock dividend		117,183	11,718	(11,718)			
Sale of warrants with 9 1/2% subordinated notes, net				197,105			197,105
Employee stock plans		1,464	147	16,371			16,518
Net income					155,668		155,668
Balance at March 31, 1984	\$ 0	235,747	\$23,575	\$784,108	\$332,352	(\$4,292)	\$1,135,743

See accompanying notes

NOTES TO FINANCIAL STATEMENTS
MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The financial statements include the consolidated accounts of MCI Communications Corporation and its subsidiaries (collectively, the Company). All significant intercompany transactions are eliminated in the financial statements.

COMMUNICATIONS SYSTEM

The investment in communications system is recorded at cost which includes material, interest, labor and overhead. The costs of construction and equipment are transferred to communications system in service as construction projects are completed and/or equipment is placed in service. Depreciation of assets is recorded commencing with the first full month that the assets are in service and is provided using the straight-line method over their estimated useful lives. The depreciable lives of the assets comprising the communications system in service on a weighted average basis approximate twelve years. Other property and equipment includes land, buildings and other assets which are depreciated from two to twenty-five years. The cost of equipment retired in the ordinary course of business, less proceeds, is charged to accumulated depreciation. Maintenance and repairs are charged to expense as incurred.

PROVISION FOR DECLINE IN VALUE OF COMMUNICATIONS EQUIPMENT

In March 1984, MCI's international telex subsidiary recorded a provision against pre-tax earnings of \$49.8 million for the decline in the value of certain of its international telex-related equipment. The provision recognizes the diminution in value of the equipment caused by the increasingly competitive climate and accelerated pace of technological change brought about by the recent deregulation of the international telex industry. The provision has been included in accumulated depreciation.

CAPITAL LEASES

Certain of the Company's lease obligations meet the criteria of a capital lease. These obligations are recorded for financial reporting purposes at the present value of the future lease payments, including estimated bargain purchase options, discounted at the approximate interest rate implicit in the leases. A corresponding amount is capitalized as the cost of the equipment and depreciated over the estimated useful lives of the equipment, which are generally longer than the terms of the leases.

INCOME TAXES

The Company files a consolidated Federal income tax return. Deferred income taxes are provided on transactions which are reported in the financial statements in different years than for income tax purposes. Investment tax credits are recorded under the flow-through method of accounting.

EARNINGS PER COMMON SHARE

Primary earnings per share was computed on the basis of the weighted average number of shares of common stock outstanding during each year, and common stock equivalents arising from the assumed exercise of warrants and stock options, if dilutive. The weighted average number of shares used in the primary computation for each of the years was: 1984-233,306,822; 1983-202,027,452; and 1982-181,595,536. Net income for the fiscal year 1982 was adjusted in the calculation by deducting preferred stock dividend requirements of \$4.1 million.

Fully diluted earnings per share reflect additional adjustments for shares applicable to convertible preferred stock outstanding in 1982 and for shares applicable to convertible subordinated debt securities which were converted during 1983 (see Note 3). Convertible securities outstanding at the end of 1984 and 1982 are not classified as common stock equivalents and have not been included in the computations since their effect is not dilutive. The weighted average number of shares used in the fully diluted computation for each of the years was: 1984-233,306,822; 1983-228,055,244; and 1982-192,012,320.

NOTE 2. LEASE TRANSACTIONS

The amount included in communications system financed by capital leases is:

March 31,	1984	1983
	(In thousands)	
System in service	\$266,485	\$274,804
Other property and equipment	<u>20,112</u>	<u>12,764</u>
	286,597	287,568
Accumulated depreciation	(108,099)	(82,477)
Construction in progress	<u>3,225</u>	<u>6,001</u>
	<u>\$181,723</u>	<u>\$211,092</u>

Leases not capitalized are primarily for sites on which communications equipment and microwave stations are located, and administrative facilities including office buildings, vehicles, data processing equipment and office equipment. In addition, during the fiscal year 1984, the Company entered into a sale and leaseback of twelve transponders aboard the Galaxy II Satellite, which was accounted for as an operating lease. Total rental expense for operating leases amounted to \$54.1 million; \$38.7 million and \$20.3 million for the years ended March 31, 1984, 1983 and 1982.

At March 31, 1984, the future aggregate minimum rental commitments for capital leases and noncancellable operating leases were as follows:

Years ending March 31,	Capital leases	Operating leases	Total
	(In thousands)		
1985	\$ 51,625	\$ 63,803	\$115,428
1986	33,927	60,476	94,403
1987	27,371	55,226	82,597
1988	21,839	49,583	71,422
1989	10,629	47,706	58,335
thereafter	<u>7,512</u>	<u>181,368</u>	<u>188,880</u>
Minimum lease payments	152,903	<u>\$458,162</u>	<u>\$611,065</u>
Less-Amount representing interest	<u>21,492</u>		
Present value of future lease payments (Note 3)	<u>\$131,411</u>		

NOTE 3. LONG TERM DEBT

Long term debt, including the amount due within one year, consists of:

March 31,	1984	1983
	(In thousands)	
9 ¹ / ₂ % Subordinated Notes due August 1, 1993	\$1,000,000	
7 ³ / ₄ % Convertible Subordinated Debentures due March 15, 2003	399,180	\$400,000
12 ⁷ / ₈ % Subordinated Debentures due October 1, 2002	250,000	222,000
14 ¹ / ₈ % Subordinated Debentures due April 1, 2001	125,000	125,000
15% Subordinated Debentures due August 1, 2000	52,500	52,500
Capital lease obligations at a weighted average interest rate of 11% (Note 2)	131,411	162,889
12 ¹ / ₂ % Mortgage payable due February 1, 1994	30,346	
7.9% promissory notes due in equal annual installments through 1987	17,800	22,250
Notes payable and other debt	12,597	10,440
Total debt	2,018,834	995,079
Net unamortized discount	(247,916)	(51,150)
Long term debt due within one year	(49,414)	(48,038)
Total long term debt	<u>\$1,721,504</u>	<u>\$895,891</u>

Annual maturities of long term debt for the five fiscal years after March 31, 1984 are (in thousands): 1985-\$49,414; 1986-\$33,442; 1987-\$29,970; 1988-\$26,317; and 1989-\$10,893.

The subordinated notes and debentures are subordinated in right of payment to the Company's existing and future senior indebtedness, as defined in the respective indentures.

Total interest costs were (in thousands) \$185,834 in 1984, \$87,575 in 1983 and \$56,890 in 1982 of which \$24,036; \$12,253 and \$3,256 have been capitalized.

9¹/₂% SUBORDINATED NOTES

The 9¹/₂% Subordinated Notes, each consisting of one thousand dollar principal amount due August 1, 1993 were sold in a unit together with a warrant to purchase thirty-six shares of common stock at \$27.50 per share, subject to adjustment, until August 1, 1988; each warrant holder may tender the note at the principal amount, without any credit for accrued interest, toward the exercise price of the warrants. The notes are redeemable at the Company's option prior to maturity in whole, or from time to time in part, at a price of 100% of the principal plus accrued interest. The warrants are redeemable at the Company's option at \$8.50 per warrant at any time on or after August 1, 1986 in the event that the last reported sale price of the common stock has averaged at least 150% of the then effective exercise price of the warrants for a period of 20 consecutive trading days immediately preceding the date of the redemption notice.

7³/₄% CONVERTIBLE SUBORDINATED DEBENTURES

The 7³/₄% Convertible Subordinated Debentures are convertible into common stock at \$26.06 per share, subject to adjustment under certain events as prescribed by the indenture. The debentures are redeemable at the Company's option at prices declining from 106.975% to 100% of the principal amount at March 15, 1993 and thereafter, plus accrued interest. The redemption may not be made prior to March 15, 1985 unless, for the period of 30 consecutive trading days immediately preceding the date of the redemption notice, the reported last sale price of the common stock has averaged at least 140% of the then effective conversion price of the debentures. Annual mandatory sinking fund payments of \$30 million, commencing on March 15, 1993, are calculated to retire 75% of the issue prior to maturity.

12⁷/₈% SUBORDINATED DEBENTURES

The 12⁷/₈% Subordinated Debentures are redeemable at the Company's option at 100% of principal amount plus accrued interest through the redemption date except that no redemption may be made prior to October 1, 1987 from, or in anticipation of, funds borrowed at an interest cost of less than 15.18% per annum. Annual mandatory sinking fund payments of \$18.8 million, commencing on October 1, 1992, are calculated to retire 75% of the issue prior to maturity. Delivery of an additional \$28 million principal amount of debentures was deferred to April 4, 1983 and resulted in net proceeds of approximately \$23.7 million.

14¹/₈% SUBORDINATED DEBENTURES

The 14¹/₈% Subordinated Debentures are redeemable at the Company's option at 100% of the principal amount plus accrued interest through the redemption date except that no redemption may be made prior to April 1, 1986 from, or in anticipation of, funds borrowed at an interest cost of less than 16.8% per annum. Annual mandatory sinking fund payments of \$9.4 million, commencing on April 1, 1991, are calculated to retire 75% of the issue prior to maturity.

15% SUBORDINATED DEBENTURES

The 15% Subordinated Debentures are redeemable at the Company's option at prices declining from 109% to 100% of the principal amount at August 1, 1990 and thereafter, plus accrued interest, except that no redemption may be made prior to August 1, 1990 from, or in anticipation of, funds borrowed at an interest cost of less than 15% per annum. Annual mandatory sinking fund payments of \$3.9 million, commencing on August 1, 1990, are calculated to retire 75% of the issue prior to maturity. The Company has the non-cumulative right to redeem up to an additional \$3.9 million principal amount of the debentures on any sinking fund date.

CONVERTIBLE SUBORDINATED DEBENTURES CALLED FOR REDEMPTION

In May 1982, the Company sold \$250 million aggregate principal amount of 10% Convertible Subordinated Debentures due May 15, 2002. The Company called for redemption on December 13, 1982 all the outstanding principal amount of these debentures. Substantially all the debentures were converted into common stock at a conversion price of \$11.25 per share.

The Company called for redemption on February 16, 1983 all the \$99.4 million outstanding principal amount of the 10¹/₄% Convertible Subordinated Debentures due August 15, 2001. Substantially all of the debentures were converted into common stock at a conversion price of \$6.41 per share.

12¹/₂% MORTGAGE PAYABLE

The 12¹/₂% Mortgage is payable in equal monthly installments of principal and interest until February 1994, when the entire unpaid balance of \$29.4 million is due and payable. The mortgage is secured by a deed of trust on certain real property of the Company.

REVOLVING CREDIT AGREEMENT

The Company has an agreement with eleven commercial banks which provides for revolving credit borrowings of up to \$300 million at any time until April 1, 1987. On or before April 1, 1987, the Company may convert the revolving credit borrowings and any unused portion of the revolving credit commitment into term loans repayable in sixteen consecutive quarterly installments. The agreement provides for interest on the aggregate unpaid balance of all loans outstanding at either the prime rate or certain fixed interest rates as elected by the Company from time to time. The Company pays a commitment fee of .375% per annum on the daily average unborrowed portion of the revolving credit limit. The agreement contains certain financial and other covenants relating to investments, net worth, indebtedness and lease rental payments and restricts the payment of dividends. No borrowings were outstanding under the agreement as of March 31, 1984.

NOTE 4. INCOME TAXES

The current payable and deferred tax provisions are as follows:

Years ended March 31,	1984	1983	1982
Current:	(In thousands)		
Federal	\$ 6,137	\$ 6,750	\$ 3,235
State and local	<u>6,786</u>	<u>10,148</u>	<u>5,288</u>
	<u>12,923</u>	<u>16,898</u>	<u>8,523</u>
Deferred:			
Federal	26,625	43,317	30,188
State and local	<u>4,359</u>	<u>9,596</u>	<u>3,870</u>
	<u>30,984</u>	<u>52,913</u>	<u>34,058</u>
	<u>\$43,907</u>	<u>\$69,811</u>	<u>\$42,581</u>

The Company fully utilized the remaining balance of its net operating loss carryovers for tax purposes during the year ended March 31, 1982.

The deferred tax provision, representing the tax effect of timing differences, is summarized below:

Years ended March 31,	1984	1983	1982
	(In thousands)		
Excess of tax deduction over book expense:			
Accelerated depreciation	\$68,001	\$47,000	\$8,790
Interest and other costs	16,127	11,200	
Capitalized leases	7,086	4,200	17,987
Personal property tax	5,636	4,034	
Employee benefit plans	6,162		
Provision for decline in value of telex-related equipment	(25,059)		
Deferred gain on sale of assets	(27,931)		
Realized (unrealized) investment tax credits due to deferral of income taxes	(12,637)	(10,470)	6,536
Other	<u>(6,401)</u>	<u>(3,051)</u>	<u>745</u>
Provision for deferred income taxes	<u>\$30,984</u>	<u>\$52,913</u>	<u>\$34,058</u>

The statutory Federal income tax rate is reconciled to the Company's effective income tax rate as follows:

Years ended March 31,	1984	1983	1982
Statutory rate	46.0%	46.0%	46.0%
Investment tax credits	(26.6)	(21.2)	(17.5)
State and local income taxes, net of Federal income tax benefit	3.0	4.4	3.8
Other	<u>(.4)</u>	<u>(.2)</u>	<u>.7</u>
Effective income tax rate	<u>22.0%</u>	<u>29.0%</u>	<u>33.0%</u>

At March 31, 1984, the Company had approximately \$31 million of investment tax credits available to reduce future Federal income tax liabilities through 1999.

NOTE 5. STOCKHOLDERS' EQUITY

PREFERRED STOCK

The Company is authorized to issue 20 million shares, \$.10 par value per share, the terms and conditions of which are determined by the board of directors at each issuance.

\$1.80 Cumulative Convertible Preferred Stock. The Company called for redemption on May 8, 1981 all the approximately 4.8 million outstanding shares of the \$1.80 preferred stock at the stated redemption price of \$16.50 per share plus accrued dividends of \$.04 per share. Substantially all of the shares outstanding were converted into shares of common stock.

\$1.84 Cumulative Convertible Preferred Stock. The Company called for redemption on November 18, 1981 all the approximately 3.6 million outstanding shares of the \$1.84 preferred stock at the stated redemption price of \$16.69 per share plus accrued dividends of \$.40 per share. Substantially all of the shares outstanding were converted into shares of common stock.

COMMON STOCK

On July 20, 1982, the stockholders approved an increase in the number of authorized shares of common stock from 100 million to 200 million. Concurrently, the board of directors authorized a two-for-one stock split, effected in the form of a 100% stock dividend, payable on September 10, 1982 to stockholders of record on August 3, 1982.

On July 19, 1983, the stockholders approved an increase in the number of authorized shares of common stock from 200 million to 400 million. Concurrently, the board of directors authorized a two-for-one stock split effected in the form of a 100% stock dividend, payable on August 19, 1983 to stockholders of record on July 29, 1983.

All per share amounts herein, conversion prices for subordinated notes and debentures, and data as to outstanding and exercisable common stock options have been adjusted for both of these common stock splits.

NOTE 6. COMMON STOCK CONTINGENTLY ISSUABLE

	(In thousands)
Shares of the Company's common stock contingently issuable at March 31, 1984 were as follows:	
Exercise of warrants to purchase common stock (Note 3)	36,000
Conversion of 7 ³ / ₄ % Convertible Subordinated Debentures (Note 3)	15,316
Employee stock option plan	4,120
Employee stock purchase plans	1,948
	<u>57,384</u>

EMPLOYEE STOCK OPTION PLAN

On July 20, 1982, the stockholders approved an amendment to the plan providing for the issuance of up to 5 million shares of common stock. The Company has elected to treat all options granted under the plan as incentive stock options to the extent permissible under the Internal Revenue Code. Thereby, no compensation expense will result to the Company from the grant of such an option. Stock appreciation rights may be granted in connection with all or any part of any stock options granted under the plan either at the time of grant of the option or at any time thereafter. No stock appreciation rights were outstanding at March 31, 1983 and 1984.

Options granted under the plan are exercisable at such times and in such installments as are determined by a committee of the board of directors, except that no option will be exercisable less than one year or more than ten years after the date of grant. Options granted under the plan may not have an option price less than the fair market value of common stock on the date of grant.

On July 19, 1983, the stockholders approved an amendment to the plan permitting the grantee of a stock option to pay the purchase price for stock option exercises by surrendering shares having a fair market value equal to or greater than the purchase price.

Additional information with respect to the employee stock option plan is summarized in the following table:

	Number of shares	Option Price	
		Per share	Total
	(In thousands, except per share amounts)		
Shares under option, March 31, 1982	2,162	\$.63-8.89	\$ 7,645
Options granted	518	8.39-22.13	7,570
Options exercised	(473)	.63-7.85	.(741)
Options terminated	(69)	1.38-17.75	(359)
Shares under option, March 31, 1983	2,138	.94-22.13	14,115
Options granted	1,072	9.14-26.00	16,330
Options exercised	(242)	1.44-12.00	(845)
Options terminated	(33)	.94-17.75	(225)
Shares under option, March 31, 1984	2,935	\$1.38-26.00	\$29,375
Options exercisable, March 31, 1984	968	\$1.38-22.13	\$ 5,456

EMPLOYEE STOCK PURCHASE PLANS

Under employee stock purchase plans, an aggregate of 2.2 million shares of common stock may be purchased by eligible employees of the Company through payroll deductions. The purchase price is equal to the lesser of (a) 85% of the fair market value of the stock on the date it is purchased or (b) 85% of the fair market value of the stock on the effective date of the offer.

NOTE 7. EMPLOYEE BENEFIT PLANS

PENSION PLANS

Effective April 1, 1981, the Company established a defined benefit noncontributory pension plan (MCI Plan) and a supplemental pension plan (Supplemental Plan). Subsidiaries of WUI, Inc. acquired on June 30, 1982 (see Note 8) have two noncontributory plans (WUI Plans). Collectively, these plans cover substantially all full time employees.

The fiscal year 1984 pension expense for all plans was \$7.4 million, consisting of the normal cost and the amortization of past service costs. During 1984, the Company made contributions to the MCI Plan and the WUI Plans in an amount sufficient to meet ERISA requirements. The Supplemental Plan is a nonfunded plan, and the Company records as annual compensation expense an amount which, if accumulated at the rate of interest used in the actuarial computations, would result in the present value of the future pension benefits at the date of retirement.

As of the most recent actuarial valuation dates, in early 1983, the actuarial present value of vested and nonvested accumulated plan benefits were \$44.2 million and \$8.0 million, respectively and net assets available for benefits were \$46.5 million. The weighted average assumed rate of return in determining the actuarial present value of accumulated plan benefits was approximately 7%.

EMPLOYEE STOCK OWNERSHIP PLAN

In accordance with the terms of the Employee Stock Ownership Plan (ESOP), the Company is entitled to make an annual contribution to the ESOP either in cash or shares of the Company's common stock, in amounts as determined by the board of directors. The Company has contributed 526,315 shares of common stock as an estimated contribution for fiscal year 1984; 189,348 shares of common stock as a contribution for fiscal year 1983 and 400,020 shares of common stock as a contribution for fiscal year 1982. The total compensation expense recorded for the ESOP was \$6 million; \$4.2 million and \$3.6 million for the years ended March 31, 1984, 1983 and 1982.

INVESTMENT TAX CREDIT EMPLOYEE STOCK OWNERSHIP PLAN

The Company has established an investment tax credit employee stock ownership plan (TRASOP) which, pursuant to existing Federal tax laws through December 31, 1982 only, permitted the Company to increase its investment tax credits by an additional one percent (from 10% to 11%), if the additional one percent was contributed to the TRASOP trust in the form of shares of the Company's common stock. The TRASOP was replaced with a payroll based tax credit employee stock ownership plan (PAYSOP) which, pursuant to existing Federal tax laws permits the Company a tax credit of 0.5% of annual compensation of all employees covered by the plan.

The Company made contributions to the TRASOP/PAYSOP of 230,058 and 236,042 shares of common stock valued at \$4.1 million and \$2.1 million for the years ended March 31, 1983 and 1982. The Company's tax credits were increased by corresponding amounts.

NOTE 8. ACQUISITION OF WUI, INC.

The Company acquired WUI, Inc. for \$195.1 million on June 30, 1982. Through the operating subsidiaries acquired in the transaction, the Company offers a range of subscriber services including telex, cablegram, private leased channel, radio paging and mobile telephone services.

The acquisition was accounted for as a purchase and the total purchase price was allocated to assets and liabilities acquired based upon their fair value. The Company's statement of operations includes the results of the acquired companies from July 1, 1982.

The following pro forma combined results of operations for the years ended March 31, 1983 and 1982, give effect to the acquisition of WUI, Inc. as though it had occurred on April 1, 1981. The pro forma financial information is not necessarily indicative either of results of operations that would have occurred had the acquisition been effective on April 1, 1981 or of future results of operations of the combined companies. The results are based on purchase accounting adjustments recognized in the combination and reflect additional interest expense as if borrowings had been incurred in connection with the acquisition and had been outstanding from the beginning of each year.

Years ended March 31,	1983	1982
	(In thousands, except per share amounts)	
Revenues	\$1,128,877	\$711,994
Net income	171,148	102,477
Earnings per common share:		
Primary	.85	.54
Fully diluted	.81	.51

NOTE 9. OTHER MATTERS

The Company commenced an antitrust action in March 1974 in a United States District Court against American Telephone & Telegraph Co. (AT&T) and its associated Bell Telephone companies. The District Court on June 13, 1980 rendered a judgment in favor of the Company in the amount of \$1.8 billion, which represents the jury's verdict of \$600 million trebled as required by the antitrust law. Upon appeal, the Seventh Circuit Court of Appeals affirmed certain of the jury's findings of violations of the antitrust laws by AT&T, but reversed certain of the jury's findings of liability and remanded the case to the trial court for a redetermination of damages due the Company. After further appeals, a new trial on damages has been set for December 1984.

NOTE 10. FINANCIAL REPORTING AND CHANGING PRICES (UNAUDITED)

In September 1979, the Financial Accounting Standards Board (FASB) issued Statement No. 33, "Financial Reporting and Changing Prices." The Statement requires that companies supplement their historical financial statements with information that discloses the impact of changing prices on two different bases: constant dollar and current cost.

No consensus has been reached either on the preferability of any one reporting method or on the practical usefulness of the resulting data. The data below has been prepared to comply with Statement No. 33; however, the Company believes that it should be used with care because the data neither completely nor accurately portray inflation's effects.

CONSTANT DOLLAR

During inflationary periods, the amount of materials and services a dollar will buy generally declines. It is desirable to express the measurements of such amounts in constant dollars of equivalent general purchasing power. Therefore, the historical financial data presented has been adjusted through application of the Consumer Price Index for All Urban Consumers to present results expressed in common dollars of purchasing power.

CURRENT COST

It is also recognized that the prices of particular materials and services increase, but not always at the same rate. Therefore, this measurement of inflation is often unique to a company and to specific materials and services used by that company. This inflationary measurement is referred to as specific prices or current cost.

The current cost data have been developed utilizing indices which were based on vendor price quotes, published industry standards and engineering estimates. The current cost data does not reflect any economic benefits inherent in new, more advanced technology. It should be noted that the increase in communications system amount under the current cost method is less than the increase resulting from use of the general rate of inflation. This difference results from and is attributable to benefits from changes in supply and demand and technology.

PURCHASING POWER GAIN

Inflation also impacts monetary assets, such as cash and accounts receivable, which lose purchasing power during periods of rising prices. Conversely, holders of liabilities benefit during periods of inflation. The Company's monetary liabilities exceeded monetary assets at the end of the year, therefore an unrealized purchasing power gain is shown.

ADDITIONAL DATA

The additional data required by the Statement for five years adjusted to average 1984 dollars are as follows:

Years ended March 31,	1984	1983	1982	1981	1980
	(In thousands, except per share amounts)				
Sales of communications services	\$1,664,729	\$1,110,039	\$550,942	\$280,056	\$193,835
Historical cost information adjusted for general inflation:					
Income before extraordinary item	123,365	152,296	80,768	13,968	3,405
Income (loss) before extraordinary item per common share	.53	.75	.42	.00	(.06)
Net assets at year end	1,336,233	974,862	370,922	285,850	186,438
Current cost information:					
Income before extraordinary item	153,464	172,372	86,000	19,000	7,277
Income (loss) before extraordinary item per common share	.66	.85	.45	.03	(.03)
Excess of increase in the general inflation rate over increase in specific prices	59,422	32,780	8,955	26,745	27,729
Net assets at year end	1,177,097	839,795	317,608	229,419	143,960
Gain from decline in purchasing power of net amounts owed	32,100	17,939	21,923	28,288	36,137
Market price per common share at year end	8.38	23.60	8.76	4.10	1.85
Average consumer price index	301.7	291.7	277.4	252.4	224.8

The Company has not paid any dividends on its common stock.

STATEMENT OF OPERATIONS ADJUSTED FOR INFLATION AND CHANGING PRICES

Year ended March 31, 1984	Historical cost	Constant dollar	Current cost
	(In thousands, except per share amounts)		
Net income, as reported	\$155,668	\$155,668	\$155,668
Adjustment to restate depreciation		<u>32,303</u>	<u>2,204</u>
Net income, as adjusted	<u>\$155,668</u>	<u>\$123,365</u>	<u>\$153,464</u>
Gain from decline in purchasing power of net amounts owed		<u>\$ 32,100</u>	<u>\$ 32,100</u>
Increase in specific prices (current cost) of communications system in service during the year*			(\$47,563)
Effect of increase in general price level			<u>76,508</u>
Excess of increase in the general inflation rate over increases in specific prices			<u>\$ 28,945</u>
Net income per common share:			
Primary	\$.67	\$.53	\$.66
Assuming full dilution	.67	.53	.66
Net assets at year end	1,135,743	1,336,233	1,177,097

*At March 31, 1984, communications system at current cost, net of accumulated depreciation, was \$2,044,298.

NOTE 11. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Three months ended,	June 30, 1983	Sept. 30, 1983	Dec. 31, 1983	March 31, 1984*
	(In thousands, except per share amounts)			
Revenues	\$363,775	\$396,153	\$430,131	\$474,670
Income from operations	95,282	78,687	73,366	62,004
Net income	54,635	51,533	43,599	5,901
Earnings per common share	.23	.22	.19	.03
	June 30, 1982	Sept. 30, 1982	Dec. 31, 1982	March 31, 1983
Revenues	\$185,140	\$261,745	\$294,962	\$331,401
Income from operations	61,527	65,184	76,163	92,237
Net income	36,485	37,579	43,571	53,145
Earnings per common share	.19	.19	.22	.24

*Includes a provision of \$49.8 million to reflect a decline in value of telex-related equipment (Note 1).

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

William G. McGowan
*Chairman and
Chief Executive Officer*

Clifford L. Alexander, Jr.
*President
Alexander and Associates, Inc.
Washington, D.C.*

Michael H. Bader
*Partner, Haley, Bader & Potts
Washington, D.C.*

Alva T. Bonda
*Chairman of the Board
Penril Corporation
Rockville, Maryland*

Alexander Buchan
*Telecommunications
Consultant
Hendersonville,
North Carolina*

Kenneth A. Cox
*Senior Vice President and Of
Counsel, Haley, Bader
& Potts*

Wayne G. English
*Senior Vice President and
Chief Financial Officer*

James Fentress
*President,
Baker, Fentress & Co.
Chicago, Illinois*

Richard B. Sayford
*Business Consultant
Palm Beach, Florida*

John R. Worthington
*Senior Vice President and
General Counsel*

V. Orville Wright
*President and
Chief Operating Officer*

MCI COMMUNICATIONS

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*Chairman and
Chief Executive Officer*

V. Orville Wright
*President and
Chief Operating Officer*

Kenneth A. Cox
Senior Vice President

Howard C. Crane
Senior Vice President

Eugene Eidenberg
Senior Vice President

Wayne G. English
*Senior Vice President
and Chief Financial Officer*

H. Brian Thompson
Senior Vice President

John R. Worthington
Senior Vice President

C. Bolton-Smith, Jr.
Vice President and Secretary

Robert E. Conn
Vice President

Peter K. Laros
Vice President and Controller

Robert Michelson
Vice President

Michael J. Rowny
Vice President and Treasurer

Harold S. Trimmer
Vice President

John H. Zimmerman
Vice President

MCI TELECOMMUNICATIONS

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President

Edward W. Carter
Senior Vice President

William E. Conway, Jr.
Senior Vice President

Francis J. Harkins
Senior Vice President

Thomas L. Leming
Senior Vice President

Charles M. Skibo
Senior Vice President

Carl M. Vorder Bruegge
Senior Vice President

Daniel E. Crawford
Vice President

Timothy D. Fitzpatrick
Vice President

Arthur A. Greene
Vice President

Frank J. Kozel
Vice President

Thomas C. Mullaney
Vice President

David F. Peters
Vice President

Judy Ranzer
Vice President

Arthur R. Roberts
Vice President

Frank M. Siskowski
Vice President

William A. Sullivan
Vice President

Daniel Walters
Vice President

Barry C. Winkle
Vice President

MCI AIRSIGNAL

Gerald H. Taylor
President

MCI DIGITAL INFORMATION SERVICES

J. Robert Harcharik
President

MCI INTERNATIONAL

Nathan Kantor
President

Sergio Wernikoff
Senior Vice President

Daniel F. Akerson
Vice President

Seth D. Blumenfeld
Vice President

Charles D. Park
Vice President

WESTERN UNION INTERNATIONAL

Nathan Kantor
President

Ronald E. Spears
Senior Vice President

Anthony J. Pompliano
Vice President

GENERAL CORPORATE INFORMATION

ANNUAL STOCKHOLDERS' MEETING

July 17, 1984
The Washington Hilton Hotel
1919 Connecticut Avenue, N.W.
Washington, D.C.
10:00 A.M.

STOCK TRANSFER AGENT AND REGISTRAR

The First National Bank of Chicago
One First National Plaza
Chicago, Illinois 60670

TRUSTEES, REGISTRARS AND WARRANT AGENT

15% Subordinated Debentures due August 1, 2000
4¹/₈% Subordinated Debentures due April 1, 2001
12⁷/₈% Subordinated Debentures due October 1, 2002
7³/₄% Convertible Subordinated Debentures
due March 15, 2003
9¹/₂% Subordinated Notes due August 1, 1993.
Warrants to purchase common stock.

Bankers Trust Company
Corporate Trust
P.O. Box 318
Church Street Station
New York, New York 10015

Debenture Exchange Listings: The New York Stock
Exchange

Convertible Debentures and Notes Traded
Over-the-Counter

COMMON STOCK

Traded Over-the-Counter
NASDAQ Symbol: MCIC

PRICE RANGE

(Adjusted for two-for-one stock splits effected in the form of
a 100 percent stock dividend in September 1982 and in
August 1983)

Quarter Ended	Bid Price	
	High	Low
1982-1983		
June 30	11 ⁷ / ₈	8
September 30	12 ¹⁵ / ₁₆	9
December 31	22 ¹ / ₂	11 ¹ / ₈
March 31	23 ³ / ₈	16 ⁷ / ₈
1983-1984		
June 30	27 ³ / ₄	21 ¹ / ₂
September 30	25	14 ⁷ / ₈
December 31	16 ³ / ₄	13 ¹ / ₈
March 31	15 ³ / ₄	8 ¹ / ₈

Holders of Common Stock at March 31, 1984
Record Holders: 67,965

DIVIDEND POLICY

The Company has not paid dividends on its common stock,
and has no present plans to do so.

TRADING VOLUME

During 1983, MCI's common stock was the most actively
traded security in the over-the-counter market, accounting
for a trading volume of more than 330 million shares. This
was the third year in a row that MCI's common stock had led
the over-the-counter market in trading activity: 1982 volume
exceeded 200 million. During the period from January 1984–
March 1984, MCI traded over 138 million shares of its
common stock.

INQUIRIES

Communications concerning lost certificates, interest and
changes of address should be directed to the appropriate
registrar.

*For additional information on the Company, its finances,
operations and services, or to obtain a copy of MCI's Form
10-K annual report to the Securities and Exchange Com-
mission, contact Anthony F. Abell, Director, Investor Relations,
MCI Communications Corporation, 1133 19th Street, N.W.,
Washington, D.C. 20036. (202) 887-2028*

MCI
Communications
Corporation
1133 19th St. NW
Washington, DC 20036

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended: March 31, 1984 Commission File Number: 0-6547

MCI COMMUNICATIONS CORPORATION
(Exact name of registrant as
specified in its charter)

<u>Delaware</u>	<u>52-0886267</u>
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
<u>1133 Nineteenth Street, N. W.</u>	
<u>Washington, D. C.</u>	<u>20036</u>
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: 202-872-1600

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
15% Subordinated Debentures due August 1, 2000	New York Stock Exchange
14 1/8% Subordinated Debentures due April 1, 2001	New York Stock Exchange
12 7/8% Subordinated Debentures due October 1, 2002	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, \$.10 par value per share
Warrants to Purchase Common Stock expiring August 1, 1988
7 3/4% Convertible Subordinated Debentures due March 15, 2003
9 1/2% Subordinated Notes due August 1, 1993
(Title of class)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months, and (2) has been subject to such filing requirements for the past 90 days.

Yes X

No

The aggregate market value of the voting stock of MCI Communications Corporation held by non-affiliates was \$1,807,700,000 at May 31, 1984, based upon the closing price of such stock on such date.

As of May 31, 1984, registrant had outstanding 235,975,287 shares of Common Stock.

Documents Incorporated by Reference:

Portions of the Annual Report to Stockholders for 1984 Fiscal Year - Part II
Portions of the Proxy Statement For 1984 Annual Meeting of Stockholders -
Part III

PART I

Item 1. Business

MCI*, through its subsidiaries, provides a wide spectrum of domestic and international voice and data communications services to its customers. These services include long distance intercity telephone services in the continental United States, and to and from Hawaii, Puerto Rico and parts of Canada; international telephone services, currently on a limited basis; radio paging and conventional and cellular mobile telephone services in the United States; international record communications services between the United States and more than 100 foreign countries; and a nationwide time-sensitive electronic mail service. MCI is continuing to expand its communications service offerings and capabilities to meet the increasing communications requirements of its residential and commercial customers.

Communications Services

The principal communications services offered by MCI are its long distance intercity telephone services, which are currently available in more than 200 metropolitan areas in the United States. These services permit a subscriber to make an interstate call to anywhere in the continental United States and Hawaii, and to Puerto Rico and parts of Canada. In addition, in certain states subscribers may make intrastate calls.

MCI's intercity telephone services are used by customers primarily for voice communications, although they may also be used for the transmission of data, facsimile, teleprinter and other signals. MCI is currently the second largest nationwide carrier of long distance intercity telephone services.

MCI's principal intercity telephone service is a dial-access usage-sensitive service that is billed on the basis of the distance and duration of each call. A subscriber in a metropolitan area served by MCI accesses this service from a push button phone by first calling MCI's seven-digit local access telephone number, inputting a five-digit authorization code unique to that subscriber and then inputting the desired area code and telephone number. This service is available on a 24 hours-a-day, seven days-a-week basis or on an evening/night and weekend-only basis, the latter being utilized primarily by residential customers. MCI also makes available equipment

*Unless the context otherwise requires, "MCI" means MCI Communications Corporation, a Delaware corporation organized in August 1968, and its subsidiaries on a consolidated basis.

designed and supplied by MCI and located on the customer's premises, which automatically dials the local access number and authorization code, thus requiring the customer to input only the area code and telephone number called.

Historically, in addition to charges for each call, MCI charged a monthly or, since June 1983, a one-time fee which varied with the service ordered. Effective July 15, 1984, all subscription fees and monthly service charges for MCI's dial access usage sensitive services will be eliminated and all customers will be able to access such services on a 24 hours-a-day, seven days-a-week basis. For a description of this and other recent changes in MCI's pricing structure, see "Competition." MCI also will commence offering long distance directory assistance services on July 15, 1984.

MCI's other usage sensitive intercity telephone services include Network Service and MCI WATS, which are provided over a dedicated access line between the customer and MCI's nearest operations center and are used primarily by commercial customers having a large volume of communications. MCI also offers Credit Card Service, which is a dial access service that allows a customer to place any interstate (and, in certain states, an intrastate) call from any of the cities where the service is currently offered.

MCI also offers private line service, which provides dedicated telecommunications facilities for customers with very large volumes of communications between two or more locations in the United States. This service, sometimes also called tie line or leased line service, is billed at a flat monthly rate based on distance without regard to the extent of usage. Private line services can be configured in a variety of ways to meet a customer's particular requirements.

MCI is currently offering intrastate telephone service in several states and is seeking authority to offer such service in other jurisdictions. In addition, MCI has entered into agreements to offer, and will shortly commence offering, usage sensitive telephone services to Australia and Belgium. MCI expects it will enter into arrangements to provide telephone services from the United States to other foreign countries. MCI currently offers private line leased channels to customers for point-to-point transmission of overseas voice communications as well as data, alternative voice/data and facsimile communications.

MCI also provides radio paging in more than 50 cities, and mobile telephone services in 17 cities in the United States. In addition, MCI, or joint ventures in which MCI participates, have received licenses to offer cellular radio telephone service in three metropolitan areas, and have pending applications for licenses in 51 of the 90 largest metropolitan

markets. Construction has commenced in two of the areas where licenses have been granted. Cellular radio telephone is an advanced type of mobile radio telephone service employing technology which permits a far greater number of mobile radio telephones to operate in an area, with a higher quality service, than is possible with conventional mobile telephone technology. In each market, MCI is competing with several other applicants for the license and, of the two licenses which will be granted in each market, one is to be granted to an applicant affiliated with the local telephone company.

MCI also offers a range of international record subscriber services, including telex and cablegrams. Telex service provides direct customer-to-customer service for instant two-way written communications. Subscribers in approximately 72 cities in the United States can access MCI's global telex network directly. Subscribers in these and other cities in the United States can also access MCI's facilities through facilities of domestic common carriers, including MCI, but primarily utilize domestic telex facilities of The Western Union Telegraph Company (see "Competition").

In October 1983, MCI introduced an electronic mail service known as MCI Mail. MCI Mail permits a subscriber to send a message or document instantly from any properly equipped electronic terminal, such as a word processor, computer, telex machine or any intelligent terminal, to an electronic terminal of any other subscriber. If the intended recipient is not an MCI Mail subscriber, or if the sender desires, MCI offers delivery of hard copy of the message or document, using an independent courier service, in four hours to 15 cities in the United States and guaranteed overnight delivery to all major cities in the United States. Alternatively, the sender may specify that the document be delivered by the United States Postal Service. In such event, the document will be deposited in the U.S. Mail at a post office near the intended recipient. MCI recently expanded its MCI Mail offering to provide volume mail services.

Communications Network

MCI provides its intercity telephone services, and carries its MCI Mail transmissions, primarily over its own coast-to-coast intercity microwave communications system and, to a lesser extent, over intercity facilities leased from other common carriers. Of necessity, MCI uses the local interconnection facilities of the local telephone company offering exchange telephone service in each given area to carry communications from MCI's metropolitan operations centers to the premises of MCI's customers (see "Local Interconnection Arrangements and Fees"). MCI has experimented, on a very limited basis, utilizing two-way cable TV systems to complete the local portion of intercity calls of certain customers with

a large volume of calls. MCI plans to explore further the availability and feasibility of alternative means of local interconnections.

During the past fiscal year, MCI began offering its domestic telephone services in more than twenty additional metropolitan areas. MCI plans to continue to make its domestic intercity communications services available in additional metropolitan areas. In addition to extending its system to new cities, MCI will continue to expand the capacity of its system to meet anticipated increased usage. MCI has begun and will continue to utilize additional methods of transmission in its domestic system, including digital radio, single sideband radio and satellite transmission facilities, and has recently completed construction of fiber optic transmission facilities between Washington, D.C. and New York City utilizing railroad rights-of-way. MCI has acquired the right to utilize an additional 7,100 miles of railroad rights-of-way, mostly in the eastern half of the United States, to construct additional fiber optic transmission facilities. MCI has also acquired 12 transponders on a satellite launched in 1983 and has agreed to acquire an additional 12 transponders on a satellite currently scheduled to be launched later this year. These transponders will make available substantial additional capacity for MCI's intercity domestic system and will allow MCI to extend its system to new areas without the necessity of extending its terrestrial system to those areas or utilizing facilities of other common carriers.

MCI or joint ventures in which it participates will be required to construct communications systems in each metropolitan area in which a license is awarded to offer cellular radio telephone service. If MCI and its joint ventures were ultimately awarded licenses in all the markets in which they have applied, initial capital expenditures of approximately \$300 million would be required in connection with the construction of the necessary systems. MCI's share of these capital expenditures would be approximately \$150 million.

MCI's overseas transmissions are sent over submarine cable and by satellite. Generally, international carriers have joint investment positions in the same cable systems because of the large amounts of capital required to construct a system. MCI has small ownership participations in several satellite communications earth stations in the United States which operate with the global Intelsat system, in which MCI leases substantial numbers of communications channels. In addition, MCI owns three satellite communications earth stations, which operate with a domestic satellite system in connection with the provision of international record services.

MCI's expansion of the capacity and reach of its communications systems, primarily its domestic network, have

required, and will continue to require, a high level of capital expenditures. In its 1984 fiscal year, MCI invested almost \$900 million in its communications systems. These capital expenditures were financed by funds generated from operations, cash on hand, maturing short-term investments, the proceeds of the sale of debt and equity securities and equipment lease financing. MCI plans to invest approximately \$1 billion in its communications system in its 1985 fiscal year, primarily to extend its domestic system to new metropolitan areas and increase the capacity of its system by constructing new fiber optics and microwave routes, adding capacity to existing routes, acquiring additional switching equipment and constructing additional terminal facilities.

At May 31, 1984, MCI had 9,300 full-time employees.

Local Interconnection Arrangements and Fees

MCI interconnects almost all of its customers to its intercity system by means of local interconnection facilities leased from local exchange telephone companies. Most of these local facilities were leased from companies which were, until January 1, 1984, subsidiaries of American Telephone and Telegraph Company ("AT&T"). From 1978 until May 25, 1984, the rates MCI was charged for local interconnection facilities were determined in accordance with an agreement negotiated by AT&T, MCI and certain other interested parties under the supervision of the FCC. The rates paid by MCI pursuant to such agreement were based on a flat monthly rate per access line. There were several increases in these rates from the levels originally established in 1978. However, because the local interconnection facilities received by MCI were inferior in quality to those received by AT&T, the rates paid by MCI prior to May 25, 1984 pursuant to the 1978 agreement were approximately 70% less than the rates paid by AT&T.

On January 1, 1984, pursuant to a settlement of antitrust litigation between AT&T and the Department of Justice, AT&T divested itself of its majority-owned local telephone company subsidiaries, which have been organized into seven independent regional holding companies. AT&T retained its intercity communications business. The divestiture decree also required that MCI and other intercity communications carriers be furnished access to local interconnection facilities equal in quality to those currently enjoyed by AT&T. The provision of equal access is scheduled to begin during the summer of 1984 and to be substantially completed by September 1986.

As equal access is implemented on an end-office by end-office basis, local telephone company subscribers will be given an opportunity to designate a long distance carrier to

carry their long distance calls. Once a carrier designation has been made, calls will be automatically routed over the subscriber's designated carrier in the same manner as calls using AT&T facilities are currently made, without the necessity of inputting a seven digit access number and a five digit authorization code. Subscribers will still have the option of selecting a carrier other than their designated carrier of choice for a call by dialing a five-digit prefix. Long distance calls of subscribers who have not designated a long distance carrier will either be routed over AT&T or allocated among carriers offering long distance service, depending upon the area. MCI may contract with some local telephone companies to obtain certain billing and collection services in areas where equal access has been made available.

In addition to making calling far easier for its subscribers, equal access is important to MCI for a number of other reasons. Equal access will, for the first time, give MCI access to subscribers with rotary dial telephones. Approximately one-half of the total number of telephones in the United States are rotary dial. Furthermore, MCI will be able to determine the telephone number from which a call was placed for billing purposes. MCI expects that the quality of interconnection it will be afforded will be significantly better than it now receives.

In a series of orders, the first of which was issued in February 1983, the FCC changed the method by which the rates paid by MCI for local interconnection facilities are calculated. The FCC decided that, until equal access is achieved, the rates MCI and other common carriers are to pay for such facilities will be at a 55% discount from the rates paid by AT&T. The 55% differential is to be adjusted in 1985 to reflect changes in the consumer price index and will be reviewed by the FCC during the following year. The new rates, which became effective on May 25, 1984, represent a significant increase over those paid under the 1978 agreement, both per access facility and as a percentage of revenue. MCI estimates that the new rates have resulted initially in a monthly rate per access line of approximately \$330, before giving effect to message unit credits from the local telephone companies that MCI estimates will average approximately \$10-\$20 per access line. As equality of interconnection is achieved, MCI is to pay the same rates as those paid by AT&T.

With these new arrangements for local interconnection facilities, MCI can complete a call over its system to anywhere in the local access and transport area ("LATA") of the local telephone company without any charge additional to the fixed charge for local access lines, as long as MCI has a "point of presence" in that LATA. MCI expects to have a "point of presence" in most LATAs through either its own facilities or

facilities leased from other common carriers in the near future and expects to have its own facilities in most, if not all, LATAs by March 1986. Previously, MCI had to obtain facilities in addition to the local access lines to complete calls outside the local calling area of its "point of presence." As a result, MCI expects to reduce the facilities it leases from other common carriers.

When a specific local telephone company end-office is converted to equal access, the basis for the charges for carrying traffic between that end-office and the MCI "point of presence" in the LATA will convert to a time and distance sensitive rate rather than the fixed monthly charge. Additionally, customers in these converted end-offices will be able to access the MCI "point of presence" in their LATA at no additional charge to themselves whether or not the "point of presence" is in their local calling area.

Competition

The implementation of equal access over the next several years and the separation of local exchange telephone companies from the control of AT&T are expected to make the market for intercity communications services even more competitive than it presently is. AT&T continues to be MCI's primary and most powerful competitor in the intercity services market. Even with the divestiture of the local exchange telephone companies, AT&T remains vastly larger than MCI and has consistently indicated that it intends to compete vigorously with MCI.

MCI also competes with other domestic communications common carriers, including an affiliate of GTE Corporation, an affiliate of International Telephone & Telegraph Corporation, The Western Union Telegraph Company and numerous resellers of telecommunications services. In addition to these terrestrial carriers, several communications satellite systems provide or propose to offer some domestic services similar to those offered by MCI. Under FCC policy that has been in effect for several years, any entity which meets the FCC's technical, legal and financial requirements can freely enter the intercity telecommunications market. To the extent MCI provides service between cities within a LATA, it will also compete with the local telephone company serving that LATA.

MCI's primary mode of competition with AT&T is price. MCI offers a variety of services and pricing options to meet the needs of its long distance customers (see "Communications Services"). Most, if not all, of the long distance telephone services offered by MCI are priced lower than the comparable services offered by AT&T.

Effective May 25, 1984, AT&T decreased by 6.1% the prices it charges to its customers for long distance and WATS services. Prior to such date, AT&T had announced discount plans for evening and weekend use of its long distance services. On May 31, 1984, AT&T began offering its residential long distance customers whose bills exceeded \$15 a month in calling charges discounts on various products and services of companies other than AT&T.

Effective June 1, 1984, MCI also reduced certain of its rates for dial access usage sensitive and WATS services. In addition, MCI recently announced that, effective July 15, 1984, it will eliminate all subscription fees and monthly service charges and will offer volume discounts. Also, in late summer, 1984, MCI's credit card service will be made available without a subscription fee to subscribers to its other dial access services. Although MCI's reduced prices are expected to have an adverse effect on MCI's profit margins, MCI anticipates that such price reductions will result in an increased number of customers and increased call volumes. MCI is not able at this time to estimate what effect these pricing changes will have on its future revenues or earnings.

Over the long term, access facilities and access costs of MCI and its competitors, including AT&T, will become substantially equivalent, and competition in the market for intercity long distance telephone service may become less dependent on the price and quality of services than at present. Innovation of services, marketing strategy, control over costs other than access charges and other factors should become increasingly important elements in the competition in this market.

MCI faces competition in most cities where it provides mobile telephone and radio paging services. In those markets where MCI will be providing cellular radio telephone service, it will be competing with an affiliate of the local telephone company.

In the international telecommunications service market, there are, in addition to the other principal United States international record carriers (affiliates of International Telephone and Telegraph Corporation and RCA Corporation) several other carriers that compete with MCI. In August 1982, The Western Union Telegraph Company, which presently provides nearly all domestic telex service and transmits the domestic portion of much of MCI's international telex traffic, entered the international record services market and has diverted business from the other international record carriers, including MCI. In December 1982, AT&T was authorized to offer international record services.

MCI Mail competes with providers of overnight mail delivery services, including Federal Express Corp. and the United States Postal Service, and other existing providers of electronic mail services, such as GTE Telenet Incorporated, which do not deliver hard copy of communications. The Western Union Telephone Company recently announced the offering of an electronic mail service designed to be competitive with MCI Mail.

Regulation

The FCC has extensive authority to regulate MCI's common carrier subsidiaries. FCC permits and licenses are required for the construction and operation of transmission facilities, and the FCC has the power to review requests for rate changes and other aspects of a carrier's operations. In recent years, however, the FCC has issued and renewed construction permits and operating licenses routinely and has not generally exercised its power to review rate changes for domestic charges by MCI and the other intercity common carriers which compete with AT&T, allowing competition to be the prime determinant of the prices these competitors of AT&T will charge. The FCC also regulates the allocation of channels for radio paging and mobile radio telephone services.

State regulatory commissions have extensive authority to regulate the provision of intrastate telephone, paging and mobile telephone services, including granting the authority to offer such services and approving the rates at which such services may be offered.

Rates of international record carriers are similarly subject to regulation by the FCC as to traffic from the United States to foreign countries. Revenues derived from international services (with the exception of leased channel services) are generally collected by the originating carrier and divided with the terminating carriers by means of agreements that are subject to FCC approval as well as the approval of the appropriate overseas governmental agency. International communications facilities in the United States are also subject to the jurisdiction of the FCC, and the provision of service to a foreign country is subject to the approval of the FCC and the appropriate foreign governmental agencies.

Item 2. Properties.

In connection with the provision of its domestic and international communications services, MCI leases facilities, including roof rights, at 272 locations in metropolitan areas to serve as operations facilities for its intercity transmission, paging and mobile telephone and overseas

transmissions systems. MCI has 896 microwave tower sites, generally in rural areas, to serve as repeater stations in its domestic transmission system. Most of these sites are leased, although MCI does own some, primarily those which are at an intersection of two or more routes of MCI's transmission system. MCI also has 16 storage depots and an equipment assembly facility which support its transmission system.

MCI leases office space in 139 locations to serve as sales office and/or administrative facilities, including its headquarters in Washington, D.C and the headquarters facilities of its international operations in New York City and Rye Brook, New York. Some of these facilities are located jointly with operations facilities. In addition, in 1982 MCI purchased a building, and in 1984 completed construction of a second building, in a suburb of Washington, D.C. for use as administrative facilities. One of these buildings is subject to a mortgage in the principal amount of \$30.3 million, payable in installments until February 1994. MCI also owns two buildings in Richardson, Texas, which are used by its microwave engineering group.

Item 3. Legal Proceedings.

In March 1974, MCI commenced an action in the United States District Court for the Northern District of Illinois, Eastern Division, charging AT&T and its telephone company subsidiaries with monopolization of the business and data communications services market in violation of federal antitrust laws. In June 1980, the court, upon a jury verdict, entered judgment against AT&T in the amount of \$1.8 billion. Upon appeal, the Court of Appeals for the Seventh Circuit affirmed most of the jury's findings of liability against AT&T but remanded the case to the trial court for a redetermination of damages due MCI. The Supreme Court declined to review the Court of Appeals decision. The retrial on the issue of damages is scheduled to commence in December 1984.

In April 1979, MCI filed in the United States District Court for the District of Columbia a second antitrust action against AT&T and its telephone company subsidiaries. Also named as defendants were certain other telephone companies and their trade association. The suit relates to the defendants' conduct since 1975 and alleges monopolization of the intercity telephone market by AT&T and its telephone company subsidiaries and a conspiracy among all the defendants to further such monopoly and to restrain trade. The defendants have denied all of MCI's material allegations.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 10. Executive Officers of the Registrant.

The executive officers of MCI are elected annually and serve at the pleasure of the board of directors. They are:

<u>Name</u>	<u>Age*</u>	<u>Position</u>
William G. McGowan	56	Chairman of the Board, Chief Executive Officer, Director
V. Orville Wright	63	President, Chief Operating Officer, Director
William E. Conway, Jr.	34	Senior Vice President
Kenneth A. Cox	67	Senior Vice President, Director
Howard C. Crane	47	Senior Vice President
Eugene Eidenberg	44	Senior Vice President
Wayne G. English	62	Senior Vice President, Chief Financial Officer, Director
Bert C. Roberts, Jr.	41	Senior Vice President
H. Brian Thompson	45	Senior Vice President
John R. Worthington	53	Senior Vice President, General Counsel, Director
Carlile Bolton-Smith, Jr.	46	Vice President, Secretary, Assistant General Counsel
Robert E. Conn	57	Vice President
Peter K. Laros	44	Controller, Vice President
Robert Michelson	41	Vice President
Michael J. Rowny	34	Treasurer, Vice President
Harold S. Trimmer	45	Vice President
John Zimmerman	51	Vice President

Mr. McGowan has been Chairman of the Board and the Chief Executive Officer of MCI since 1968.

Mr. Wright has been President and Chief Operating Officer of MCI since December 1975 and has been a director of MCI since 1976.

Mr. Conway has been a Senior Vice President of MCI since October 1983. He was Treasurer of MCI from February 1981 to October 1983. From January 1979 to January 1981, he was a Vice President of The First National Bank of Chicago.

Mr. Cox has been a Senior Vice President and a director of MCI and of counsel to the law firm of Messrs. Haley, Bader & Potts, special counsel to MCI for communications law matters, since 1970. He has been Chairman of the National Advertising Review Board since 1976.

*As of June 1, 1984

Mr. Crane has been a Senior Vice President of MCI since October 1982. From 1978 to October 1982 he was Vice President-Corporate Relations of Federal National Mortgage Association.

Mr. Eidenberg has been a Senior Vice President of MCI since December 1982. From 1981 to 1982 he was the director of the Democratic National Committee. From 1978 to 1981 he was Deputy Secretary and then Secretary to the Cabinet and Assistant to President Carter for Intergovernmental Affairs.

Mr. English has been a Senior Vice President of MCI since June 1978, Chief Financial Officer of MCI since February 1976 and a director of MCI since December 1983.

Mr. Roberts has been a Senior Vice President of MCI since September 1976 and President of MCI Telecommunications Corporation, the subsidiary of MCI providing long distance intercity telephone services, since May 1983.

Mr. Thompson has been a Senior Vice President of MCI since September 1981. From August 1979 to September 1981, Mr. Thompson was President and a director of Subscription Television of America, a pay television franchise, and from February 1979 to May 1979 he was Executive Vice-President and Chief Operating Officer of Gelman Sciences, Inc., an electronics manufacturer.

Mr. Worthington has been General Counsel of MCI since 1971, a Senior Vice President of MCI since September 1979 and a director of MCI since 1968. He was Secretary of MCI from 1971 to September 1979 and a Vice President of MCI from May 1975 to September 1979.

Mr. Bolton-Smith has been a Vice President of MCI since July 1982, Secretary of MCI since September 1979, a Vice President of MCI Telecommunications Corporation since 1976 and an Assistant General Counsel of MCI since 1973.

Mr. Conn has been a Vice President of MCI since March 1983. For more than five years prior thereto he was Executive Vice President - Law and a director of WUI, Inc., a provider of international record and domestic paging services which was acquired by MCI in June 1982.

Mr. Laros has been Controller of MCI since July 1978 and a Vice President of MCI since January 1984.

Mr. Michelson has been a Vice President of MCI since March 1983. For more than five years prior thereto he was Counsel to, and then Vice President - Law of, WUI, Inc.

Mr. Rowny has been a Vice President and Treasurer of MCI since October 1983. From May 1981 to September 1983, he was a

Vice President of Bendix Corporation, a manufacturing company. From February 1981 to April 1981, he was a principal of Avenir Group, Inc., financial consultants. Prior thereto he was Deputy Staff Director of the White House.

Mr. Trimmer has been a Vice President of MCI since July 1982 and was a Vice President of MCI Telecommunications Corporation from April 1982 to July 1982. From 1975 to April 1982 he was Vice President, Secretary and General Counsel of Garfinckel, Brooks Brothers, Miller & Rhoads, Inc., retailers.

Mr. Zimmerman has been a Vice President of MCI since January 1984. From January 1983 to January 1984, he was a Vice President of MCI Telecommunications Corporation. From 1978 to December 1983 he was Vice President - Employee Relations of Firestone Tire and Rubber Company.

PART II

Item 5. Market for the Registrant's Common Equity and Related Stockholder Matters.

MCI Common Stock is traded in the over-the-counter market. The table below sets forth the high and low bid quotations for the Common Stock for the calendar periods indicated, adjusted for two-for-one stock splits effected in the form of 100% stock dividends in September 1982 and August 1983, as reported on the National Association of Securities Dealers Automated Quotation System. The quotations do not include retail mark-ups, mark-downs or commissions and may not represent actual transactions.

		<u>Bid Prices</u> <u>Common Stock</u>	
		<u>High</u>	<u>Low</u>
1982			
	1st Quarter	8 13/16	6 3/8
	2nd Quarter	11 7/8	8
	3rd Quarter	12 15/16	9
	4th Quarter	22 1/2	11 1/8
1983			
	1st Quarter	23 3/8	16 7/8
	2nd Quarter	27 3/4	21 1/2
	3rd Quarter	25	14 7/8
	4th Quarter	16 3/4	12 3/4
1984			
	1st Quarter	15 3/4	8 1/8

MCI has never paid cash dividends on its Common Stock and under its revolving credit agreement is limited in the amount of such dividends it may pay. MCI does not presently plan to pay such dividends on the Common Stock in the foreseeable future.

At May 31, 1984, there were 69,815 holders of record of MCI's Common Stock.

Item 6. Selected Financial Data.

Incorporated by reference to page 16 of the MCI 1984 Annual Report to Stockholders (the "1984 Annual Report").

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

Incorporated by reference to pages 17 and 18 of the 1984 Annual Report.

Item 8. Financial Statements and Supplementary Data.

Incorporated by reference to pages 19 to 33 of the 1984 Annual Report.

Item 9. Disagreements on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information with respect to executive officers of MCI is set forth in Part I of this Annual Report on Form 10-K.

Information with respect to directors of MCI is incorporated by reference to "Election of Directors" in MCI's Proxy Statement for its 1984 Annual Meeting of Stockholders (the "1984 Proxy Statement").

Item 11. Management Remuneration and Transactions

Incorporated by reference to the third paragraph of "Board of Directors' Committees, Meetings and Fees" and to "Remuneration of Directors and Officers" in the 1984 Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Incorporated by reference to "Election of Directors" in the 1984 Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

Incorporated by reference to "Election of Directors" in the 1984 Proxy Statement.

PART IV

Item 14: Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as a part of this report.

(1) Financial Statements

The financial statements appearing on pages 19 to 33 of MCI's 1984 Annual Report to Stockholders, together with the report thereon of Price Waterhouse dated May 3, 1984 appearing on page 15 thereof, are incorporated by reference in this Annual Report on Form 10-K. With the exception of the aforementioned information and the additional information incorporated by reference in Part II hereof, the 1984 Annual Report to Stockholders is not to be deemed filed as part of this report.

Financial Statements:	<u>Pages in Annual Report</u>
Report of Independent Accountants	15
Statement of Operations for the years ended March 31, 1984, 1983 and 1982.	19
Balance Sheet at March 31, 1984 and 1983.	20-21
Statement of Sources of Funds Invested in Communications System for the years ended March 31, 1984, 1983 and 1982.	22
Statement of Stockholders' Equity for the years ended March 31, 1984, 1983 and 1982.	23
Notes to Financial Statements	24-33

(2) Financial Statement Schedules:

The following additional financial data should be read in conjunction with the financial statements incorporated by reference herein. Schedules not included with this additional financial data have been omitted because they are not required or applicable or the required information is shown in the financial statements or notes thereto.

Report of Independent Accountants on Financial
Statement Schedules

Short Term Investments (Schedule I)

Communications System (Schedule V)

Accumulated Depreciation of Communications
System (Schedule VI)

Supplementary Income Statement Information
(Schedule X)

(3) Exhibits.

<u>Exhibit No.</u>	<u>Description</u>
3 (a) (i)	- Restated Certificate of Incorporation of MCI Communications Corporation filed August 4, 1982. [Incorporated by reference to Exhibit 3(b) to registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1982.]
(ii)	- Certificate of Amendment of Restated Certificate of Incorporation filed July 20, 1983. [Incorporated by reference to Exhibit 3 to registrant's Quarterly Report on Form 10-Q for the Quarter ended June 30, 1983.]
(b)	- By-laws of registrant, as amended.
4 (a) (i)	- Credit Agreement (the "Credit Agreement"), dated as of November 1, 1982, among registrant and the eleven banks party thereto. [Incorporated by reference to Exhibit 4 to registrant's Form 10-Q Quarterly Report for the Quarter ended December 31, 1982.]
(ii)	- Amendment No. 1 to the Credit Agreement dated as of February 1, 1983. [Incorporated by reference to Exhibit 4(b) to registrant's Registration Statement on Form S-3, Reg. No. 2-82285 (the "7 3/4% Debenture Registration Statement").]

Exhibit No.

Description

- (iii) - Amendment No. 2 and Waiver to the Credit Agreement dated as of May 2, 1983. [Incorporated by reference to Exhibit 4(a)(iii) to registrant's Registration Statement on Form S-3, Reg. No. 2-85431 (the "Note Registration Statement").]
- (iv) - Amendment No. 3 and Waiver to the Credit Agreement dated as of November 15, 1983.
- (v) - Amendment No. 4 to the Credit Agreement dated as of April 1, 1984.
- (vi) - Amendment No. 5 to the Credit Agreement dated as of June 1, 1984.
- (b) - Indenture dated as of August 1, 1980 between registrant and The Chase Manhattan Bank (National Association). [Incorporated by reference to Exhibit 4(a) to registrant's Registration Statement on Form S-1, Reg. No. 2-68353.]
- (c) - Indenture dated as of April 1, 1981 between registrant and Bankers Trust Company. [Incorporated by reference to Exhibit 4 to registrant's Registration Statement on Form S-7, Reg No. 2-71417 (the "14 1/8% Debenture Registration Statement").]
- (d) - Indenture, dated as of October 1, 1982, between registrant and Bankers Trust Company. [Incorporated by reference to Exhibit 4(f) to registrant's Registration Statement on Form S-3, Reg No. 2-79537.]
- (e) - Indenture, dated as of March 15, 1983, between registrant and Bankers Trust Company. [Incorporated by reference to Exhibit 4(e) to the 7 3/4% Debenture Registration Statement.]
- (f) - Indenture, dated as of August 1, 1983, between registrant and Bankers Trust Company. [Incorporated by reference to Exhibit 4(f) to the Note Registration Statement.]

Exhibit No.

Description

- (g) - Warrant Agreement, dated as of August 1, 1983, between registrant and Bankers Trust Company. [Incorporated by reference to Exhibit 4(h) to the Note Registration Statement.]
- 10(a) - 1979 Stock Option Plan of registrant, as amended and restated. [Incorporated by reference to Exhibit B to registrant's Proxy Statement for its 1983 Annual Meeting.]
- (b) - Supplemental Pension Plan for Selected Employees of MCI Communications Corporation and subsidiaries. [Incorporated by reference to Exhibit 10(f) to the 14 1/8% Debenture Registration Statement.]
- (c) - MCI Communications Corporation Management Incentive Compensation Plan, as amended. [Incorporated by reference to Exhibit 10(h) to registrant's Form 10-K for the fiscal year ended March 31, 1983.]
- 11 - Computation of Earnings per Common Share.
- 13 - 1984 Annual Report to Stockholders. [Not to be deemed filed as part of this Annual Report on Form 10-K except for those portions thereof which are expressly incorporated by reference in this Annual Report on Form 10-K.]
- 22 - Significant Subsidiaries of MCI Communications Corporation.
- 25 - Consent of Price Waterhouse [Included in Form 10-K].

(b) Reports on Form 8-K

No reports on Form 8-K were filed during the quarter ended March 31, 1984.

**Report of Independent Accountants on
Financial Statement Schedules**

**To the Board of Directors
MCI Communications Corporation**

Our examination of the consolidated financial statements referred to in our report dated May 3, 1984, appearing on page 15 of the 1984 Annual Report to Stockholders of MCI Communications Corporation, (which report and financial statements are incorporated by reference in this Annual Report on Form 10-K) also included an examination of the Financial Statement Schedules listed in Item 14(a) of this Form 10-K. In our opinion, these Financial Statement Schedules present fairly the information set forth therein when read in conjunction with the related consolidated financial statements.

PRICE WATERHOUSE

Washington, D.C.

May 3, 1984

SCHEDULE I

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES
SHORT TERM INVESTMENTS
MARCH 31, 1984
(IN THOUSANDS)

<u>Type of Issue</u>	<u>Principal Amount</u>	<u>Cost and Carrying Value of Issue</u> (1)
U.S. Government securities	\$ 486,127	\$ 449,929
Time and certificates of deposit (2)	369,621	369,627
Commercial paper (2)	355,804	354,815
All other	<u>18,000</u>	<u>17,269</u>
	<u>\$1,229,552</u>	<u>\$1,191,640</u>

(1) Investments are intended to be held to maturity and are carried at cost which approximates market. Interest income receivable is included with other current assets for financial statement purposes.

(2) No individual security issue exceeds 2% of total assets.

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES
COMMUNICATIONS SYSTEM
(IN THOUSANDS)

Column A	Column B	Column C	Column D	Column E	Column F	Column G
Description	Balance at beginning of period	Additions at cost	Retirements or sales	Other additions (deductions) (1)	Acquisition of MUI, Inc.	Balance at end of period
For the year ended March 31, 1984:						
Communications system in service.....	\$1,161,769	\$244,359	\$ 6,126	\$374,937		\$1,774,939
Communications system under construction and equipment held for future use.....	199,788	526,582	1,326	(413,952)		311,092
Tools and test equipment.....	33,539	21,791	1,905			53,425
Furniture, fixtures and office equipment.....	99,390	80,157	2,540	(8,789)		168,218
Office leasehold improvements.....	30,723	13,832	2,952	18,600		60,203
Administrative land and buildings.....	38,043	2,659		29,204		69,906
Total.....	\$1,563,252	\$889,380	\$14,849	-0-		\$2,437,783
For the year ended March 31, 1983:						
Communications system in service.....	\$626,420	\$177,957	\$14,758	\$236,409	\$135,741	\$1,161,769
Communications system under construction and equipment held for future use.....	87,576	312,903		(236,409)	35,718	199,788
Tools and test equipment.....	16,663	12,134	58		4,800	33,539
Furniture, fixtures and office equipment.....	22,156	71,149	1,037		7,122	99,390
Office leasehold improvements.....	12,461	10,824	549		7,987	30,723
Administrative land and buildings.....		38,043				38,043
Total.....	\$765,276	\$623,010	\$16,402	-0-	\$191,368	\$1,563,252
For the year ended March 31, 1982:						
Communications system in service.....	\$400,916	\$ 84,089	\$2,215	\$143,630		\$626,420
Communications system under construction and equipment held for future use.....	67,399	163,807		(143,630)		87,576
Tools and test equipment.....	9,967	6,929	233			16,663
Furniture, fixtures and office equipment.....	10,017	12,140	1			22,156
Office leasehold improvements.....	7,952	4,509				12,461
Total.....	\$496,251	\$271,474	\$2,449	-0-		\$765,276

(1) Other additions (deductions) represents primarily transfers of communications system under construction and equipment held for future use to appropriate asset classification.

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES
ACCUMULATED DEPRECIATION OF COMMUNICATIONS SYSTEM
(IN THOUSANDS)

Column A	Column B	Column C	Column D	Column E	Column F
Description	Balance at beginning of period	Additions charged to expense	Retirements or sales	Other additions (deductions) (1)	Balance at end of period
For the year ended March 31, 1984:					
Communications system in service.....	\$210,678	\$142,785	\$ 2,378	\$38,609	\$389,694
Tools and test equipment.....	6,100	4,865	586	1,300	11,679
Furniture, fixtures and office equipment.....	17,371	25,359	2,450	5,796	46,076
Office leasehold improvements.....	4,598	8,104	(184)	4,095	16,981
Administrative buildings.....	339	1,995			2,334
Total.....	\$239,086	\$183,108	\$ 5,230	\$49,800	\$466,764
For the year ended March 31, 1983:					
Communications system in service.....	\$134,267	\$ 86,155	\$ 9,744		\$210,678
Tools and test equipment.....	3,205	2,832	(63)		6,100
Furniture, fixtures and office equipment.....	5,840	11,989	458		17,371
Office leasehold improvements.....	2,479	2,442	323		4,598
Administrative buildings.....		339			339
Total.....	\$145,791	\$103,757	\$10,462		\$239,086
For the year ended March 31, 1982:					
Communications system in service.....	\$ 79,080	\$ 51,136	(\$ 4,051)		\$134,267
Tools and test equipment.....	2,502	937	234		3,205
Furniture, fixtures and office equipment.....	3,160	2,681	1		5,840
Office leasehold improvements.....	1,529	950			2,479
Total.....	\$ 86,271	\$ 55,704	(\$ 3,816)		\$145,791

(1) Other additions (deductions) represents a provision charged against earnings for the decline in value of telex-related equipment.

SCHEDULE X

MCI COMMUNICATIONS CORPORATION AND SUBSIDIARIES
SUPPLEMENTARY INCOME STATEMENT INFORMATION
(IN THOUSANDS)

	Year ended March 31,		
	1984	1983	1982
Taxes, other than payroll and income taxes	\$17,276	\$ 7,118	\$ 2,664
Advertising	51,210	31,241	19,546
Repairs and maintenance	18,124	11,749	4,886

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MCI COMMUNICATIONS CORPORATION

Dated: June 28, 1984

By: William G. McGowan
William G. McGowan
Chairman

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on June 28, 1984 on behalf of the registrant and in the capacities indicated.

<u>Signature</u>	<u>Title</u>
<u>William G. McGowan</u> William G. McGowan	Principal Executive Officer, Director
<u>Wayne G. English</u> Wayne G. English	Principal Financial Officer, Director
<u>Peter K. Laros</u> Peter K. Laros	Principal Accounting Officer
<u>Clifford L. Alexander</u> Clifford L. Alexander	Director
<u>Kenneth A. Cox</u> Kenneth A. Cox	Director
<u>Michael H. Bader</u> Michael H. Bader	Director
<u>Alva T. Bonda</u> Alva T. Bonda	Director
<u>Alexander Buchan</u> Alexander Buchan	Director
<u>James Fentress</u> James Fentress	Director
<u>Richard B. Sayford</u> Richard B. Sayford	Director
<u>John R. Worthington</u> John R. Worthington	Director
<u>V. Orville Wright</u> V. Orville Wright	Director

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Prospectuses constituting part of the Registration Statements on Form S-8 (Nos. 2-69915, 2-80971, 2-86159, 2-87456 and 2-88656) of MCI Communications Corporation of our report dated May 3, 1984, appearing on page 15 of the Annual Report to Stockholders which is incorporated in this Annual Report on Form 10-K. We also consent to the incorporation by reference therein of our report on the Financial Statement Schedules, which appears on page 21 of this Form 10-K.

PRICE WATERHOUSE

Washington, D. C.
June 28, 1984

MCI

March 29, 1984

Mr. Jack D. Smith
Common Carrier Bureau Chief
Federal Communications Commission
1919 M Street, N.W., Room #500
Washington, D.C. 20554

Re: MCI Telecommunications Corporation
Annual Filing of Miscellaneous
Common Carriers

Dear Mr. Smith:


The order adopted by the Commission on March 5, 1984, eliminated the filing requirement of the Annual Report of Miscellaneous Common Carriers on Form P. Pursuant to 47 C.F.R. Section 43.21, as amended, we hereby submit the following two data elements for the year ended December 31, 1983.

(1) Total Communications Plant \$ 275,305,000*

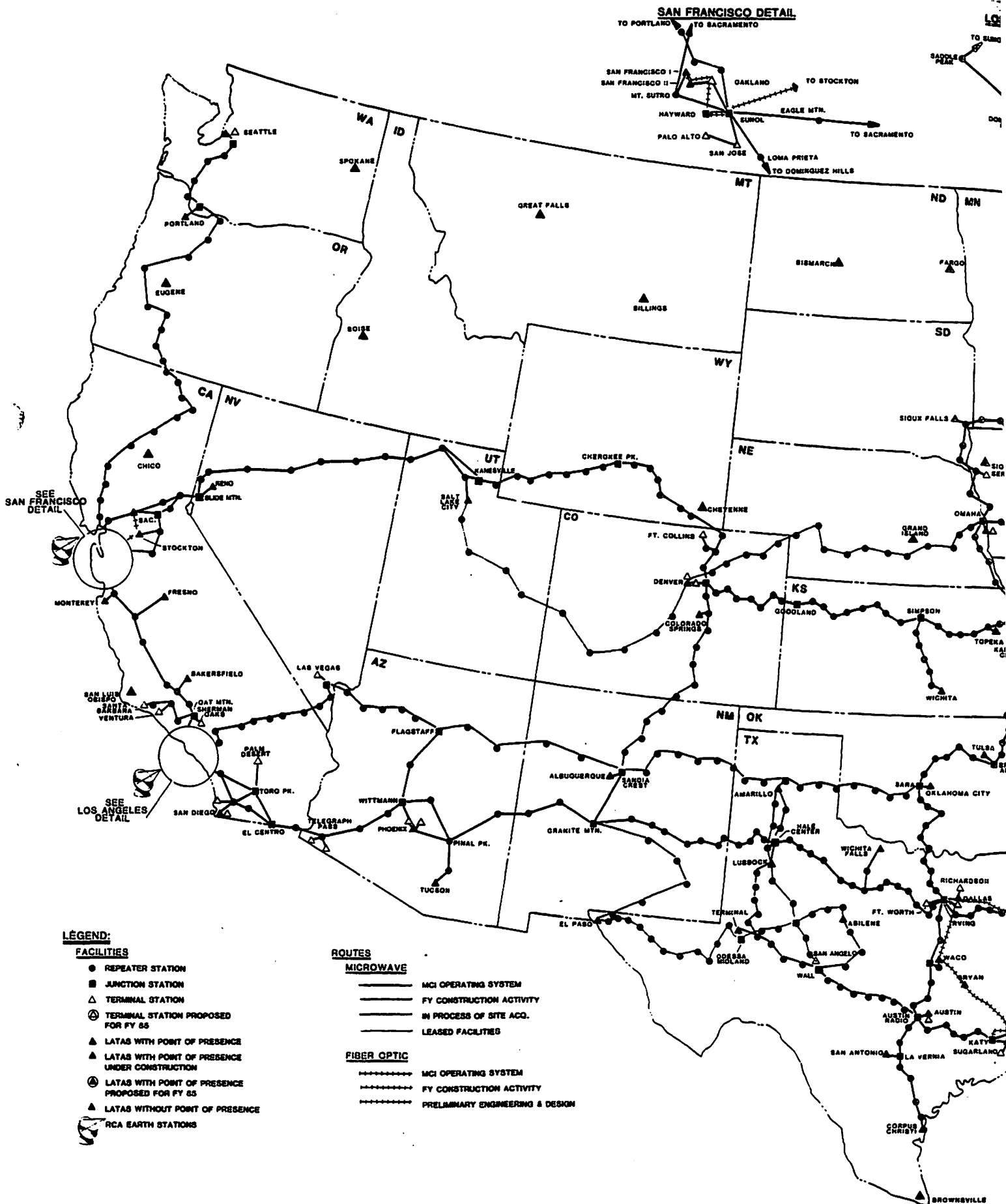
(2) Total Operating Revenues \$1,326,265,000

*NOTE: Additional communications equipment is owned by affiliates of the carrier.

I certify that to the best of my knowledge and belief this is a true and correct report.

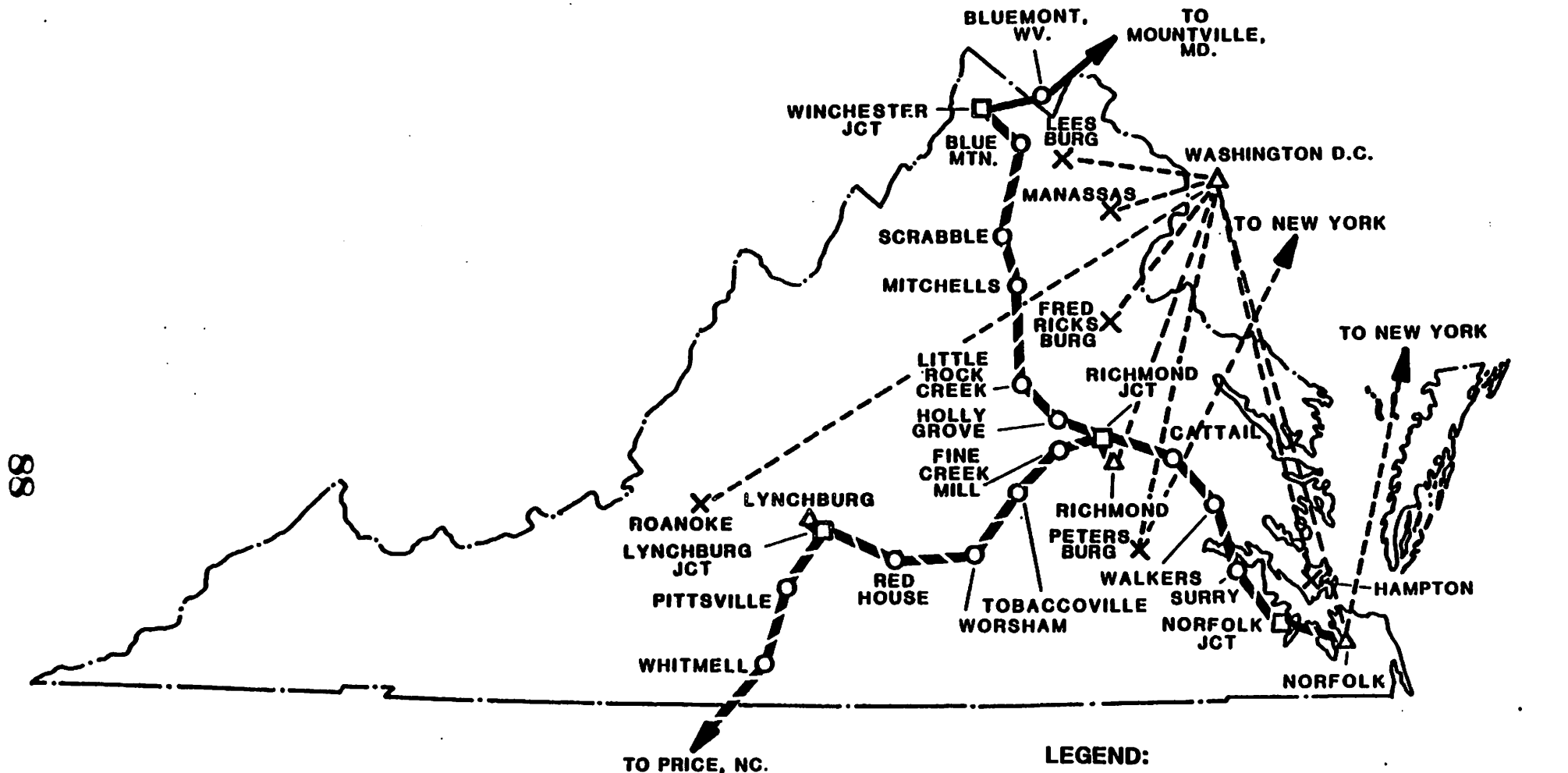

William E. Conway, Jr.
MCI Telecommunications Corporation
Senior Vice President, Finance

WEC/js





MCI'S NETWORK IN VIRGINIA



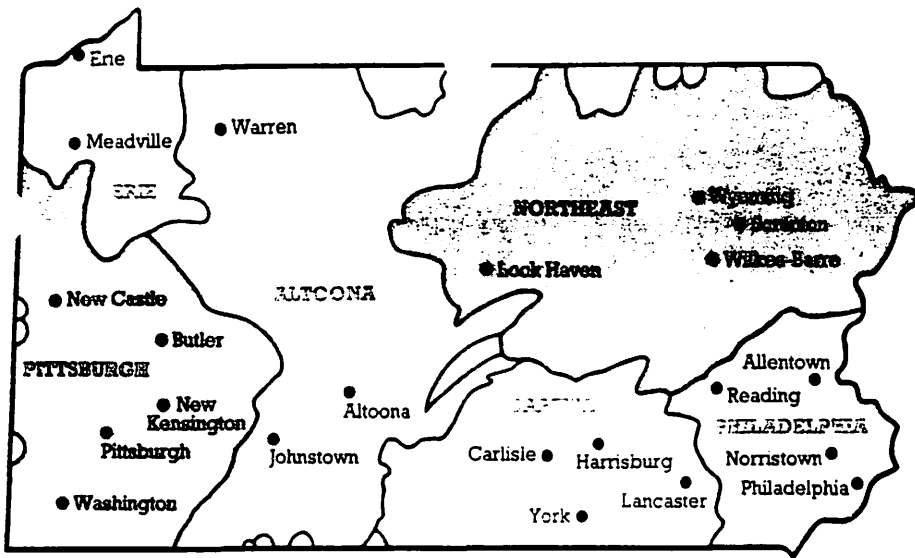
NOTE:
THE CONNECTING LINES BETWEEN THE LEASED EXCHANGE CONNECTIONS AND MCI'S OWN TERMINALS AND JUNCTIONS ARE LEASED FROM OTHER EXCHANGE OR INTEREXCHANGE CARRIERS.

LEGEND:

- REPEATER STATION
- △ TERMINAL STATION
- JUNCTION STATION
- × EXCHANGE CONNECTION (LEASED)
- MICROWAVE ROUTE
- CONSTRUCTION ACTIVITY
- - - LEASED LINE

AS OF 5/15/84_

Exhibit 7-B



Where You Can Call in Pennsylvania.

You can use MCI to call any phone in Pennsylvania that is outside your own local calling area (LATA) indicated by the map at left. You may also call all phones outside your state in the Continental U.S., Hawaii, Puerto Rico, U.S. Virgin Islands, and major calling areas in Canada.

To achieve the goals of the 1984 breakup of the Bell System, a Federal Court has defined geographic areas within each state. These areas are called LATAs (Local Access and Transport Area). MCI and AT&T will handle only calls going *outside* your LATA. Your local phone company will handle all calls *within* your LATA.

The map (at left) shows Pennsylvania's 5 LATAs, plus an area around Erie which is treated as a LATA. Identify your LATA—you can call on MCI to the rest of Pennsylvania. MCI has applied to the Pennsylvania Public Utility Commission for authority to provide long distance service within each LATA, but is presently authorized only to offer service between these areas.

MCI/484/12M

Exhibit 8-A

MCI

**NOW USE MCI
ON CALLS
WITHIN**

*New
Expanded
Service!*

SAVE WITH MCI

Increase Your Savings! Use MCI Today For Calls In California

Start saving more than ever on your long distance calls. MCI has just added in-state calling for California customers. That means significant savings on your longer distance calls throughout the state (see map). So, whether you're calling the kids at

college, or a client across the country... Call on MCI and SAVE.

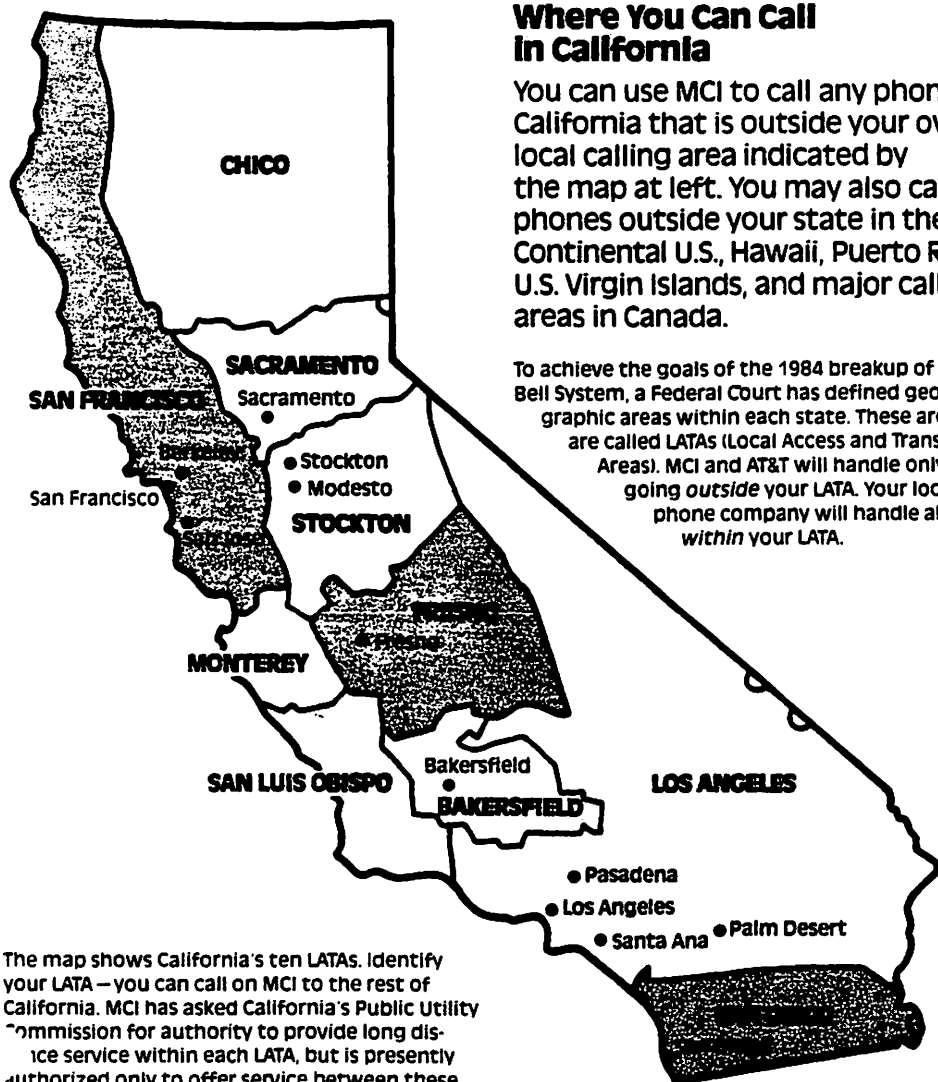
More Service, More Savings

Now that you can use MCI for long distance calls within California (see map), you'll have even bigger savings on your phone bill versus AT&T. One look at the rate chart below and you'll see how quickly your long

distance savings will add up with MCI.

It's Easy To Save

All of the features of MCI's convenient services are the same for calls within California (see map). You place your calls exactly as you would any other MCI call. *Start calling now and save.*



Where You Can Call In California

You can use MCI to call any phone in California that is outside your own local calling area indicated by the map at left. You may also call all phones outside your state in the Continental U.S., Hawaii, Puerto Rico, U.S. Virgin Islands, and major calling areas in Canada.

To achieve the goals of the 1984 breakup of the Bell System, a Federal Court has defined geographic areas within each state. These areas are called LATAs (Local Access and Transport Areas). MCI and AT&T will handle only calls going *outside* your LATA. Your local phone company will handle all calls *within* your LATA.

The map shows California's ten LATAs. Identify your LATA — you can call on MCI to the rest of California. MCI has asked California's Public Utility Commission for authority to provide long distance service within each LATA, but is presently authorized only to offer service between these areas.

MCI Long Distance Pricing Table for Calls within California

Call Distance in Miles	Price per Minute		
	Weekday	Evening	Night & Weekend
1-8	\$.0870	\$.0639	\$.0408
9-12	.0870	.0639	.0408
13-16	.1090	.0793	.0479
17-20	.1600	.1101	.0673
21-25	.1800	.1255	.0768
26-30	.1980	.1386	.0832
31-40	.2310	.1617	.0924
41-50	.2750	.1925	.1100
51-70	.3190	.2233	.1276
71-90	.3521	.2465	.1408
91-110	.3590	.2513	.1459
111-130	.3722	.2606	.1509
131-150	.3846	.2692	.1559
151-170	.4048	.2834	.1673
171-195	.4250	.2975	.1736
196-220	.4352	.3046	.1797
221-244	.4453	.3117	.1858
245-Over	.4529	.3170	.1891

Rates shown are those contained in MCI CAL P.U.C. Tariff #1 for calls on MCI's own network. These rates are subject to change in accordance with California P.U.C. rules and regulations. Rates subject to Federal excise and applicable state taxes.

Call Anytime on MCI and Save Over AT&T Rates

Call anywhere, anytime on MCI and save on all your out-of-state calls within the Continental U.S., Hawaii, Puerto Rico, U.S. Virgin Islands and major calling areas in Canada. See the Rate Chart for easy comparison with higher AT&T rates.

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF
for
MCI Telecommunications Corporation

This tariff contains the rules, regulations, descriptions and rates applicable to the furnishing of interLATA intercity telecommunications services offered by MCI within the State of Virginia.

Concurring Carriers

Connecting Carriers

Other Participating Carriers

C & P Telephone Company - Virginia

CONTEL Virginia

Exhibit 9

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

CHECK SHEET

The title page and pages 1-25 inclusive of this tariff are effective as of the date shown. Original and revised pages, as named below, comprise all changes from the original tariff in effect on the date indicated.

<u>PAGE</u>	<u>REVISION</u>
Title	ORIGINAL
1	ORIGINAL
2	ORIGINAL
3	ORIGINAL
4	ORIGINAL
5	ORIGINAL
6	ORIGINAL
7	ORIGINAL
8	ORIGINAL
9	ORIGINAL
10	ORIGINAL
11	ORIGINAL
12	ORIGINAL
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19	ORIGINAL
20	ORIGINAL
21	ORIGINAL
22	ORIGINAL
23	ORIGINAL
24	ORIGINAL
25	ORIGINAL

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERV. , TARIFF

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Explanation of Symbols	4	-
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ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

APPLICABILITY

This tariff applies to interLATA Intercity Telecommunications Services furnished by MCI Telecommunications Corporation between and among points within the State of Virginia.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICE TARIFF

EXPLANATION OF SYMBOLS

- C - To signify changed regulation
- D - To signify discontinued rate or regulation
- I - To signify increased rate
- N - To signify new rate or regulation
- R - To signify reduced rate
- S - To signify reissued matter
- T - To signify a change in text but no change in rate or regulation

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION A - DEFINITION OF TERMS

For the purpose of this tariff, the following definitions shall apply:

Access Line

A dedicated arrangement which connects a customer location to an MCI terminal location or an MCI switching center.

Accounting Code

A two-digit code which is available to subscribers of Option C (MCI WATS) which enables them to identify individual users and thereby allocate the cost of their long distance service.

Administrative Change

The modification of an existing circuit, dedicated access line or port, at the request of the customer, that involves changes to authorization codes, speed numbers, route guide, consolidation of billing within Dedicated Leased Line Service, verification of testing performed by parties other than MCI, or any other administrative change not covered by a Billing Record Change. (See below for definition.)

Application for Service

A standard MCI order form which includes all pertinent billing, technical and other descriptive information which will enable MCI to provide a communication service as required.

Authorization Code

A five-digit code or 7-digit code, one or more of which are available to Metered Use Service customers to enable them to identify individual users or groups of users, and thereby allocate the costs of their long distance service.

Bandwidth

The total frequency band, in hertz, allocated for a channel.

Billing Record Change

A change in customer billing address.

Cancellation of Order

A customer initiated request to discontinue processing a service order, either in part or in its entirety, prior to its completion. Cancellation charges will be assessed for each circuit-end or dedicated access line cancelled from an order prior to its completion by MCI, under the following circumstances: (1) if the local Telco has confirmed in writing to MCI that the circuit-end or dedicated access line will be installed; or (2) if MCI has already submitted facilities orders to an interconnecting telephone company. (This differs from a Disconnection, see page 6 for definition.)

Channel or Circuit

A communications path between two or more points, having a bandwidth or transmission speed selected by a customer.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION A - DEFINITION OF TERMS (CONT.)Channel Termination

The point at which MCI's channel originates, terminates, or drops for the insertion or removal of a customer's signal.

CCSA

An arrangement for switched service networks in which common control MCI switching machines are used to switch network trunks. The switching machines may be shared with other users.

Company

MCI Telecommunications Corporation.

Customer

The person, firm, corporation or other entity which orders service -- either for its own use, as a resale carrier, or as a non-profit manager of a sharing group -- and which is responsible for the payment of charges and for compliance with MCI tariff regulations. For billing purposes, a customer is considered to be an account. In the Metered Use Services, if a person, firm, corporation or other entity orders the service in more than one MCI originating city, or requests the assignment of more than one account number in a particular city, each such account is a separate customer for billing purposes.

Customer-Provided Terminal Equipment

Terminal equipment, as defined herein, provided by a customer.

Disconnection

The disconnection of a circuit, dedicated access line or port connection being used for existing service. (This differs from a Cancellation; see page 5 for definition).

Expedite

A service order initiated at the request of the customer, plus the accompanying installation or change to related circuits, that is processed in a time period shorter than the MCI standard service interval.

Four-Wire Circuit

A circuit using two one-way transmission paths, which include two carrier paths and two wire-pairs.

Installation

The connection of a circuit, dedicated access line or port for new or additional service.

Inter-switch Trunk

A circuit which connects two CCSA switching centers.

Joint Users

A person, firm or corporation designed by the customer as a user of communication facilities furnished to the customer by MCI, and to whom a portion of the charge for such facilities are billed under a joint user arrangement.

LATA - (Local Access Transport Area)

A geographical area established by the U.S. District Court for the District of Columbia in Civil Action No. 17-49, within which a local exchange company provides communications services.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION A - DEFINITION OF TERMS (CONT.)MCI

MCI Telecommunications Corporation and/or one or more Concurring Carriers.

MCI Metropolitan Area Terminal City Location (called Terminal Location)

Locations specified herein where MCI maintains a terminal facility for purposes of providing InterLATA Intercity Telecommunication Services as described herein.

MCI Recognized National Holidays

New Year's Day, July 4, Labor Day, Thanksgiving Day, Christmas Day.

MCI Terminal

Any location where MCI provides services as described herein.

Multiline Terminating Device

Denotes switching equipment, key telephone type systems or other similar customer premise terminating equipment which is capable of terminating more than one access line.

Network Trunks

Access lines, interswitch trunks, and circuits connecting services and facilities of MCI or other carriers to MCI CCSA switching centers.

Off-Network Access Line

A local exchange, foreign exchange, or WATS line connecting both incoming and outgoing traffic from an MCI switched service network to the DDD network.

One-Way Transmission

The capability of transmission in only one direction.

Other Common Carrier

A person, firm, corporation or entity which subscribes to MCI's communication services and facilities and resells these communication services and facilities to the public for profit. Unless otherwise indicated herein, the term "other common carrier" when used in this tariff also means "customer" and includes entities which are brokers of the service (act as intermediaries for the purposes of reselling), those entities which are processors of the service (enhance the value of the service through substantial incurred costs), and those entities which are underlying carriers (own transmission facilities).

Physical Change

The modification of an existing circuit, dedicated access line or port, at the request of the customer, requiring some physical change or retermination.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION A - DEFINITION OF TERMS (CONT.)Premises

The space designated by a customer at its place or places of business for termination of MCI service, whether for its own communications needs or for the use of its resale customers. In the case of the non-profit sharing group, this term includes space at each sharer's place or places of business, as well as space at the customer's place of business.

Redundancy

The offering of alternate Intercity Telecommunication Services which may be provided using one or more different routings, circuits, and/or additional equipment.

Restoration

The re-establishing of service by rerouting, substitution of component parts, or otherwise, as determined by the carrier(s) involved.

Service Group

The term "Service Group" as used in connection with MCI WATS denotes one or more MCI WATS dedicated access lines terminated in the same multiline terminating device at the same customer premises.

Special Promotional Offering

Special discounts or modifications of its regular service offerings which MCI may, from time to time, offer to its customers for a particular service. Such offerings may be limited to certain dates, times and locations.

Speed Number

A signaling arrangement by which a Metered Use Service customer may elect to dial a pre-programmed four-digit number in place of a designated ten-digit number.

Two-Way Transmission

The capability of transmission in either direction or in both directions at once.

Two-Wire Circuit

A circuit using two one-way carrier transmission paths, plus one wire-pair.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION B - RULES AND REGULATIONS1. DESCRIPTION OF SERVICE

.01 InterLATA Intercity Telecommunications Service is the furnishing of MCI services for communications between specified locations under the terms of this tariff. Channels will be those of MCI alone, or MCI's in conjunction with those of other participating, concurring or connecting carriers.

.02 InterLATA Intercity Telecommunications Service consists of the furnishing for the use of customers, of channels for the direct transmission and reception of communications between the MCI Metropolitan Area Terminal City Locations or MCI terminals and all service offerings contained herein which anticipate the provision of such channels as part of the offering are included in this category. Such service has the capability of being extended beyond the respective MCI Terminal Locations.

.03 MCI, when acting at the customer's request and as his authorized agent, will make reasonable efforts to arrange for service requirements which may include terminal equipment and circuit conditioning.

.04 The MCI network is designed to insure that no more than five percent of all calls are blocked during the busy hour of the average business day. The network circuits are designed and engineered to provide high quality transmission of the human voice with a minimum level of impairment such as noise and echo. However, overall quality may vary somewhat due to the variability in quality of the connections provided by the local telephone companies, which is beyond MCI's control.

2. LIMITATIONS

.01 Service is offered subject to the availability of facilities and the provisions of this tariff.

.02 MCI reserves the right to discontinue furnishing service, upon written notice, when necessitated by conditions beyond its control or when the customer is using the service in violation of the provisions of this tariff, or in violation of the law.

3. TERMS AND CONDITIONS

.01 Service is provided and billed on the basis of a minimum period of at least one month, beginning on the date that billing becomes effective, and continues to be provided until cancelled, by the customer, in writing, on not less than 30 day's notice from the date of postmark on this letter.

.02 Service is offered on a monthly basis, 24 hours per day. It is also offered on a Metered Use basis, as described in Paragraph C.2 following.

.03 For the purpose of computing charges in this tariff, a month is considered to have 30 days.

.04 The name(s) of the customer(s) desiring to use the service must be stipulated in the application for service.

.05 The customer agrees to operate MCI-provided equipment in accordance with instructions of MCI or MCI's agent. Failure to do so will void MCI liability for interruption of service and may make customer responsible for damage to equipment pursuant to Section B.3.06 below.

.06 Customer agrees to return to MCI all MCI-provided equipment delivered to customer within five (5) days of termination of the service in connection with which the equipment was used. Said equipment shall be in the same condition as when delivered to customer, normal wear and tear only excepted. Customer shall reimburse MCI, upon demand, for any costs incurred by MCI due to customer's failure to comply with this provision.

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SECTION B - RULES AND REGULATIONS4. LIABILITY

.01 The liability of MCI for damages arising out of mistakes, omissions, interruptions, delays, errors or defects in transmission occurring in the course of furnishing service, and not caused by the negligence of the customer or of MCI in failing to maintain proper standards of maintenance and operation and to exercise reasonable supervision, shall in no event exceed an amount equivalent to the proportionate charge to the customer for the period of service during which such mistake, omission, interruption, delay, error or defect in transmission occurs.

.02 MCI shall be indemnified and held harmless by the customer against:

.021 claims for libel, slander, or infringement of copyright arising out of the material, data, information, or other content transmitted over MCI's channels; and

.022 patent infringement claims arising from combining or connecting MCI-furnished channels with apparatus and systems of the customer; and

.023 all other claims arising out of any act or omission of the customer in connection with any service provided by MCI.

.03 MCI is not liable for any act or omission of any other company or companies furnishing a portion of the service.

.04 MCI does not guarantee or make any warranty with respect to any equipment provided by it where such equipment is used in locations containing an atmosphere which is explosive, prone to fire, dangerous or otherwise unsuitable for such equipment. The customer indemnifies and holds MCI harmless from any and all loss, claims demands, suits or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the customer or by any other party or persons, for any personal injury to or death of any person or persons, and for any loss, damage or destruction of any property, whether owned by the customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of such equipment so used.

.05 The customer indemnifies and holds MCI harmless from any and all loss, claims, demands, suits, or other action, or any liability whatsoever, whether suffered, made, instituted or asserted by the customer or by any other party or persons, for any personal injury to, or death of, any person or persons, and for any loss, damage or destruction of any property, whether owned by the customer or others, caused or claimed to have been caused directly or indirectly by the installation, operation, failure to operate, maintenance, removal, presence, condition, location or use of such equipment where such installation, operation, failure to operate, maintenance, condition, location or use is not the direct result of MCI's negligence.

.06 MCI is not liable for any defacement of, or damage to, the premises of a customer resulting from the furnishing of channel facilities or the attachment or instruments, apparatus and associated wiring furnished by MCI on such customer's premises or by the installation or removal thereof, when such defacement or damage is not the result of MCI negligence. No agents or employees of other participating carriers shall be deemed to be agents or employees of MCI.

.07 The customer is responsible for taking all necessary legal steps for interconnecting his customer-provided terminal equipment of communications systems with MCI facilities. He shall secure all licenses, permits, rights-of-way, and other arrangements necessary for such interconnection.

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INTERCITY TELECOMMUNICATIONS SERVICE TARIFF

SECTION B - RULES AND REGULATIONS4. LIABILITY (CONT.)

.08 The customer shall ensure that his equipment and/or system is properly interfaced with MCI facilities, that the signals emitted into MCI's network are of the proper mode, bandwidth, power, data speed, and signal level for the intended use of the customer and in compliance with the criteria set forth in Section B-13.03 following, and that the signals do not damage MCI equipment, injure personnel or degrade service to other customers. If the Federal Communications Commission or some other appropriate certifying body certifies terminal equipment as being technically acceptable for direct electrical connection with interstate communications service, MCI will permit such equipment to be connected with its channels without the use of protective interface devices. If the customer fails to maintain and operate his equipment and/or system properly, with resulting imminent harm to MCI equipment, personnel, or the quality of service to other customers, MCI may, upon written notice, require the use of protective equipment at the customer's expense. If this fails to produce satisfactory quality and safety, MCI may, upon written notice, terminate the customer's service.

5. CANCELLATION OF SERVICE BY A CUSTOMER (See Section B,11 for cancellation by MCI)

If a customer cancels his order for service before the service begins, before completion of the minimum period, or before completion of some other period mutually agreed upon by the customer and MCI, a charge will be levied upon the customer for the nonrecoverable portions of expenditures or liabilities incurred expressly on behalf of the customer by MCI and not fully reimbursed by installation and monthly charges. If, based on an order by a customer, any construction has either begun or been completed, but no services provided, the nonrecoverable cost of such construction shall be borne by the customer.

6. USE OF SERVICE

.01 The services offered herein may not be used for the unauthorized provision of Message Telecommunications Service or Wide Area Telecommunications Service equivalents. Service furnished by MCI may be used for one or more of the following:

.011 for the transmission of communications by the customer.

.012 for the transmission of communications to or from an authorized user or joint user.

.013 for the transmission of communications to or from a customer of another common carrier, which has subscribed to MCI's communications services for purposes of resale.

.02 Service furnished by MCI may be arranged for joint use or authorized use. The joint user or authorized user shall be permitted to use such service in the same manner as the customer, but subject to the following:

.021 One joint user or authorized user must be designated as the customer. The designated customer does not necessarily have to have communications requirements of his own. The customer must specifically name all joint users or authorized users in the Application for Service. Orders which involve the start, rearrangement or discontinuance of joint use or authorized use service will be accepted by MCI only from that customer and will be subject to all regulations of this tariff.

.022 All charges for the service will be computed as if the service were to be billed to one customer. The joint user or authorized user which has been designated as the customer will be billed for all components of the service and will be responsible for all payments to the company. In the event that the designated customer fails to pay the company each joint user or authorized user shall be liable to the company for all charges incurred as a result of its use of MCI's Service. Each joint or authorized user must submit to the designated customer a letter accepting contingent liability for its portion of all charges billed by the company to the designated customer. This letter must also specify that the joint or authorized user understands that the company will receive a copy of the guaranty from the designated customer. Unless Supportive Services are provided (See Section E), the customer shall be responsible for allocating charges to each joint user or authorized user.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION B - RULES AND REGULATIONS6. USE OF SERVICE (CONT.)

- .03 Metered Use Service Option A (Execunet) furnished by MCI (Section C-2.02) may, at a customer's option, be arranged for use under Corporate (Group) Account Billing. Group Account Billing specifies a combined monthly minimum usage charge¹ for multiple business locations which the customer owns, franchises, manages, or directs, of \$2500 for all sub-accounts.* The applicable Volume Discount, as set forth in Section C-2.02113, will be based upon the total combined monthly usage for all sub-accounts. Charges for optional features, detailed in Section C-2.0213, will be waived for all Corporate (Group) Account Billing customers of Metered Use Service Option A. Customers who elect this billing option are subject to the following:
- .031 The customer electing this option shall be designated as the Sponsor, and as such must accept financial responsibility for all sub-accounts included under the Group Account Billing arrangement. Should the total monthly usage charges for all sub-accounts fail to satisfy the applicable monthly minimum usage charge, the Sponsor is responsible for payment of the difference.
- .032 The Sponsor must specifically name all sub-accounts in the application for Group Account Billing. Further, orders which involve the start or discontinuance of service will be accepted by MCI only from the Sponsor and will be subject to all regulations in this tariff.
- .033 Each sub-account will be deemed to be a customer of MCI, and will be billed separately for its MCI service and will be responsible for payments to MCI. In the event that a sub-account fails to pay MCI the Sponsor shall be liable to MCI for all charges incurred as a result of such sub-account's use of MCI's service. Prior to initiation of service under Group Account Billing, the Sponsor must submit to MCI a letter accepting the terms and conditions set forth herein.
- .04 Directory Assistance is available to customers of MCI's Metered Use Service Option A. A \$0.45 per call undiscounted charge will be applied to each call. Up to two requests may be made on each call to Directory Assistance. The Directory Assistance charge applies to each call regardless of whether the Directory Assistance Bureau is able to furnish the requested telephone number. Surcharges, if applicable, will not be applied to Directory Assistance calls. In addition, Directory Assistance calls will not count toward, nor be calculated as part of, the Volume Discounts offered under Metered Use Service Option A. A complimentary call allowance, consisting of two free Directory Assistance calls per month, will be given to those customers who comply with the following provisions.
- .041 The customer must complete at least two Non-Directory Assistance calls in the month in which the Directory Assistance calls are made.
- .042 The complimentary call allowance applies to both intrastate and interstate Directory Assistance.
- .043 The complimentary call allowance is not available to those customers in central offices where equal exchange access is available who have not chosen MCI as their presubscribed carrier, and who access MCI via the 10222 access number.
- .05 Service furnished by MCI may be arranged for use by other common carriers for the purposes of resale subject to the following:
- .051 Other Common Carriers will be responsible for all interaction and interface with their own subscribers or customers.
- .06 Service furnished by MCI shall not be used:
- .061 For any unlawful purpose.
- .062 For any purpose for which any payment or other compensation is received by the customer, except when the customer is an entity which holds itself out as being a communications common carrier. This provision does not prohibit an agreement between the customer, authorized user or joint user to share the cost of the service as long as this arrangement generates no profit for anyone participating in a joint use or authorized use arrangement.

1/ The monthly minimum charge will be waived for all U.S. Government accounts.

* A grace period, consisting of the initial (partial) month and the next three full billing months, will be extended to new customers. During this period, the monthly minimum usage charge will not be billed.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION B - RULES AND REGULATIONS7. PAYMENT ARRANGEMENTS

.01 The customer is responsible for payment of all charges for services furnished to the customer. Charges for installation, physical or administrative changes, expedites, or for cancellation of orders are payable upon completion. If, because of any such activity a non-MCI carrier or supplier levies additional charges, these charges shall be passed on to the customer. Recurring charges are billed in advance.

.02 Billing will be payable upon receipt. Interest at the rate of 1.50% per month (unless proscribed by law, in which event at the highest rate allowed by law) will accrue upon any unpaid amount commencing 33 days after date of billing. MCI offers pre-payment credits which are considered to be financial transactions and are the subject of separate letter agreements.

.03 Applicants or customers whose financial condition is not acceptable to MCI, or is not a matter of general knowledge, may be required at any time to make a deposit not to exceed an amount equal to two times the average bill during the preceding six-month period for services at the customer's premises, or if such information is not available, up to an amount equalling the installation charges, if applicable, and/or up to two months' estimated charges for the service to be provided. In the case of a cash deposit, interest at the rate paid in that locality for escrow accounts will be paid for the period during which the deposit is held by MCI. Such deposit may be refunded or credited to the customer at any time after six months of good credit upon request of the customer prior to termination of service. Upon termination of service, the deposit, with accrued interest, shall be credited to the final bill, and any credit balance shall be returned promptly to the customer.

.04 The charges set forth in this tariff for channel terminations contemplate installations made in normal locations and under normal working conditions. Any installations to be made under other circumstances are subject to additional charges.

.05 If notice of a dispute as to charges is not received, in writing, by MCI within two years after an invoice is rendered, such invoice shall be deemed to be correct and binding upon the customer.

8. CHANGE IN SERVICE ARRANGEMENT

When a change in service arrangement involves the continued use by the customer of channels furnished by MCI, installation charges do not apply to the channels continued in use. The minimum service period for the channels continued in use is determined from the date of the initial acceptance thereof.

9. RESTORATION OF SERVICE

The use and restoration of service in emergencies shall be in accordance with Part 64, Subpart D of the Federal Communications Commission's Rules and Regulations, which specifies the priority system for such activities.

10. INSPECTION

MCI may, upon reasonable notice, make such tests and inspections as may be necessary to determine that the requirements of this tariff are being complied with in the installation, operation or maintenance of the customer or MCI equipment. MCI may interrupt the service at any time, without penalty to MCI, because of departure from any of these requirements.

11. CANCELLATION FOR CAUSE BY MCI (See Section B,5 for Cancellation by Customer)

.01 Upon nonpayment of any sum owing to MCI, or upon a violation of any of the provisions governing the furnishing of service under this tariff, MCI may, upon written notification to the customer, without incurring any liability, immediately discontinue the furnishing of such service.

.02 Upon 14 days written notification, MCI will discontinue furnishing service to a subscriber to Option A (Execunet) of Metered Use Service who has not used the service for a period of 180 days and who appears, after investigation to have left the community or who advises MCI that he or she does not desire to continue to be carried as a customer.

12. TESTING AND ADJUSTING

Upon reasonable notice, the channels provided by MCI shall be made available to MCI for such tests and adjustments as may be necessary to maintain them in satisfactory condition; no interruption allowance will be granted for the time during which such tests and adjustments are made.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION 8 - RULES AND REGULATIONS13. TERMINAL EQUIPMENT

.01 Terminal equipment, such as teleprinters, handsets or data sets at the premises of the customer and connecting local channels between such premises and the MCI terminals, shall be furnished by and maintained at the expense of the customer, except as otherwise provided.

.02 The characteristics of equipment at either end of the channel shall be such that its connection to the channel complies with the minimum protection criteria set forth below, and does not interfere with services furnished to other customers. Additional protective equipment, where required, shall be at the customer's expense.

.03 When services using Bell voice grade facilities are terminated in customer-provided terminal equipment, channel derivation devices, or communications systems, the customer shall comply with the minimum protective criteria set forth below:

.031 When the facilities furnished under this tariff are used in common with Bell System services, it is necessary in order to prevent excessive noise and crosstalk that the power of the signal applied to Bell lines be limited. A single valued limit for all applications cannot be specified. Therefore, the power of the signal in the band above 300 Hertz which may be applied by the customer-provided equipment at the point of termination will be specified by MCI for each application, to be consistent with the signal power allowed on the telecommunications network.

.032 To protect the telecommunications services from interference at frequencies which are about the band of service provided, MCI will specify the acceptable signal power in the following bands to be applied by the customer-provided equipment or communications system at the point of termination to insure that the input to Bell facilities does not exceed the limits indicated:

- the power in the band from 3,995 Hertz to 4,005 Hertz shall be at least 18 dB below the power of the signal as specified in Section 13.031 preceding.
- the power in the band from 4,000 Hertz to 10,000 Hertz shall not exceed 16 dB below one milliwatt.
- the power in the band from 10,000 Hertz to 25,000 Hertz shall not exceed 24 dB below one milliwatt.
- the power in the band from 25,000 Hertz to 40,000 Hertz shall not exceed 36 dB below one milliwatt.
- the power in the band above 40,000 Hertz shall not exceed 50 dB below one milliwatt.

.033 Where there is connection via customer-provided terminal equipment or communications system to a Message Telecommunications Service or a WATS service to prevent the interruption or disconnection of all call, or interference with network control signaling, it is necessary that the signal applied by the customer-provided equipment to the interface at no time has energy solely in the 2450 to 2750 Hertz band. If signal power is in the 2450 to 2750 Hertz band, it must not exceed the power present at the same time in the 800 to 2450 Hertz band.

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SECTION 8 - RULES AND REGULATIONS13. TERMINAL EQUIPMENT (CONT.)

.034 Where such customer-provided equipment or communications system applies signals having components in the frequency spectrum below 300 Hertz, excluding ringing signals, the currents and voltages (including all harmonics and spurious signals) at the interface shall not exceed the limits indicated in .0341 through .0344 following:

.0341 The maximum rms (root-mean-square) value, including dc and ac components, of the current per conductor will not exceed 0.35 ampere.

.0342 The magnitude of the peak of the conductor or ground voltage shall not exceed 70 volts.

.0343 The conductor voltage shall be such that the conductor to ground voltage limit in .0342 preceding is not exceeded. If the signal source is not grounded, the voltage limit in .0342 preceding applies to the conductor to conductor voltage.

.0344 The total weighted rms voltage within the band from 50 Hertz to 300 Hertz shall not exceed 100 volts. The total weighted rms voltage is the square root of the sum of the products times the square of the rms voltage of the individual frequency components. The weighting factors are as indicated:

<u>for frequencies between</u>	<u>weighting factor</u>
50 Hertz and 100 Hertz	$f^2/10^4$
100 Hertz and 300 Hertz	$f^{3.3}/10^{6.6}$

where f is the numerical value of the frequency, in Hertz, of the frequency component being weighted.

.04 The customer is responsible for all costs, which may include the expenses of customer personnel, electrical power, etc. at his premises in the provision of the service described herein.

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SECTION B - RULES AND REGULATIONS14. ALLOWANCE FOR INTERRUPTIONS

.01 Credit allowance for interruptions of service which are not due to MCI testing and adjusting, negligence of the customer, or the failure of channels, equipment and/or communications systems provided by the customer, are subject to the general liability provisions set forth in Section B-4 preceding. When the service provided by MCI is interrupted for a period of two consecutive hours or more, credit is allowed for that portion of the service which is affected, in accordance with the following formula:

$$\text{Credit} = \frac{T \text{ times } C}{24}$$

"T" is outage time in hours

"C" is total daily charge for the affected facility

.02 For the purpose of determining the amount of allowance, every month is considered to have 30 days. Only those segments of service actually affected by the interruption shall be considered in determining the amount of allowance.

.03 The length of an interruption shall be measured from the time the customer notifies MCI of the interruption, or from the time a major outage is known to MCI.

.04 As used in Section B.14 herein, the term "service" means the circuits or equipment provided by MCI, and/or a participating international carrier, or an overseas administration connecting with such international carrier.

.05 MCI will, at customer request and expense, attempt to make arrangements for redundancy on the customer's service.

15. INTERCONNECTION WITH OTHER CARRIERS

.01 Service furnished by MCI may be connected with services or facilities of another participating carrier. Such interconnection may be made at an MCI Terminal or entrance site, at a terminal of another participating carrier, or at the premises of a customer, joint user, or authorized user. Service furnished by MCI is not part of a joint undertaking with such other carriers.

will attempt to make the necessary arrangements for such interconnection.

.03 Service furnished by MCI may be connected with the facilities or services of other participating carriers under the terms and conditions of the other participating carriers' tariffs applicable to such connections.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION B - RULES AND REGULATIONS15. INTERCONNECTION WITH OTHER CARRIERS (CON'T)

- .04 Intercarrier connection is offered between MCI and the following carriers, in accordance with the indicated tariffs. If no tariff is referenced MCI maintains a contractual arrangement with that company.

CarrierTariff

American Telephone & Telegraph Co.

FCC Tariff #259, 260

C & P Telephone Company

FCC Tariff #2

CONTEL Virginia

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION 8 - RULES AND REGULATIONS16. SPECIAL CUSTOMER ARRANGEMENTS

.01 In cases where a customer requests special arrangements which may include engineering, installation, construction, facilities, assembly, purchase or lease of facilities, and/or other special services not offered under this tariff, MCI, at its option, will provide the requested services. Appropriate recurring and/or non-recurring charges will be developed accordingly.

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES1. GENERAL DESCRIPTION OF INTERCITY TELECOMMUNICATION SERVICES

- .01 InterLATA Intercity Telecommunications Service is offered to subscribers on a full-time monthly basis, or on a Metered Use Basis.
- .02 All services shall remain in effect for a minimum of thirty (30) days.
- .03 A customer may provide his own dedicated facilities to access MCI's terminal where such dedicated facilities are required.
- .04 MCI offers its services subject to the availability of the necessary facilities and/or equipment. MCI reserves the right to refuse to provide service to or from any location where the necessary facilities and/or equipment are not available (see Section 8.2).

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INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES2. METERED USE SERVICE.01 General Description

Metered Use Service offers the use of intercity communications facilities shared among multiple users. Metered Use Service may involve, at the customer's option, a monthly recurring minimum charge for intercity facility usage. A monthly listing of each call and its duration is available as a standard feature. At additional cost, certain Metered Use Service options, offer a customer the ability to: (1) identify the users and allocate the cost of his long distance facilities through the use of accounting codes, (2) reduce the amount of dialed digits through the use of speed numbers, and (3) receive his call records on magnetic tape.

Under this service option, the individual customer's total monthly charges for use of the intercity communication facilities are based upon the total time the customer (account) utilizes such facilities. In that regard, individual intercity facilities usage charges, as well as other specific charges, discounts and/or features are applicable to each individual service option. When a metered use service call is established in one time-of-day rate application period and ends in another, the rate in effect in each rate application period applies to the portion of the call occurring within that rate application period. A specific description of Metered Use Service Option A and its recurring and non-recurring charges, features, applicable discounts and service availability follows.

.02 Option A (Execunet)

Execunet Service is a one-way, dial in - dial out multipoint service allowing the customer to originate and terminate calls via MCI-provided local business telephone lines. Subscribers to Execunet Service may originate calls only in the city or cities in which they maintain an active Execunet account. Customers in central offices where equal exchange access is available who have established accounts with MCI, may use Execunet Service on a direct dial basis or by dialing the access number 10222. Customers in central offices where equal exchange access is not available may use Execunet Service by dialing a 7 digit access number. Customers may terminate calls as specified in Section 2.023 below. All Execunet calls are rounded to the next higher full minute. At the customer's option Execunet Service is available on the basis of a Corporate (Group) account billing arrangement.^{1/}

.021 Monthly Recurring Charges

.0211 Intercity Facilities Usage Charges: The Per Minute rates set forth in Section 2.02111 will apply to all Execunet Service Calls.^{2/} In addition Volume Discounts, as described in Section 2.02113 will be available.

^{1/} Customers who elect Corporate (Group) Account Billing may do so on the basis of a monthly minimum usage charge of \$2500. Customers who elect this billing option are subject to the provisions of Section 8-6.03 preceding.

^{2/} To encourage usage by newly installed Execunet customers, MCI will apply a \$2.00 credit to the usage charges on the customers initial invoice. All other charges applicable to this service will remain unaffected by this provision.

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES2. METERED USE SERVICE.02 Option A (Execunet) (Cont.).02111 Per Minute Usage Charges:

DAY RATE:

<u>INTERCITY MILEAGE¹</u> <u>BAND</u>	<u>1ST MINUTE</u>	<u>ADDITIONAL MINUTE</u>
1 - 8	\$.200	\$.108
9 - 13	.240	.118
14 - 18	.300	.168
19 - 23	.320	.188
24 - 28	.370	.207
29 - 38	.380	.237
39 - 48	.410	.257
49 - 58	.420	.267
59 - 78	.440	.277
79 - 118	.460	.297
119 - 194	.470	.316
195 - Over	.500	.326

EVENING RATE:

<u>INTERCITY MILEAGE</u> <u>BAND</u>	<u>1ST MINUTE</u>	<u>ADDITIONAL MINUTE</u>
1 - 8	\$.110	\$.065
9 - 13	.140	.071
14 - 18	.170	.100
19 - 23	.180	.112
24 - 28	.210	.124
29 - 38	.220	.142
39 - 48	.240	.154
49 - 58	.240	.160
59 - 78	.260	.166
79 - 118	.270	.178
119 - 194	.270	.190
195 - Over	.290	.196

NIGHT & WEEKEND RATE:

<u>INTERCITY MILEAGE</u> <u>BAND</u>	<u>1ST MINUTE</u>	<u>ADDITIONAL MINUTE</u>
1 - 8	\$.070	\$.043
9 - 13	.090	.047
14 - 18	.110	.067
19 - 23	.120	.075
24 - 28	.140	.083
29 - 38	.140	.095
39 - 48	.150	.102
49 - 58	.160	.106
59 - 78	.170	.110
79 - 118	.170	.118
119 - 194	.180	.126
195 - Over	.190	.130

¹ Intercity mileage is calculated by using the formula presented on page 24 and the the Vertical and Horizontal Coordinates as obtained in Table I and by reference to AT&T's Tariff FCC No. 274.

ISSUED: July 2, 1984

Stephen Gunn
Manager, Tariffs & Rates
1133 19th Street, N.W.
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES2. METERED USE SERVICE (Cont.).02 Option A (Execunet) (Cont.)

- .02112 Time of Day Discount Periods: Execunet offers an Evening Discount as well as a Night and Weekend Discount at the rates specified in section C-2.02111, for calls placed within the time periods as set forth in the figure below.

	MON	TUES	WED	THUR	FRI	SAT	SUN
8:00 AM to 5:00 PM	BUSINESS DAY RATE					EVE-NING	
5:00 PM to 11:00PM	EVENING RATE						
11:00 PM to 8:00 AM	NIGHT & WEEKEND RATE						

MCI's Evening Discount will apply to all calls placed on MCI-recognized National Holidays except when a lower rate would normally apply.

.02113 Volume Discounts

Volume Discounts, as set forth below, are available to those Execunet customers who have established accounts with MCI and whose total monthly charge for usage equals or exceeds \$20.00. The discount will be applied to the customer's monthly invoice and will be based on the total monthly usage incurred in each rate period. The discount, when earned, will apply to each and every call placed during that billing period.

Total Monthly Usage	VOLUME DISCOUNT:		
	Day	Evening	Night & Weekend
\$ 0 - \$ 19.99	0.0 %	0.0 %	0.0 %
\$ 20.00 - \$ 74.99	2.0 %	7.0 %	8.0 %
\$ 75.00 - \$149.99	3.5 %	7.5 %	8.5 %
\$150.00/over	5.0 %	8.0 %	10.0 %

.0212 Directory Assistance

An undiscounted charge of \$0.45 per call will be applied to each Directory Assistance call, subject to the provisions of Section 8-6.04 above.

.0213 Optional Features

.02131	<u>Authorization Codes (5-Digit)</u>	
	1st Five Codes	No Charge
	Additional Codes	\$5/Code
	(Limited to 50 total codes/customer/account or sub-account)	
.02132	<u>Speed Numbers (4-Digit)</u>	\$5.00 Each
.02133	<u>Call Records on Magnetic Tape</u>	\$100/Tape
.02134	<u>Accounting Codes (2-Digit)</u>	\$5/99 Codes
	From 1 to 99 codes per authorization code per account or sub-account	
	Charges for accounting codes will not be pro-rated.	

.022 Non-Recurring Charges

.0221 Set-Up Charges: Call Records on Magnetic Tape- \$500/Account

.023 Service Availability

Execunet Service is available from the cities set forth in Section C-5, Table I, to all other cities within the State of Virginia.

1/ Total monthly usage is comprised to both intrastate and interstate usage.

ISSUED: July 2, 1984

Stephen Gunn
Manager, Tariffs & Rates
1133 19th Street, N.W.
Washington, D.C. 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES (Cont.)

3. SPECIAL PROMOTIONAL OFFERINGS

From time to time MCI may provide certain special promotional offerings to its customers. These offerings may be limited to certain dates, times and locations.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES (Cont.)4 . RATE & MILEAGE TABLESMETHOD FOR CALCULATION FOR AIRLINE MILEAGE.01 Method of Calculation

The airline mileage between two cities can be calculated using the Vertical (V) and Horizontal (H) Coordinates as obtained by reference to AT&T's Tariff F.C.C. No. 274 according to the following formula:

$$\sqrt{\frac{(V_1 - V_2)^2 + (H_1 - H_2)^2}{10}}$$

where V_1 and H_1 correspond to the V & H coordinates of City 1 and V_2 and H_2 correspond to the V & H coordinates of City 2.

<u>Example:</u>	<u>V</u>	<u>H</u>
City 1 - Manassas	5692	1626
City 2 - Richmond	5906	1472

$$\sqrt{\frac{\begin{array}{cc} V_1 & V_2 \\ (5692 - 5906)^2 & + \end{array} \begin{array}{cc} H_1 & H_2 \\ (1626 - 1472)^2 & \end{array}}{10}}$$

Airline Mileage = 84 miles

$$\sqrt{6951.2} = 83.3738 \text{ miles}^*$$

*Result will always be rounded to the next highest mile.

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

INTERCITY TELECOMMUNICATIONS SERVICES TARIFF

SECTION C - SERVICE DESCRIPTIONS AND RATES (Cont.)5. SERVICE AVAILABILITY TABLETABLE IOPTION A (EXECUNET SERVICE) AVAILABILITY

Option A is available for calling between the following Cities and from these locations to all other locations within the State of Virginia, provided that the originating and terminating locations are in different LATAS.

Fredericksburg
Leesburg
Manassas
Newport News
Norfolk
Petersburg
Richmond
Roanoke

ISSUED: July 2, 1984

Stephen C. Gunn
Manager, Tariffs & Rates
1133 19th Street, NW
Washington, DC 20036

EFFECTIVE: September 1, 1984

STATE CORPORATION COMMISSION

JUL 3 3 05 PM '84
DOCUMENT CONTROL CENTER

AT RICHMOND, JULY 3, 1984

APPLICATION OF

MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

CASE NO. PUC840022

For a certificate of public
convenience and necessity,
for approval of its lease
and service agreement, and
for authority to set its rates
based upon competitive factors

ORDER PRESCRIBING NOTICE
AND SETTING HEARING

On July 2, 1984, MCI Telecommunications Corporation
of Virginia ("Applicant" or "Company") filed its application
for a certificate of public convenience and necessity,
for approval of its lease and service agreement, and for
authority to set its rates based upon competitive factors.

NOW, THE COMMISSION is of the opinion that the Company's
application should be docketed, that public notice of the
application should be given, and that a public hearing
to consider the application should be held; Accordingly,

IT IS ORDERED:

(1) That that this case be docketed and assigned Case
No. PUC840022.

(2) That a public hearing concerning each portion of
the Company's application be held, commencing on July 27,
1984 at 10:00 a.m. in the Commission's 13th Floor Courtroom,
Jefferson Building, Bank and Governor Streets, Richmond,
Virginia;

(3) That on or before July 20, 1984 any person who expects to present evidence, cross-examine witnesses, and otherwise participate in the hearing as a Protestant, as provided by Rule 4:6 of the Commission's Rules of Practice and Procedure, file with the Commission an original and fifteen (15) copies of a Protest as required by Rule 5:16(b), and serve a copy thereof on counsel to the Company, Hullihen W. Moore, Esquire, 909 East Main Street, 12th Floor, Richmond, Virginia 23219;

(4) That the Company make available a copy its application together with the exhibits to each Protestant requesting same;

(5) That the Company forthwith give notice to the public of its application and the scheduled hearing by publishing as display advertising (not classified advertising) on one occasion, the following notice in newspapers having general circulation throughout the Commonwealth of Virginia:

**NOTICE TO THE PUBLIC OF
APPLICATION BY MCI
TELECOMMUNICATIONS CORPORATION
OF VIRGINIA FOR A CERTIFICATE
OF PUBLIC CONVENIENCE AND NECESSITY
TO PROVIDE INTEREXCHANGE LONG
DISTANCE SERVICE IN VIRGINIA**

On July 2, 1984, MCI Telecommunication Corporation of Virginia filed an application with the Virginia State Corporation Commission for a certificate of public convenience and necessity authorizing it to provide interexchange long distance telephone service in Virginia. MCI proposes to serve those areas economically feasible for its existing network and proposes to set its rates solely upon competitive factors.

The Virginia State Corporation Commission has scheduled a public hearing on MCI's application in its 13th Floor Courtroom, Jefferson Building, Bank and Governor Streets, Richmond, Virginia, commencing at 10:00 a.m. July 27, 1984.

Copies of the application are available for public inspection at MCI's offices where bills may be paid during normal business hours and in the Commission Document Control Center located in Floor B-1 of the Jefferson Building, Richmond, Virginia, open Monday through Friday, 8:00 a.m. to 5:00 p.m.

On or before July 20, 1984 any person who expects to submit evidence and to cross-examine witnesses must file with the Commission an original and fifteen (15) copies of a Protest conforming to Rule 5:16(b) of the Commission's Rules of Practice and Procedure. A copy of this notice must be mailed to counsel for MCI, Hulihan W. Moore, Esquire, 909 East Main Street, 12th Floor, Richmond, Virginia 23219.

Any interested person not otherwise participating as a Protestant who desires to make a statement at the public hearing in his own behalf on the application, need only be present in the Commission's Courtroom 15 minutes prior to the commencement of the hearing and inform the Commission's Bailiff that he wishes to testify. All persons desiring to testify will be heard as expeditiously as possible beginning at 10:00 a.m. or shortly thereafter. In lieu of attending the public hearing, public witnesses may choose to send their comments to the Commission in written form. Such comments must be received not later than July 20, 1984.

All written communications to the Commission regarding MCI's application should refer to Case No. PUC840022 and should be addressed to William C. Young, Clerk, Document Control Center P.O. Box 2118, Richmond, Virginia 23216.

MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

(6) That the Company forthwith give notice of its application to each interexchange carrier, to each local exchange carrier, and to the Division of Consumer Counsel, Office of the Attorney General, by personal delivery, or by certified mail, return receipt requested to the customary place of business or residence of the person served;

(7) That on or before the July 27, 1984 hearing, applicant file proof of notice as described above.

ATTESTED COPIES hereof shall be sent to HULLIHEN W. MOORE, Esquire, Attorney for Applicant, 909 East Main Street, 12th Floor, Richmond, Virginia 23219; Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and to the Commission's Division of Communications, Accounting and Finance, and Economic Research and Development.

BEFORE THE
VIRGINIA STATE CORPORATION COMMISSION

In the Matter of

Petition of AT&T Communications)
of Virginia to Set Rates and Charges))
Pursuant to §56-481.1 of the Code)
of Virginia)

Case No. PUC 840023

Petition of AT&T Communications of Virginia to Set Rates
and Charges Pursuant to §56-481.1 of the Code of Virginia

The petition of the above-named AT&T Communications of
Virginia, Inc. (AT&T-C), Petitioner, respectfully shows:

1. In its Final Order of June 29, 1984, in Case No. PUC840017,
this Commission formally adopted Rules Governing the
Certification of Inter-LATA, Inter-exchange Carriers,
pursuant to Sections 56-265.4:4; 56-481.1; and 56-482.1 of
the Code of Virginia, 1950, as amended. In interpreting
Section 56-481.1, the Commission stated:

"The General Assembly desired to make the
transition from regulated, monopoly long
distance service to competitive service in a
manner that was entirely fair and
even-handed, showing favoritism to neither
existing carriers nor to proposed carriers."

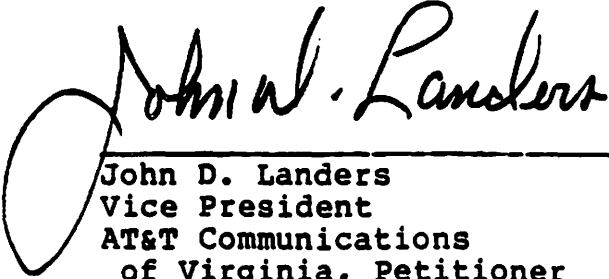
2. As of January 1, 1984, the Commission granted AT&T-C a
Certificate of Public Convenience and Necessity to furnish
interLATA service within the Commonwealth. (See Attachment
A). Additionally, the Commission authorized AT&T-C's
currently effective tariff rates. (Case No. PUC830043,
Order of December 22, 1983).

3. On July 2, 1984, MCI Telecommunications Corporation of Virginia (MCI-V) filed with this Commission its application for a Certificate of Convenience and Necessity and petition for streamlined regulation. In its application, MCI-V stated that it currently provides interstate service to 60,000 customers in the Commonwealth and that it will expand its areas of originating service "as rapidly as feasible" in order to provide universal intrastate origination service as well in Virginia. SouthernTel of Virginia, Inc. has also applied for a Certificate to provide intrastate long distance services to "residential, business and governmental customers in Virginia." (Application of SouthernTel of Virginia, Inc., May 14, 1984). In addition to these carriers who have already filed, other carriers now providing interstate services in the Commonwealth can be expected to file for authority to provide intrastate long distance services.
4. Considering the service offerings of AT&T-C, MCI-V, and other carriers who are expected to file applications to provide interexchange telecommunications service in the Commonwealth, Virginia consumers will have a full array of price/quality options from which to choose.

5. AT&T-C will provide no monopoly services in Virginia. Each of its services is subject to competition from the other carriers to be certified by this Commission. AT&T-C also does not control any bottleneck facilities. AT&T-C will provide service to all Virginians on a competitive basis.
6. AT&T-C does not currently have the facilities necessary to provide intraLATA service in Virginia, and the Company will comply with the provisions of Section 56-265.4:4B of the Virginia Code and the Commission's Rule 2, which prohibit interexchange carriers from offering intraLATA services until January 1, 1986.

WHEREFORE, for the reasons stated above, Petitioner, AT&T Communications of Virginia, respectfully requests that, pursuant to Rule 9 of the Rules Governing the Certification of Inter-LATA, Inter-exchange Carriers, the Commission exempt it from the provisions of Chapter 10 of Title 56 of the Code of Virginia and from any other regulation which is inconsistent with the competitive provision of telecommunications services within the Commonwealth.

Respectfully submitted,



John D. Landers
Vice President
AT&T Communications
of Virginia, Petitioner

Michael J. Morrissey
Wilma R. McCarey
Glenn A. Stover

Attorneys for Petitioner
7611 Little River Turnpike
Annandale, Virginia 22003
(703) 642-7180

Dated: July 5, 1984

10-27-83

ATTACHMENT A

**COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION**

—0—

CERTIFICATE NO. TT-1G

—0—

AT&T COMMUNICATIONS OF VIRGINIA, INC.

by this Certificate of Public Convenience and Necessity is hereby authorized under the Utility Facilities Act to furnish intrastate inter-LATA toll service in the State of Virginia in accordance with

the "Schematic Map of Territory In Which Intrastate Toll Telephone Service is Furnished by The Chesapeake and Potomac Telephone Company of Virginia, AT&T Communications of Virginia, Inc., and Virginia Independent Telephone Companies", attached and

(Note: This Certificate No. TT-1G along with Certificate No. TT-1F issued to Chesapeake and Potomac Telephone Company and Its Associated Independent Telephone Companies, on January 1, 1984, cancels and replaces Certificate No. TT-1E issued on August 2, 1982.)

stamped— Received November 22, 1983

Dated at Richmond, Va. January 1, 1984

STATE CORPORATION COMMISSION

By [Signature]

Commissioner

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF

UNITED STATES TRANSMISSION SYSTEMS, INC.

FOR A CERTIFICATE OF PUBLIC CONVENIENCE
AND NECESSITY TO PROVIDE INTERLATA,
INTEREXCHANGE TELEPHONE SERVICES WITHIN VIRGINIA

John O'Boyle
Vice President

Jack R. Lebowitz
Its Attorney
UNITED STATES TRANSMISSION
SYSTEMS, INC.
100 Plaza Drive
Secaucus, New Jersey 07096

Steven H. Davis
LeBOEUF, LAMB, LEIBY & MacRAE
520 Madison Avenue
New York, New York 10022

M. Reamy Ancarrow
LeBOEUF, LAMB, LEIBY & MacRAE
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036

July 3, 1984

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

In the Matter of the Application
of UNITED STATES TRANSMISSION SYSTEMS, INC. Case No. _____
for a Certificate of Public
Convenience and Necessity

TO THE STATE CORPORATION COMMISSION OF THE COMMONWEALTH
OF VIRGINIA:

The Applicant, United States Transmission Systems, Inc. (USTS), files this Application for a Certificate of Public Convenience and Necessity to offer interLATA, interexchange telephone services within the Commonwealth of Virginia. Application is made pursuant to Section 56-265.4:4B of the Code of Virginia, 1950, as amended, and in accordance with the rules promulgated by the State Corporation Commission to govern the certification of interLATA, interexchange carriers in Case No. PUC 840017.

1. The Applicant is United States Transmissions Systems, Inc. whose address and principal place of business is 100 Plaza Drive, Secaucus, New Jersey 07096. Its telephone number is (201) 330-5000.

2. United States Transmission Systems, Inc. is a wholly owned subsidiary of ITT Communications Services, Inc. (ITTCSI). ITTCSI is wholly owned by ITT Communications and Information Services, Inc. (ITT COINS), which is in turn

wholly owned by ITT Corporation, which had outstanding 138,846,671 shares of common stock as of March 12, 1984. USTS is incorporated in the State of Delaware, as are ITTCSI, ITT COINS and ITT Corporation. The address and principal place of business of ITT Corporation is 320 Park Avenue, New York, New York 10022 and its telephone number is (212) 752-6000.

3. United States Transmission Systems, Inc. is currently organizing and will incorporate in the Commonwealth of Virginia a subsidiary that is authorized to do business in the Commonwealth as a public service company. When that incorporation is completed, that subsidiary will be substituted for United States Transmission Systems, Inc. as the Applicant in this Case.

4. Applicant's legal counsel in connection with this application are:

Steven H. Davis
LeBoeuf, Lamb, Leiby & MacRae
520 Madison Avenue
New York, New York 10022
Telephone (212) 715-8000

and

M. Reamy Ancarrow
LeBoeuf, Lamb, Leiby & MacRae
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036
Telephone (202) 457-7500

5. Approval of this Application and granting of a Certificate of Public Convenience and Necessity to the Applicant is justified by the public interest as required by Section

56-265.4:4B of the Code of Virginia because Virginia consumers would have a broader range of choices concerning the types and prices of telecommunications services available to them. The provision of services by competitive firms such as the Applicant improves the variety of services available to the public, reduces the prices of services to the public, and provides incentive for technological advances in the telecommunications field. The Applicant is especially suited to compete effectively in the Virginia intrastate market. USTS is already present in Virginia, offering interstate service to Virginia subscribers. Those subscribers, who have chosen USTS as their interstate telephone carrier, are likely, if given the opportunity, to choose the Applicant as their intrastate carrier as well. USTS also already operates the facilities which will be used to provide intrastate service. Therefore, the Applicant can begin intrastate operations immediately upon the granting of a Certificate.

6. Far from resulting in a wasteful or uneconomic duplication of facilities, granting Applicant a Certificate of Public Convenience and Necessity will enable USTS to make the most efficient use of its telecommunications network because the same facilities which comprise USTS's interstate network will be used by the Applicant to provide Virginia intrastate services. That efficiency will allow USTS to keep both its intrastate and interstate rates lower, thereby

benefitting Virginia consumers placing calls to points both within and without the state.

7. Applicant attests that it will abide by the provisions of §56-265.4:4B of the Code of Virginia and not offer services within local access and transport areas until January 1, 1986. However, the limitations of the interconnections currently provided to the USTS network to gain access to the local exchange networks render it technically unable to block all intraLATA calling without blocking interstate calls. Until equal access interconnections are provided and the Applicant can block all intraLATA calls, the Applicant will endeavor to inhibit intraLATA calling on its network by informing its customers that the Applicant is not authorized or permitted to complete intraLATA calls and that such calls should be placed through the network of the local telephone company. Furthermore, USTS's current system effectively blocks intra-area code calls which are dialed in the normal manner of 1 plus the number. The USTS network will accept only calls dialed with a ten-digit code of the area code plus the number. Therefore, unless a customer deviates from usual dialing practice and dials the area code with the number called, the USTS network will not accept and complete an intra-area code call.

8. Applicant acknowledges that despite the unusual

dialing necessary to complete intra-area code calls on the USTS network and Applicant's efforts to educate its customers to place intraLATA calls through the local telephone company, some incidental intraLATA traffic will be carried on USTS's network. The Applicant will compensate the local exchange companies for any revenue lost to them as a result of those incidental, intraLATA calls being placed over USTS's network. Applicant proposes to negotiate with the local exchange companies to formulate a compensation plan, including the technical terms and criteria for measuring incidental intraLATA traffic and calculating the compensation due, that is mutually agreeable to USTS and the local exchange companies and acceptable to the Commission. Applicant will take appropriate steps to retain records pertinent to the measurement of incidental, intraLATA traffic and to the calculation of compensation so the agreed-upon compensation plan can be made effective retroactively to the date of Applicant's initial certification. Since the interests of the local exchange companies will be protected by the compensation plan finally agreed upon and implemented retroactively, Applicant respectfully requests that it be granted certification to provide interLATA interexchange telephone services even if the details of the compensation plan have not been finalized when the Commission considers

certification.

9. In support of this Application and incorporated herein, the Applicant submits the exhibits listed below:

Exhibit A -- Certified Copy of the Articles of Incorporation of United States Transmission Systems, Inc. and List of Directors and Officers of United States Transmission Systems, Inc.

Exhibit B -- Demonstration of Financial Ability

- (1) 1983 Income Statement and Balance Sheet of USTS.
- (2) 1983 Annual Report of ITT Corporation.
- (3) ITT Corporation SEC Form 10-K for the Fiscal Year Ended December 31, 1983.
- (4) ITT Corporation Notice of Annual Meeting May 8, 1984 and Proxy Statement.
- (5) Major Stockholders of ITT Corporation.

Exhibit C -- Demonstration of Managerial Experience

Exhibit D -- Map of USTS's Nationwide Communications Network, Virginia Access Cities and Demonstration of Technical Ability

Exhibit E -- Applicant's Proposed Initial Tariffs -- USTS Tariffs FCC No. 1 and FCC No. 2

10. WHEREFORE, Applicant United States Transmission Systems, Inc. prays:

- (1) that the State Corporation Commission of the Commonwealth of Virginia find that the granting of a

Certificate to the Applicant is justified by the public interest; and

(2) that pursuant to that finding, the State Corporation Commission of the Commonwealth of Virginia issue a Certificate of Public Convenience and Necessity to enable the Applicant to offer and promote interLATA, interexchange telephone services within the Commonwealth of Virginia; and

(3) that USTS be granted temporary authority to operate within the Commonwealth of Virginia during the pendency of this Application.

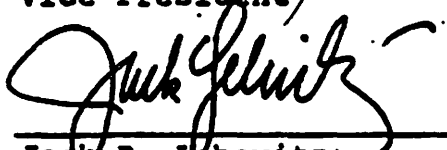
Dated: July 3, 1984

Respectfully submitted,

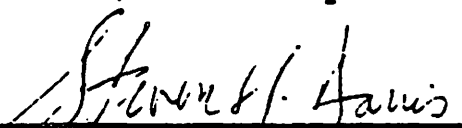
UNITED STATES TRANSMISSION SYSTEMS, INC.



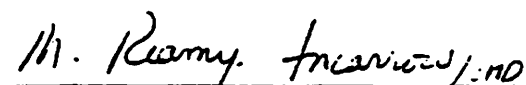
John O'Boyle
Vice President



Jack R. Lebowitz
Its Attorney
UNITED STATES TRANSMISSION SYSTEMS, INC.
100 Plaza Drive
Secaucus, New Jersey 07096



Steven H. Davis
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New York, New York 10022



M. Reamy Ancarrow
LeBOEUF, LAMB, LEIBY & MacRAE
1333 New Hampshire Avenue, N.W.
Washington, D.C. 20036

BEFORE THE
COMMONWEALTH OF VIRGINIA
JULY 1980 STATE CORPORATION COMMISSION

In re Petition of)
TDX SYSTEMS, INC.) Case No. PU 840025
For a Certificate of Public)
Convenience and Necessity)

PETITION FOR A CERTIFICATE
OF PUBLIC CONVENIENCE AND NECESSITY

TDX Systems, Inc. ("TDX") herewith submits its petition for a certificate of public convenience and necessity to operate as a reseller of telephone services in the Commonwealth of Virginia. In support thereof, TDX submits the following information.

1. Compliance With §56-265.4:4B
Of The Code Of Virginia.

TDX attests that it will abide by the provisions of §56-265.4:4B of the Code. TDX will not offer intra-LATA calling at this time and incidental intra-LATA calls will be blocked. Appendix A contains the affidavit of TDX's President C. Alan Peyser attesting to the foregoing and Appendix B sets forth TDX's plans for blocking incidental calling.

2. Information Identifying
The Applicant.

The applicant is TDX Systems, Inc. with its principal business address being 1920 Aline Avenue, Vienna, Virginia 22180. TDX Systems, Inc. is a wholly owned subsidiary of

Cable and Wireless, North America ("CWNA"). CWNA is located at 1601 Elm Street, Suite 4700A, Dallas, Texas 75201. CWNA's phone number is (214) 741-2315.

The directors of the applicant are as follows:

Eric Sharp, Chairman
Bill Brice, Chairman Emeritus
Phillip J. Warwick, Deputy Chairman
Ernest F. Potter
Joseph B. Crouch
Christopher W. Cox
Douglas C. Buck
Thomas J. Brady
John M. Zrno

The officers of the applicant are as follows:

Eric Sharp, Chairman of the Board
C. Alan Payser, President
E. A. Vanderbloemen, Senior Vice President,
Systems Service
Richard J. Gibbs, Vice President, Operations
Charles D. Miller, Vice President, Research &
Development
Marvin C. Moses, Vice President, Finance/Administration
& Treasurer
James D. Burdga, Vice President, Data & Voice
Management
Scott G. Yancey, Controller & Assistant Secretary
Velra B. Whitely, Assistant Corporate
Secretary & Assistant Treasurer
Cullom Jones, Corporate Secretary
William H. Oberlin, Vice President, Sales & Marketing
Kenneth Casner, Vice President, Building
Construction Service

The applicant's legal counsel is as follows:

Joseph M. Kittner
McKenna, Wilkinson & Kittner
1150 Seventeenth Street, NW
Washington, DC 20036
(202) 861-2600

3. Authority To Do Business
In The Commonwealth.

The applicant's authority to do business in the Commonwealth is established by documentation set forth as Appendix C.

4. Financial Ability To
Render Service.

The applicant's financial ability to provide service is demonstrated in Appendix D which includes TDX Systems, Inc.'s most recent financial statement.

5. Managerial Ability To
Render Service.

TDX Systems, Inc. presently serves as a manager for shared user groups located throughout the country with respect to their interstate service requirements, and, where permitted under applicable state policies, their intrastate telecommunications service requirements as well. TDX presently performs management functions for shared user groups located in California, Georgia, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Texas, Virginia and the District of Columbia. In light of TDX's expertise gained through such management activities, it clearly has the requisite managerial experience now to provide inter-exchange telecommunications services on a common carrier basis.

A number of events have caused TDX to reassess its current status as a non-common carrier network manager of interstate services and also to seek certification to offer intrastate common carrier services. First, the communications

industry has been changed dramatically by the AT&T divestiture. Second, major change has also resulted from recent decisions of the Federal Communications Commission concerning "access charges" assessed by exchange carriers for originating and terminating interstate telephone calls (CC Docket No. 78-72). Third, TDX desires to expand the scope of its current business activities and believes that a change to a resale carrier status will permit such expansion.

In order to facilitate an orderly transition and to prevent inconvenience or disruptions to its shared user group members, TDX is seeking FCC and state regulatory approvals -- where necessary -- that are timed to permit its initiation of interstate and intrastate resale services on September 1, 1984. Accordingly, TDX respectfully requests that approval of its certification provide for an effective date consistent with that timetable if at all possible.

Appendix E sets forth a list of geographic areas in which TDX presently serves as a network manager for shared users groups.

6. Technical Abilities
To Render Service.

Appendix F provides a description and map of the facilities owned or leased by TDX within the Commonwealth of Virginia. TDX owns and operates a central processing

unit located in Vienna, Virginia. TDX will maintain points of presence at its switching site in Richmond, Virginia and a similar switching site to be constructed in Norfolk, Virginia during August of 1984.

7. Initial Tariff Setting Forth Rules, Regulations, Terms And Conditions.

The initial Tariff setting forth the rules, regulations, terms and conditions of TDX's inter-LATA interexchange telecommunications service is attached in Appendix G.

8. Petition To Have TDX's Rates Based Upon Competitive Factors.

TDX respectfully petitions the Commission to have its rates based upon competitive factors pursuant to the provision of §56.481.1 of the Code of Virginia. TDX is seeking authority to provide telecommunications services as a reseller of telephone services provided by telephone companies. Consequently, TDX rates, charges and regulations necessarily must be competitive with those of the telephone companies whose services are being resold. Moreover, based upon experiences in other states who have recently permitted competition in intrastate services, TDX anticipates that a large number of resale common carriers will also seek certification and that the market will be highly competitive through all geographic areas of Virginia. Accordingly, TDX respectfully submits that the public interest would be served by granting this petition to have its rates based upon competitive factors.

9. Compliance With
Rule Provisions.

TDX Systems, Inc. will comply with all Rule provisions set forth in the Commission's Final Order, Case No. PUC 840017, released June 29, 1984.

* * * *

In view of the foregoing, TDX Systems, Inc., respectfully submits that the public convenience and necessity would be served by grant of its petition for certification to operate as a reseller of telephone services within the Commonwealth of Virginia.

Respectfully submitted,

TDX SYSTEMS, INC.

By:

C. Alan Peyser
C. Alan Peyser
President

VERIFICATION

I, C. Alan Peyser, President, TDX Systems, Inc., hereby declare that I have read the foregoing Petition For A Certificate of Public Convenience And Necessity and that the facts stated therein are true and correct to the best of my knowledge, information and belief. I also hereby specifically attest that TDX Systems, Inc. will abide by the provisions of §56-263.4:4B of the Code of Virginia.

I declare under penalty of perjury that the foregoing is true and correct.

Executed July 6th, 1984.

Commonwealth of Virginia
County of Fairfax

C. Alan Peyser
C. Alan Peyser

Sworn and subscribed to before me this 6th day of July, 1984.

James F. [Signature]
Notary Public

My Commission Expires: April 6, 1987

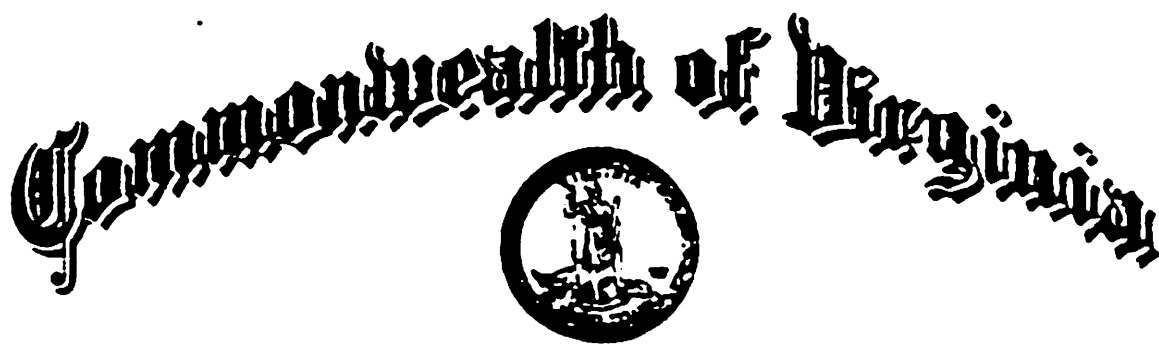
INTRA LATA CALL BLOCKING

TDX Systems will offer two basic services: a) the traditional "second dialtone" service offered over Feature Group B facilities; and b) equal access service offered over Feature Group D facilities. Examining each relative to call blockage of those calls originating and terminating within the same LATA presents a call routing problem to which a simple solution applies.

For the "second dialtone" service, a subscriber would dial 950-XXXX and the telephone operating company would route that call to the TDX switch. Our switch would deliver to the subscriber a second dialtone signalling it was ready for the long distance number (LDN), and the personal identification number (PIN). The TDX switch would be programmed to examine the first six (6) digits of the LDN, thereby determining the calls destination. The first three (3) digits or NPA could indicate both inter and intra LATA calls; therefore, the next three (3) digits or NXX would have to be examined. A table of all NXX's that resided within the originator's LATA would be set up and maintained to ensure that such calls were screened and blocked. If the NPA and NXX were found within the table of intra LATA NXX's, then the call would be routed to a recording requesting the subscriber to dial that call through the telephone operating company. TDX would not process that call.

For the equal access service, the subscriber would dial 1 +, or 10XXX to reach the long distance carrier of his choice, followed by the LDN. In these instances, the telephone operating company would examine the first six (6) digits to determine intra LATA orientation. Such calls would be blocked by the operating company.

If, by chance, the telephone operating company does not perform this initial screening process as their technical manuals state, then TDX's switch would perform a "look-up table" function as described above to ensure the call is blocked. These "look-up tables" should mete out an almost 100% accuracy of call blockage of intra LATA calls.



STATE CORPORATION COMMISSION

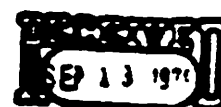
Richmond, September 12, 1979

This is to Certify, that TDX Systems, Inc.

a corporation organized under the laws of District of Columbia
having complied with all the requirements of law, is
hereby authorized to transact business in the State of
Virginia in so far as not in conflict with and subject to
the laws of the State.

State Corporation Commission
Attest:

Clerk of the Commission



TDX SYSTEMS, INC.

UNAUDITED STATEMENT OF OPERATIONS
 FOR THE YEAR ENDED MARCH 31, 1984
 (Dollars in Thousands)

GROSS REVENUES:	\$75,816
COSTS AND EXPENSES:	
Costs incurred for shared group users	46,997
Revenue equipment depreciation	2,553
General and administrative	18,893
Total	<u>68,443</u>

INCOME FROM OPERATIONS	7,373
OTHER INCOME (EXPENSE):	
Interest:	
Cable & Wireless North America, Inc. (CWNA)	(3,173)
Other - Net	345
Miscellaneous	52
Total	<u>(2,776)</u>

INCOME BEFORE PROVISION IN LIEU OF STATE AND FEDERAL INCOME TAXES AND EXTRAORDINARY CREDIT	4,597
PROVISION IN LIEU OF STATE AND FEDERAL INCOME TAXES	<u>1,551</u>
INCOME BEFORE THE EXTRAORDINARY CREDIT	3,046
EXTRAORDINARY CREDIT - UTILIZATION OF OPERATING LOSS CARRYFORWARDS	<u>1,342</u>
NET INCOME	<u>\$4,388</u>

TDX SYSTEMS, INC.

UNAUDITED BALANCE SHEETS, MARCH 31, 1984 AND 1983
(Dollars in Thousands)

ASSETS:	<u>March 31st</u>	
	<u>1984</u>	<u>1983</u>
CURRENT ASSETS:		
Cash and equivalents	\$ 125	\$ 275
Accounts receivable, net of allowance for doubtful accounts	11,348	7,430
Inventories	421	537
Prepaid expenses and other	<u>2,838</u>	<u>1,300</u>
Total current assets	14,732	9,542
	-----	-----
PROPERTY AND EQUIPMENT, at net book value		
Revenue equipment	13,006	6,676
Other equipment and improvements	<u>2,290</u>	<u>1,162</u>
Property and equipment, net	15,296	7,838
	-----	-----
OTHER ASSETS	<u>1,839</u>	<u>1,384</u>
Total Assets	<u>\$31,867</u>	<u>\$18,764</u>
 LIABILITIES AND SHAREHOLDERS' EQUITY:		
CURRENT LIABILITIES:		
Accounts payable	\$ 466	\$ 246
Accrued expenses and other current liabilities	<u>7,629</u>	<u>4,665</u>
Total Current Liabilities	8,095	4,911
	-----	-----
SHAREHOLDERS' INVESTMENT AND EQUITY:	<u>23,772</u>	<u>13,853</u>
Total Liabilities, Shareholders' Investment and Equity	<u>\$31,867</u>	<u>\$18,764</u>

ANAHEIM

300 S. Harbor Boulevard
Room LL-5
Anaheim, California 92805

ATLANTA

56 Marietta Street
Room 301
Atlanta, Georgia 30303

AUSTIN

1122 Colorado Street
Room 103
Austin, Texas 78701

BALTIMORE

501 St. Paul Place
Room 201
Baltimore, Maryland 21202

BOSTON

222 - 3rd Street
Cambridge, Massachusetts 02142

DISTRICT OF COLUMBIA

1405 "G" Street, N.W.
Room 703
Washington, D.C. 20005

LOS ANGELES

1150 S. Olive Street
Room T-S-23; SubBasement
Los Angeles, California 90015

LYNDHURST

1290 Wall Street West
Lyndhurst, New York 07071

NEW YORK BROADWAY

305 Broadway
Room 110
New York, New York 10007

NEW YORK PARK

225 Park Avenue
Room 301
New York, New York 10169

NORFOLK

Wainwright Building, 2nd Floor
229 West Bute Street
Suite 240
Norfolk, Virginia 23510

PHILADELPHIA

1103 Locust Street
Room 305
Philadelphia, Pennsylvania 19107

PITTSBURGH

Three Gateway Center
West Wing; Room 500
Pittsburgh, Pennsylvania 15222

RICHMOND

629 E. Main Street
Suite 204
Richmond, Virginia 23219

WORLD TRADE CENTER

Two World Trade Center
B1 Level, Suite 72
New York, New York 10048





MALI
DLEE

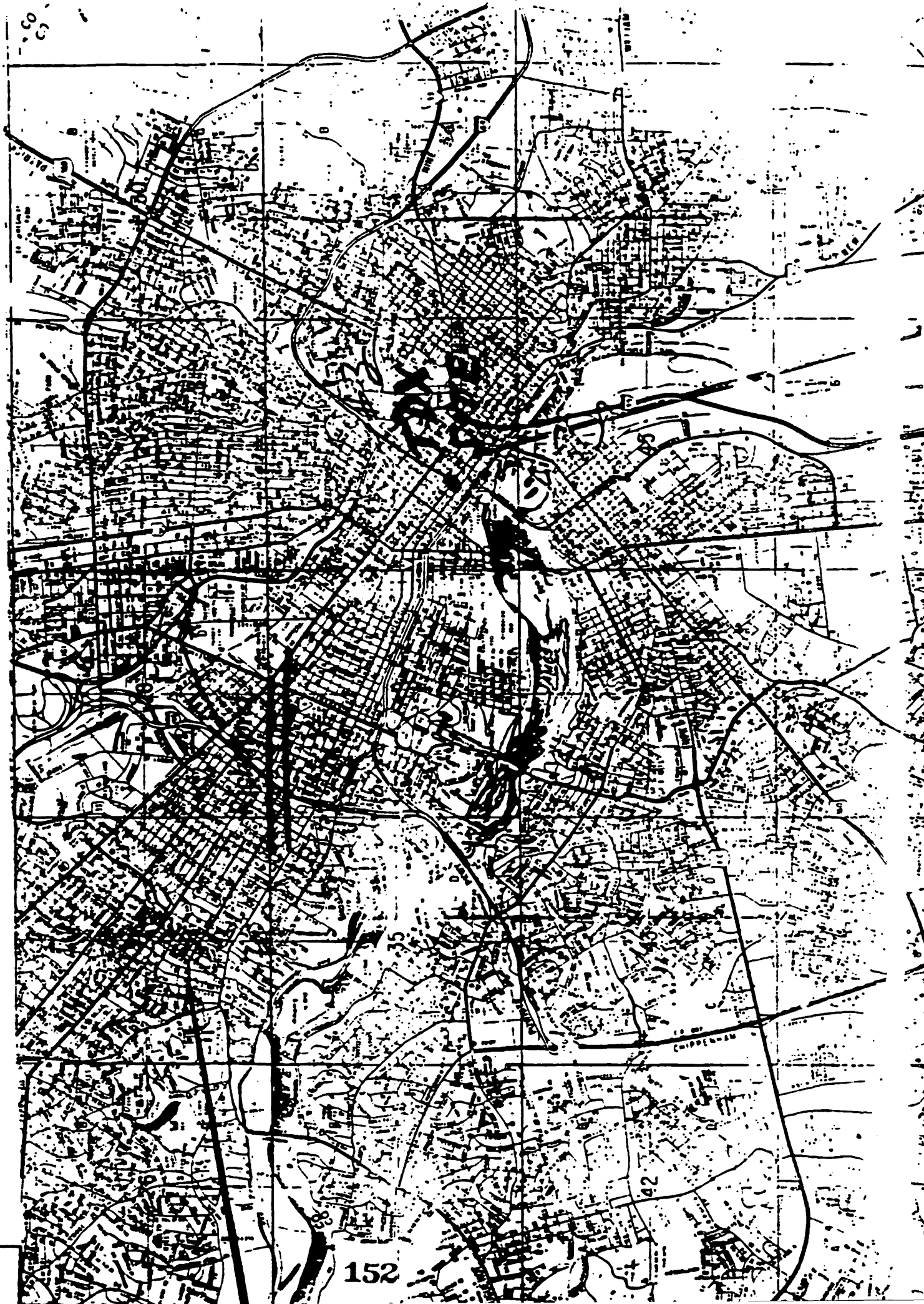
FOR

DESCRIPTION OF FACILITIES

TDX Systems, Inc. will have telecommunications facilities at three (3) physical locations within the State of Virginia by the end of August 1984. First, there is presently a switching site located at 629 E. Main Street, Richmond. Second, a similar switching site will be constructed during August of 1984 at 229 Bute Street, Norfolk. Third, a main computer site is located at the company's nationwide headquarters, 1920 Aline Avenue, Vienna.

At the switching sites at Richmond and Norfolk, TDX will employ a variety of telecommunications transmission facilities including local telephone company circuits, Wide Area Telephone Service (WATS), Foreign Exchange service (FX's), and data circuits which link the TDX switch to the host computer in Vienna.

At the headquarters location, TDX employs data circuits which interconnect to the nationwide switching network. Telephone service to these locations has been installed under the appropriate tariffs of existing common carriers such as C&P of Virginia and are subject to the limitations imposed by those tariffs.



TDX SYSTEMS, INC.

VIRGINIA P.S.C. TARIFF NO 1
ORIGINAL TITLE PAGE

TARIFF SCHEDULES
APPLICABLE TO
INTRASTATE TELECOMMUNICATIONS SERVICE
OF
TDX SYSTEMS, INC.

Issued: *Marvin C. Moses* July 6, 1984

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

CHECK SHEET

The Title Page and Pages 1 to 9 are effective as of the dates shown on each page.

<u>Page</u>	<u>Revision No.</u>
Title	Original
1	Original
2	Original
3	Original
4	Original
5	Original
6	Original
7	Original
8	Original
9	Original

Issued: *Marvin C. Moses*, JULY 6, 1984

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

A. Application of Tariff

1. This tariff applies to Intrastate/Interstate Telecommunication Services furnished by TDX Systems, Inc. (hereinafter "TDX") to customers in the Richmond and Norfolk Latas. Such services shall be referred to as Econo-Call Telecommunications Services or Econo-Call.
2. Econo-Call Telecommunication Services are furnished within Virginia in conjunction with TDX's Interstate Telecommunication Services originating and terminating in Virginia.

Issued: *Marvin C. Moses*, July 6, 1984

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22130

B. Econo-Call Coverage

1. General

Econo-Call coverage is divided into two categories for pricing purposes:
On-Net and Off-Net.

2. On-Net Coverage

Alexandria	McLean
Arlington	Newport News
Charlottesville	Norfolk
Falls Church	Petersburg
Fredericksburg	Portsmouth
Hampton	Richmond
Leesburg	Roanoke
Lynchburg	Vienna
Manassas	Virginia Beach

3. Off-Net Coverage

All InterLATA locations within Virginia not listed for On-Net Coverage.

Issued: *Marvin C. Moses, July 6, 1984*

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

C. Econo-Call Rates and Charges

1. Initiation/Set-Up Fee - non-refundable \$30 one-time charge.
2. Authorization Code Fee - \$10 monthly fee per account per authorization code. Customers using TDX's dedicated access facilities are assigned two access codes for a \$10 monthly fee.
3. Authorization Code Changes - \$25 one-time charge per change. This charge will not be assessed in situations where:
 - a. TDX requests a change for security reasons if TDX discovers an abuse in the monthly billing.
 - b. The user requests a change for security reasons and the user does not know the origin of the abuse.
4. Minimum Usage Charge - \$50 monthly

Issued: *Harvin C. Moses*, July 6, 1984

Effective: September 1, 1984

Issued by: Harvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

5. Usage Charges

Econo-Call prices are determined according to the following elements:

a. Flat Charge Per Minute

b. Origin and Termination of Call

(1) From Customer Location

(a) On-Net Cities

(b) Off-Net Locations

(2) Travel Feature From Other Locations throughout Virginia

c. Evening and Night/Weekend Discounts:

<u>Discount</u>	<u>Discount Period</u>	<u>Discount Off Day Time Rates</u>
Evening	Mon-Fri and Sun 6:00 pm to 11:00 pm	40%
Night/Weekend	Sun-Fri 11:00 pm to 8:00 am 8:00 am Sat thru 6:00 pm Sun	55%

Issued: *Marvin C. Moses*, July 6, 1984

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

6. Usage Rates

	<u>Per Minute Rate</u>
a) On-Net Calls	
o Area Code 703	.3275
o Area Code 804 ¹	.2525
b) Off-Net Calls	
o Area Code 703	.3602
o Area Code 804 ¹	.2777

7. Travel Feature

- a. Allows customer to call anywhere from anywhere in Virginia. A flat daytime per minute rate applies plus an \$.84 charge for each call. Standard Econo-Call time of day discounts apply. Daytime travel feature usage contributes to volume discount.

b. Rates:

	<u>Per Minute</u>
Non-Local Calling Area	\$.47 plus \$.34 per call

¹ From Richmond, VA: 804 Coverage in LATAS 252, 250, 928 ONLY
From Norfolk, VA: 804 Coverage in LATAS 248, 250, 928 ONLY

Issued: *Marvin C. Moses, July 6, 1984*

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22130

8. Volume Discount Service - An incremental volume discount is automatically applied to all daytime usage in excess of \$499 per month:

<u>Daytime Monthly Usage</u>	<u>Discount</u>
\$0 - \$499.99	Regular Econo-Call Usage Rate
\$500 - \$999.99	5 percent
\$1000 - \$2999.99	10 percent
Over \$3000	20 percent

Issued: *Marvin C. Moses, July 6, 1984*

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

D. Optional Services

1. Billing Variations

- a. Two Copy Call Detail - two copies of the call detail and summary report will be provided at a charge of \$10 per month per account.
- b. Magnetic Tape - the customer will be provided with a magnetic tape carrying the information contained in the call detail section of the monthly bill at a charge of \$100 per month, plus a \$100 one-time set-up fee. The tape will be mailed to the customer with the regular copy of the monthly bill.

2. Special Orders

- a. Multiple Authorization Codes for a single account will be provided for a charge of \$10 per month per each additional authorization code.
- b. Account Codes for allocating usage costs will be provided for a monthly fee of \$10 plus \$.50 per account code per month.
- c. Multiple accounts for a single company will be established at a charge of \$10 per month for each additional account. The company will be subject to a \$50 minimum usage charge for each such account.

Issue: *Marvin C. Moses, July 6, 1984*

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

D. Optional Services (Cont'd)

3. TDX Dedicated Services ("TDX Direct") - A customer using dedicated access facilities must either guarantee a minimum average monthly usage of \$600 per dedicated port or pay a \$50 per month charge for such access. The customer must select one but not both of these options. For customers guaranteeing a minimum usage of \$600 per month, volume discounts will apply only after their usage of dedicated and dial-up facilities has exceeded \$600.

Issued: *Marvin C. Moses, July 6, 1984*

Effective: September 1, 1984

Issued by: Marvin C. Moses
Vice President, Finance and Administration

TDX SYSTEMS, INC.
1920 Aline Avenue
Vienna, VA 22180

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

840710167

AT RICHMOND, JULY 9, 1984

JUL 10 8 35 AM '84
PETITION OFAT&T COMMUNICATIONS
OF VIRGINIA

CASE NO. PUC840023

For authority to set rates
and charges pursuant to
§56-481.1 of the Code of
Virginia

ORDER PRESCRIBING NOTICE
AND SETTING HEARING

On July 5, 1984, AT&T Communications of Virginia ("Applicant" or "Company") filed its petition for authority to set rates and charges pursuant to §56-481.1 of the Code of Virginia.

NOW, THE COMMISSION is of the opinion that the Company's petition should be docketed, that public notice of the petition should be given, and that a public hearing to consider the petition should be held; Accordingly,

IT IS ORDERED:

(1) That this case be docketed and assigned Case No. PUC840023.

(2) That a public hearing concerning the Company's petition be held, commencing on July 27, 1984 at 2:00 p.m. in the Commission's 13th Floor Courtroom, Jefferson Building, Bank and Governor Streets, Richmond, Virginia;

(3) That on or before July 20, 1984 any person who expects to present evidence, cross-examine witnesses, and otherwise participate in the hearing as a Protestant, as

provided by Rule 4:6 of the Commission's Rules of Practice and Procedure, file with the Commission an original and fifteen (15) copies of a Protest as required by Rule 5:16(b), and serve a copy thereof on counsel to the Company, Michael J. Morrissey, Esquire, AT&T Communications, 7611 Little River Turnpike, Suite 201, Annandale, Virginia 22003;

(4) That the Company make available a copy of its petition together with the exhibits to each Protestant requesting same;

(5) That the Company forthwith give notice to the public of its petition and the scheduled hearing by publishing as display advertising (not classified advertising) for one week, the following notice in newspapers having general circulation throughout the Commonwealth of Virginia:

**NOTICE TO THE PUBLIC OF
PETITION BY AT&T COMMUNICATIONS
OF VIRGINIA FOR AUTHORITY TO
SET ITS LONG DISTANCE RATES BY
COMPETITIVE FACTORS IN VIRGINIA**

On July 5, 1984, AT&T Communications of Virginia filed a petition with the Virginia State Corporation Commission for authority to set its long distance rates solely upon competitive factors.

The Virginia State Corporation Commission has scheduled a public hearing on AT&T's petition in its 13th Floor Courtroom, Jefferson Building, Bank and Governor Streets, Richmond, Virginia, commencing at 2:00 p.m. July 27, 1984. Copies of the petition are available for public inspection at AT&T's offices during normal business hours at Old City Hall, 1001 East Broad Street, Suite 120, Richmond, Virginia, at 7611 Little River Turnpike, Suite 201, Annandale, Virginia, at 136 West Bute Street, Norfolk, Virginia and in the Commission's Document Control Center located in Floor B-1 of the Jefferson Building, Richmond, Virginia, open Monday through Friday, 8:00 a.m. to 5:00 p.m.

On or before July 20, 1984 any person who expects to submit evidence and to cross-examine witnesses must file with the Commission an original and fifteen (15) copies of a Protest conforming to Rule 5:16(b) of the Commission's Rules of Practice and Procedure. A copy of this notice must be mailed to counsel for AT&T Communications of Virginia, Michael Morrissey, Esquire, 7611 Little River Turnpike, Suite 201, Annandale, Virginia 22003.

Any interested person not otherwise participating as a Protestant who desires to make a statement at the public hearing in his own behalf on the petition, need only be present in the Commission's Courtroom 15 minutes prior to the commencement of the hearing and inform the Commission's Bailiff that he wishes to testify. All persons desiring to testify will be heard as expeditiously as possible beginning at 2:00 p.m. or shortly thereafter. In lieu of attending the public hearing, public witnesses may choose to send their comments to the Commission in written form. Such comments must be received not later than July 20, 1984.

All written communications to the Commission regarding AT&T's petition should refer to Case No. PUC840023 and should be addressed to William C. Young, Clerk, Document Control Center P.O. Box 2118, Richmond, Virginia 23216.

**AT&T COMMUNICATIONS
OF VIRGINIA**

(6) That the Company forthwith give notice of its petition to each interexchange carrier, to each local exchange carrier, and to the Division of Consumer Counsel, Office of the Attorney General, by personal delivery, or by certified mail, return receipt requested to the customary place of business or residence of the person served;

(7) That on or before the July 27, 1984 hearing, applicant file proof of notice as described above.

ATTESTED COPIES hereof shall be sent to Michael J. Morrissey, Esquire, Attorney for Applicant, 7611 Little River Turnpike, Suite 201, Annandale, Virginia 22003; Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and to the Commission's Division of Communications, Accounting and Finance, and Economic Research and Development.

A True Copy

Teste:

A handwritten signature in cursive script, reading "William C. Young".

Clerk of State Corporation Commission

JUL 17 3 07 PM '84

BEFORE THE
STATE CORPORATION COMMISSION
OF VIRGINIA

In re the APPLICATION of)
United States Transmission Systems, Inc.)
for a Certificate of Public Convenience) CASE NO. PUC 840024
and Necessity)

PROTEST AND MOTION FOR
DELAY IN THE HEARING

In conformity with the Commission's July 10, 1984,
Order in this case, The Chesapeake and Potomac Telephone Company
of Virginia ("C&P") protests the Application of United States
Transmissions Systems, Inc. ("USTS") and, in support of this Pro-
test, states:

- (1) C&P is a Virginia Corporation certificated by this
Commission to provide telephone service within the
Commonwealth within local access and transport areas
("LATAs") designated under the terms of the Modifi-
cation of Final Judgment in U. S. v. AT&T, Civil
Action No. 82-0192 (D.D.C.). The address of C&P and
its counsel is 703 East Grace Street, Richmond,
Virginia 23219.
- (2) Under the provisions of the Rules adopted by this
Commission in Case No. PUC 840017 and of § 56-265.4:4
of the Code of Virginia, companies such as USTS
which seek to provide intrastate, interLATA ser-
vice must not offer intraLATA service and they
must either block such traffic from being carried

over their systems or compensate the local exchange company (e.g., C&P) for the revenues lost to the incidental intraLATA competition provided by the new entrant. A plan for blocking intraLATA calls or compensating the local exchange companies must be included in the new entrant's certification application.

- (3) As a local exchange company subject to unlawful intraLATA, interexchange competition, C&P's interest in this proceeding is to assure that intraLATA calls carried by USTS within C&P's LATAs are blocked or that compensation is made to C&P.
- (4) The Application of USTS does not comply with the Commission's rules. It does not contain the required "plan for either blocking or paying for such incidental [intraLATA] calling." Rule 2, Rules governing the Certification of InterLATA, Interexchange Carriers. Instead, USTS simply "proposes to negotiate with the local exchange companies to formulate a compensation plan...." Application, p. 5. A proposal of negotiations does not constitute a plan for compensation.^{1/}
- (5) The burden is upon the Applicant USTS to either block intraLATA calls or to compensate the local

^{1/} USTS's proposal to apply a negotiated compensation plan retroactively is not sufficient. "Negotiations" would likely be protracted since USTS, once having been granted its requested certificate, would have no incentive to negotiate promptly. Moreover, USTS's proposal of retroactivity ignores the time value of money. At a minimum retroactive amounts due C&P should bear interest at no less than C&P's authorized return.

exchange company for lost revenues. USTS states in its Application that it has records "pertinent to the measurement of incidental, intraLATA traffic...." Application, p. 5. Given this fact, USTS should have little difficulty in formulating a concrete plan for compensation which could then be subject to review by this Commission and any affected local exchange companies. For example, for incidental intraLATA calls within C&P's LATAs, USTS could simply re-rate the calls using C&P's tariffed toll schedule and remit on a monthly basis those revenues to C&P. Records used in performing these calculations should be maintained by USTS and should be subject to independent audit and verification.

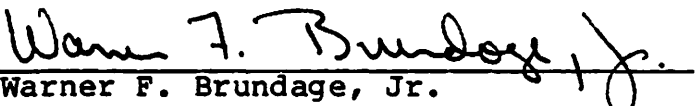
- (6) Because USTS's Application does not meet the requirements of Rule 2, it is insufficient. For that reason, normally, it should be rejected. C&P does not believe, however, that outright rejection is in the public's best interest. C&P believes that USTS provides intrastate service in Virginia today and has done so for a long time. Because of this fact, USTS should be paying C&P's intrastate access charges applicable to intrastate, interLATA business. USTS, however, is not paying intrastate access charges today. The sooner USTS is legally certificated to provide service in Virginia, the sooner C&P will be able to get USTS to willingly pay intrastate access charges.

Therefore, C&P does not request outright rejection of USTS's Application.^{2/}

- (7) C&P does request, however, that the hearing on the Application be postponed pending the receipt from USTS of an amended application containing a concrete plan for compensating local exchange companies for lost intraLATA, interexchange revenues. The Commission should require that this amended application be filed promptly and served upon all parties to the proceeding.

WHEREFORE, The Chesapeake and Potomac Telephone Company of Virginia respectfully requests that the hearing in this case be postponed pending the prompt filing by USTS of an Amended Application which fulfills the requirements of Rule 2 of the Commission's Certification Rules.

Respectfully submitted,


Warner F. Brundage, Jr.

Attorney for
The Chesapeake and Potomac
Telephone Company of Virginia

^{2/} In foregoing a request for rejection, C&P does not waive its claim against USTS for intrastate access charges owed since January 1, 1984.

BEFORE THE
STATE CORPORATION COMMISSION

JUL 18 3 56 PM '84 OF VIRGINIA

In re the APPLICATION and PETITION of)
MCI Telecommunications Corporation of Virginia) CASE NO. PUC 840022
for a Certificate to Operate as a Telephone)
Utility)

PROTEST AND MOTION FOR
DELAY IN THE HEARING

In conformity with the Commission's initial Order in this case, The Chesapeake and Potomac Telephone Company of Virginia ("C&P") protests the Application of MCI Telecommunications Corporation of Virginia ("MCI") and, in support of this Protest, states:

- (1) C&P is a Virginia Corporation certificated by this Commission to provide telephone service within the Commonwealth within local access and transport areas ("LATAs") designated under the terms of the Modification of Final Judgment in U. S. v. AT&T, Civil Action No. 82-0192 (D.D.C.). The address of C&P and its counsel is 703 East Grace Street, Richmond, Virginia 23219.
- (2) Under the provisions of the Rules adopted by this Commission in Case No. PUC 840017 and of § 56-265.4:4 of the Code of Virginia, companies such as MCI which seek to provide intrastate, interLATA service must not offer intraLATA service and they must either block such traffic from being carried over their systems or compensate the local exchange company (e.g., C&P) for the revenues lost

to the incidental intraLATA competition provided by the new entrant. A plan for blocking intraLATA calls or compensating the local exchange companies for the lost revenues must be included in the new entrant's certification application.

- (3) As a local exchange company subject to unlawful intraLATA competition, C&P's interest in this proceeding is to assure that intraLATA calls carried by MCI within C&P's LATAs are blocked or that compensation is made to C&P.
- (4) The Application of MCI does not comply with the Commission's rules. It does not contain the required "plan for either blocking or paying for such incidental [intraLATA] calling." Rule 2, Rules governing the Certification of InterLATA, Interexchange Carriers. Instead, MCI promises to try to dissuade its customers from making intraLATA calls but states that it will not block all intraLATA calling. Application, p. 6. And instead of proposing a plan to compensate C&P for toll revenues lost because of so-called "incidental" intraLATA calls, MCI promises to pay access charges. Application, p. 7. A promise to pay access charges is not the same as compensating local exchange companies for lost toll revenues.^{1/}

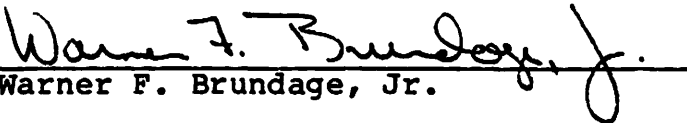
^{1/} If C&P loses intraLATA toll business to a competing carrier, its costs will remain virtually the same because its plant and investment will remain unchanged. C&P's revenues, however, would decrease significantly. Access charges equate to less revenue per minute than C&P's average per minute revenue from toll calls. Therefore, for every minute of long distance business which C&P loses to its competitors, C&P would lose revenue.

- (5) The burden is upon the Applicant MCI to propose a plan to either block intraLATA calls or to compensate the local exchange company for lost toll revenues. Because MCI's Application does not meet the requirements of Rule 2, it is insufficient. C&P does not believe, however, that outright rejection of the Application is in the public's best interest. C&P believes that MCI provides intrastate service in Virginia today and has done so for a long time. Because of this fact, MCI should be paying C&P's intrastate access charges applicable to intrastate, inter-LATA business. MCI, however, is not paying those access charges today. The sooner MCI is legally certificated to provide intrastate service in Virginia, the sooner C&P will be able to get MCI to stop ignoring its lawful obligation and to willingly pay intrastate access charges. Therefore, C&P does not request outright rejection of MCI's Application.^{2/}
- (6) C&P does request, however, that the hearing on the Application be postponed pending the receipt from MCI of an amended application containing a concrete plan for compensating local exchange companies for lost intraLATA, interexchange revenues. The Commission should require that this amended application be filed promptly and served upon all parties to the proceeding.

^{2/} In foregoing a request for rejection, C&P does not waive its claims against MCI for intrastate access charges owed since January 1, 1984.

WHEREFORE, The Chesapeake and Potomac Telephone Company of Virginia respectfully requests that the hearing in this case be postponed pending the prompt filing by MCI of an Amended Application which fulfills the requirements of Rule 2 of the Commission's Certification Rules.

Respectfully submitted,


Warner F. Brundage, Jr.

Attorney for
The Chesapeake and Potomac
Telephone Company of Virginia

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

Petition of)	
)	
AT&T COMMUNICATIONS OF VIRGINIA)	Case No. PUC840023
)	
For authority to set rates and)	
charges pursuant to § 56-481.1)	
of the Code of Virginia)	

MOTION FOR CONTINUANCE

The Division of Consumer Counsel, Office of the Attorney General (Division) moves for a continuance in this case and states:

(1) On Thursday, July 5, 1984, AT&T Communications of Virginia, Inc. (AT&T) filed a Petition to set rates pursuant to § 56-481.1 of the Code of Virginia. On Monday, July 9, 1984 the Commission issued an order scheduling a public hearing on the Petition and requiring opposing parties to prepare their cases and file them on or before July 20, 1984. Thus, opposing parties had 15 days from the filing of the Petition and 11 days from the Commission's order to prepare for the case.

(2) The schedule set forth in the Commission's order of July 9, 1984 is inadequate for preparation by the Division.

Insufficient time is permitted to engage experts, conduct discovery and prepare testimony.¹

(3) Under § 56-481.1 the Commission may permit interexchange carriers, such as AT&T, to set rates based on competitive factors provided such competitive rates are nondiscriminatory and in the public interest. Further, the section states:

In making such determination, the Commission may² consider (i) the number of companies providing the service; (ii) the geographic availability of the service from other companies; (iii) the quality of service available from other companies; and (iv) any other factors the Commission considers relevant to the public interest.

The required determination can only be made after an evidentiary hearing because factual presentations on the factors enumerated in the statute are necessary.

(4) AT&T alleges that it will provide no monopoly services in Virginia (Petition, paragraph 5). This cannot be taken as a statement that AT&T will have active competitors in all segments

¹The Commission's order schedules the hearing before the time responses to interrogatories would be due. As a result, under Rule 6:4 the order effectively prohibits service of interrogatories on AT&T without leave of the Commission. Time will be consumed to obtain Commission approval before interrogatories may be served.

²Rule 9 of the Commission's regulations adopted under § 56-481.1 states in part:

The Commission shall consider the criteria set out in § 56-481.1 in making any determination that inter-LATA, inter-exchange telecommunication service will be provided on a competitive basis.

Thus, the Rule requires mandatory consideration of the factors enumerated in § 56-481.1.

of the Commonwealth. On information and belief, other interexchange carriers will not serve, and perhaps will not be able to serve, portions of Virginia for some time. AT&T should be put to its proof that its rates will be nondiscriminatory and otherwise in the public interest in areas where no other company provides service, particularly in light of the factors stated in § 56-481.1.

(5) Section 56-481.1 does not permit the Commission to assume that competition will exist merely because there is more than one applicant for a certificate of public convenience and necessity under it. It requires a determination on the record that competition will exist and competitive rates will be in the public interest. The decision cannot properly rest on AT&T's unsupported allegation that competition will exist throughout its service territory because some competitors have applied to provide service in part of it. Unless a continuance is granted, the Commission's decision on the merits will be without evidentiary support contrary to the intent of § 56-481.1, and interested parties will be denied a fair opportunity to present evidence and be heard.

WHEREFORE, the Division requests that the hearing in this case be continued for 90 days in order for interested parties to prepare.

Respectfully submitted,

DIVISION OF CONSUMER COUNSEL
OFFICE OF THE ATTORNEY GENERAL


Anthony Gambardella

Gerald L. Baliles
Attorney General

Anthony Gambardella
Sr. Assistant Attorney General

101 North Eighth Street
Richmond, Virginia 23219

CERTIFICATE

I hereby certify that copies of the foregoing Motion for Continuance have been mailed or delivered this 12th day of July, 1984 to Michael J. Morrissey, Esquire, 7611 Little River Turnpike, Annandale, Virginia 22003, and Robert Gillespie, Esquire, P.O. Box 1197, Richmond, Virginia 23209.

Anthony Gambardella

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

PROTEST OF MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

Comes now the MCI Telecommunications Corporation of Virginia ("MCIV"), by counsel, and, pursuant to Rule 5:16(b) of the Commission's Rules of Practice and Procedures and the Commission's Order dated July 9, 1984, herein, hereby files its Protest as a party to this proceeding.

1. MCIV is incorporated to do business in the Commonwealth of Virginia as a public service company and was so incorporated on May 17, 1984.

2. MCIV is vitally interested in the outcome of this proceeding. MCIV's interest in this proceeding is based on the following:

(a) MCI is presently competing with AT&T for interstate long-distance service in Virginia; and

(b) MCIV has applied for certification to provide interLATA, interexchange service in Virginia and will compete with AT&T-CV for intrastate long-distance service in Virginia.

3. The facts which this protestant is prepared to prove by competent evidence and which will warrant the relief sought are as follows:

(a) AT&T-CV can not, at this time or in the near future, provide interexchange service in the Commonwealth on a competitive basis;

(b) at this time and for the near future, AT&T-CV is and will be the only company capable of providing interLATA, interexchange service in many geographic areas of the Commonwealth;

(c) at this time and for the near future, AT&T-CV is and will be the only company capable of providing interexchange service in all geographic areas of the Commonwealth;

(d) at this time and for the foreseeable future, AT&T-CV is and will be the only company capable of providing

direct dial ("dial-1") interLATA, interexchange service in all geographic areas of the Commonwealth; and

(e) at this time, it is not in the public interest to exempt AT&T-CV from the provisions of Chapter 10 of Title 56 of the Code of Virginia and from other regulation, pursuant to §56-481.1.

4. The specific relief sought by this protestant is:

(a) a determination by the Commission that AT&T-CV cannot now or in the near future provide interexchange service in the Commonwealth on a competitive basis;

(b) a determination that exempting AT&T-CV from rate regulation at this time is not in the public interest; and

(c) a denial of AT&T-CV's Petition.

5. The address of MCIV is: MCI Telecommunications Corporation of Virginia, 1133 19th Street, N.W., Washington, D.C. 20036.

6. Counsel for MCIV are William F. Marmon, Jr., MCI Telecommunications of Virginia, 1133 19th Street, N.W., Washington, D.C. 20036 and Hullihen Williams Moore and Louis R.

Monacell of Christian, Barton, Epps, Brent & Chappell, 1200
Mutual Building, Richmond, Virginia 23219.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



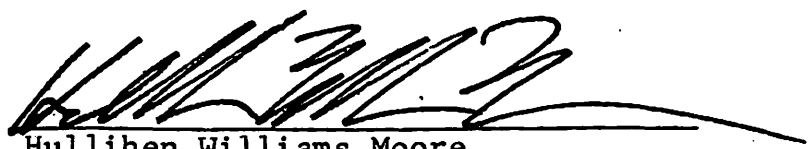
By: H. Williams Moore
Louis R. Monacell
CHRISTIAN, BARTON, EPPS, BRENT
& CHAPPELL
1200 Mutual Building
Richmond, Virginia 23219

William F. Marmon, Jr.
MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA
1133 19th Street, N.W.
Washington, D.C. 20036

Its Attorneys

C E R T I F I C A T E

I hereby certify that a true copy of the foregoing was
mailed, postage prepaid, to all parties of record; the Division
of Consumer Counsel, Office of the Attorney General, 101 North
8th Street, 5th Floor, Richmond, Virginia 23219; and to the
Commission's Divisions of Communications, Accounting and Finance,
and Economic Research and Development, this 18th day of July,
1984.



H. Williams Moore

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

MOTION OF MCI TELECOMMUNICATIONS CORPORATION OF VIRGINIA
TO CONTINUE SUBSTANTIVE HEARING

Comes now MCI Telecommunications Corporation of Virginia ("MCIV"), by counsel, and, moves the Commission to continue the substantive hearing now set for July 27, 1984, and to require prefiled testimony by all parties. Granting the motion will provide all parties and the Commission Staff an opportunity for discovery, receipt of special reports from local exchange telephone companies and the prefiling of testimony prior to the hearing date. MCIV requests that the hearing scheduled for 2:00 p.m., July 27, 1984, be used as a pre-trial scheduling conference.

In support of its Motion, MCIV states:

1. That MCIV has filed a Protest in this case as required by Rule 5:16(b) of the Commission's Rules of Practice


and Procedure and the Commission's Order dated July 9, 1984, herein.

2. That the Motion is fully supported by the Memorandum in Support of Motion of MCI Telecommunications Corporation of Virginia to Continue Substantive Hearing, filed simultaneously with this Motion.

WHEREFORE, MCIV respectfully requests that the Commission continue the substantive hearing in this matter as requested and that the July 27, 1984, hearing time be used as a pre-trial conference in this case.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



By: Hulliher Williams Moore
Louis R. Monacell
CHRISTIAN, BARTON, EPPS, BRENT
& CHAPPELL
1200 Mutual Building
Richmond, Virginia 23219

William F. Marmon, Jr.
MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA
1133 19th Street, N.W.
Washington, D.C. 20036

Its Attorneys

C E R T I F I C A T E

I hereby certify that a true copy of the foregoing was mailed, postage prepaid, to all parties of record; the Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and to the Commission's Divisions of Communications, Accounting and Finance, and Economic Research and Development, this 18th day of July, 1984.



Hullihen Williams Moore

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

MEMORANDUM IN SUPPORT OF MOTION
OF MCI TELECOMMUNICATIONS CORPORATION OF VIRGINIA
TO CONTINUE SUBSTANTIVE HEARING

I

INTRODUCTION

On July 5, 1984, AT&T Communications of Virginia ("AT&T-CV") petitioned this Commission pursuant to §56-481.1 of the Code of Virginia for exemption "from the provisions of Chapter 10 of Title 56 of the Code of Virginia and from any other regulation which is inconsistent with the competitive provisions of telecommunication services within the Commonwealth." On July 9, 1984, the Commission directed that a hearing on the Petition be held at 2:00 p.m., July 27, 1984. The Order provided for no pre-filing of testimony by any party nor for a report by the Staff of the Commission. Interested parties thus have no opportunity to prepare meaningful rebuttal or cross-examination since they have

no knowledge of what support AT&T-CV will provide for its Petition. Under the present schedule interrogatories are not possible in the normal course.¹

MCI Telecommunications Corporation of Virginia ("MCIV" or "MCI") does not oppose the eventual deregulation of AT&T-CV as competition becomes a reality in interexchange toll markets. However, immediate and complete deregulation of AT&T in Virginia is premature. We believe that evidence will show that the unavailability of equal access for AT&T's competitors, the capacity restraints facing those competitors, and AT&T's large market share will prevent equal competition for several years. Premature deregulation before meaningful competition develops will expose Virginia consumers to the threat of excessive price increases, price discrimination and illegal cross subsidization of services by AT&T. Even in the interstate market where MCI and other OCC's have been competing for nearly ten years, these dangers require that deregulation of AT&T be accomplished in a phased manner and with caution.

MCIV has moved the Commission to continue the substantive hearing to a future date and to require the prefiling of

¹The Commission Order setting the hearing was entered on July 9, 1984 with the hearing scheduled for July 27, 1984. Since there were less than 21 days before the hearing, interrogatories could not be served without leave of the Commission under Commission Rule 6:4.

testimony so that an adequate record may be established to permit proper consideration of a question with significant impact on the Commonwealth and important precedential ramifications for telecommunications policy in other states and at the federal level as well. MCIV urges the Commission to use the July 27, 1984, date for a pre-hearing conference only and then to institute a schedule for the prefiling of testimony, discovery and submission of reports that will permit the careful examination that the issue of the deregulation of the rates of AT&T-CV deserves and demands.

II

THE SUBSTANTIVE HEARING ON THE PETITION SHOULD BE CONTINUED

Section 56-481.1, which became effective July 1, 1984, authorizes the Commission to exempt from rate regulation the rates for a particular telephone company's service "if it is determined that such service will be provided on a competitive basis" The rates approved are to be "appropriate for the telephone company furnishing the competitive service, provided that such rates, charges and regulations are non-discriminatory and in the public interest." It is clear that the Commission's determination must be made on a company by company basis. Just because one company may be allowed to offer services on an unregulated, competitive basis does not mean that all carriers are

subject to such a degree of competition that regulation of their operations is no longer necessary.

The statute specifically recognizes this fact in the last sentence of the section that requires the Commission's rules and regulations for deregulation apply not to all telephone companies, but to "all telephone companies that are subject to the provisions of this section." Clearly then, there can be telephone companies not "subject to" the provisions of the section. Thus, the Commission must decide whether AT&T-CV will be providing its services "on a competitive basis" before it can exempt it at this time.

In making this determination, the Commission has decided that it will consider at least three specific factors:²

- (i) The number of companies providing the service;
- (ii) The geographic availability of the service from other companies; and
- (iii) The quality of service available from other companies.

The statute also states that the Commission may consider "any other factors the Commission considers relevant to the public interest." § 56-481.1(iv). As to the first three fac-

²Va. Code Ann., § 56-481.1 provides that the Commission may consider these factors, and the Commission in its Final Order dated June 29, 1984, in Case No. PUC840017 determined that it would consider the listed factors.

tors, as of today only one company, AT&T-CV, is offering and providing interLATA long-distance service within Virginia.³ Thus, when the Commission is faced with the application of a new entrant the answers to the statutory factors are obvious. Any new entrant seeking to compete with AT&T-CV has no option but to price in a competitive fashion.

The evaluation of the statutory factors is not as simple in the case of AT&T-CV. With respect to "other companies": How many will there be? In what geographic areas will their services be available? What will be the nature of the services they offer? Will the quality and availability of their services make them truly competitive with AT&T? Finally, and most important, will the presence of other companies effectively displace the monopoly power historically enjoyed by AT&T-CV and the Bell system? And, will it not require more than the entry of a few competitors in a few communities before the Commission can establish that AT&T-CV is controlled by competition?

Crucial to a determination of these issues are the questions of "equal access" and "non-equal access". Equal access was ordered in AT&T divestiture and will begin to be implemented in Virginia for a small number of customers in Norfolk on

³MCIV and others have applied for authority to do so, but to date the Commission has not acted on these applications, nor has the scope, geographical availability or quality of such service been determined.

September 1. However, the equal access process will be slow and imperfect, and its actual impact on competitive conditions is unproven. To what extent will it be implemented in Virginia? If there are significant numbers of Virginia customers who will not be provided equal access, will they have competitive options and will competitive forces effectively replace regulatory safeguards?

These questions and others must be answered before the Commission can determine whether AT&T-CV should be deregulated, and if so, to what extent. A similar proceeding at the Federal Communications Commission ("FCC") has produced a substantial and informative record since it was initiated last November. Notice of Inquiry, Long-Run Regulation of AT&T's Basic Domestic Interstate Services, CC-Doc. No. 83-1147, 46 FR 51340 (November 6, 1983).

The questions before this Commission with respect to the deregulation of AT&T-CV cannot be answered without a full investigation and without an opportunity for all parties and the Commission Staff to gather information and to present it to the Commission in an orderly fashion. This can be accomplished only if the substantive hearing is rescheduled to a future date with ample time for discovery and the receipt of special reports such as those requested by MCIV in a separate motion in this proceeding

and prefiled testimony.. The issue of the deregulation of AT&T-CV, a momentous question for telecommunications policy in this State, should not be decided without an adequate record.

III

POTENTIAL EVIDENCE

In its Petition for deregulation, AT&T-CV asserts: "AT&T will provide no monopoly services in Virginia. Each of its services is subject to competition from other carriers to be certified by this Commission". Petition at p. 5. MCIV submits -- in support of its Motion to schedule a full hearing on this matter -- that discovery, Staff investigation and prefiled testimony would show that AT&T-CV's claim is incorrect, and will likely continue to be so for some time to come. MCI believes that the evidence will show that for some services, like 800 (in-WATS) and toll operator service, AT&T holds an absolute monopoly and that in other services, like MTS, AT&T will enjoy substantial market power for many years.

Part A of this section explains why MCI believes that equal access will not be available throughout the State for years. MCI believes that the evidence will show that even by late 1986 over 800,000 lines (30% of those in the State) will not have been converted, and there will be no promise of conversion

in the future for most of these lines. This section further outlines why equal access alone may not ensure competition because of other obstacles to competition and barriers to entry faced by the other common carriers (OCCs).

Part B of this section describes what MCI believes the evidence will show with respect to areas where equal access is not available. The section explains that unequal access is not off-set by the lower access charges paid by the OCCs and that there is no competition at all for rotary dial customers -- fully 50% of the telephones in Virginia today -- in non-equal access areas. Such customers will remain captive customers of AT&T-CV for years.

A. The Limits of Equal Access

Meaningful competition cannot begin to develop until equal access is in place throughout the Commonwealth. Although equal access will make competition possible, it does not ensure competition, and rate regulation of a carrier with market power should not be removed until equal access is sufficiently implemented to permit meaningful competition that results in the reduction of that market power sufficient to protect consumers. The Commission should determine in the AT&T-CV hearing:

- (1) Where, when and to what extent equal access will be available in Virginia;

- (2) Whether equal access will ensure effective competition in areas where it is available; and
- (3) Whether other barriers to entry limit the ability of competing firms to constrain the market power of AT&T-CV.

MCI believes that the evidence will show that equal access throughout the State will not be a reality for many years. There are approximately 2.6 million lines in Virginia with approximately 2 million of these being provided by C & P Telephone Company.⁴ As of September, 1984, only two end offices in the State or approximately 45,000 lines or less than 2% of the total will have equal access available.

It is important to note that in Virginia only C & P has end offices that are required to be converted to equal access by Judge Greene's Order in the AT&T anti-trust case. MCI believes that the evidence will show that there are no firm plans for any substantial conversion to equal access by the non-C & P companies.

According to data from the Bell Atlantic Telephone Companies Equal Access Compliance Plan dated June 22, 1984, by September of 1985, C & P will have converted less than 55% of its lines. By that date only approximately 40% of the total lines in

⁴According to the Comments of the Virginia Exchange Carrier Association in Case No. PUC840017, the twenty smaller companies provide approximately 582,000 lines.

the Commonwealth will have been converted. This will mean that there will be approximately 1.5 million lines without equal access.

In September of 1986, C & P plans essentially to have completed its equal access conversion as directed by Judge Greene. Any lines unconverted at that time would likely be claimed exempt so that they may never be converted -- or converted only at some distant time. By September of 1986, C & P will have converted almost 90% of its lines, but there will still be over 250,000 C & P lines unconverted.⁵ In addition, the 582,000 non-C & P lines will still not be converted to equal access.

MCI believes that the evidence will show that even two years from now, in September, 1986, less than 70% of the lines in Virginia will have been converted and that over 800,000 lines will not have equal access available.

Even in areas where equal access is a reality, competition will not be automatic and may not provide a viable substitute for regulation for some time. MCI believes that the evidence will show that even with equal access AT&T-CV will still have the vast majority of the market in Virginia and overwhelming

⁵See Bell Atlantic Telephone Companies Equal Access Compliance Plan dated June 22, 1984.

market power which allows a firm to maintain prices above competitive levels.⁶

Market power gives an unregulated company both the ability and the incentive to extract monopoly prices from its customers and to use its monopoly position to cross-subsidize its competitive services out of revenues from its monopoly-based services. The evidence will show that AT&T-CV will have market power that will not disintegrate immediately even with the advent of competition.

Significant barriers to entry and exit will also inhibit competition even where equal access exists. If, for example, AT&T-CV raised its prices significantly in a part of the State not currently served by an OCC, thus inviting competitive entry, an OCC would still face significant entry problems as well as the threat of a painful exit if its entry did not succeed. Significant expense in terms of plant and equipment are required for a facilities-based OCC to enter an area. While MCI has grown to acquire close to 2.5% of the intercity market nationwide, its network expansion has required enormous capital expenditures nationwide:

⁶In the interstate market where the OCCs have been allowed to compete, AT&T received in 1983 over 90% of the gross interstate revenues with its closest competitor, MCI, at only 2.5%. See Comments of the United States Department of Justice in the Matter of Long-Run Regulation of AT&T's Basic Domestic Interstate Services, CC-Doc. 83-1147, filed April 2, 1984, at p. 16; and Comments of MCI Telecommunications Corporation in the same proceeding at pp. 8-9.

MCI's Capital Investment Per Year
(Year ending March 31)

<u>Year</u>	<u>Amount (in millions)</u>
1984	\$889
1983	623
1982	271
1981	155
1980	110
1979	53
1978	22

Furthermore, AT&T's monopoly long-distance service for much of the last century has created a "brand preference" that will take time and money to penetrate. Accordingly, MCI must spend much more on advertising per customer than AT&T-CV and, regardless of how much it spends, will, under the most optimistic projections, increase market share only gradually.

The Commission must consider the limited ability of competing firms to expand capacity even if they were in a position to attract significant intrastate business. The AT&T Petition claims that "MCI-V . . . and other carriers who are expected to file applications to provide interexchange telecommunication service . . . will have a full array of price/quality options from which to choose". Petition at p. 2. This assertion ignores the capacity constraints facing AT&T-CV's competitors. The Commission must answer the question: If AT&T were to double its rates, how many dissatisfied customers could switch to the other

carriers before their capacity and the ability to expand that capacity was saturated? Interstate services currently are provided by MCI in Virginia through the use of lines leased from AT&T and MCI-owned switch and terminal facilities outside the State. MCI is constructing its own facilities in Virginia. The expansion of capacity is, however, time-consuming and expensive. The erection of a new terrestrial microwave route requires the acquisition of sites and right-of-ways as well as the installation and construction of towers, terminals, switches, radios and multiplex equipment. The U.S. Justice Department has stated recently: "There is serious doubt . . . that they [OCCs] have sufficient capacity at present to increase output in response to price increases at a level that represents a check on AT&T's market power."⁷

Another factor that inhibits competitive entry relates to an unsuccessful competitor's cost of exiting the telecommunications market. While low exit barriers provide strong incentive for entry in markets subject to monopoly prices, the experience of Data Transmission Company (Datran), shows that the costs of exiting the telecommunications market may be painfully high. In the early 1970's, Datran attempted to enter the market

⁷ Comments of the U.S. Dept. of Justice, In the Matter of Long-Run Regulation of AT&T's Basic Domestic Interstate Services, CC-Doc. No. 83-1147, at p. 17.

for intercity switched digital service. Datran constructed a microwave route from Houston to Chicago and owned a digital switch in Chicago. After a bankruptcy proceeding, these facilities were auctioned off at a small fraction of the original investment.⁸ This real-world experience would indicate that AT&T is hardly vulnerable to "hit-and-run" entry and exit.

The evidence will show, MCI believes, that there is little reason to expect that AT&T will lose its market dominance for a period of years even in areas where equal access will exist.

B. Non-Equal Access Areas

In areas where equal access does not exist, the evidence will show that meaningful competition with AT&T-CV will not exist and that regulation must continue to prevent monopoly power abuses. The United States Justice Department agrees: "The nonavailability of equal access in a significant number of exchanges will . . . impose constraints on the effectiveness of the OCC's as competitors for the next few years."⁹

The form of interconnection with the local exchange companies, created by AT&T when it held a totally integrated mono-

⁸ See The Washington Post, at D7 March 11, 1980.

⁹ Comments of the United States Department of Justice, In the Matter of Long-Run Regulation of AT&T's Basic Domestic Interstate Services, CC-Doc. 83-1147, filed April 2, 1984, at p. 19.

poly over all telephone services -- local and long-distance -- provides it with benefits and lower costs in a number of ways compared to the costs incurred by OCCs and resellers. These cost benefits are not offset by the lower access charge the OCCs pay for their inferior interconnections.¹⁰

The interconnection provided to AT&T provides it with automatic number identification and answer supervision neither of which is available to the OCCs. The absence of automatic number identification (which identifies to the local exchange the number of the calling telephone) and the fact that MCI must connect to the line-side of the local exchange switch, forces the OCC customers to dial 12 to 14 extra digits in order to place a call, a fact that creates additional expenses in billing and collections for MCI. To place a long-distance call over an OCC it is necessary first to dial a local number to connect with the OCC. Then a five- or seven-digit personal identification number must be entered. Finally the ten-digit long-distance number may be dialed.

The absence of answer supervision on the OCC line means that the OCC does not know electronically when the telephone of

¹⁰ Moreover, the access charge differential between the premium access accorded to AT&T and the inferior access given to others in Virginia is substantially less than the differential set by the FCC for interstate access charges.

the called party has been answered. Expensive acoustic monitoring devices and software modifications are necessary to attempt to replicate the missing electronic answer supervision. These devices are not always successful, and customers are occasionally billed for calls they did not complete and not billed for calls actually completed.

AT&T needs to spend less on other equipment required by the OCCs such as echo suppressors, needed by the OCCs to mitigate some of the negative consequences of their inferior interconnections.

Finally the OCCs are effectively excluded from serving customers who have rotary dial telephone instruments. MCI believes that approximately 50% of the telephones in Virginia are rotary dial. If 50% of the 800,000+ non-equal access lines in 1986 are rotary dial, there will be over 400,000 lines with no alternative to AT&T-CV unless they convert their rotary dial phones to touch-tone (providing that the end office has touch-tone service available). To convert from rotary dial to touch-tone, a customer must first buy a touch-tone phone. He must then pay a one-time charge to the local exchange company that ranges from zero to \$22.00.¹¹ The customer served by a rotary dial line must also pay a monthly service charge for touch-tone service ranging

¹¹ C&P charges \$10.80 to residential customers and \$18.50 to business customers.

from \$.25 to \$17.00.¹² None of this expense is required for the AT&T-CV customer with rotary dial service.

The premium interconnections of AT&T-CV give it a monopoly on the offering of both long-distance operator services and the 800 (in-WATS) service.

AT&T recognizes its advantages and exploits them in its advertising to customers. Cliff Robertson's question in AT&T's TV ads asking what long-distance service would be without operators, and AT&T's legitimate pride in the ubiquity of its service indicate that AT&T believes a large segment of the public feels that the unique aspects of AT&T's service are valuable.

IV

CONCLUSION

MCI does not oppose the eventual deregulation of AT&T, and, in fact, has suggested in its Comments to the FCC that there are Federal regulatory burdens which could be lifted today.¹³ MCI does, however, oppose the deregulation of AT&T in Virginia

¹²C&P charges \$1.25 to residential customers and \$2.50 to business customers.

¹³Comments of MCI Telecommunications Corporation, In the Matter of Long-Run Regulation of AT&T's Basic Domestic Interstate Services, CC Doc. 83-1137, filed April 2, 1984, at pp. 18-25.

without the Commission's having an opportunity to complete a full evidentiary hearing. After MCI and others are allowed to compete, and equal access has become a reality, there may be true competition in Virginia. In such a case, deregulation of AT&T-CV could well be appropriate. Even before full competition becomes a reality, there may be ways in which the Commission can lessen its regulation of AT&T without harming the public interest. First, however, the Commission must have a full hearing to determine when, where and under what circumstances equal access will be implemented in the intrastate long-distance market in Virginia. Only then can the Commission discharge its duties to protect the public interest. Accordingly, the substantive hearing on AT&T-CV's Petition should be continued, and the July 27, 1984 hearing should be utilized as a pre-hearing conference.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



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William F. Marmon, Jr.
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1133 19th Street, N.W.
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Its Attorneys

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

MOTION OF MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA FOR AN ORDER REQUIRING SPECIAL REPORTS

Comes now MCI Telecommunications Corporation of Virginia ("MCIV"), by counsel, and moves the Commission to require each local exchange telephone company and cooperative in the Commonwealth to file a special report concerning their business pursuant to §56-36 of the Code of Virginia.

In support of its Motion, MCIV states:

1. That MCIV has filed a Protest in this case as required by Rule 5:16(b) of the Commission's Rules of Practice and Procedure and the Commission's Order dated July 9, 1984, herein.

2. That in order for the Commission to determine whether the rates of AT&T Communications of Virginia should be deregulated, the Commission needs to determine whether, when, and to what extent equal access is and will be available in various geographic areas of the State, to determine the number of rotary dial lines and instruments that are and will be in use in Virginia, and to have information concerning end offices and connections between local exchange companies and AT&T Communications of Virginia.

3. That in order for the Commission to determine whether, when, and to what extent equal access is and will be available in various geographic areas of the State, it needs a specific report from each local exchange telephone company and cooperative in the Commonwealth.

4. That in order to determine the number of rotary dial lines and rotary dial instruments which are and will be in use in the Commonwealth, the Commission needs a specific report from each local exchange telephone company and cooperative in the Commonwealth.

5. That in order to obtain information concerning end offices and connections between local exchange companies and AT&T Communications of Virginia, the Commission needs a specific report from each local exchange telephone company and cooperative in the Commonwealth.

6. That each local exchange telephone company and cooperative in the Commonwealth should be directed by the Commission to file a special report pursuant to §56-36 of the Code of Virginia stating the following:

A. Total number of its end offices.

- i) Total number of end offices existing at this time.
- ii) Total number of end offices estimated to be in existence on September 1, 1985.
- iii) Total number of end offices estimated to be in existence on September 1, 1986.
- iv) Total number of end offices estimated to be in existence on January 1, 1988.

B. Total number of its lines.

- i) Total number of lines provided at this time.
- ii) Total number of lines estimated to be provided on September 1, 1985.
- iii) Total number of lines estimated to be provided on September 1, 1986.

- iv) Total number of lines estimated to be provided on January 1, 1988.

C. Total number of its equal access lines.

- i) Total number of equal access lines provided at this time.
- ii) Total number of equal access lines estimated to be provided on September 1, 1985.
- iii) Total number of equal access lines estimated to be provided on September 1, 1986.
- iv) Total number of equal access lines estimated to be provided on January 1, 1988.

D. Total number of its non-equal access lines that are rotary dial lines.

- i) Total number of non-equal access rotary dial lines provided at this time.
- ii) Total number of non-equal access rotary dial lines estimated to be provided on September 1, 1985.

iii) Total number of non-equal access rotary dial lines estimated to be provided on September 1, 1986.

iv) Total number of non-equal access rotary dial lines estimated to be provided on January 1, 1988.

E. Total number of telephones in its service territory.

i) Total number of telephones in use in its service area at this time.

ii) Total number of telephones estimated to be in use in its service area on September 1, 1985.

iii) Total number of telephones estimated to be in use in its service area on September 1, 1986.

iv) Total number of telephones estimated to be in use in its service area on January 1, 1988.

F. Total number of rotary dial telephones in its service territory.

i) Total number of rotary dial telephones in use in its service area at this time.

- ii) Total number of rotary dial telephones estimated to be in use in its service area on September 1, 1985.
 - iii) Total number of rotary dial telephones estimated to be in use in its service area on September 1, 1986.
 - iv) Total number of rotary dial telephones estimated to be in use in its service area on January 1, 1988.
- G. The total number of switches owned and/or operated by the company, and a description of each switch including its manufacturer and model number.
- H. The owner of the lines and/or other facilities connecting the company's switching equipment and AT&T's switching equipment.
- I. The estimated cost of connecting the company's switching equipment with an OCC's switching equipment.

WHEREFORE, MCIV respectfully requests that the Commission enter an Order requiring each local exchange telephone company and cooperative to submit a special report responding to

the items listed in paragraph 6 above, as well as any other items deemed necessary or advisable by the Commission or the Commission Staff, in a timely manner such that it may be utilized by the parties and the Commission in this case.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



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William F. Marmon, Jr.
MCI TELECOMMUNICATIONS
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1133 19th Street, N.W.
Washington, D.C. 20036

Its Attorneys

C E R T I F I C A T E

I hereby certify that a true copy of the foregoing was mailed, postage prepaid, to all parties of record; the Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and the Commission's Divisions of Communications, Accounting and Finance, and Economic Research and Development, and to each local exchange telephone company and cooperative this 18th day of July, 1984.


H. Williams Moore

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

FIRST INTERROGATORIES AND DATA
REQUESTS OF MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

MCI Telecommunications Corporation of Virginia ("MCIV") submits these first interrogatories and data requests to AT&T Communications of Virginia ("AT&T-CV"). References to "AT&T" include not only AT&T-CV but also all affiliated AT&T companies.

Pursuant to the Modification of Final Judgment in the AT&T divestiture case, C&P Telephone Company of Virginia was required to transfer to AT&T those facilities and personnel required to provide interLATA, interexchange services on December 31, 1983. Thus any information request for data prior to December 31, 1983, is to be imputed to the predecessor of the current corporation with respect to long-distance services provided prior to the divestiture.

INTERROGATORIES AND DATA REQUESTS TO AT&T

1. Identify the geographic areas in Virginia in which AT&T currently provides intrastate telecommunication services.
2. How many Virginia customers for long-distance intrastate services does AT&T currently have? State business and residential separately.
3. Describe the specific services provided on an intrastate basis by AT&T.
4. For each intrastate service provided by AT&T, please state the minutes used by Virginia customers in calendar 1983 and for the most recent month in 1984 for which records are available.
5. For each intrastate service provided by AT&T, please state the revenues produced in calendar 1983 and for the most recent month in 1984 for which records are available.
6. What percentage of the intrastate, long-distance market does AT&T currently hold based on minutes of use, revenues and numbers of customers?
7. What percentage of the Virginia interLATA, long-distance market does AT&T currently hold based on minutes of use, revenues and numbers of customers.

8. How many Virginia customers for long-distance interstate services does AT&T currently have?

9. Describe the specific services provided on an interstate basis by AT&T to Virginia customers.

10. For each interstate service provided by AT&T, please state the minutes used by Virginia customers in calendar 1983 and for the most recent month in 1984 for which records are available.

11. For each interstate service provided by AT&T, please state the revenues produced in Virginia in 1983 and for the most recent month in 1984 for which records are available.

12. Please state by year the revenues produced by AT&T in Virginia for intrastate long-distance services in the years 1980 through 1983.

13. Please state by year the revenues produced by AT&T in Virginia for interstate long-distance services in the years 1980 through 1983.

14. What percentage of the interstate long-distance market in Virginia does AT&T currently hold based on minutes of use, revenues and numbers of customers?

15. What percentage of the interLATA long-distance market on a nationwide basis does AT&T currently hold based on minutes of use, revenues and numbers of customers?

16. How many switches does AT&T own or operate in Virginia?

17. What is the location of each AT&T switch?

18. Please state the manufacturer, model number and port capacity of each switch.

19. How many route miles of transmission facilities does AT&T own, lease or control in Virginia?

20. How many equipped circuit miles of transmission facilities does AT&T own, lease or control in Virginia?

21. Please list all the local exchange companies in Virginia with which AT&T has interconnections.

22. Please describe in detail AT&T's expansion plans in Virginia for the next two years.

23. For each local exchange company listed above, please state who owns the line connecting the local exchange company to the AT&T switch.

24. Please state the current rate base of AT&T in Virginia.

25. What are the components of this rate base?

26. What is the current rate-of-return authorized on this rate base?

27. What was the actual rate-of-return on this rate base in 1983?

28. Precisely, what regulatory controls of the State Corporation Commission does AT&T seek to have removed?

29. What does AT&T believe will be the impact on Virginia consumers of its deregulation in Virginia?

30. If AT&T is deregulated in Virginia, would it reserve the right to de-average its toll structure?

31. Does AT&T believe it has competition currently in the intrastate, interLATA market in Virginia?

32. Does AT&T believe that by September 1, 1986, it will have competition in the interLATA toll market in all areas of Virginia?

33. If the answer to the previous interrogatory is "no", please state the number of Virginia customers for which it

is likely that AT&T will be the only interLATA long-distance carrier as of September 1, 1986.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



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Washington, D.C. 20036

Its Attorneys

C E R T I F I C A T E

I hereby certify that a true copy of the foregoing was mailed, postage prepaid, to all parties of record; the Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and to the Commission's Divisions of Communications, Accounting and Finance, and Economic Research and Development, this 18th day of July, 1984.


H. Williams Moore

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF
AT&T COMMUNICATIONS OF VIRGINIA

For authority to set rates and
charges pursuant to §56-481.1
of the Code of Virginia

CASE NO. PUC840023

MOTION OF MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA FOR LEAVE TO SERVE INTERROGATORIES
AND FOR AN ORDER COMPELLING IMMEDIATE
RESPONSE TO SUCH INTERROGATORIES

Comes now MCI Telecommunications Corporation of Virginia ("MCIV"), by counsel, and, moves the Commission to grant it leave to serve interrogatories and data requests on AT&T Communications of Virginia ("AT&T-CV") and to enter an order requiring AT&T-CV to respond promptly to such interrogatories and data requests so that MCIV can have the responses well before any scheduled hearing in this matter.

In support of its Motion, MCIV states:

1. That MCIV has filed a Protest in this case as required by Rule 5:16(b) of the Commission's Rules of Practice

and Procedure and the Commission's Order dated July 9, 1984, herein.

2. That AT&T-CV filed its Petition in this matter on July 5, 1984, and, on July 9, 1984, the Commission entered its Order establishing the hearing set for July 27, 1984.

3. That Rule 6:4 of the Commission's Rules of Practice and Procedure prohibits the service of interrogatories which "cannot be timely answered before hearing date without leave of the Commission for cause shown" When the Commission's Order setting the hearing was entered on July 9, 1984, there were less than twenty-one days before the hearing date and thus no interrogatories could be served without leave of the Commission.

4. That, as described more fully in MCI's "Memorandum in Support of Motion of MCI Telecommunications Corporation of Virginia to Continue Substantive Hearing", the issues and facts before the Commission are extremely important and may be complex.

5. That MCI should be given an opportunity to have AT&T-CV's answers and responses to the interrogatories and data requests well before the hearing. Inasmuch as the hearing is scheduled for July 27, 1984, AT&T-CV's answers must be available immediately in order for them to be helpful to MCIV and the Commission in this proceeding.

WHEREFORE, MCIV respectfully requests that the Commission grant it leave to serve the interrogatories and data requests filed today and that the Commission direct AT&T-CV to answer each and every interrogatory and data request in full by delivering copies of such answers and responses so that they may be received by counsel for MCIV, William F. Marmon, Jr. in Washington, D.C., and Hullihen Williams Moore in Richmond, Virginia, before the close of business on July 23, 1984.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA



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Its Attorneys

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COMMONWEALTH of VIRGINIA

Office of the Attorney General

Gerald L. Baliles
Attorney General

William G. Broadbuss
Chief Deputy Attorney General

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Deputy Attorney General
Criminal Law Enforcement Division

Maston T. Jacks
Deputy Attorney General
Human & Natural Resources Division

Elizabeth B. Lacy
Deputy Attorney General
Judicial Affairs Division

Walter A. McFarlane
Deputy Attorney General
Finance & Transportation Division

Karl E. Bren
Director of Administration

July 16, '1984

Mr. William C. Young, Clerk
State Corporation Commission
Document Control Center
P.O. Box 2118
Richmond, Virginia 23216

Re: Application of MCI Telecommunications Corporation
of Virginia for a certificate of public convenience
and necessity for approval of its lease and service
agreement, and for authority to set its rates based
upon competitive factors; Case No. PUC840022

Dear Mr. Young:

The Office of Attorney General, Division of Consumer
Counsel, pursuant to Section 2.1-133.1 of the Code of Virginia
(1950), as amended, hereby gives notice that it will participate
in the above-captioned case.

Please add this Office to the service list of parties in
this case.

Sincerely yours,

Handwritten signature of Anthony Gambardella in cursive script.
Anthony Gambardella
Sr. Assistant Attorney General

2:11/215C49

cc: Lewis S. Minter, Esquire
Hullihen W. Moore, Esquire

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

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AT RICHMOND, JULY 19, 1984

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PETITION OF

AT&T COMMUNICATIONS
OF VIRGINIA

CASE NO. PUC840023

CF

For authority to set rates
and charges pursuant to
§56-481.1 of the Code of
Virginia

ORDER AUTHORIZING INTERROGATORIES
AND SCHEDULING ORAL ARGUMENT

On July 18, 1984, MCI Telecommunications Corporation of Virginia (MCIV) filed its Protest, its Motion to Continue Substantive Hearing, its Memorandum in support of that motion, its Motion for an Order Requiring Special Reports, its first Interrogatories and Data Requests, and its Motion for Leave to Serve Interrogatories and for an Order Compelling Immediate Response to such Interrogatories. MCIV's transmittal letter also requested oral argument upon its Motion to Continue Substantive Hearing.

The Office of the Attorney General, Division of Consumer Counsel, on July 17, 1984, filed its Motion for Continuance and Motion for Leave to Serve Interrogatories. Having considered the Motions of MCIV and of the Attorney General, the Commission is of the opinion that the request for oral argument should be granted, that leave to serve interrogatories should be granted, and that an expeditious response date should be set for the interrogatories. Accordingly,

IT IS ORDERED:

(1) That Oral Argument concerning both Motions for Continuance shall be heard in the Commission's Courtroom, 13th Floor of the Jefferson Building, Bank and Governor Streets, Richmond, Virginia commencing at 2:00 p.m. on Friday, July 20, 1984. Each party shall be limited to twenty minutes of argument;

(2) That both Motions for Leave to Serve Interrogatories are hereby granted; and

(3) That AT&T Communications of Virginia must respond to the interrogatories of MCIV and of the Attorney General by the close of business Monday, July 23, 1984.

ATTESTED COPIES hereof shall be sent to Michael J. Morrissey, Esquire, Attorney for AT&T Communications of Virginia, 7611 Little River Turnpike, Suite 201, Annandale, Virginia 22003; HULLIHEN W. MOORE, Attorney for MCIV, 1200 Mutual Building, Richmond, Virginia 23219-3095; Anthony Gambardella, Esquire, Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219; and to the Commission's Divisions of Communications, Accounting and Finance, and Economic Research and Development.

A True Copy

Teste:



Clerk of State Corporation Commission

COMMONWEALTH OF VIRGINIA

STATE CORPORATION COMMISSION
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AT RICHMOND, JULY 19, 1984

APPLICATION OF

UNITED STATES TRANSMISSION
SYSTEMS, INC.

CASE NO. PUC840024

For a certificate of public
convenience and necessity to
provide inter-LATA, inter-exchange
telephone services within Virginia

ORDER GRANTING LEAVE
TO SERVE INTERROGATORIES

On July 18, 1984, the Chesapeake and Potomac Telephone Company of Virginia ("C&P") filed its Protest and Motion for Delay in the Hearing in this cause together with interrogatories addressed to United State Transmission Systems, Inc., (USTS). Having considered the interrogatories and the request of C&P that they be answered no later than July 26, 1984, the Commission is of the opinion that leave should be granted for the filing of those interrogatories and that USTS should answer those interrogatories by July 26. Accordingly,

IT IS ORDERED that C&P is hereby granted leave to serve its interrogatories upon USTS and USTS is ordered to file its answers to those interrogatories by the close of business July 26, 1984.

ATTESTED COPIES hereof shall be sent to Jack Lebowitz, Esquire, USTS Inc., 100 Plaza Drive, Secaucus, New Jersey 07096; Steven H. Davis, Esquire, 520 Madison Avenue, New York, New York 10022; M. Reamy Ancarrow, Esquire, 1333 New Hampshire Avenue, N.W., Washington D.C. 20036; Warner F. Brundage, Jr.,

Esquire, C&P Telephone Company, 703 East Grace Street, Richmond, Virginia 23219; Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, Richmond, Virginia 23219; and to the Commission's Divisions of Communications, Accounting and Finance, and Economic Research and Development.

VIRGINIA:

BEFORE THE STATE CORPORATION COMMISSION

Application of

SOUTHERNTEL OF VIRGINIA, INC.

For a Certificate of Public)	
Convenience and Necessity to)	CASE NO. PUC840020
Provide Intrastate Interexchange)	
Telecommunications Services)	

AMENDED APPLICATION

SouthernTel of Virginia, Inc., a Virginia corporation, hereinafter referred to as "SouthernTel of Virginia" or the " Company", applied to the State Corporation Commission, hereinafter referred to as the "Commission", on May 14, 1984 for a Certificate of Public Convenience and Necessity pursuant to §56-265.4:4.B. of the Code of Virginia, 1950, as amended, and other applicable sections of the Code of Virginia. On June 29, 1984, the Commission adopted Rules for the certification and setting of rates for inter-LATA, interexchange telecommunications carriers. On July 19, 1984, SouthernTel of Virginia's parent company, SouthernTel, Inc. merged with Interstate Communications, Inc. to form SouthernNet, Inc. As a result of the merger, SouthernTel of Virginia is now a wholly owned subsidiary of SouthernNet, Inc. In order to comply with the Rules of the Commission adopted subsequent to the initial

Application of the Company and to update and supplement the application where it is effected by the merger of SouthernTel, Inc. and Interstate Communications, Inc., SouthernTel of Virginia submits the following information as its Amended Application.

1. Organization and Objective. SouthernTel of Virginia, Inc. is a corporation organized and existing under the laws of the Commonwealth of Virginia and is a wholly owned subsidiary of SouthernNet, Inc., a corporation organized and existing under the laws of the State of Delaware and having corporate offices located at 61 Perimeter Park, Atlanta, Georgia 30341. In addition to SouthernTel of Virginia, Inc., SouthernNet owns the following subsidiary corporations:

SouthernTel, Inc., a corporation organized and existing under the laws of the State of Delaware;

SouthernTel of North Carolina, Inc., a corporation organized and existing under the laws of the State of North Carolina; and

Interstate Communications, Inc. ("ICI"), a corporation organized and existing under the laws of the State of Georgia.

SouthernNet is currently engaged in the provision of long distance telephone services on a resale basis. SouthernTel of North Carolina, Inc. and its predecessor, Heins Systems, Inc.,

has provided interstate long distance services on a resale basis in North Carolina since July, 1982. Since December 15, 1980, ICI has provided long distance telephone services on a resale basis in the states of Georgia, Alabama, Tennessee, North Carolina, South Carolina, California, Kentucky, West Virginia and Virginia.

2. Plan of Development. The principal purpose of SouthernTel of Virginia is to become an intrastate and interstate facilities-based carrier operating in the Commonwealth of Virginia. This objective will be accomplished through the construction, ownership and operation of a fiber optic telecommunications network that will pass through the major industrial and population centers within Virginia and reach other areas of the State by means of the technology appropriate to the circumstances. The Company will make available to the public transmission capacity through non-switched, point-to-point, private line services. A copy of the Network Construction Plan and a map of the proposed network is attached as Exhibit A. ICI will operate in Virginia as a reseller and will market switched services to the public. ICI will purchase transmission capacity from SouthernTel of Virginia and may purchase transmission capacity from other carriers within Virginia.

Because of the differing regulatory treatment accorded resellers and facilities-based carriers in Virginia and because a statewide resale offering may require the purchase of WATS-type services or similar bulk transmission capacity from other facilities-based carriers other than SouthernTel of Virginia, the directors of SouthernNet have decided to structurally and functionally separate resale and facilities-based transmission offerings. This separation should eliminate the possibility of confusion of the regulatory status and treatment of various categories of services and of the utilization of other carriers' facilities for resale offerings.

3. Implementation of Plan. The development of SouthernTel of Virginia into an intrastate and interstate facilities-based carrier will be implemented in phases, the first two of which will be undertaken simultaneously.

a. Establishment of Resale Business. SouthernNet, Inc. is currently engaged in resale operations in Virginia through its subsidiary, ICI. ICI will purchase non-switched, point-to-point, private line services from SouthernTel of Virginia and will offer switched services to the public. ICI may also purchase similar capacity from other appropriate carriers within Virginia as the need arises.

b. Construction and Operation of Transmission

Network. Under Federal Communications Commission authorization and under a Certificate of Public Convenience and Necessity issued pursuant to §56-265.4:4.B. of the Code of Virginia, a modern transmission network utilizing primarily fiber optic technology will be designed, engineered and constructed for the purpose of providing service as indicated on Exhibit A. The fiber optic cable and related electronic equipment will be installed in segments which will become operational in stages as completed. As each segment of the transmission network becomes operational the Company will offer non-switched, point-to-point, private line services on a "carriers' carrier" basis, principally offering capacity to resellers.

c. Interconnection Arrangements with Other Carriers.

SouthernTel of Virginia is also developing interconnecting arrangements with other regional carriers in order to offer broader and more efficient intrastate and interstate toll services. The Company's affiliate, SouthernTel of North Carolina, Inc., intends to construct a similar transmission network in North Carolina that will be interconnected with the

Virginia network owned and operated by SouthernTel of Virginia, Inc.

d. Block or Pay Plan - SouthernTel of Virginia plans to offer non-switched, point-to-point, inter-LATA, private line services only, and will not terminate two end points of the same private line within the same LATA, unless and until authorized by law. Therefore, SouthernTel of Virginia will not offer or provide any intra-LATA service.

Should SouthernTel or ICI using facilities of SouthernTel of Virginia decide to provide switched services before January 1, 1986, they will block all intra-LATA calling, to the extent feasible and required by law. They will do so by programming their switch to recognize the NPA and NXX codes of the called number, and determine the LATA of the call's destination. They will then determine whether the call destination is within the same LATA as the originating point of presence. If so, the call will be blocked. Therefore, the vast majority, if not all of the attempts to place intra-LATA calls will be blocked.

In addition, during the billing process, a determination will be made of the number, time of day, and length of any

intra-LATA calls which are completed. If there are any such calls, the intra-LATA carrier will be compensated for its lost revenues by SouthernTel of Virginia, Inc.

INFORMATION IN SUPPORT OF APPLICATION

4. Request for Authority to Provide Services. By making this application and by participating in all proceedings necessary to effect the pertinent certification, SouthernTel of Virginia's purpose is to comply with this Commission's requirements. Accordingly, this Application seeks such approval and authority as may be required in order for the Company to provide intrastate interexchange telecommunications services throughout Virginia, subject to the laws of the State as now or hereafter enacted.

5. The Applicant. SouthernTel of Virginia, the lawful name of the applicant, is a Virginia public service corporation with its principal office at 105 East South Street, Woodstock, Virginia 22664.

6. Authorized Representatives. The name, address and telephone number of the Company's counsel of record is Reginald N. Jones, of Press, Fenderson, Culler, Jones, Waechter & Stoneburner, P.C., 6722 Patterson Avenue, Richmond, Virginia 23226 [Phone (804) 285-4100], and the name, title, address and telephone number of the person who should be contacted in

connection with general management of the Company is Warren B. French, Jr., Chairman of the Board and Director of the Company, 124 South Main Street, P. O. Box 246, Edinburg, Virginia 22824 [Phone (703) 984-4141].

7. Virginia Offices. SouthernTel of Virginia has its principal office at the address set out above. The Company will establish additional Virginia offices as its operations are initiated and expanded and as the need exists. SouthernTel of Virginia will inform the Commission of each new office's location and telephone number as soon thereafter as practicable.

8. State of Incorporation. SouthernTel of Virginia is incorporated as a public service corporation in the Commonwealth of Virginia. It is, therefore, duly authorized to transact business in Virginia. A certified copy of the applicant's Articles of Incorporation and Certificate of Good Standing is attached hereto as Exhibit B and Exhibit C, respectively.

9. Services to be Offered. The Company plans to construct and operate a principally fiber optic telecommunications network to provide intrastate and interstate, interexchange, non-switched, point-to-point, private line services.

10. Management. The directors and principal officers of SouthernTel of Virginia have the extensive technical,

financial and managerial experience needed for the management and the execution of the business plans described herein.

Mr. Warren B. French, Jr., Chairman of the Board of the Company, has 37 years of experience in the telecommunications industry, 30 years of which have been in Virginia. The background and experience of each of the principal officers and directors of the Company is described in Exhibit D attached hereto.

11. Financial Condition and Ability to Provide the Proposed Service. A consolidated balance sheet of SouthernTel of Virginia and SouthernNet as of June 30, 1984 and a consolidated statement of income of SouthernTel of Virginia and SouthernNet for the six months ended June 30, 1984 are attached hereto as Exhibit E. Also attached as a part of Exhibit E is a balance sheet for SouthernTel of Virginia as of June 30, 1984.

12. Public Convenience and Necessity Will Be Served by the Granting of This Application. SouthernTel of Virginia intends to provide intrastate and interstate, non-switched, point-to-point, private line services in Virginia. The construction of a state-of-the-art interexchange transmission network across Virginia will enable the Company to provide

services of a high capacity, quality and efficiency. SouthernTel of Virginia will require a statewide Certificate of Public Convenience and Necessity in order to accomplish its purpose. The Company's modern fiber optic toll network will be beneficial to the public by meeting growing needs for high quality telecommunications service in a more cost-effective manner.

Based upon the foregoing, it is respectfully submitted that the Public Convenience and Necessity will be served by granting SouthernTel of Virginia a Certificate to provide the above-described telecommunications services regulated by this Commission for the benefit of the public.

13. Tariffs. The Company does not anticipate offering its services until 1985, however, in accordance with the Rules of the Commission it has prepared a Channel Service Tariff setting forth its proposed regulations and rates. A copy of the Channel Services Tariff Containing Regulations and Rates Applicable to the Furnishing of Channel Services Within Virginia By SouthernTel of Virginia, Inc. is attached as Exhibit F.

WHEREFORE, SouthernTel of Virginia, Inc. hereby respectfully prays that the Commission approve SouthernTel

of Virginia's Application for a Certificate of Public Convenience and Necessity to provide intrastate interexchange telecommunication services throughout the state in accordance with the laws of Virginia as now or hereafter enacted.

Respectfully submitted, this the 20th day of
July, 1984.

SOUTHERNTEL OF VIRGINIA, INC.

BY Reginald N. Jones
Reginald N. Jones, Attorney for
SouthernTel of Virginia, Inc.

Reginald N. Jones, Esquire
Press, Fenderson, Culler, Jones,
Waechter & Stoneburner, P.C.
6722 Patterson Avenue
Richmond, Virginia 23226
Counsel for the Petitioner

Certificate

I hereby certify that copies have been sent to the following:

Local exchange telephone companies operating in Virginia
AT&T Communications of Virginia
Division of Consumer Counsel, Office of the Attorney General

Reginald N. Jones
Reginald N. Jones

JUL 20 4 16 PM '84

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

APPLICATION OF
MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA

CASE NO. PUC840022

For a certificate of public
convenience and necessity,
for approval of its lease
and service agreement, and
for authority to set its rates
based upon competitive factors

RESPONSE OF MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA TO MOTION
FOR DELAY IN THE HEARING FILED
BY THE CHESAPEAKE & POTOMAC
TELEPHONE COMPANY OF VIRGINIA

On July 2, 1984, MCI Telecommunications Corporation of Virginia ("MCIV") filed its application for a certificate to operate as a telephone utility to provide interexchange telephone service within the Commonwealth of Virginia pursuant to Title 56 of the Code of Virginia. On July 18, 1984, The Chesapeake & Potomac Telephone Company of Virginia ("C & P") filed a Protest¹ and Motion for Delay in the Hearing. This memorandum is in response to C & P's Motion for Delay in the Hearing.

¹ C & P's Protest does not comply with Rule 5:16 of the Commission's Rules of Practice and Procedure in that it does not include "(ii) a full and clear statement of the facts which the protestant is prepared to prove by competent evidence, the proof of which will warrant the relief sought; and (iii) a statement of the specific relief sought and the legal basis therefor." MCIV does not, at this time, move to strike the Protest, but does request that C & P comply with the Rules immediately so that MCIV may prepare for the hearing.

The sole reason for C & P's requested delay is its allegation that MCIV's application is insufficient with regard to the "block or pay" provision of Rule 2 of the Commission's Rules Governing Certification of Interexchange Carriers. C & P acknowledges that MCIV has set forth its plan to inhibit and dissuade its customers from intraLATA calling at this time, and C & P offers no complaint with respect to this part of MCIV's plan. C & P, however, states that the "pay" portion of MCIV's plan is not sufficient:

And instead of proposing a plan to compensate C & P for toll revenues lost because of so-called "incidental" intraLATA calls, MCI promises to pay access charges. Application, p. 7. A promise to pay access charges is not the same as compensating local exchange companies for lost toll revenues. C & P Protest and Motion, p. 2 (footnote omitted).

C & P next recognizes that it is not only in the public interest, but in the interest of C & P not to reject the MCIV application. C & P Protest and Motion, p. 3. Finally, C & P asks that MCIV be required to amend its Application and present a "concrete plan" for compensation and that the hearing on MCIV's Application be continued until a plan (presumably satisfactory to C & P) is filed.

The clear implication of C & P's Motion is that a continuance is needed to protect C & P and to ensure that C & P is properly compensated for any incidental intraLATA call.

Contrary to the allegations and implications of C & P, MCIV's plan to compensate local exchange carriers fully protects all local exchange carriers and is as concrete as possible.

First, each local exchange carrier is protected because MCIV specifically stated in paragraph 16 of its Application:

"MCIV agrees that the charges determined by agreement or by the Commission -- in the event of unresolvable dispute -- shall be effective as of the date of MCIV's certificate to operate as a telephone utility in Virginia." Thus, C & P and all local exchange carriers are protected. Whether the compensation is determined by agreement or by this Commission, it will be effective as of the date the certificate is granted.

Granting the certificate to MCIV cannot be detrimental to C & P; indeed, it can only be beneficial because, as C & P notes in its Motion, this will allow it to collect intrastate access charges related to all intrastate calls immediately.

Second, MCIV's plan for compensation is as concrete as possible. MCIV believes that the charges should be based on intrastate access charges. Access charges--state and federal--were designed to fully compensate local telephone companies for the contribution formerly received from toll revenues. Thus access charges are a fair measure of compensation for lost revenues due to any incidental intraLATA calling over OCC lines.

C & P states that access charges, which come to \$.10 per minute--including origination and termination--for non-premium access, amount to less revenue per minute than C & P's average per minute revenue from toll calls. But C & P does not reveal what its average revenue per minute is for an intraLATA toll call. Nor does C & P indicate whether it is taking into consideration the fact that access minutes exceed actual conversation minutes. OCC's are charged for access minutes before the calling party is connected to the number he dialed. Access minutes are also charged to the OCC even if the calling party receives a busy signal or a wrong number. Moreover C & P's assertion that its costs are undiminished by not completing toll calls over its own lines is belied by its own access tariff which indicates that several components of that charge--local switching and local transport--are traffic sensitive costs. C & P would incur similar traffic sensitive costs to carry an intraLATA toll call over its own network.

Moreover, MCIV's plan includes negotiations with C & P and all local exchange carriers. As the application states, it is hoped that the compensation issue can be determined by agreement, but if not, the Commission, of course, can decide the issues with the determination being effective as of the date MCIV is certificated to serve.

As C & P knows, the compensation issue involves major, complex factors; first, the appropriate compensation per unit and second, the number of units involved. MCIV believes that the appropriate compensation should be intrastate access charges. C & P apparently disagrees at this time. A study may be needed to determine whether these charges overcompensate or are inadequate. If agreement cannot be reached, then the Commission would have to decide the issue. Further, the determination of the number of units subject to payment to C & P is far from clear. MCIV is currently working on a method to determine the appropriate number of units. MCIV plans to work with C & P so that C & P and MCIV can agree on a methodology. If the parties cannot agree, then, again, the Commission would become involved.

MCI has interLATA authority without intraLATA authority in nine states. Of these, two, New Jersey and Georgia, involve compensation for intraLATA calls. In both of these cases, the Commission has granted authority to operate with the compensation issue to be determined by agreement or, if necessary, by the Commission later. These Commissions recognized that the issue was complex, could best be solved by negotiation and should not delay the beginning of intrastate competition. This Commission should do likewise, especially since the local exchange carriers are fully protected by MCIV's commitment to have any compensation

determination, by agreement or order, relate back to the date of certification.

In view of the advantage to C & P of prompt certification and the lack of risk to C & P because of MCIV's commitment to the effective date of any compensation determination, the only reason for C & P's Motion to Delay is to gain a negotiating advantage. If C & P can hold MCIV's application hostage until the compensation issue is fully determined, MCIV may be forced to agree to a prompt, but unfair, solution to this complex issue in order to gain entry in Virginia. This is particularly true at this time, because MCIV has advertised and solicited customers in the Norfolk equal access area which will be effective September 1, 1984.

This Commission, not C & P, should determine whether MCIV should be allowed to compete. To grant C & P's Motion to Delay will not only delay the beginning of equal access competition in Virginia and be unfair to MCIV, but will also force the Commission to become involved in these time-consuming, complex issues between the parties that can best be settled by negotiation.


The Commission should, like New Jersey and Georgia, grant MCIV certification and leave to negotiation or subsequent appeal of unresolvable dispute the complex compensation issues.

MCIV's plan, which includes complete protection for all local exchange companies, negotiations and resolution of disputes is fair and as concrete as possible.

WHEREFORE, MCIV requests that the Motion for Delay in the Hearing be denied.

Respectfully Submitted,

MCI TELECOMMUNICATIONS CORPORATION
OF VIRGINIA


By: HULLIHEN WILLIAMS MOORE
LOUIS R. MONACELL
CHRISTIAN, BARTON, EPPS, BRENT
& CHAPPELL
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Richmond, Virginia 23219

William F. Marmon, Jr.
MCI TELECOMMUNICATIONS
CORPORATION OF VIRGINIA
1133 19th Street, N.W.
Washington, D.C. 20036

Its Attorneys

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF)	
AT&T COMMUNICATIONS OF VIRGINIA)	
)	
For authority to set rates and)	CASE NO. PUC840023
charges pursuant to §56-481.1)	
of the Code of Virginia)	

PROTEST OF
GTE SPRINT COMMUNICATIONS CORPORATION
OF VIRGINIA

Comes now GTE Sprint Communications Corporation of Virginia ("SPRINT-VA"), by counsel, and, pursuant to Rule 5:16(b) of the Commission's Rules of Practice and Procedures and the Commission's Order dated July 9, 1984, herein, hereby files its Protest as a party to this proceeding.

1. SPRINT-VA is authorized to do business in the Commonwealth of Virginia as a public service company and was incorporated in the Commonwealth as a public service corporation on July 18, 1984.

2. SPRINT-VA is vitally interested in the outcome of this proceeding. SPRINT-VA's interest in this proceeding is based on the following:

(a) SPRINT-VA currently competes with AT&T-CV for interstate long distance service in Virginia; and

(b) SPRINT-VA will soon apply for certification to provide inter-LATA, inter-exchange service in

Virginia and, upon certification, will compete with AT&T-CV for intrastate long distance service in Virginia.

3. The facts which this protestant is prepared to prove by competent evidence and which will warrant the relief sought are as follows:

(a) AT&T-CV cannot, at this time or in the foreseeable future, provide inter-exchange service in the Commonwealth on a competitive basis;

(b) At this time and in the foreseeable future, AT&T-CV is and will be the only company capable of providing inter-LATA, inter-exchange service in certain geographic areas of the Commonwealth;

(c) At this time and for the foreseeable future, AT&T-CV is and will be the only company capable of providing inter-exchange service in all geographic areas of the Commonwealth;

(d) At this time and for the foreseeable future, AT&T-CV is and will be the only company capable of providing direct dial ("dial-1") inter-exchange service in all geographic areas of the Commonwealth; and

(e) At this time, it is not in the public interest to exempt AT&T-CV from the provisions of Chapter 10 of Title 56 of the Code of Virginia and from other regulation, pursuant to §56-481.1.

4. The specific relief sought by this protestant is:

(a) A determination by the Commission that AT&T-CV cannot provide inter-exchange service in the Commonwealth on a competitive basis;

(b) A determination that exempting AT&T-CV from rate regulation at this time is not in the public interest; and

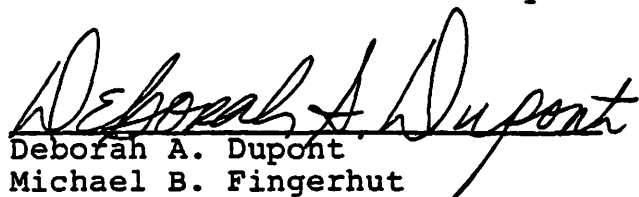
(c) A denial of AT&T's Petition.

5. The address of SPRINT-VA is: GTE Sprint Communications Corporation of Virginia, 1828 L Street, N.W. -- Suite 500, Washington, D.C. 20036.

6. Counsel for SPRINT-VA are: Deborah A. Dupont and Michael B. Fingerhut, GTE Sprint Communications Corporation, 1828 L Street, N.W. -- Suite 500, Washington, D.C. 20036; and Frederick C. Williams and James E. Magee, Isham, Lincoln & Beale, 1120 Connecticut Avenue, N.W. -- Suite 840, Washington, D.C. 20036.

GTE SPRINT COMMUNICATIONS
CORPORATION OF VIRGINIA

By Counsel


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* Virginia State Bar
I.D. Number 014523
(Active)

July 20, 1984

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF)	
)	
AT&T COMMUNICATIONS OF VIRGINIA)	
)	Case No. PUC840023
For authority to set rates and)	
charges pursuant to § 56-481.1)	
of the Code of Virginia)	

NOTICE OF PROTEST OF
VIRGINIA EXCHANGE CARRIER ASSOCIATION

Pursuant to Rule 5:16(a) of the Commission's Rules of Practice and Procedure and the Commission's Order of July 9, 1984, the Virginia Exchange Carrier Association (VECA) hereby files this Notice of Protest and requests to participate in this proceeding fully. VECA is an association of 21 telephone companies and cooperatives that provide local exchange service throughout the Commonwealth of Virginia. A list of the VECA members is attached as Appendix A to this Notice of Protest.

VECA is interested in this proceeding because its members will provide facilities to AT&T Communications of Virginia for the origination and termination of inter-LATA, intrastate service. As such, the VECA members are vitally interested in having full knowledge of the arrangements proposed by AT&T Communications of Virginia for the provision of such service.

Please address correspondence in this proceeding to:

Ralph L. Frye, Executive Director
Virginia Exchange Carrier Association
700 East Main Street
Richmond, Virginia 23219

and

John W. Riely, Esq.
Richard D. Gary, Esq.
Hunton & Williams
700 East Main Street
P. O. Box 1535
Richmond, Virginia 23212

Respectfully submitted,

VIRGINIA EXCHANGE CARRIER ASSOCIATION

Dated: July 20, 1984

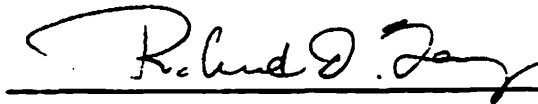
By


Counsel

John W. Riely
Richard D. Gary
Hunton & Williams
P. O. Box 1535
Richmond, Virginia 23212

CERTIFICATE OF SERVICE

I hereby certify that a true copy of the foregoing Notice of Protest was mailed, postage prepaid, or hand-delivered to Michael J. Morrissey, Esq., AT&T Communications of Va., 7611 Little River Turnpike, Annandale, Virginia 22003; HULLIHEN W. MOORE, Esq., Christian, Barton, Epps, Brent & Chappel, 11th Floor, 1200 Mutual Building, Richmond, Virginia 23219; Anthony Gambardella, Esq., Assistant Attorney General, 101 North 8th Street, 5th Floor, Richmond, Virginia 23219 and to the Commission's Divisions of Communications, Accounting and Finance and Economic Research and Development, this 20th day of July 1984.



VIRGINIA EXCHANGE CARRIER ASSOCIATION

MEMBER COMPANIES - 1984

Amelia Telephone Corporation
Buggs Island Telephone Cooperative
Burke's Garden Telephone Co., Inc.
Central Telephone Company of Virginia
Chesapeake and Potomac Telephone Co. of Va.
Citizens Telephone Cooperative
Clifton Forge-Waynesboro Telephone Co.
Continental Telephone Co. of Virginia
General Telephone Co. of the Southeast
Highland Telephone Cooperative
Merchants & Farmers Telephone Co.
Mtn. Grove-Williamsville Telephone Co.
New Hope Telephone Co.
North River Telephone Cooperative
Pembroke Telephone Cooperative
Peoples Mutual Telephone Co.
Roanoke & Botetourt Telephone Co.
Scott County Telephone Cooperative
Shenandoah Telephone Company
United Inter-Mountain Telephone Co.
Virginia Hot Springs Telephone Co.

COMMONWEALTH OF VIRGINIA
STATE CORPORATION COMMISSION

PETITION OF

AT&T COMMUNICATIONS
OF VIRGINIA

For authority to set rates
and charges pursuant to
Section 56-481.1 of the
Code of Virginia

A complete transcript of the oral arguments
on motions in the above-captioned matter, when heard
on July 20, 1984, before the Honorable Commissioners
of the State Corporation Commission, Richmond, Virginia.

Reported and transcribed
by: Susan E. Moser

ASSOCIATED REPORTERS
OFFICIAL COURT REPORTERS
STATE CORPORATION COMMISSION
POST OFFICE BOX 1197
RICHMOND, VIRGINIA 23209

APPEARANCES:

Honorable Thomas P. Harwood, Jr., Chairman

Honorable Preston C. Shannon, Presiding

Honorable Junie L. Bradshaw, Member

Robert M. Gillespie, Esquire,

Counsel to the Commission

Michael J. Morrissey, Esquire,

Counsel for the Petitioner

Hullihen W. Moore, Esquire,
and

William F. Marmon, Jr., Esquire,

Counsel for MCI Telecommunications
Corporation

Michael B. Fingerhut, Esquire,

Counsel for GTE Sprint
Communications Corporation

Anthony Gambardella, Esquire,

Senior Assistant Attorney General,
Division of Consumer Counsel

Joseph E. Blackburn, Jr., Esquire,

Counsel for Central Telephone Company
of Virginia

John W. Riely, Esquire,

Counsel for Virginia Exchange Carrier
Association

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I N D E X

Argument of:

Mr. Moore	Page 6
	Page 44
Mr. Gambardella	Page 25
	Page 64
Mr. Morrissey	Page 29
Mr. Gillespie	Page 67

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2
3 NOTE: The matter is called to be
4 heard at 2:00 o'clock p.m., July 20, 1984,
5 and begins as follows, viz:

6
7 THE BAILIFF: Case No. PUC840023.
8 Commissioner Shannon, presiding.

9 COMMISSIONER SHANNON: On July the
10 9th, 1984, the Commission set the petition of
11 AT&T Communications of Virginia for authority
12 to set rates and charges pursuant to
13 56-481.1 of the Code of Virginia, down for
14 hearing at 2:00 p.m. on July the 27th,
15 1984. On July the 18th, we received a
16 Motion for Continuance of that date from
17 the Attorney General, and on July the 18th,
18 we also received a similiar Motion for
19 Continuance from MCI Communications
20 Corporation of Virginia. And by Order
21 entered on July the 19th, we set for oral
22 argument on the motions filed by the Attorney
23 General and AT&T of Virginia, set that down
24 for argument at this time and place, and
25 according to the Order, we will give each

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2 participating party 20 minutes. I suppose
3 the Attorney General and the MCI people will
4 open, and then AT&T can go last and respond.
5 And you may want to save some of your time
6 to reply, if you do.

7 MR. MOORE: Yes, sir, Your Honor.
8 I believe that Sprint is here, and I'd like
9 to introduce to the Commission, Mr. Michael
10 Fingerhut, who is counsel with Sprint. They
11 have, I believe, today filed a protest and
12 are participating in this case.

13 COMMISSIONER SHANNON: But they
14 didn't file a Motion to Continue, I don't
15 believe. If they did, I didn't see it.

16 MR. FINGERHUT: No, we did not.

17 COMMISSIONER SHANNON: So you won't
18 participate in the argument. You are just --

19 MR. MOORE: I think he'd like to.

20 COMMISSIONER SHANNON: Well, I don't
21 think he can. I think we're going to stick
22 to our Order. The only people that are
23 going to participate in our argument are
24 the petitioners here. So, I'm sorry, but
25 since you did not petition, then I don't

1
2 think you have that right.

3 Go ahead, Mr. Moore.

4 MR. MOORE: I would like, before we
5 begin, to introduce to the Commission,
6 Mr. William F. Marmon, Jr., with MCI.
7 Mr. Marmon is counsel with Sprint in
8 Washington.

9 COMMISSIONER SHANNON: Good to
10 have you with us, Mr. Marmon.

11 MR. MOORE: He will be working
12 with us.

13 Let me begin, Your Honors, by
14 thanking you for giving us the opportunity
15 to appear here today, and to make this
16 argument.

17 Earlier this year, the General
18 Assembly gave to you a great opportunity
19 in the area of telecommunications public
20 policy, gave you the opportunity to
21 determine if competition could replace
22 rate regulation for a particular company's
23 rates. But it also placed on this
24 Commission a great responsibility and charge
25 that you could deregulate rates only if you

determined that the services provided would be provided on a competitive basis. That is for you to determine for a particular company, that the competitive basis eliminated the need for rate regulation. The statute is clear that this is to be a factual determination to be made on a company-by-company, case-by-case basis. Indeed, the statute suggests three criteria you might want to consider: the number of other carriers; the geographic areas where these other carriers participate; the quality of the services provided by other carriers. In your rule-making, you determined that you would, in fact, consider these three criteria. Thus, the determination that you have decided you must make is a factual one, and must at least include reference to these three criteria. Your determination must, of course, be based on facts, not notions, not your notion, or my notion, or anybody else's notion of how things ought to be, may be, or should be, but how, in fact, they are, what are the facts.

The General Assembly is the one that had the notion, and they had the notion that perhaps competition could replace rate regulation, but they put the ball to you. They left it to you to make the factual determination, case by case, company by company. They required that you look at each company's services, and see if they will provide it on a competitive basis, sufficient to eliminate the need for rate regulation. This law, of course, became effective July 1. Four OCCs have applied for certification under the new law, and on July 5, as Judge Shannon pointed out, AT&T sought deregulation of its rates. It sought deregulation of its rates not in a phased manner, not partially now, not for just part of the State, but for all of its services, for all of the areas, for all of its rates in the entire State. The petition must be one of the shortest ever filed before this Commission. It says simply the OCCs will be provided a wide array of choices of prices and services. We will provide no monopoly

1
2 services, therefore, there must be competition,
3 and we should be deregulated.

4 The Commission correctly determined
5 that a public hearing was needed, provided
6 that notice would be given, so that there
7 could be an opportunity for full public
8 participation. Unfortunately, the hearing
9 was set for July 27th. That was a little
10 over three weeks after the petition was
11 filed, but it was less than three weeks
12 after most of us found out that it had been
13 filed and had to begin to try to prepare and
14 respond to this move by AT&T.

15 AT&T serves the entire State with a
16 broad array of services and they want deregula-
17 tion of their rates now. To comply with this,
18 the Commission must determine, based on the
19 facts in the record, that AT&T's services
20 will be provided on a competitive basis,
21 such that rate regulation is no longer needed.
22 That is a major undertaking. It's a massive
23 undertaking. It cannot be completed by
24 next Friday afternoon. What is needed
25 between now and the time the decision is made

1
2 as to whether AT&T should be deregulated in
3 this State are a number of things that are
4 not possible now.

5 First, we need discovery, not just
6 a little bit of discovery, but substantial
7 discovery, an opportunity to follow up on our
8 first group of Interrogatories. If those,
9 indeed, are answered, they couldn't possibly
10 be answered before Monday or Tuesday.

11 Second, we need the Commission
12 Staff's involvement in this case. The
13 Commission's Division of Economic Research
14 and Development was directed by your Order
15 of the 9th to be sent a copy of that Order.
16 From an economic standpoint, the decision
17 of whether to deregulate AT&T for the entire
18 State must be one of the decisions of the
19 decade. Certainly we should have this
20 important division involved in this case.
21 Let them make a study, let them make an
22 investigation, and file a report that all
23 of us can have the advantage of, that all of
24 us can look at and respond to, and deal with,
25 before the hearing.

1
2 We also need reports from the
3 local exchange companies. During the rule-
4 making proceeding, we heard much of equal
5 access. Well, equal access is something
6 that the local exchanges must deal with.
7 And there are 21 of them, but C&P is
8 clearly the largest. But the other 20
9 provide over 580,000 lines throughout the
10 State. If we're going to deal with equal
11 access and see how much, when and where,
12 you need to have a report, not from MCI,
13 or from AT&T, but from those companies.
14 Accordingly, we have filed a request with the
15 Commission, a motion, that you enter an order,
16 requiring each local exchange to provide a
17 report to you, a special report, setting
18 forth information about equal access and a
19 number of other issues we believe is important.

20 Finally, we need prefiled testimony
21 and an opportunity to have meaningful cross-
22 examination and rebuttal. What is AT&T's
23 theory? Who are their witnesses going to be?
24 What are they going to say? We have no idea
25 at this time. We cannot cross-examine

1
2 effectively next Friday and help this Commission
3 develop the facts that it needs to decide this
4 case unless we have prefiled testimony, unless
5 we have a chance to adequately prepare and
6 respond to it. We cannot have rebuttal
7 witnesses available in this courtroom next
8 Friday afternoon to respond to every
9 potential whim of AT&T. Indeed, that would
10 fill this courtroom, and is an impossibility.
11 What we need is a continuance now so that
12 we can do these things.

13 The Supreme Court of Virginia
14 earlier this year in the Vepco case discussed
15 what due process before this Commission
16 involved. I believe that case made clear
17 that due process had to be more than a theory.
18 It had to be reality. Without a continuance
19 in this case, there can be no real due
20 process for the parties. We need a
21 continuance. We need a schedule established,
22 a schedule that will afford due process to
23 the petitioners and to the parties, and ensure
24 an adequate record for the Commission.

25 COMMISSIONER SHANNON: Are you

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2 suggesting we continue all the cases, all
3 the --

4 MR. MOORE: No, no, sir, just AT&T.

5 COMMISSIONER SHANNON: Would you be
6 opposed to that?

7 MR. MOORE: I would be opposed to
8 that, yes, sir. I don't think that's
9 necessary. I think AT&T is serving
10 throughout the State, they are the dominant
11 carrier. That word may not be in vogue in
12 this State, but I think that is, in fact,
13 the case. They are the only carrier now.
14 Clearly, anyone else who tries to enter
15 this market must price competitively, must
16 respond competitively. The questions that
17 must be asked, and the answers, are vastly
18 different for a new entrant, someone who has
19 no authority at all to operate intrastate
20 in this Commonwealth, than they are for AT&T.
21 For MCI, there's also the special problem
22 of equal access beginning on September 1,
23 and as the Commission knows, we have
24 solicited customers there, have advised them
25 that it was dependent on regulatory approval,

1
2 but we have solicited customers there. And
3 MCI feels it's very important that they be --
4 they get every chance they can to try to
5 compete with AT&T. So we would be opposed
6 to continuing certainly the certification
7 part of MCI's proceeding.

8 With the continuance and time to
9 prepare, we can provide, indeed, all of the
10 protestants, the Attorney General, all of us
11 can provide this Commission with the facts
12 so that you can answer and look at the
13 questions you should examine. Some of these
14 issues are, and I'd like to just touch on
15 some of them.

16 Equal access, that was the buzz
17 word at the rule-making hearing. Is that
18 going to be the answer? If so, how many
19 will there be? Where will they be? Are
20 there barriers to entry on competitors
21 even where there is equal access? Well, the
22 answer for part of this, we believe, we set
23 forth in our Memorandum. For right now,
24 there essentially is no equal access.

25 45,000 down in Norfolk -- and I do now

1 understand that Burke's Garden is equal
2 access, and that's 105 lines -- so I think we can
3 say that of the over two and a half million
4 lines in the Commonwealth, essentially none
5 of them have equal access, yet AT&T wants
6 to be deregulated now. By 1985, still
7 statewide, only 40 percent will be converted
8 to equal access. That means over a million
9 and a half lines without equal access. By
10 1986, still 800,000 lines without equal
11 access. To look at this, we must look,
12 as I indicated, not just to C&P who has
13 almost two million lines, but also to the
14 other 20 local exchange companies that have
15 over 580,000 lines. There is, we believe,
16 no legal obligation for those companies
17 to provide equal access and there is no
18 plan, as far as we know, for there to be
19 substantial changes to equal access. We
20 may have a notion that equal access will be
21 everywhere soon, but this case must be
22 decided on the facts, where will it be.

23 We also believe that the evidence
24 can show that immediate competition sufficient
25

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2 to negate the need for rate regulation will
3 not occur automatically with equal access.
4 We may have the notion that equal access is
5 the answer, but the facts may be different,
6 and we need time to develop those facts
7 and present that evidence.

8 We need also to look at the places
9 where equal access will not be; that's
10 essentially the whole State now, a million
11 and a half lines a year from now, and over
12 three-quarters of a million the year after
13 that. The evidence will show that lower
14 access charges do not, do not offset the
15 lack of equal access.

16 Now, to present this to you, we
17 need to present to you evidence about such
18 things as echo suppressors, answer supervision,
19 the disadvantage it is that a customer must
20 dial 22 numbers rather than eight numbers
21 to make a call. We may have the notion that
22 lower access charges offset these disadvantages.
23 We believe, if given an opportunity, the facts
24 can show otherwise. We can also show we
25 believe that over half the phones in this

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2 state are rotary-dial. Without equal access,
3 a rotary-dial customer cannot call through an
4 MCI or Sprint. That means, if we just take
5 half, that means right now about half the
6 phones will have no effective competition
7 at all if AT&T is deregulated.

8 COMMISSIONER BRADSHAW: Where do you
9 get your number that only half are rotary?

10 MR. MOORE: Only half?

11 COMMISSIONER BRADSHAW: I mean
12 only half are available for it. Where did you
13 get that number?

14 MR. MOORE: MCI supplied that number
15 to us, and I believe they got it from a
16 number that covers the South and it included
17 Virginia. Virginia may be different. I can't
18 say to you it's right there. The numbers on
19 the equal access we obtained through Bell
20 Atlantic's Compliance Report that we
21 referred to, and we also -- we're not aware
22 of any plans for conversion for the 582,000
23 lines provided by the other 20 companies.
24 And that's the way we developed those numbers.

25 If those numbers are right, we're

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2 dealing with essentially half the phones now,
3 three-quarters of a million phones next year,
4 400,000 phones the year after that.

5 COMMISSIONER SHANNON: Mr. Moore,
6 let me ask you -- let me interrupt you, if
7 I may. Are the independent companies operating
8 in Virginia, they're not under any constraint
9 or any directive from Judge Greene to provide
10 equal access; are they?

11 MR. MOORE: That is correct. GTE
12 would be the only one that would be, and it's
13 my understanding that in a letter to Mr. Wickham,
14 dated June 8th of this year, he advised
15 Mr. Wickham that because they had no end
16 offices with 10,000 phones, they had no
17 obligation. It's a three-page letter. But
18 I think the sum and substance of it is that.

19 COMMISSIONER SHANNON: So as far as
20 this case is concerned, you could really forget
21 that, because there's no way we can make them
22 provide equal access if they don't want to
23 do it.

24 MR. MOORE: Well, yes, sir. I think
25 that's right. My point is that if equal access

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2 is going to be the answer, then certainly
3 you've got to look at what is the impact of
4 deregulating AT&T everywhere, if, in fact,
5 at least with these 580,000 phones, there
6 will be no equal access and no guaranteed
7 promise of equal access. It doesn't mean
8 it's not going to come down the road.

9 COMMISSIONER SHANNON: Yeah, if
10 the business is there.

11 MR. MOORE: Well, but it's not.
12 But it takes more than just the business,
13 because it takes a tremendous expense from
14 the local telephone companies, I believe,
15 to make that change, and that will impose
16 a tremendous burden on the local customers
17 there. So I don't think that's something --
18 you're quite correct, the Commission -- I'm
19 not going to say what the Commission can do
20 as far as if they decided they wanted to
21 require equal access, but I think Judge Greene
22 certainly --

23 COMMISSIONER SHANNON: Judge Greene
24 didn't --

25 MR. MOORE: Did not require it.

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2 This Commission must be prepared
3 and must ask the question in every area of
4 the State for every service with and without
5 equal access, what if AT&T increased its
6 rates 20 percent, 30 percent, 50 percent?
7 You can't decide that issue on someone's
8 notion of what the customer ought to do,
9 or might do, or should do. You've got to
10 look at the facts. It's going to take
11 some economists to come in, to make some
12 studies, to look at the economic factors
13 involved, to look at what are the barriers
14 to companies coming in. We pointed out in
15 our Memorandum that MCI last year spent
16 \$889 million throughout the country, and
17 with expenditures like that, they're all
18 the way up to two and a half percent of the
19 market. So there's a barrier there.

20 Also, there are customer barriers.
21 This dial -- the person who has the rotary-
22 dial only, they've got to buy a new phone.
23 They have the cost of conversion that is,
24 I think it's ten dollars and eighty-some
25 cents for C&P, but it goes over twice that

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2 for some companies, and then they have a
3 monthly charge from 25 cents to \$5 a month.
4 You must look at not only the barriers to
5 the companies, but the barriers to the
6 customers. But what about the absolute
7 monopoly that AT&T has on 800 in-WATS.
8 That's something technically, physically,
9 MCI can't do. It isn't a question of whether
10 they want to, or would like to, or anything
11 else; they physically can't do it. And what
12 about AT&T's rates? What about rate de-
13 averaging? Is AT&T going to raise its rate
14 out in the western part, where maybe only, in an
15 area where there are only rotary dials and
16 small numbers of customers, 100, 200, 300
17 percent, take that money and use it as a
18 cross-subsidy for areas where there's high
19 traffic? All of those issues must be
20 examined.

21 COMMISSIONER SHANNON: Mr. Moore,
22 under the law, don't we have the right to
23 pull them back under regulation if we find
24 that deregulation is not effective?

25 MR. MOORE: Yes, sir. I must say

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2 to you, sir, that I believe -- I don't believe --
3 the statute does say that you must first
4 determine that it's going to be provided
5 on a competitive basis. I don't think that
6 envisions or allows this Commission to say,
7 we've got a notion that it's going to work,
8 so we're going to let it work, and then if it
9 doesn't work, we'll fix it then. The statute
10 envisions and requires this Commission to
11 look at the facts on a company-by-company
12 basis and make a determination. Then, if
13 things change, if AT&T changes after you've
14 made that determination, then you can pull
15 it back. But the statute does not envision,
16 Your Honor, a concept of your having the
17 idea that competition should work. It was
18 the General Assembly that had the idea and
19 they put it on you-all to go out and look at
20 the facts and look at AT&T and look at each
21 case, and then make a determination based,
22 not on a notion or idea, but on the facts
23 that competition could replace for the
24 particular company, for the particular
25 services, in a particular area, rate regulation.

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2 These issues, Your Honors, are complex.
3 They're difficult. They require time to
4 develop. These are not issues just the
5 partisan parties involved are concerned
6 about. The Attorney General is here today,
7 and as we cited in our Memorandum, the
8 Justice Department of the Reagan administra-
9 tion has stated at the FCC, that they have
10 serious doubt about the ability of the OCCs
11 to represent a check on AT&T's market power.
12 So it's not as though it's clear by any
13 means, and you only have the partisan parties
14 fighting. These are real issues. They must
15 be faced fairly with due process, and with
16 an adequate record.

17 I ask you today to continue this
18 case for my client, but also for yourself.
19 The decision you make in this case could be
20 a landmark one. It will be critical for the
21 telecommunications industry in Virginia,
22 and it could be a guiding light for national
23 policy in this area. Clearly, the welfare
24 of the consumers of Virginia and the
25 telecommunications industry will rest on

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2 your decision. But the eyes of the nation
3 will also be on you in what you do and what
4 you say in this case. Let no one in the
5 State say that this Commission made a
6 critical decision such as this one without
7 due process, and let no one in the nation
8 say that what could have been a landmark
9 decision was not based on an adequate
10 record. We're not saying now do not
11 deregulate. We are saying, rather, that
12 to make the determination of whether to
13 deregulate or not requires facts and a
14 fully developed record with due process.
15 That cannot happen next Friday. Without
16 an opportunity for full participation by
17 all parties, there can be no due process.
18 Your record cannot be adequate. You cannot
19 take your notion, or my notion, or anybody
20 else's and decide this case. You cannot
21 simply deregulate AT&T next Friday afternoon.
22 It takes facts and it takes a record. What
23 we ask is that you give us, Virginia, and
24 yourselves the opportunity to develop those
25 facts and provide that record. Then, and only

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2 then, can you act to protect the public
3 interest. This can be done only, and only
4 if this case is continued at this time.

5 Thank you.

6 COMMISSIONER SHANNON: Thank you,
7 Mr. Moore.

8 Mr. Gambardella.

9 MR. GAMBARDELLA: Thank you, Your
10 Honor.

11 May it please the Commission, I'll
12 be brief, and I'll not cover the ground
13 that Mr. Moore has just covered. Our Motion
14 for Continuance is fairly simple, and I think
15 in all material respects we agree with the
16 position that you've just heard. We believe
17 that Section 56-41.1 requires a factual
18 determination in this case, and probably
19 in others. And you have recognized that,
20 I think, in your Order, where you scheduled
21 a hearing, and you scheduled that hearing
22 for next Friday. Our Motion for Continuance
23 simply requests the time we require to have
24 a meaningful input into that hearing process.
25 We think we're entitled to that, and the

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2 customers are entitled to that.

3 The issue we're concerned about,
4 and Mr. Moore has stated a number of them,
5 and I think probably all of those are
6 legitimate subjects in this hearing. But
7 the issue we're primarily interested in is
8 what will happen in areas where there is not
9 competition, where there aren't any other
10 competitors, where it's only AT&T. That is
11 the critical question. Those areas may be
12 larger or smaller, depending on the time
13 frame you're talking about. They may get
14 larger or smaller in the future. But that
15 is the issue that we're concerned about,
16 and that's the issue we'd like discovered,
17 and a chance to present a case on. And I
18 think the point was made by a question
19 Judge Bradshaw just asked Mr. Moore. He
20 asked him where he got a number, about the
21 number of rotary-dial telephones. Well,
22 that's the point. I'd like to know what the
23 proof is on that, not only on AT&T's side,
24 but also on Mr. Moore's side of the case.

25 And what I'd really like to impress

1 upon you is that it is important to do that
2 factual inquiry now. It is very important
3 for one reason as far as customers are
4 concerned, and that is the way the rules
5 are structured. Once these companies are
6 permitted to enter a competitive sort of
7 environment, it then falls to the customer,
8 or at least somebody outside the particular
9 company involved, to come to you with
10 complaints and to establish that that company
11 is operating under discriminatory rates or
12 rates that are otherwise not in the public
13 interest. I believe that's Rule 7, but
14 Rule 7 contemplates that somebody else will
15 come to you and tell you that the rates are
16 no longer--or that the ratepayers are no
17 longer protected by the competitive
18 environment. And the reason for that is
19 that you permitted companies that under the
20 Rules who do not -- who are determined to be
21 competitive, to be free of any filing
22 requirement here, so that you won't have
23 their rates in advance. You won't even have
24 them at all after the first set of rates filed
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2 with their certificate. So the burden--and it
3 will be a heavy burden--shifts to somebody
4 else to show that rates are discriminatory
5 in the future. And for that reason, it's
6 important at the outset to determine that at
7 least at the beginning, ratepayers will be
8 protected. There shouldn't be any prejudice
9 to AT&T. AT&T is functioning now. They
10 have rates, they have a certificate, they
11 operate throughout the State. And for all
12 intents and purposes, they have no competitors
13 at this point. The other companies have
14 filed, but that's all they've done. You
15 haven't decided those cases yet.

16 COMMISSIONER SHANNON: Would you
17 oppose continuing the other four applications?

18 MR. GAMBARDILLA: No, sir, I must
19 say I would not. I recognize the distinction
20 between, as Mr. Moore puts it, notions of the
21 fact that MCI will be competitive -- I think
22 MCI probably can't do anything but be
23 competitive. We recognize that possible
24 distinction. By the same token, as far
25 as we're concerned -- let me put it this way:

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2 I don't think it would be a significant
3 defeat if all of the -- if all of the other
4 cases were continued, as far as we're
5 concerned. Now, I know that other parties
6 have different interests in this.

7 In sum, what we're asking here is
8 relatively straightforward, and that is that
9 we be given an opportunity to fully participate
10 in a hearing which has already been scheduled,
11 and which allows AT&T an opportunity to
12 fully participate. We think we're entitled
13 to that as a matter of law, and we urge you
14 to grant our continuance.

15 Thank you.

16 COMMISSIONER SHANNON: Thank you,
17 Mr. Gambardella.

18 Mr. Morrissey.

19 MR. MORRISSEY: Thank you. May it
20 please the Commission, my name is Michael
21 Morrissey, representing AT&T Communications
22 of Virginia. Until late yesterday afternoon,
23 I had not planned on spending today in
24 Richmond, but of course, that is always a
25 pleasant surprise. I am not surprised, either

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2 pleasantly or otherwise, at the reason we're
3 here today. In fact, I believe the various
4 pleadings filed by MCI make both this
5 Commission and myself prophets in our own
6 time, with certain of our predictions
7 coming true in a very short period of time.
8 Specifically, the MCI pleadings demonstrate
9 the wisdom of this Commission in emphasizing
10 in its Order establishing the rules and
11 regulations for all interexchange carriers
12 that all carriers be able to compete equally
13 and fairly in the marketplace, and not
14 compete in the hearing room. MCI's pleadings
15 demonstrate what we warned about, and what I
16 am sure the Commission was aware of in
17 presenting its Order, that if there are
18 differing degrees of regulation, carriers,
19 such as MCI, who claim to be non-dominant,
20 will claim that they should be given
21 regulatory flexibility. They will also
22 insist that their major competitor be
23 subject to more regulation and use that
24 regulatory process for their competitive
25 advantage. In this way, the benefits of

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2 competition will not go to Virginia customers,
3 but will go to particular competitors, such as
4 MCI.

5 I notice in a response to a question
6 from Judge Shannon, Mr. Moore was very quick
7 to say yes, all his wonderful arguments
8 about due process should apply to AT&T to
9 delay their hearing, but should not apply
10 to MCI.

11 I'll first address the pleadings of
12 MCI, and then the request for continuance
13 filed by the Attorney General's Office.
14 Before I do so, I think I should refer to
15 the Interrogatories filed by MCI and the
16 Attorney General's Office. Pursuant to the
17 Commission's Order, we will respond to the
18 Interrogatories by the end of the day on
19 Monday. Let me state affirmatively now
20 that certain of the Interrogatories from
21 MCI, not the Attorney General's Office,
22 request proprietary information, which are
23 of great marketing value to MCI as a
24 competitor. Such requests are typical
25 of the abuses of the regulatory process

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2 employed by MCI and which will be employed
3 in the future if uneven regulatory oversight
4 is applied to AT&T. We will not turn over
5 such information to MCI or to any other
6 competitor. We will, of course, turn over
7 all such pertinent information to this
8 Commission and to the Attorney General's
9 Office, pursuant to protective arrangements
10 which they have the authority to grant.
11 I say that now so there will be no surprise
12 on Monday afternoon when we respond to the
13 Interrogatories from MCI. This position is
14 not a new one. We have been -- we have
15 expressed our concern on this proprietary
16 information matter, both in our comments
17 in this proceeding and in other proceedings.

18 Turning to the substance of the
19 MCI petition, they make essentially three
20 major points. The first one which Mr. Moore
21 discussed at length was the shortness of time
22 between AT&T's filing and the hearing date
23 of July 27th. They stated this does not allow
24 for due process for complete or meaningful
25 cross-examination and Interrogatories.

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2 What MCI fails to state, although Judge
3 Shannon was quick to point it out, that its
4 same application in Case No. 840022 was
5 filed on July 2nd, 1984, only three days
6 before AT&T's, and that hearing is also
7 scheduled for July 27th. If there are
8 grounds for delay on action on AT&T's case,
9 which we do not believe there are, then MCI's
10 application must also be delayed, and subject,
11 I might add, to the same Interrogatories and
12 the same procedures it suggests for AT&T.
13 The statute makes no distinction between
14 the procedures to be applied to AT&T and
15 MCI. In fact, the statute makes it clear
16 that procedures are to be applied equally.

17 AT&T will, in fact, present full
18 testimony, not notions, not opinions, but
19 facts and evidence on July 27th, including
20 the testimony of Dr. Frank Alessio, Mr. Doug
21 Wilcox, and Mr. John Schell, experts in
22 their respective field, who will address
23 all the issues that have been discussed
24 by Mr. Moore. These people, these experts,
25 have testified before in similar type proceedings

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2 involving MCI. What they say should be of
3 no surprise to MCI. It may be of some
4 chagrin to MCI, but it will be of no surprise.

5 The second ground for the dismissal of
6 the AT&T petition is that AT&T is the only
7 competitive carrier in Virginia, and the
8 only one which will provide service throughout
9 the State. I believe that MCI's petition
10 contradicts the first part of that argument.
11 If you turn to the top of Page 2 of MCI's
12 petition, MCI states as topic A, that it is
13 presently competing with AT&T for interstate
14 long-distance service in Virginia. What it
15 fails to state, but what Mr. Moore admitted
16 before this Commission on June 19th, was that
17 it's also providing intrastate service in
18 Virginia. Mr. Moore, to credit his remarks,
19 did state that it was incidental to their
20 interstate service. I recall that statement
21 was greeted with general laughter in the
22 hearing room, and it deserves such. Under
23 MCI's definition and logic, all of AT&T's
24 intrastate service in Virginia is incidental.
25 Only 20 percent of the total AT&T Communications

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2 revenues come from the intrastate market.
3 Of that 20 percent, probably not more than
4 one percent involves Virginia intrastate
5 service. That is a large one percent, however.
6 As a result, it could be called, under MCI's
7 definition, incidental. We do not call it
8 such, and we do not believe MCI's intrastate
9 service is incidental either.

10 The second part of the argument
11 was that AT&T serves all parts of this State,
12 and that should be used as justification to
13 treat AT&T separately. I'm not surprised
14 by that argument. I believe I addressed it
15 on June 19th, where we stated, contrary to
16 what had been traditionally proposed, that
17 carriers be required to provide service
18 to all parts of the State, that that should
19 not be a precondition, should not keep
20 competitors out of Virginia who do not
21 want to serve the entire part of the State.
22 But I also knew at that time that that
23 would be used against us, as it was.
24 Because we have made the commitment to
25 serve the rural areas that the Attorney

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2 General is concerned about, because we have
3 done that for a hundred years, and we
4 continue to do so, and in spite of the
5 fact that MCI has made no commitment to do
6 so, nor will they make such a commitment,
7 that is being held against us, and is used
8 as a grounds to put more regulatory strictures
9 on us. That commitment, while we are on it,
10 I know is a concern of the Attorney General's
11 Office, and I know it -- and I believe it is
12 a real one -- we have stated as a corporate
13 policy that we will continue to serve the
14 rural areas, and we will not rate de-average
15 in those areas. We are prepared to make that
16 commitment in any form the Commission desires,
17 from the highest levels or level of management
18 of AT&T.

19 The third area is the red herring
20 which is constantly raised, of access to the
21 local exchange, and particularly equal access.
22 The essential basis is the other carriers --
23 other competitors, do not share the same
24 quality of access as AT&T, and therefore,
25 they cannot compete effectively. The amazing

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2 performance of MCI and other carriers in the
3 last three or four years, in spite of that
4 difference in access, belies that assertion.
5 If we look closely at the arguments made
6 in the Memorandum regarding equal access,
7 you will see that they have nothing to do
8 with what type of regulatory constraints
9 should be applied. MCI and the OCCs can
10 today, and could have before divestiture
11 in Virginia, achieved, if they wanted to pay
12 for it, a superior form of access, which
13 would have resolved most of the technical
14 problems alluded to by Mr. Moore. Feature
15 Groups B and C are available in total
16 in probably 94 percent of all end offices
17 served by C&P. In all fairness, let me
18 qualify this, so there is no misleading
19 statement. Feature Group B, which does
20 resolve most of the problems raised by
21 Mr. Moore, including quality of transmission,
22 the use of Automatic Number Identification,
23 and the use of rotary dials, is available
24 in 60 percent of C&P's end offices. These
25 facts, and other facts or issues raised by

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2 Mr. Moore, were, in fact, presented
3 fully to this Commission less than
4 a year ago in Case No. 830020. They were
5 presented and were not controverted.

6 Mr. Moore also attempted to shed
7 alligator tears about the areas served by the
8 independents. Experience has borne out, that
9 in many cases, those are areas that MCI
10 will never have any interest in serving.
11 But let's, just for a minute, look at the
12 particulars that they have raised in their
13 Memorandum concerning equal access. If we
14 turn first to Page 6 of the Memorandum, to
15 reiterate the point I just made, MCI requests
16 that certain answers regarding equal access
17 be answered. All of these questions were
18 addressed and answered fully in Case No.
19 830020. However, we will have Mr. Schell,
20 who is probably one of the leading experts
21 in the country on this issue on July 27th,
22 to address these issues fully.

23 To turn to Page 8, and also on
24 16, as well as Mr. Moore's remarks regarding
25 the use of rotary telephone service, and the

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2 fact that they are then precluded from
3 competition in those areas. In fact, that
4 statement is not true. We dispute his
5 figures on the numbers of customers who
6 actually have TOUCH-TONE, and what is more
7 important, the figure in Virginia, I am told
8 by information that is before the Commission
9 presently, is in excess of 90 percent of
10 customers have access to TOUCH-TONE service.
11 But besides that, rotary service can be
12 used by customers to take OCC service.

13 COMMISSIONER SHANNON: Isn't
14 whether you have a TOUCH-TONE or a rotary
15 phone, Mr. Morrissey, isn't that largely
16 a matter of customer choice?

17 MR. MORRISSEY: Yes, absolutely.

18 COMMISSIONER SHANNON: They pay
19 a little more for the TOUCH-TONE.

20 MR. MORRISSEY: That is absolutely
21 correct. And in all fairness, the device
22 you would have to purchase if you had a
23 rotary phone and did not want to buy TOUCH-
24 TONE but yet wanted to use MCI, you could
25 buy a device in Radio Shack for less than

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2 \$25, and if you believe the savings that
3 MCI promises its customers, that's more than
4 made up in the first month or two of the
5 service with MCI. But, Judge Shannon, don't
6 take my word for it. Let MCI and Sprint
7 speak to this issue. I received -- although
8 this is not the copy I received at my home --
9 but this was mailed to Mr. David K. Hall
10 of Fairfax County from Sprint. It says,
11 "No installation is required and there is
12 no set-up charge. For a \$5 monthly subscription
13 fee, you'll have access to the thousands of
14 communities in the Sprint network. All that's
15 needed is an ordinary push-button phone.
16 In fact, even if your phone has a rotary
17 dial, our simple and inexpensive conversion
18 device will adapt it in seconds."

19 And so that I don't leave out
20 MCI, they state in an ad circulated in
21 Virginia periodicals, "With the new MCI
22 Advantage Service, you will dial every
23 number exactly as you would with Bell. You
24 simply dial the area code and the local
25 number. You use the same phones you're

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2 already using, either push-button or rotary,
3 and there are absolutely no extra numbers
4 to dial." So it can be done. There are
5 some costs involved, but everything we do
6 in the service that we provide involves
7 costs.

8 Finally, I would refer you to
9 the footnote on Page 15, in which the
10 statement is made that on an intrastate
11 basis, the discount for the OCCs will
12 be not as great as at the interstate level.
13 In fact, as a practical matter, that is not
14 true. The present discount for OCCs operating
15 in Virginia for intrastate access is 100
16 percent. Not one of these carriers pay
17 access as they're required to do for their
18 intrastate service. And in those states,
19 so there's no technicality with the Virginia
20 law, in those states such as Maryland, where
21 they have been granted certificates to
22 operate, are required to pay the intrastate
23 access charges, such as in your neighboring
24 state of Maryland, to this date, they have
25 paid not one cent in intrastate access.

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2 And that brings me to the proposal,
3 or the filing made by the Attorney General.
4 I can understand the concerns, and we are
5 sympathetic to the concerns of the Attorney
6 General. I previously indicated our commitment,
7 which we think is a strong one, and one that
8 should be of concern to the Attorney General
9 regarding rural customers. We will emphasize
10 that commitment and make it perfectly
11 clear on July 27th. But we wonder why was
12 no petition filed by the Attorney General's
13 Office regarding MCI. They have the same
14 time frame that they've requested for their
15 case to be heard and for the same Interrogatories
16 and procedures which the Attorney General seems
17 to want to apply to us should be applied to MCI.

18 Furthermore, MCI has nowhere made
19 any commitment to serve the rural areas,
20 which the Attorney General appears to be
21 concerned about.

22 And third, there is a large body of
23 record before this Commission that indicates
24 that MCI already is providing intrastate
25 service in violation of the laws of this

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2 State, and is not paying intrastate access
3 charges. On the other hand, AT&T Communications
4 is abiding by the laws of the State, and we
5 really question why are we being singled out.

6 In conclusion, I would say that
7 it is clear from us -- clear to us that the
8 clear intent of the statute has been acted
9 upon by the Commission properly, that all
10 carriers be treated on a level playing field,
11 and with equal treatment. And consistent with
12 that statute, we believe that these petitions
13 should be denied.

14 Thank you.

15 COMMISSIONER SHANNON: Thank you.

16 Mr. Moore, you used 23 minutes.

17 MR. MOORE: I'm sorry, sir.

18 Could I charge some of that maybe
19 to some questions, Judge?

20 COMMISSIONER SHANNON: Yes, yes,
21 you can. I'll give you five minutes then.

22 I'll tell you, Mr. Gambardella
23 didn't use but just about -- he didn't use
24 more than five minutes.

25 MR. MOORE: I won't take long, Judge.

1
2 COMMISSIONER SHANNON: Okay.

3 MR. MOORE: I want to make several
4 points. First, as far as our -- the allegation
5 that the due process only goes to him and not
6 to us, it simply isn't correct. You've got
7 to apply the same rules. The same thing
8 ought to apply. If someone asks for a
9 continuance and can suggest to this Commission
10 and present to this Commission that the issue
11 of deregulating MCI will be complex, will
12 involve these issues, will need all these
13 things they can't get any other way, then
14 you need to consider whether there ought
15 to be a continuance. As far as I know,
16 no one has objected as far as the petition
17 to deregulate MCI is concerned. When that's
18 made, it ought to be dealt with, and you
19 ought to look at it with exactly the same
20 factors that you look at it with AT&T.

21 COMMISSIONER BRADSHAW: Mr. Moore --

22 MR. MOORE: Yes, sir.

23 COMMISSIONER BRADSHAW: Does due
24 process also mean that everybody comes out
25 of the starting gate at the same time,

1
2 if you're running a race?

3 MR. MOORE: We're not in a race,
4 Judge. I'm not trying to evade your
5 question, but --

6 COMMISSIONER BRADSHAW: I mean, you
7 want to continue one and not -- I mean, I'm
8 just talking about due process. Due process
9 means fairness. Is it fair to let two people
10 compete and one get a head start or jump
11 on the other one?

12 MR. MOORE: Well, I would -- no.
13 But if I may add to that --

14 COMMISSIONER BRADSHAW: I mean,
15 even if no one asks for it?

16 MR. MOORE: When we're dealing
17 with this concept of the level playing
18 field, you know, you should, you should treat
19 all equals alike. But the most unfair,
20 unequal thing to do is to treat unequals
21 precisely alike. And if, indeed, AT&T is
22 serving everywhere, and it really doesn't
23 matter whether we want to, or we can't,
24 or whatever, but if we are not going to
25 serve in Grundy, Virginia, then you've got

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2 to take that fact into consideration when you
3 decide whether you're going to deregulate
4 AT&T's rates in Grundy, Virginia. It doesn't
5 matter why or what anybody's commitment is,
6 you've got to look at that, and as far as, and
7 if it takes longer to make that determination
8 for AT&T than it does for MCI, then you should
9 take longer. You should take as long as
10 it needs. And if it takes a long time for
11 MCI, then you ought to take a long time.
12 You ought to have a continuance. I don't
13 think anybody's asked for one.

14 COMMISSIONER BRADSHAW: But you're
15 opposed to one for you; that's what I mean.

16 MR. MOORE: I oppose it, Your
17 Honor, because I don't think it's necessary.

18 COMMISSIONER BRADSHAW: I mean,
19 Judge Shannon's question.

20 MR. MOORE: Yes, I particularly
21 oppose any continuance of our certificate.
22 Now, we've asked for several things. We
23 filed an application for a certificate of
24 authority to do business, and a certificate
25 and a petition to be deregulated. So they

1
2 are combined. We have also asked for
3 approval under the Affiliates Act if our
4 rates aren't deregulated. So if -- we
5 certainly object to any continuance of the
6 certification for MCI to be allowed to
7 commence business. We also don't think
8 it's necessary and nobody's asked for
9 one. And I don't believe AT&T has protested
10 in our case or has asked for a continuance
11 in our case.

12 COMMISSIONER BRADSHAW: No, no one
13 asked. Judge Shannon asked --

14 COMMISSIONER SHANNON: And you
15 opposed it.

16 MR. MOORE: Right, yes, sir. I
17 don't think it's necessary. If the Commission
18 decides it's necessary, and the hearing is
19 going to be as long and as complicated as
20 AT&T's, then, yes, you ought to have a
21 continuance. But it's obviously not. And
22 as far as -- the second point I'd like to
23 touch on, was Mr. Morrissey's argument of
24 his case, and I think he did a great job.
25 He told you about Feature Group D, and B,

1
2 and C, and XYZ, and what's going to happen
3 here, and he disputes our facts, and all that,
4 and that's why we need discovery. That's why
5 you shouldn't do it next week, shouldn't
6 have a swearing contest over here next
7 week, where some people from Sprint, or
8 MCI, or the Attorney General's Office, are
9 trying their best to present a good record
10 to this Commission where you have the facts.
11 And the AT&T people say that's not so, and
12 having us try to shoot from the hip with
13 isn't it true such and such is the case,
14 when we didn't know what he was going to say
15 until after the words were out of his mouth.

16 As far as the access to the
17 TOUCH-TONE and the idea that it is the
18 customers' choice, it certainly is, Judge.
19 I think it is. Ninety-some percent can
20 convert to TOUCH-TONE, but that cost, as
21 we pointed out in our Memorandum, can go up
22 to convert, up to \$22. The monthly charge
23 can be \$5. I've seen one of the devices
24 that Mr. Morrissey talked about. You clip
25 it on, and punch some buttons, and it emits

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2 some sounds, and maybe one or two people will
3 do that, and certainly my client is going
4 to try to get people to do it, but you need
5 to have evidence to see whether that works,
6 how effective it is, and how it affects
7 competition.

8 CHAIRMAN HARWOOD: You wouldn't
9 be selling something that wasn't effective,
10 would you?

11 MR. MOORE: No, sir, whether it is
12 effective for competition, whether our
13 advertising is effective.

14 CHAIRMAN HARWOOD: You shouldn't
15 be advertising something --

16 MR. MOORE: Absolutely not. I've
17 seen one, I've operated one, as a matter of
18 fact. It works. What I said, Judge, or what
19 I meant to say -- and I don't know whether
20 I said it or not -- was that you need to have
21 facts to determine whether that advertising
22 is effective so that in the rotary-dial
23 areas there is effective competition. That's
24 what I mean by effective, the device works.

25 CHAIRMAN HARWOOD: Well, won't the

1
2 market face -- the customers tell you quickly
3 whether it's effective or not?

4 MR. MOORE: Yes, sir, and I think
5 the answer is that it's not. Not many people
6 are doing that, and so as a result, AT&T
7 has a virtually absolute monopoly in the
8 rotary-dial market. And they can talk about
9 people can do this and can do that, and the
10 other, but you need evidence to see what,
11 in fact, people are doing. It's going to
12 take time to develop that evidence.

13 CHAIRMAN HARWOOD: Wouldn't the
14 marketplace and people using or not using
15 a product, as whatever price competitors
16 choose to charge under whatever conditions,
17 be the most effective regulator and tell
18 everyone as to whether you are doing it well
19 or not?

20 MR. MOORE: Your Honor, with all
21 due respect, I suspect that's a notion,
22 and it's a notion the General Assembly had,
23 and I think that the statute says you are
24 to look, in this case at AT&T, and see
25 whether, in fact, there will be competition,

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2 whether, in fact, these devices, the fact
3 that they have to dial 22 numbers, the
4 echo suppressors, the answer supervision,
5 what is the cost of that? How does that
6 affect competition? How will competition
7 be affected where you don't have equal access?

8 You need also to look at what happens
9 in areas where you do have equal access. Now,
10 I'm not -- needless to say, I think at least
11 at this time, my client would disagree with
12 your conclusion, what we're saying today
13 though is, you need to have a full, and
14 complete, and fair due process hearing to
15 determine that, and that can't happen next
16 Friday afternoon. And we submit you can't
17 deregulate AT&T next Friday afternoon if you
18 don't have such a hearing.

19 COMMISSIONER SHANNON: What kind of
20 time frame are you talking about? A year?
21 Two years? Or what?

22 MR. MOORE: Time for what, the
23 hearing?

24 COMMISSIONER SHANNON: To make this
25 determination. You say it's a notion.

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2 Obviously the question-- over a period of years,
3 the Commission does develop some degree of
4 expertise in these areas, if we work at it
5 regularly, but can it be made in two weeks,
6 or can it be made in six months, or a
7 year?

8 MR. MOORE: Your Honor, I'm not
9 challenging the Commission's expertise in this
10 or any other area --

11 COMMISSIONER SHANNON: I'm not
12 suggesting you are.

13 MR. MOORE: But I'm saying you've
14 got to have a record, Judge. You've got to
15 have a record.

16 COMMISSIONER SHANNON: All right.

17 MR. MOORE: And I would think it
18 would take at least 90 days for there to be
19 sufficient discovery, prefiling of testimony.
20 I would think, as I said earlier, the
21 Economic Research Division, this is going
22 to be the economic decision of the decade
23 for this state, to deregulate AT&T for the
24 entire State of Virginia for everything,
25 and not have the Economic Research Division

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2 of the Commission make a report that will
3 benefit all of us, let us all deal with that.
4 That needs to happen. I think it's going
5 to take 90-plus days.

6 COMMISSIONER BRADSHAW: You don't
7 want 90 days for your client?

8 MR. MOORE: I don't think it's
9 necessary. If somebody could show us it's
10 necessary, then, yes, you ought to take 90
11 days. I'm not taking -- and I don't want
12 you to think that I'm taking a different
13 view with respect to MCI than I am with AT&T.
14 I am saying to you that I think it is
15 proper to say that MCI -- or the AT&T case,
16 rather, is like a very large Vepco rate
17 case and that MCI is more like a small water
18 company. And you don't take six weeks
19 with a small water company. The issues
20 are not that complex.

21 COMMISSIONER SHANNON: You haven't
22 been representing some small water companies,
23 apparently.

24 COMMISSIONER BRADSHAW: Mr. Riely
25 will call you down on that.

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2 MR. MOORE: I trust you have my
3 point though.

4 COMMISSIONER SHANNON: Well, Mr. Moore,
5 let me ask you this though: Would you be
6 opposed to putting them all under the
7 regulated umbrella for a period of time,
8 your clients as well as the other OCCs
9 that have come in here?

10 MR. MOORE: Your Honor, could I ask
11 for a recess?

12 I -- I'm opposed to it because I
13 think you need to look at it on a case-by-case
14 basis, and I think MCI is going to have to
15 come in here and MCI is going to have to show
16 this Commission that there is going to be
17 competition, and they are not going to be
18 able to price freely. They're not going to
19 be able to price above AT&T and still operate.
20 They're going to have to compete. And I think
21 that you need to look at the same kinds of
22 things. It's much more difficult with
23 AT&T, because you have these added factors
24 of equal access and non-equal access.

25 COMMISSIONER SHANNON: Of course,

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2 only the marketplace, in the final analysis,
3 will determine the answers to your questions.

4 MR. MOORE: I submit, Your Honor,
5 that this Commission was charged by the
6 General Assembly to make a factual
7 determination that the competitive basis
8 will eliminate the need for regulation
9 before you deregulate.

10 COMMISSIONER BRADSHAW: Let me ask
11 you a question, Mr. Moore. Suppose we make
12 this factual determination you're talking
13 about. Would you rather for us to make
14 it on the 27th of this month, or make them
15 all 90 days from now, if you had your choice,
16 realizing that you've already advertised
17 in the Norfolk area to be down there in
18 September?

19 MR. MOORE: Well, if all you
20 continue --

21 COMMISSIONER BRADSHAW: I mean all.

22 MR. MOORE: No, if I may say --

23 COMMISSIONER BRADSHAW: I'm not
24 saying we're going to do it. If you had your
25 choice between the two.

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2 MR. MOORE: Let me -- if I can ask
3 a question for clarification.

4 If what you're talking about is --
5 all AT&T has before it is the petition to
6 deregulate. We have before you an application
7 to be certified to operate as a telephone
8 company in Virginia. Now, we need that by
9 September 1. That is a separate question
10 from whether we're deregulated. In other
11 words, you can approve that.

12 COMMISSIONER BRADSHAW: I understand.

13 MR. MOORE: What you're talking about
14 is only the petition on deregulation, not
15 our certificate.

16 COMMISSIONER BRADSHAW: Well, I really
17 had in mind both. They go together.

18 MR. MOORE: Well, of course, AT&T
19 argued like the dickens that they shouldn't
20 go together. I'd like to put a little bit
21 of that on them. But you can -- the framework
22 allows you to approve a certificate of
23 authority to operate with the rates. We
24 then would, as I understand it, be able to
25 lower our rates with no problem, because they'd

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2 be -- we'd be regulated, but we could lower
3 the rates with no problem. If we wanted
4 to raise our rates, we'd be regulated,
5 and we would have to come to this Commission
6 and have a rate case, and that, as a practical
7 matter, for MCI would be -- would be impossible.
8 So what you're asking is how long -- I hope
9 you're asking me how long a period could we
10 operate before we had to have that freedom
11 to price as we wanted, but not to operate.

12 COMMISSIONER BRADSHAW: That's not
13 what I asked.

14 MR. MOORE: Well, then I've got
15 to say we -- you decide them both -- I will
16 say to you that I don't -- our position is
17 you can't decide the AT&T, because you can't
18 have the record.--

19 COMMISSIONER BRADSHAW: Well, assuming
20 that we can, assuming that we can, after a
21 factual determination; had you rather for it
22 to be on the 27th, or hear everybody in 90
23 days?

24 MR. MOORE: Can I consult with my
25 client?

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2 COMMISSIONER BRADSHAW: Well, I think
3 I know what your client is going to say, but
4 you can ask him.

5 MR. MOORE: I think I know, too.

6 COMMISSIONER SHANNON: This is oral
7 argument. I don't think it's --

8 MR. MOORE: I think it is very --

9 COMMISSIONER SHANNON: You've got
10 to have a certificate to operate. MCI is
11 not legally in Virginia yet.

12 MR. MOORE: That is correct, sir.
13 And we need that certificate, and that's a
14 separate issue from the petition to deregulate.
15 And we get a certificate --

16 COMMISSIONER SHANNON: You might
17 get a certificate and be a regulated carrier --

18 MR. MOORE: Be a regulated carrier,
19 just like AT&T is, for a period of time.
20 But I didn't understand that was Judge
21 Bradshaw's question. Can it be?

22 COMMISSIONER BRADSHAW: We'll pass.
23 Just strike the question.

24 MR. MOORE: I'm not trying to evade
25 you, Judge.

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COMMISSIONER BRADSHAW: I understand.

MR. MOORE: I just think it's critically important that we have that certificate on September 1.

COMMISSIONER SHANNON: I think that's the point you're making. Because if you wait 90 days, you can't operate. If you are operating, you're operating illegally.

MR. MOORE: Yes, sir, we are not going to offer any services on an intrastate basis in this state until we have that certificate, sir.

COMMISSIONER SHANNON: Offer or provide?

(Laughter)

MR. MOORE: There may be --

COMMISSIONER SHANNON: You don't have to answer that.

(Laughter)

MR. MOORE: We're not going to offer any, Judge.

COMMISSIONER SHANNON: I know. I know.

MR. MOORE: MCI takes its obligations

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2 to abide by the law very seriously, and we
3 can joke about it, but it really isn't a
4 joking matter, and we are going to comply
5 with the laws of the Commonwealth.

6 COMMISSIONER BRADSHAW: And when
7 those little commercials say call anywhere,
8 isn't that providing anywhere?

9 MR. MOORE: No, sir.

10 COMMISSIONER BRADSHAW: Oh, okay.

11 (Laughter)

12 CHAIRMAN HARWOOD: Mr. Moore, let me
13 ask you something that will not hoist you
14 on your own petard.

15 MR. MOORE: Thank you, sir.

16 CHAIRMAN HARWOOD: But when you
17 keep saying we will not have enough evidence
18 to make a decision on one, how do you know
19 that, what we are or aren't going to hear
20 is going to be available on the 27th, and
21 see, and won't the Commission be the determiner
22 of how much information is enough, and not
23 the parties?

24 MR. MOORE: I know, Your Honor,
25 because I think that this Commission, from its

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2 experience in the many cases that it's heard
3 over the more than a decade that it's sat
4 together, knows that many times some of
5 the important points are best made on
6 cross-examination and where you can have
7 a real offering of testimony and meaningful
8 rebuttal. I can say to you, you will not
9 have that. Needless to say, you will be
10 the decider of whether you have enough
11 evidence. What I'm saying to you today,
12 sir, is it is our position, and we believe
13 very strongly, you can't have enough next
14 Friday afternoon.

15 CHAIRMAN HARWOOD: Let me suggest
16 you bring your lunch pail and all your
17 rebutters and take no chances. Don't want
18 to leave anybody out.

19 MR. MOORE: Judge, that is really
20 just the point. For us to bring our
21 rebutters, we've got to know what their
22 testimony is, and see the prefilled.

23 CHAIRMAN HARWOOD: Bring everybody
24 you think you might need to rebut, so you
25 won't be in a position to say we've got them,

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2 we've got a witness in Lynchburg.

3 MR. MOORE: Well, Judge, sir, I
4 must say to you that we can't do that. We
5 cannot guess all of the issues that they
6 may throw at this Commission and present
7 us with. It would more than fill this
8 room if we tried to guess at everything
9 that they might present to this Commission.
10 We can't be prepared to rebut that, and to
11 say to us, go out and bring everybody you've
12 got down here, that is, that is not as a
13 practical matter, an alternative we have.
14 We can't do that.

15 CHAIRMAN HARWOOD: Haven't you-all
16 done this before in another jurisdiction?

17 MR. MOORE: I haven't, but I'm
18 sure MCI has crossed swords with AT&T. But
19 I've tried a lot of cases against Mr. Riely
20 with Vepco, and I'll guarantee you, I don't
21 want to try the next one without prefiled
22 testimony, and I have cross-examined
23 Mr. B. D. Johnson many times, but there's
24 something new every time. And I'm sure
25 there's going to be something new here.

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2 CHAIRMAN HARWOOD: In all seriousness,
3 I'm just saying, on my part, all parties,
4 bring what you think you need down here
5 on the 27th.

6 COMMISSIONER SHANNON: That is, if
7 we don't continue it.

8 MR. MOORE: I hope you're not
9 ruling, Judge Harwood.

10 CHAIRMAN HARWOOD: No, but if you'll
11 give me a few minutes, I'll be ready to.

12 (Laughter)

13 MR. MOORE: We would ask that you
14 use the 27th as a scheduling conference,
15 and schedule this. This is an important
16 matter. It is going to be an historic
17 decision for this Commission, and indeed,
18 for the nation. And you should have an
19 adequate record, and give us all an
20 opportunity to help you present the facts
21 for a record.

22 Thank you.

23 COMMISSIONER SHANNON: Thank you
24 very much, Mr. Moore.

25 We will take this matter under

1
2 advisement --

3 MR. GAMBARDELLA: Your Honor --

4 COMMISSIONER SHANNON: Yes.

5 MR. GAMBARDELLA: May I have a
6 couple minutes?

7 COMMISSIONER SHANNON: Yes. I thought
8 Mr. Moore had used all your time.

9 MR. MOORE: I'm sure I used more than
10 his time, and I apologize.

11 MR. GAMBARDELLA: You may have used it;
12 I didn't yield it.

13 (Laughter)

14 COMMISSIONER SHANNON: I guess I
15 took it away from you.

16 COMMISSIONER BRADSHAW: That was
17 incidental. He took it away from you.

18 (Laughter)

19 MR. GAMBARDELLA: Your Honor, our
20 point is simple, and I think from listening
21 today, it's different than MCI's, slightly.
22 And I'd like to make it very clear again.
23 Mr. Morrissey says he's coming down here
24 with a full case. And you've given him an
25 opportunity to put on a full case, and I don't

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2 have that same opportunity. That's our
3 position in a nutshell. And we'd like to
4 have that full opportunity. We think we can
5 do it in 90 days, and we'd be perfectly happy
6 to commit, if we find out something in
7 discovery, that Mr. Morrissey comes and
8 signs away the Company's rights and says
9 we'll do whatever you want in less than 90
10 says, we'll be happy to tell you that, and
11 withdraw our motion, and withdraw our
12 participation. But we think we're entitled
13 to a right to participate as fully and as
14 meaningfully as AT&T. We don't think we
15 have that under the Order.

16 And, secondly, just very briefly,
17 I want to clarify the issue we're involved
18 in here. The issue is not service to rural
19 areas, as such. We think you've already
20 told them to serve the areas they've already
21 served. You've got a set of rules that says
22 they shall not abandon them unless they ask
23 you. And they have a certificate that says
24 they'll serve the whole State. You don't
25 have to worry about them serving rural areas.

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2 The issue we're concerned with is on Page 3
3 of our Motion, and that is whether the rates
4 in those areas where there's no other company
5 will be nondiscriminatory and in the public
6 interest. It's as simple as that. And
7 so it's the rates we're concerned about.
8 We want to be clear on that, and, that,
9 of course, is why there isn't any other
10 motion on our part in any of these other
11 cases. There's no -- none of these other
12 companies, as far as we know, have some kind
13 of portable system they can set up between
14 now and Friday. And as a result, the areas
15 that we're going to be concerned about are
16 going to be the areas that AT&T serves.
17 The rates we're concerned about are going
18 to be AT&T's rates.

19 And to the extent that there's
20 information about other companies that's
21 necessary, we think that's relevant and it
22 can be brought in in this record.

23 Thank you.

24 COMMISSIONER SHANNON: Thank you.

25 MR. GILLESPIE: Judge Shannon --

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2 COMMISSIONER SHANNON: Yes?

3 MR. GILLESPIE: Might I comment --

4 I don't want to comment on the argument that
5 has been presented on either side of this
6 motion, because we've heard supportive argument,
7 but I would like to suggest a compromise that
8 I think I have picked up from the general
9 questioning of the Commissioners. I think
10 it's possible to continue only the question
11 of competitive rates for a 90-day period,
12 or whatever time is appropriate, and yet
13 proceed with the OCC applications for
14 certificates of public convenience and
15 necessity next Friday. This is something
16 that I had envisioned several months
17 ago, that it would be possible to bifurcate
18 these hearings, because the certification
19 question should be relatively undisputed,
20 whereas the competitive rates questions, as
21 we've seen, are quite disputed. This
22 compromise would allow MCI and the other
23 OCCs the authority to operate and to
24 participate in the September 1 equal access
25 presubscription over in the Norfolk exchanges.

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2 COMMISSIONER SHANNON: You mean to
3 operate as regulated or unregulated?

4 MR. GILLESPIE: They would be
5 regulated during that interim time, before
6 we could hear the competitive rate issue.
7 They would be regulated. They would have
8 to operate under their initial tariffs,
9 which they have filed with their applications.
10 They would also be subject to the Affiliates
11 Chapter and to the Securities Chapters of
12 Title 56. But I believe that if we're only
13 talking about 90 days, I believe they could
14 operate for a three-month period under those
15 tariffs, which they have filed with us.

16 CHAIRMAN HARWOOD: Mr. Gillespie,
17 aren't the rates on file now nondiscriminatory?

18 MR. GILLESPIE: I'm not certain
19 that they are nondiscriminatory.

20 CHAIRMAN HARWOOD: Hasn't this
21 Commission found that the rates that are
22 on file now with us are nondiscriminatory?

23 COMMISSIONER SHANNON: You mean
24 AT&T?

25 CHAIRMAN HARWOOD: I think we could

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2 say that for AT&T's.

3 So, to satisfy Mr. Gambardella's
4 problem, and that's in areas where there
5 would not be competition, those rates
6 are already found to be nondiscriminatory.
7 If they do not increase those rates, in
8 fact, there'd be no question about that.

9 MR. GILLESPIE: Well, they cannot
10 increase those rates until they have a
11 rate case, and until they are released
12 from Chapter 10.

13 CHAIRMAN HARWOOD: Even if
14 they're released from Chapter 10, if
15 they don't increase rates, which is
16 bound to be nondiscriminatory, wouldn't
17 they remain the same and be nondiscriminatory
18 and satisfy Mr. Gambardella's problem?

19 MR. GILLESPIE: I believe that
20 would be true.

21 Notice has been published by all
22 of the OCCs who filed application and by
23 AT&T. If you chose to continue all issues
24 as to competitive rate-setting, we could go
25

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2 ahead and receive public witness statements
3 on July 27th, and at that time, notify
4 everyone present in the courtroom as to
5 what date has been chosen for determination
6 of the issues of competitive rate-setting.
7 I think this would answer the problem that
8 MCI has raised in that they need discovery
9 from AT&T. I think it would also answer the
10 problem that perhaps AT&T needs discovery
11 from MCI. Mr. Moore has represented that the
12 MCI application might be like a small water
13 case, and that the AT&T petition might be
14 like a Vepco case. If I might use his same
15 phraseology, that's a notion. We don't know
16 that. And discovery might be needed to
17 determine the amount of time that these
18 hearings will consume.

19 Thank you.

20 COMMISSIONER SHANNON: Thank you.

21 Mr. Blackburn, who are you representing?

22 MR. BLACKBURN: Your Honors, please,
23 I'm here representing Central Telephone Company
24 of Virginia. We didn't file a protest to the
25 application of AT&T. We got in the mail last

1
2 night, however, a Motion by MCI that we provide
3 what we think is a lot of marketing data
4 for their benefit, and I don't know how the
5 Commission intends to rule on the Motion
6 before it today, but we would like a time
7 to be heard on this particular Motion. We're
8 not even a party at this point to what's going
9 on here, and MCI is filing a Motion before
10 the Commission, asking my client to gather
11 a whole lot of data and do a lot of --

12 COMMISSIONER SHANNON: Well, that
13 Motion, Mr. Blackburn, would be -- wouldn't
14 be involved in this proceeding. The only
15 thing we have here today is simply a question
16 of argument on the Motion to continue this
17 case.

18 MR. BLACKBURN: It's not --

19 COMMISSIONER SHANNON: That would
20 have to be handled separately.

21 MR. BLACKBURN: Well, that's what
22 I figured, but I would ask for a time, and
23 I'd like to --

24 COMMISSIONER SHANNON: We are kind
25 of confusing the issue here by putting --

1
2 bringing in something separate. This is
3 very narrow today, and I want to keep it
4 that way.

5 MR. BLACKBURN: I'm not bringing
6 it in; MCI filed the Motion to ask Centel
7 and all the other local exchange carriers
8 to do a lot of work for MCI. We're not
9 even a party. That's my point.

10 COMMISSIONER SHANNON: Did they file
11 it in PUC840023?

12 MR. BLACKBURN: Yes, sir. It's a
13 Motion of MCI Telecommunications Corporation
14 of Virginia for an Order Requiring Special
15 Reports from the local exchange carriers,
16 and it's --

17 COMMISSIONER SHANNON: We'll just
18 have to rule on that separately. I don't
19 think we're in a position to rule on it
20 right now.

21 MR. BLACKBURN: But we would simply like
22 to be able to argue that Motion whenever.

23 COMMISSIONER SHANNON: I think you
24 have a right to, you have a right to respond
25 in writing. And if necessary, we'll have

1
2 oral argument on it, but I don't think that's
3 going to interfere with our decision in this
4 case.

5 MR. RIELY: I'm here representing
6 the Virginia Exchange Carrier Association,
7 and I would like to join in Mr. Blackburn's
8 motion. I think we should be made parties
9 to the proceeding here if this motion
10 is going to be granted. We don't think
11 the motion should be granted, and it
12 certainly should not be granted without a
13 hearing.

14 COMMISSIONER SHANNON: I would
15 suggest you-all file your response in writing
16 with the Commission, and then if it's
17 necessary to have oral argument on that,
18 we can have it. But I think you can cover
19 it in writing.

20 MR. RIELY: We simply didn't want
21 the Commission to grant the motion
22 without a --

23 COMMISSIONER SHANNON: We don't
24 grant motions that we don't understand.

25 MR. BLACKBURN: Today is the last day,

1
2 I believe, for filing a protest, and I would
3 just like a little more time, if the Commission
4 would give it to us, to file that answer.

5 COMMISSIONER SHANNON: I think that's
6 a reasonable request.

7 MR. MOORE: Your Honor, all we were
8 doing was -- they are not parties -- we could
9 not file Interrogatories to them. And the
10 only way I was aware of that we could get,
11 and this Commission could get information
12 of this kind, was for the Commission, under
13 56-36, to request or to direct a special
14 report. So I filed a Motion in this
15 proceeding to ask the Commission to do that.
16 And I certainly think it's appropriate for
17 them to respond --

18 COMMISSIONER SHANNON: They have a
19 right to respond.

20 MR. MOORE: Absolutely.

21 COMMISSIONER SHANNON: And we will
22 rule on the pleadings on that basis.

23 MR. RIELY: Will you give us a week
24 to respond on this Motion?
25

1
2 COMMISSIONER SHANNON: All right,
3 fine.

4 MR. RIELY: Thank you.

5 MR. BLACKBURN: Thank you.

6 COMMISSIONER SHANNON: I think that's
7 fair.

8 MR. MOORE: It hurts me if they
9 don't have to file it until next Friday and
10 this case is not continued.

11 COMMISSIONER BRADSHAW: Well, you're
12 the one that filed it; do you want to withdraw
13 it?

14 MR. MOORE: No, sir.

15 COMMISSIONER SHANNON: I think you
16 have to give them a reasonable time, Mr. Moore,
17 just like you said in your argument here. You
18 said 90 days, and they're only asking for
19 a week.

20 MR. MOORE: Judge, Judge, you put me
21 in a box now. You've set the hearing for the
22 27th of July, and I'm trying to respond to
23 that, and I don't have any objection for them
24 having a week to respond to it.

25 COMMISSIONER SHANNON: One reason

1
2 we set it early is MCI said they wanted to
3 get out there and market their product on
4 the 1st of September.

5 MR. MOORE: Yes, sir.

6 COMMISSIONER SHANNON: So we were
7 trying to accommodate them.

8 MR. MOORE: I'm getting so much
9 help, I'm sinking.

10 COMMISSIONER BRADSHAW: Do you agree
11 that they're not parties to this proceeding?

12 MR. MOORE: Yes, sir, that's why --

13 COMMISSIONER BRADSHAW: Why can't we
14 rule on it right now?

15 COMMISSIONER SHANNON: Let's let them
16 respond. I'd rather have a response, because
17 I haven't read fully the --

18 MR. MOORE: The statute allows --
19 all I've asked for is an Order from the
20 Commission directing them to present you,
21 present a special report to you under
22 56-36, which you have the authority to do.
23 And I'd like for you to consider that.

24 COMMISSIONER SHANNON: All right,
25 when we get their reply, we'll certainly
rule on it, and we'll consider it.

1
2 MR. MOORE: Thank you.

3 COMMISSIONER SHANNON: In the
4 meantime, now, we've spent an hour and
5 ten minutes -- 11-12 minutes arguing this,
6 and we will take this matter under advisement.

7 The Commission will stand in
8 recess.

9
10 NOTE: The hearing was concluded
11 and adjourned at 3:12 p.m., July 20, 1984.

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Document Control Center STATE CORPORATION COMMISSION

JUL 20 4 27 PM '84

AT RICHMOND, JULY 20, 1984

PETITION OF

AT&T COMMUNICATIONS OF
VIRGINIA

CASE NO. PUC840023

For authority to set rates
and charges pursuant to
§56-481.1 of the Code of
Virginia

ORDER DENYING MOTIONS FOR CONTINUANCE

On July 17, 1984, the Division of Consumer Counsel, Office of the Attorney General filed its motion for a continuance herein and on July 18, MCI Telecommunications Corporation of Virginia filed a similar motion. By order dated July 19, 1984, the Commission scheduled oral argument upon both of these motions for 2:00 p.m. July 20, in the Commission's 13th Floor Courtroom.

On July 20, the Commission heard oral argument from Mr. HULLIHEN W. MOORE on behalf of MCI Telecommunications Corporation of Virginia, from Mr. ANTHONY GAMBARDILLA on behalf of the Division of Consumer Counsel, from Mr. MICHAEL J. MORRISSEY on behalf of AT&T Communications of Virginia and from Mr. ROBERT M. GILLESPIE on behalf of the Commission's Staff.

After mature consideration of the motions for continuance and the argument presented thereon, the Commission is of the opinion that both motions should be denied. Accordingly,

IT IS THEREFORE ORDERED that the motions for continuance filed by MCI Telecommunications Corporation of Virginia

and by the Division of Consumer Counsel, Office of the Attorney General, are hereby denied.

ATTESTED COPIES hereof shall be sent to Michael J. Morrissey, Esquire, attorney for AT&T Communications, 7611 Little River Turnpike, Suite 201, Annandale, Virginia 22003; Mr. Hulihan W. Moore, Esquire, attorney for MCI Telecommunications Corporation of Virginia, 1200 Mutual Building, Richmond, Virginia 23219-3095; Anthony Gambardella, Esquire, Division of Consumer Counsel, Office of the Attorney General, 101 North 8th Street, Richmond, Virginia 23219; and to the Commission's Divisions of Communications, Accounting and Finance and Economic Research and Development.

A True Copy

Teste:



Clerk of State Corporation Commission

AT&T COMMUNICATIONS OF VIRGINIA
CASE NO. PUC840023

RESPONSES TO INTERROGATORIES AND REQUESTS FOR
PRODUCTION OF DOCUMENTS BY THE ATTORNEY GENERAL
OF THE COMMONWEALTH OF VIRGINIA

1. Please state in detail the basis of the statement in paragraph 4 of the Petition that "Virginia consumers will have a full array of price/quality options from which to choose" if the Petition is granted.

Once AT&T Communications is released from the substantial burdens associated with regulation of its service offerings, the Company will be able expeditiously to expand the price and quality options available to its customers.

Based on information which AT&T has been able to glean from tariffs and other public documents, Virginia consumers already have an array of options available from other vendors. Today at least 15 resellers and at least 4 facilities-based carriers provide MTS service in Virginia. Additionally, USTS offers several WATS-like services, private line services and special services such as foreign exchange in numerous Virginia locations. Western Union also offers private line and broadcast services in the Commonwealth. A competitive environment will encourage these vendors to increase further their arrays of price/quality options.

Although other carriers may argue that the services they currently "offer" are "interstate", it is clear that these carriers are already providing intrastate services. In Case No. PUC830029, Judge Shannon noted from the bench the Commission's awareness that OCCs were and had been providing intrastate interexchange telecommunications service in competition with AT&T. MCI's attorney, Mr. Moore, has also acknowledged that MCI is providing intrastate services in Virginia.

It is equally clear that these carriers use the same facilities for providing both intrastate and interstate service. (USTS Application for a Certificate at p. 6; Testimony of MCI witness Robert L. Kamba in New Jersey BPU Docket No. 8312-1126, pp. 15-16; Testimony of GTE-Sprint witness G. Jay Nelson in New Jersey BPU Docket No. 8312-1126, pp. 4-5.)

2. Please identify any areas within the service territory of AT&T of Virginia in which only the Company will actually provide service immediately after entry of competing interexchange carriers into Virginia.

Although AT&T Communications of Virginia currently operates throughout the Commonwealth, we are unaware of the extent to which OCCs provide intrastate service to the various areas of the Commonwealth. Statements made before the Commission by representatives of other carriers make it clear that they are providing intrastate service in Virginia, but these

carriers have, to date, failed to quantify the extent of that service.

3. Please state the Company's current market share of intrastate inter-LATA service in Virginia and the market share it expects to maintain one year after the entry of competing carriers, two years after such entry and three years after such entry.

AT&T Communications of Virginia does not have adequate information to answer this question because the other carriers currently operating in Virginia have not provided information to this Commission regarding their shares of the intrastate interLATA market. The fact that other carriers have not received Certification does not mean that they have no current market share. For example, although MCI's attorney, Mr. Moore, acknowledged at the oral argument on June 19, 1984, that MCI is currently providing intrastate service, MCI has not given the Commission adequate information to quantify the extent of that service. Such information also has not been made available by other carriers operating in Virginia.

The Company does not have market share projections for future years. To the extent that such information would be developed, it would be proprietary business information, which could be provided under an appropriate protective agreement.

4. Please state in detail the basis of the statement in paragraph 5 of the Petition that the Company will provide no monopoly service in Virginia.

AT&T Communications of Virginia provides no local exchange service. Since it began serving Virginia on January 1, 1984, the Company has provided only interexchange services in the Commonwealth. All of these services are subject to competition from other carriers.

5. Please state in detail the basis for the statement in paragraph 5 of the Petition that the Company does not control any bottleneck facilities.

A bottleneck facility is one whose output is an essential input to the provision of an end-user product or service and which, because of its unique situation or other circumstance, either cannot physically or cannot profitably be duplicated by firms other than its owner. In the telecommunications industry, for example, local exchange systems are bottleneck facilities, because they cannot be profitably duplicated by other providers of end-user services. Pursuant to the Modification of Final Judgment, AT&T Communications of Virginia owns no local exchange systems in Virginia. Further, AT&T Communications of Virginia owns no other facilities whose output is an essential input to the provision of any end-user service and which cannot be profitably duplicated by other firms.

6. Enumerate each of the services to which the second sentence of paragraph 5 of the Petition refers and state whether and when the Company expects each such service to be actually

provided by competitors of the Company in every portion of the Company's certificated service territory in Virginia.

The second sentence of paragraph 5 states: "Each of its services is subject to competition from the other carriers to be certified by this Commission." (emphasis supplied) AT&T Communications of Virginia provides MTS, WATS/800 and private line services within the Commonwealth. The Company is unable to answer your question with regard to other carriers' services except as noted in response to question #1. Other carriers have not informed AT&T Communications of Virginia of their plans. It is clear, however, that with the statutory change effective July 1, 1984, these competitors will be able to offer any of the above services intrastate as they now do on an interstate basis.

7. Please state in detail the basis of the statement in paragraph 6 of the Petition that the Company owns no facilities by which it can provide intra-LATA service.

Pursuant to the Modification of Final Judgment, as of January 1, 1984, AT&T divested to C&P of Virginia all of its facilities for the provision of intraLATA service in Virginia.

8. Please identify separately each document upon which the Company relies for its answer to each of these interrogatories and provide a copy of each such document.

See answers to questions 1 through 7.

9. Please provide copies of the following documents:

- a. AT&T's filing at the Federal Communications Commission concerning the Reach Out America pricing option;
- b. the FCC Common Carrier Bureau's approval of that plan; and
- c. the U. S. Justice Department's response to that plan.

See attached.

W. H. Ragette
Administrator Rates and Tariffs

Room 4C107
Bedminster, NJ 07921
Phone (201) 234-8107

April 23, 1984

Transmittal No. 79

Secretary
Federal Communications Commission
Washington, D.C. 20554

Attention: Common Carrier Bureau

The accompanying tariff material is sent to you for filing in compliance with the requirements of the Communications Act of 1934, as amended, issued by AT&T Communications, and bearing Tariff F.C.C. No. 1, effective June 7, 1984. This material consists of tariff pages as indicated on the following check sheet:

Tariff F.C.C. No. 1 - 13th Revised Page 1

This filing introduces a nationwide Block-of-Time Optional Calling Plan for Long Distance Message Telecommunications Service (MTS) for Dial Station calling. This calling plan will benefit customers by giving them the opportunity to select a pricing option that best suits their calling needs.

The offering results from the Optional Calling Plan experiment conducted by AT&T from July 1, 1983 to December 31, 1983.* The experiment was designed to properly quantify customer usage and purchase decisions with regard to Optional Calling Plans and to analyze the effect of the demand changes on costs, revenues and network efficiency.

On March 12, 1984, AT&T filed a report documenting the major findings and conclusions of the Optional Calling Plan experiment. A copy of this report is annexed hereto as Section 3. The report demonstrates that:

1. A significant number of customers purchased an Optional Calling Plan, despite the limited time a customer could retain the plan under the experiment.
2. Those customers who purchased an Optional Calling Plan increased not only their long distance usage, but also the proportion of their calling in off-peak periods.

* Memorandum Opinion and Order, 94 F.C.C.2d 551 (1983).

3. Optional Calling Plans improve network efficiency, and increase long distance revenues and profitability.
4. Purchasers view Optional Calling Plans positively and perceive that they receive numerous benefits in addition to cost savings from these offerings.

This filing introduces the Block-of-Time Optional Calling Plan on a nationwide basis. Participating customers are offered the choice of two options, Option A or Option B, as follows:

Option A - Customers that choose this option will pay a monthly recurring charge of \$10.00 which will entitle them to receive up to one hour of interstate Dial Station calling during the Night/Weekend rate period. Dial Station Calling during the Night/Weekend rate period in excess of one hour will be charged at an hourly rate of \$8.75 or a proportionate fraction thereof.

Option B - Customers that choose this option will pay a monthly recurring charge of \$11.50 which will entitle them to receive all the benefits of Option A and also receive an additional 15 percent discount for interstate Dial Station calls during the Evening rate period. This additional 15 percent discount is applied after the current 40 percent evening discount is applied.

A non-recurring service order charge of \$10.00 is imposed when a customer orders a Block-of-Time plan. This charge will be waived during the first 90 days that the offering is available in a local exchange area.

Customer billing for the Optional Calling Plan will be provided for AT&T Communications through billing contracts with the local Exchange Companies. Therefore, the introduction of these rate plans into the marketplace is contingent upon Local Exchange Company billing program capabilities.

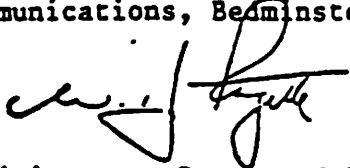
Section 4 summarizes when the needed billing capability will become available according to information supplied by the Local Exchange Carriers. The summary demonstrates that by July 1, 1984, 60 percent of the telephone subscribers in the United States will be able to select this Optional Calling Plan. The information displayed in Section 4 reflects the current status of negotiations with the companies listed there. In the event that any of these companies changes its existing position with regard to billing availability or billing costs to jeopardize the dates reflected in Section 4, AT&T will advise the Commission of such developments.

Negotiations with other major industry carriers are being actively pursued by AT&T. We are in the process of contacting all other independent carriers. Although the process is not yet complete, AT&T expects that nationwide billing and service implementation will be available everywhere by January 1, 1985. As availability of billing becomes known for additional companies, AT&T will revise its tariff pages.

Economic data pursuant to Section 61.38 of the Federal Communications Commission's Rules and Regulations are provided in Section 5.

Waiver of Sections 61.58 and 61.59 of the Federal Communications Commission's Rules and Regulations was requested under Application No. 49 and has been granted under Special Permission No. 84-189.

Acknowledgment and date of receipt of this filing are requested. A duplicate letter of transmittal is attached for this purpose. All correspondence and inquiries in connection with this filing should be addressed to Mr. W. H. Ragette', Administrator Rates and Tariffs, AT&T Communications, Bedminster, New Jersey 07921.



Administrator Rates and Tariffs

Duplicate Letter

Attachments:

Tariff Pages

Optional Calling Plan Report

Billing Capability Summary

Economic Data

Appendix on Demand Analysis

Copy of Letter, with attachments, concurrently sent to:

Commercial Contractor

Chief, Tariff Review Branch, Public Reference Copy

AT&T COMMUNICATIONS
 Mr. W. H. Ragette'
 Adm. Rates and Tariffs
 Bedminster, NJ 07921
 Issued: April 23, 1984

TARIFF F.C.C. No. 1
 13th Revised Page 1
 Cancels 12th Revised Page 1
 Effective: June 7, 1984

LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

CHECK SHEET

The Title Page and Pages 1 through 147 inclusive of this tariff are effective as of the date shown. Original and revised pages as named below and Supplement No. 2 contain all changes from the original tariff that are in effect on the date hereof.

<u>Page</u>	<u>Number of Revision Except as Indicated</u>	<u>Page</u>	<u>Number of Revision Except as Indicated</u>
1	13th*		
4	1st*	66.1	Original
5	3rd	67	1st
6	1st*	68	1st
7	1st	69	1st
7.1	Original	77	1st
9	1st	78	1st
10	1st	79	1st
11	2nd	85	1st
26	1st*	87	1st
28.1	Original*	91	1st
28.2	Original*	95	2nd
29	1st	96	1st
35	1st	99	1st
36	1st	101	1st
39	1st	105	1st
41	1st	107	1st
42	1st	111	1st
43	1st	113	1st
54	2nd*	114	2nd
55	1st*	121	1st
55.1	Original*	123	1st
55.2	Original*	126	1st
55.3	Original*	131	1st
56	1st*	132	1st
57	1st	133	1st
58	1st	134	1st
59	1st*	137	1st
60	1st	138	1st
61	1st*	139	1st
62	1st	140	1st
64	1st	141	1st
65	1st	147	Original
66	2nd		

* New or Revised Page.

LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

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LONG DISTANCE MESSAGE TELECOMMUNICATIONS SERVICE

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2.5. PAYMENTS AND CHARGES

2.5.1. General - The charges for an LDMTS call are applied on a per call basis. For other LDMTS offerings, such as DIAL-IT 900 Service or Block-of-Time Calling Plan, recurring and/or nonrecurring charges apply as specified in Sections 3 and 5 following.

2.5.2. Application of Charges - The rates and charges that are in effect in this tariff when LDMTS is furnished are the rates and charges used to determine the Customer's bill. If the rates for services furnished on a monthly basis changes after a bill has been rendered, the bill will be adjusted to reflect the new charges (see Fractional Charges and Credits following on page 28.1).

2.5.3. Payment of Charges - Payment for LDMTS is due upon presentation of the bill. LDMTS may be denied for nonpayment of a bill (see Violation of Regulations, page 43).

2.5.4. Late Payment Charge - The late payment charge applicable to intrastate services as specified in the Local Exchange Company's local exchange service tariff also applies to Long Distance Message Telecommunications Service.

2.5.5. Advance Payments - To safeguard its interests, the Company may require a Customer to make an advance payment before service is furnished. The advance payment will be one month's estimated LDMTS charges. The advance payment will be credited to the Customer's initial bill. A deposit may apply in addition to an advance payment (see Deposits, following).

2.5.6. Deposits - To safeguard its interests, the Company may require a Customer to make a deposit to be held as a guarantee for the payment of charges. A deposit does not relieve the Customer of the responsibility for the prompt payment of bills on presentation. The deposit will not exceed an amount equal to two months' estimated LDMTS charges.

An advance payment may be required in addition to a deposit (see Advance Payments, preceding).

A. Interest on a Cash Deposit - Simple interest at the rate of six percent annually will be paid to the Customer for the period that a cash deposit is held by the Company. However, if the appropriate legal authority in the state where the Customer responsible for bill payment is located establishes a different rate of interest, then that rate applies.

B. Return of a Deposit - When LDMTS is discontinued, the deposit will be applied to the Customer's account and any credit balance remaining will be refunded. Before LDMTS is discontinued, the Company may, at its option, refund the deposit or credit it to the Customer's account.

Effective: June 7, 1984

2.5.9. Fractional Charges and Credits

A. Computing Charges or Credits for a Fractional Part of a Month - When rates are stated on a monthly basis, each month is considered to have 30 days for billing purposes. Charges or credits for a fractional part of a month are calculated by counting the number of days remaining in the billing period after LDMTS is furnished or has been discontinued. The number of days remaining in the billing period (including the 31st day of the 31-day month, if applicable) are counted starting with the day after the date on which LDMTS was furnished or discontinued. Divide that figure by 30 days. The resultant fraction is then multiplied by the monthly charge to arrive at the fractional monthly charge or credit.

Example: LDMTS furnished/discontinued on the 15th day of a 30-day month.

Monthly Charge =	\$36.00
No. of Days Remaining in Billing Period =	15 days
Billing Month =	30 days
Fractional Monthly Charge/Credit =	$\frac{\text{No. of Days Remaining in Billing Period}}{\text{Billing Month}} \times \text{Monthly Charge}$
Fractional Monthly Charge/Credit =	$\frac{15}{30} \times \$36.00$
Fractional Monthly Charge/Credit =	18.00

In the above example, the number of days remaining in the billing period would be 13 for a 28-day month and 16 for a 31-day month. The same process would be used for computing the fractional monthly charge or credit.

B. Computing Fractional Charges or Credits for a Rate Change - When a monthly rate is changed (increased or decreased) as a result of a tariff revision, the additional charge or credit for any fractional part of a month is calculated as follows:

Count the number of days remaining in the billing period (including the 31st day of a 31-day month) starting with the effective date of the rate change. Divide that figure by 30 days (billing). The resultant fraction is then multiplied by the amount of the monthly rate change to arrive at the fractional charge or credit for the rate change.

AT&T COMMUNICATIONS
Adm. Rates and Tariffs
Bedminster, NJ 07921
Issued: April 23, 1984

TARIFF F.C.C. No. 1
Original Page 28.2

Effective: June 7, 1984

2.5.9. Fractional Charges and Credits (continued)

Example: Rate change effective on the 12th day of the 28-day month.

Old Monthly Charge =	\$36.00
No. of Days Remaining in Billing Period =	17 Days
Billing Month =	30 Days
Fractional Part of Month Billed at the New Rate =	$\frac{17}{30}$
Rate Change =	\$15.00 monthly increase
Fractional Charge or Credit for the Rate Change =	$\frac{17}{30} \times \$15 = \8.50
Billing for the Month in which the Rate Change Occurred (for a rate decrease subtract the fractional charge) =	$\$36.00 + \$8.50 = \$44.50$
Subsequent New Monthly Charge =	$\$36.00 + \$15.00 = \$51.00$

In the above example, the number of days remaining in the billing period would be 19 for a 30-day month and 20 for a 31-day month. The same process would be used for computing the fractional monthly charge or credit.

C. Rounding to the Nearest Cent - If the computed charges or credit include one-half cent or more the fraction is rounded up to the next highest cent. Fractions of less than one-half cent are disregarded.

3.2.1. Intra-Mainland and Mainland-Alaska Service - Schedule I (continued)

F. Directory Assistance Charge - (see Directory Assistance Charge page 66.1)

G. Rate Discounts and Application Periods - Discounts are available for specific rate periods as set forth in 1. through 3. following. In addition, a Block-of-Time Calling Plan is set forth in I. following.

1. Evening Rate - The discount for the Evening rate period, as indicated on the Rate Schedules, is a percent reduction of the combined total of the calculated initial minute and additional minute(s) charge (see the Rate Discount Chart, page 56).

2. Night/Weekend Rate - The discount for the Night/Weekend rate period, as indicated on the Rate Schedules, is expressed as a percent reduction of the combined total of the calculated initial minute and additional minute(s) charge (see the Rate Discount Chart, page 56).

3. Holiday Rate - The discount for New Year's Day (January 1); Independence Day (July 4); Labor Day; Thanksgiving Day; and Christmas Day (December 25) is the evening rate period discount, unless a lower rate would normally apply.

Application of Discounts - For the initial period, the discount applicable at the start of chargeable time at the calling station applies. For additional minute(s), the discount applicable is that discount which is in effect at the calling station when the additional minute(s) occurs. That is, if chargeable time begins during the Evening Rate Period, the Evening discount applies to the initial period and to any additional minutes that the call continues during that rate period. If the call continues into a different rate period, the appropriate rates from that rate period apply to any additional minutes occurring in that rate period. If an additional minute is split between two rate periods, the rate period applicable at the start of the minute applies to that entire minute. If the computed charges include a fraction of a cent, the fraction is rounded down to the next whole cent (e.g., \$1.426 would be rounded down to \$1.42).

3.2.1. Intra-Mainland and Mainland-Alaska Service - Schedule I (continued)

S

H.

I. Block-of-Time Calling Plan - The Block-of-Time Calling Plan is available nationwide at stations in the United States, Puerto Rico and the U.S. Virgin Islands where the required billing capability exists. A list of the Local Exchange Companies and the month that the billing arrangement will be available in each company is specified in 4. following. The Minimum Payment Period for a Block-of-Time Calling Plan is one month. When a Customer elects to use a Block-of-Time Calling Plan, it must select either Option A or Option B.

Nx

1. Option A - Option A offers a participating Customer the option of paying a monthly charge to obtain a cumulative total of one hour of calling time per month for Dial Station calls. Calls may be made between a station in the United States, Puerto Rico or the U.S. Virgin Islands and another station in the Mainland during the Night/Weekend rate period. The Customer may place as many calls for each Customer Main Billed Account during a month as desired to accumulate the time used, subject to a one minute minimum for each call. If more than one hour of cumulative calling time is used, the additional time will be totalled and rated using the additional hour rate specified in 2. following. When the additional time is less than a full hour, the charge will be the proportionate fraction of the time used multiplied by the additional hourly rate.

(a) Application of Charges - Option A charges include recurring and nonrecurring charges. Recurring charges consist of a Monthly charge and a Hourly charge. The Monthly charge applies whether or not the Customer makes any calls. The Hourly charge applies to all calls in excess of the initial one hour of calling time, which are made during the Night/Weekend rate period.

The nonrecurring charge for Option A is a Service Order Charge which is applied when Option A is initially furnished. The Service Order Charge will not apply for orders received within ninety days after the Block-of-Time Calling Plan becomes available in a rate center area.

The accumulation of hours of use for Night/Weekend calling time will be determined by the total usage time of calls made during the Night/Weekend rate period only. Any portion of a call which is made in the Day and/or Evening rate period will be billed at the appropriate rates set forth in I.3. following.

Nx

Certain material formerly appearing on this page now appears on Page 55.2
x Issued to become effective on not less than 45 days' notice under authority of Special Permission No. 84-189.
y Material relative to the Variable Day Plan expired on April 1, 1984.

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3.2.1.1.1. Application of Charges (continued)

Nx

Participating multiline Customers in the Block-of-Time Calling Plan will be billed one recurring charge for all lines associated with the Main Billed Account. Hours of usage from all lines will be accumulated and billed as if the multiline Customer was a single line account.

When the billing date and the date that Block-of-Time Calling Plan is started, changed, or discontinued do not coincide, charges, which are based upon monthly rates, will be adjusted to reflect the fractional part of the month service is provided as specified in 2.5.10 preceding. In such cases, the initial hour of calling time will also be adjusted as set forth in 2.5.10 preceding for the fractional part of the month that service was furnished. For billing purposes each month is considered to have 30 days.

2. Option B - Option B offers a participating Customer all of the features which are specified for Option A. In addition to those features, Option B also provides a discount on calls between a station in the United States, Puerto Rico or the U.S. Virgin Islands and another station in the Mainland during the Evening rate period. The discount offered under Option B is in addition to the discount set forth in G. preceding for calls made during the Evening rate period.

(a) Application of Charges - The regulations set forth in 1.(a) preceding apply to Option B, except for the manner in which calls made in the Evening rate period are billed. The charges for any portion of a call which is made in the Evening Rate period will first be determined on the basis of the Evening Rate as specified in G. preceding. All such charges will then be totalled for the monthly billing period. That total will then be discounted by the additional Discount Percentage specified in I.3. (b) following to determine the charge to the Customer for the calls made in the Evening Rate Period. The Additional Discount Percentage does not apply to any portion of a call which is made in the Day or Night/Weekend rate period.

When the billing date does not coincide with the date that Option B is started, changed or discontinued, the charges for calls made during the Evening rate period will be totalled for the fractional part of the month that service was furnished. That total will then be discounted by the additional Discount Percentage specified in I.3.(b) following to determine the charge to the Customer for the calls made in the Evening Rate Period.

Nx

Effective: June 7, 1984

3.2.1.1.1. Application of Charges (continued)

Nx

3. Rates

(a) OPTION A

	<u>USOC</u>	<u>Monthly Charge</u>	<u>Hourly Charge</u>
Night/Weekend Rate Period			
- Initial Hour of Calling Time	OCPBA	\$10.00	None
- Each additional hour		None	\$8.75

(b) OPTION B

Night/Weekend Rate Period			
- Initial Hour of Calling Time	OCPBB	\$11.50	None
- Each additional hour		None	\$8.75

Evening Rate Period
- Additional Discount 15%

(c) Service Order Charge

	<u>Nonrecurring Charge</u>
- per order	\$10.00

4. Availability - The Block-of-Time Calling Plan is available as specified in the following list. Any Company which is not listed will be added by January 1, 1985.

<u>Local Exchange Company</u>	<u>Available</u>	<u>Local Exchange Company</u>	<u>Available</u>
Bell Telephone Co. of Pennsylvania	7/84	New York Telephone Co.	6/84
Chesapeake and Potomac Telephone Companies	7/84	Northwestern Bell Telephone Co.	6/84
Cincinnati Bell Inc.	6/84	Ohio Bell Telephone Co.	6/84
Illinois Bell Telephone Co.	7/84	Pacific Northwest Bell Telephone Co.	11/84
Indiana Bell Telephone Co., Incorporated	7/84	Pacific Bell	6/84
Michigan Bell Telephone Co.	7/84	South Central Bell Telephone Co.	7/84
Mountain States Telephone and Telegraph Co.	7/84	Southern Bell Telephone and Telegraph Co.	7/84
New England Bell Telephone and Telegraph Co.	6/84	Southern New England Telephone Co.	7/84
New Jersey Bell Telephone Co.	10/84	Southwestern Bell Telephone Co.	8/84
		Wisconsin Bell, Inc.	6/84

Nx

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3.2.1. Intra-Mainland and Mainland-Alaska Service - Schedule I (continued)

J. Rates Applicable for Hearing or Speech Impaired Persons - Reduced rates are available to qualified persons who have hearing or speech impairments subject to the following:

1. Application - Persons who have been certified in writing by a licensed physician, audiologist, speech pathologist, or appropriate State or Federal agency as having a hearing or speech impairment which precludes oral communications and who have and use a telecommunications device for visual communications, will receive an adjustment on Customer dialed station calls which do not require the intervention of a Company operator. The adjustment is applied to the appropriate rate schedules according to the following:

(a) Calls placed during the Day rate period will be charged at the Evening rate,

(b) placed during the Evening rate period will be charged at the Night and Weekend rate.

2. Certification - The written certification of the speech or hearing impairment must be presented to this Company's Business/Residence Service Center which serves the residence of the certified person.

The Company's Business/Residence Service Center, upon request, will provide a certification form for use by the applicant.

3. Limitations - The adjustment is provided for use only by the speech or hearing impaired Customer. It is only applicable to LDMTS charges for calls originated from and billed to the Exchange Service number of the residence of the certified speech or hearing impaired person. Only one Exchange Service number at a residence is authorized this rate adjustment.

K. Other Line Charges - Other Line Charges are not applicable.

* Issued to become effective on not less than 45 days' notice under authority of Special Permission No. 84-189. Certain material now on this page formerly appeared on Page 55.

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3.2.1. Intra-Mainland and Mainland-Alaska Service - Schedule I (continued)

L. Rate Schedule - The following rates apply to all classes of service for all hours of the day and days of the week unless a discount applies. In addition, Service Charges apply, as indicated.

Rate Mileage	Rates	
	Initial Minute	Each Additional Minute
1 - 10	\$.31	\$.16
11 - 22	\$.39	\$.22
23 - 55	\$.47	\$.28
56 - 124	\$.56	\$.32
125 - 292	\$.57	\$.34
293 - 430	\$.58	\$.35
431 - 925	\$.61	\$.35
926 - 1910	\$.63	\$.38
1911 - 3000	\$.73	\$.43
3001 - 4250	\$.75	\$.45
4251 - 5750	\$.78	\$.47

1. Rate Discount Chart

	MON	TUES	WED	THUR	FRI	SAT	SUN	DISCOUNTS	
8:00 AM to *5:00 PM	Day Rate Period FULL RATE							Discounts apply to the charge for the initial minute occurring within the discount period and to all additional minutes occurring within each discount rate period. Discounts do not apply to the Service Charge. (See Note Below)	
5:00 PM to *11:00 PM	 <div>Evening Rate Period 40% Discount</div>								 <div>Eve. 40%</div>
11:00 PM to *8:00 AM	 <div>Night & Weekend Rate Period 60% Discount</div>								

* To but not including

Note: See Block-of-Time Calling Plan, page 55, for exceptions in which additional discounts apply.

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3.2.2. Mainland - Hawaii Service - Schedule IH and Mainland-Puerto Rico/U.S. Virgin Islands Service-Schedule IPV (continued)

K. Mainland - Hawaii Service - Rate Schedule IH - The following rates apply to all classes of service for all hours of the day and days of the week unless a discount applies. In addition, Service Charges apply as indicated.

Mileage Rate Band	Rates	
	Initial Minute	Ea. Addn'l. Minute
<u>Band 1</u> - Includes the states of: Arizona, California, Idaho, Nevada, Oregon, Utah, and Washington.	\$.73	\$.43
<u>Band 2</u> - Includes the states of: Arkansas, Colorado, Illinois, Iowa, Kansas, Louisiana, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Wisconsin, and Wyoming.	\$.75	\$.45
<u>Band 3</u> - Includes the states of: Alabama, Connecticut, Delaware, District of Columbia, Florida, Georgia, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, and West Virginia.	\$.78	\$.47

1. Rate Discount Chart

	MON	TUES	WED	THUR	FRI	SAT	SUN
8:00 AM to 5:00 PM	Day Rate Period FULL RATE						<div>Eve. 40%</div>
5:00 PM to 11:00 PM	Evening Rate Period 40% Discount						
11:00 PM to 8:00 AM	Night & Weekend Rate Period 60% Discount						

Discounts apply to the charge for the initial minute occurring within the discount period and to all additional minutes occurring within each discount rate period. Discounts do not apply to the Service Charge.

(See Note Below)

* To but not including

DISCOUNTS

Discounts apply to the charge for the initial minute occurring within the discount period and to all additional minutes occurring within each discount rate period. Discounts do not apply to the Service Charge.

(See Note Below)

Note: See Block-of-Time Calling Plan, page 55, for exceptions in which additional discounts apply.

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3.2.2. Mainland-Hawaii Service - Schedule IH and Mainland - Puerto Rico/U.S. Virgin Islands Service-Schedule IPV (continued)

L. Mainland - Puerto Rico/U.S. Virgin Islands Service - Rate Schedule IPV - The following rates apply to all classes of service for all hours of the day and days of the week unless a discount applies. In addition, Service Charges apply as indicated.

Mileage Rate Band	Rates	
	Initial Minute	Ea. Addn'l. Minute
Band 1 - Includes the states of: Alabama, Connecticut, Delaware, District of Columbia, Florida, Georgia, Indiana, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Mississippi, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, and West Virginia.	\$.63	\$.38
Band 2 - Includes the states of: Arizona, Arkansas, Colorado, Illinois, Iowa, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Oklahoma, South Dakota, Texas, Utah, Wisconsin, and Wyoming.	\$.73	\$.43
Band 3 - Includes the states of: California, Idaho, Montana, Nevada, Oregon and Washington.	\$.75	\$.45

1. Rate Discount Chart

	MON	TUES	WED	THUR	FRI	SAT	SUN
8:00 AM to *5:00 PM	Day Rate Period FULL RATE						<div>Eve. 40%</div>
5:00 PM to *11:00 PM	<div>Evening Rate Period 40% Discount</div>						
11:00 PM to *8:00 AM	<div>Night & Weekend Rate Period 60% Discount</div>						

DISCOUNTS
Discounts apply to the charge for the initial minute occurring within the discount period and to all additional minutes occurring within each discount rate period. Discounts do not apply to the Service Charge.
(See Note Below)

* To but not including

Note: See Block-of-Time Calling Plan, page 55, for exceptions in which additional discounts apply.

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BEFORE THE
Federal Communications Commission

WASHINGTON, D.C. 20554

MAJOR FINDINGS AND CONCLUSIONS OF AT&T'S
OPTIONAL CALLING PLANS EXPERIMENT

March 12, 1984

I. Introduction and Summary

On June 29, 1983, the Commission released a Memorandum Opinion and Order (FCC 83-288) authorizing AT&T to offer, on a limited trial basis, fifteen Long Distance Message Telecommunications Service (MTS) Optional Calling Plans. The Optional Calling Plan experiment was conducted within selected central office codes (NXXs) in California, New York and Iowa, during off-peak periods.

AT&T's Optional Calling Plan experiment commenced on July 1, 1983, and terminated on December 31, 1983. The experiment was designed to properly quantify customer purchase and usage decisions with regard to the Optional Calling Plans and to analyze the effect of the demand changes in terms of network costs and efficiency, in order to determine whether a nationwide offering of Optional Calling Plans is appropriate.

The Optional Calling Plan experiment was offered within at least four wire centers in each of the trial states. Each participating wire center contained a minimum of one test exchange and one control exchange.

The three rate plans involved in the experiment were:

1. Linear Plan - Subscribing customers paid a monthly charge entitling them to receive an additional uniform percent discount within the

existing night/weekend rate periods.* This plan incorporated the existing distance-sensitive MTS rate structure by applying the additional discount to existing rates.

2. Tapered Plan - Subscribing customers paid a monthly charge and an additional hourly usage rate for the first hour of calling each month during the night/weekend rate period. When monthly usage was a portion of an hour, the customer was charged the appropriate fraction of the hourly rate. Usage in excess of one hour was billed at a lower hourly usage rate. This plan differed from the existing MTS rate structure in that the rates were not distance-sensitive.
3. Block-of-Time-Plan - Subscribing customers paid a monthly charge entitling them to receive an initial allotment of either one or two hours of monthly usage during the night/weekend rate period. However, unlike the Tapered Plan, usage of less than the initial allotment was not prorated. Usage in excess of the initial allotment was billed at a lower additional hourly rate. This plan also established rates

* Certain variations of each plan include a uniform evening percent discount to test the demand, cost and customer behavior characteristics of this option.

that were not distance-sensitive. The Block-of-Time Plan differed from the Tapered Plan in that a monthly usage allotment was included as part of the monthly subscription charge. The customer did not receive a reduction in the subscription charge if usage was less than the monthly minimum allotment.

For each of the above three Optional Calling Plan pricing structures, AT&T developed five rate levels. Thus, the experiment was composed of 15 different Optional Calling Plan rate schedules.

The Commission's Order required AT&T to file by March 31, 1984, a report to be made public, describing the major findings and conclusions of the experiment. This document is submitted in accordance with that requirement.

II. Summary of Major Findings

The major findings of the Optional Calling Plans experiment can be summarized, as follows:

1. A significant number of customers purchased Optional Calling Plans during the experiment.
2. Customers view Optional Calling Plans positively for the following reasons:
 - a) They provide opportunity to minimize long distance charges.

- b) In addition to price savings, other benefits flow from the plans such as the ability to make longer calls and more control over the bill.
 - c) After purchasing an Optional Calling Plan, customers state that they receive value -- "a good deal."
 - d) Most customers would have continued the plans had the experiment not terminated on December 31, 1983.
3. Those customers who purchased Optional Calling Plans
- a) call more frequently,
 - b) talk for longer periods of time per call, and
 - c) increase the proportion of calling in the discounted plan period.
4. Demand stimulated by Optional Calling Plans occurs on the network in a way that improves network efficiency.

In conclusion, customers benefit from the additional opportunity to exercise choice in selecting a pricing option which best suits their long distance calling requirements.

III. Background

The MTS Optional Calling Plan research effort began well before the experiment was instituted. This effort ultimately involved five separate market surveys, the results of which were generally confirmed and validated by actual customer behavior during the experimental offering.

Home Testing Institute was retained by AT&T and in early 1982 conducted a nationwide mail survey of 2,400 residence customers. The mail survey described various optional MTS pricing plans, and asked the customers to indicate a plan preference and the likelihood of purchase under each plan on a scale of 1 to 10. The results of this survey indicated that some plans caused a good deal of positive interest, while others drew little interest. From this information, AT&T was able to ascertain what pricing plans needed further investigation, thereby aiding in the design of a valid experiment.

The survey results were then calibrated against Bell System experience with optional forms of pricing such as local measured service and intrastate optional toll calling plans in Wisconsin and Florida. This led to the development of a nationwide estimate of the likelihood of purchase under various Optional Calling Plans.

AT&T next estimated how customer calling volumes would change following the purchase under an Optional Calling Plan. These demand estimates came from the Rate Evaluation System (RES) model and were based on an historical measure of demand elasticity developed for changes in MTS price levels.

This total process provided AT&T with a hypothetical but consistent view of the degree of customer interest, the likelihood of purchase and the demand stimulation of Optional Calling Plans. This analysis was then utilized to help design the experiment. The trial areas for the experiment were 24 NXXs located in New York, California and Iowa and included in excess of 150,000 residence customers. The control exchanges were 12 NXXs in these states and included in excess of 60,000 residence customers.

After the trial NXXs were selected by AT&T, but prior to the start of the experiment, a second market survey was conducted. This survey was conducted by Data Development Corporation, retained by AT&T. This survey consisted of a customer mail survey in each of the trial NXXs during the second quarter of 1983. Surveys were sent to 1,000 customers in each trial NXX (or a total of 24,000 customers). A total of 6,084 responses were received. Customers were asked to comment on the exact optional calling plan later to be offered in the trial including likelihood of purchase (on a 1-10 scale), identification

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of perceived benefits and estimation of changes in long distance calling. Also, customers were asked to provide certain demographic information which, as shown in Section III, demonstrated that the customer population of the trial NXXs was reasonably representative of the nation as a whole, and that no demographic group was excluded.

The experiment began during the 1st week of July, with a direct mail promotion being sent to 151,000 customers in the 24 trial NXXs. Thereafter, Data Development Corporation conducted a follow-up telephone survey to determine customer awareness of Optional Calling Plans as a result of the mail promotion. This survey was conducted in the trial NXXs and involved 1,300 interviews. This survey identified an overall awareness of the AT&T Optional Calling Plan at the 19% level, or approximately 28,500 customers, based solely on the direct mail promotion. In addition, AT&T initiated a telemarketing campaign in mid-August 1983 (conducted by Salesnet Corporation of Connecticut). This effort was directed to 30,000 customers representing 20% of the residence customers in the trial exchanges chosen randomly from each trial NXXs. Of these customers, approximately 24,000 answered the telephone calls. Of that group, about half, or 12,000, customers provided information about the experiment. The telemarketing effort ascertained reasons for purchasing or not purchasing under an Optional Calling Plan, and an evaluation of direct mail promotional material.

The fifth and last market research survey was conducted during December 1983 and was directed to customers who had purchased under an Optional Calling Plan during the trial. Data Development Corporation conducted the research and completed 1,472 telephone interviews. The principal objectives of this research were to determine why customers had purchased under the plans (a post-purchase perspective) and what they now believed to be the benefits of Optional Calling Plans. Additionally, customers were asked whether they felt they received value from the purchase and if they would have continued the plan had the experiment not been terminated. In addition, demographic information was obtained.

IV. The Usage and Demographic Characteristics of the Trial NXXs

The trial design established the NXX as the basic experimental unit. Each NXX covered approximately 6,000 potential customers. All relevant ranges of historical MTS usage were represented. The trial NXXs were grouped under a wire center umbrella. In general, within each wire center two NXXs were given matched treatments (i.e., matched Optional Calling Plans or choices of plans) and one NXX was reserved for control purposes. This process was repeated four times in each trial state (New York, California and Iowa) resulting in a total of 24 experimental NXXs and 12 control NXXs.

By way of illustrating the representativeness of the trial sample with regard to historical usage, the following chart compares the minutes of MTS DDD usage of customers in the trial NXXs with customers nationwide.

<u>Total Minutes Of LD Usage Per Month</u>	<u>Trial NXXs*</u>	<u>Nation**</u>
0	46.6%	44.7%
1-60	36.3	39.9
60-120	9.3	9.4
>120	7.8	6.0

This comparison shows usage patterns in the trial areas are highly representative of the nation as a whole. The trial included all relevant ranges of long distance users including customers with low and zero usage. Further, the trial areas included significant numbers of customers at all usage levels. No usage level was excluded from the experiment.

Within the trial NXXs, customer specific monthly long distance usage data was collected both before and during the trial. Data was collected for purchasers and non-purchasers of the Optional Calling Plans. This data was collected because a significant predictor of future

* June 1983 Billing.

** June 1983 Billing based on a random national sample of 70,000 residence customers.

customer behavior relative to Optional Calling Plans is current usage levels. Customers with similar usage patterns will face similar economic incentives and, therefore, react similarly to rate changes regardless of occupation, geographic location or income level. These latter variables' main effect, insofar as they are important, will be reflected in current usage levels.

Even if one assumes that, in addition to MTS usage characteristics, the demographic characteristics of the trial sample are important, the experiment contained a reasonably representative demographic sample with regard to age, marital status, household size, income and education. The following charts include a demographic profile for the trial NXXs based on the pre-experiment mail survey conducted by Data Development Corporation in the 2nd quarter of 1983. Of the 6,084 responses received, 1,860 were from the California experimental NXXs, 1,700 were from the New York experimental NXXs, and 2,524 were from the Iowa experimental NXXs. Each state's NXX results are compared to the total state census population. Further, the three-state total is compared to the total U.S. census population. In general, the study sample demographic profile is comparable to the U.S. census statistics. Even in those cases where there are some differences, such as education, each group is well represented in the study.

	California			New York			Iowa			Tri-State			Total
	Census		Observed	Census		Observed	Census		Observed	Census		Observed	Total
	Pop.		In	Pop.		In	Pop.		In	Pop.		In	U.S.
	#	%	%	#	%	%	#	%	%	#	%	%	%
			(1860)			(1700)			(2524)			(6084)	
Education*													
Some high school or less	3,703,000	26	8	3,623,000	34	10	490,000	29	12	7,816,000	29	10	34
Completed high school	4,351,000	31	16	3,580,000	33	21	723,000	42	29	8,654,000	33	23	34
Some college	3,197,000	23	30	1,510,000	14	20	248,000	15	23	4,955,000	19	24	16
Completed college**	2,779,000	20	21	2,000,000	19	22	239,000	14	17	5,018,000	19	20	16
Grade school			8			7			9			8	
Graduate school			17			21			10			15	

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Combined 4 years and 5 or more years

Education for U.S. Census is for all population 25+, not just heads of household

	California			New York			Iowa			Tri-State			Total
	Census		Observed	Census		Observed	Census		Observed	Census		Observed	Total
	Pop.	%	In	Pop.	%	In	Pop.	%	In	Pop.	%	In	U.S.
	#		%	#		%	#		%	#		%	%
			(1860)			(1700)			(2524)			(6084)	
Age of Head Of Household*													
18 - 34	1,875,355	35	35	1,385,018	29	31	215,224	29	31	3,475,597	26	33	31
35 - 49	1,850,356	25	29	1,670,527	25	33	226,307	23	22	3,747,190	28	26	25
50+	2,848,150	40	36	2,858,316	46	36	454,780	48	47	6,161,246	46	41	44
Marital Status													
Single	5,415,858	30	29	3,222,066	28	24	532,776	24	13	3,755,700	14	21	26
Married	8,389,100	46	46	6,446,747	56	59	1,378,737	62	62	16,214,584	61	56	58
Divorced	2,051,049	11	14	525,481	5	7	108,527	5	10	2,685,057	10	10	7
Widowed	1,881,262	10	9	1,028,629	9	7	179,470	1	15	3,089,361	12	11	7
Separated	524,073	3	2	250,785	2	3	18,271	1	1	793,129	3	2	3
Household Size													
364	2,130,878	25	31	1,649,325	26	23	245,931	23	24	4,026,134	25	26	23
	2,764,368	32	33	1,852,616	29	29	347,345	33	35	4,964,329	31	33	31
	1,433,275	17	16	1,054,926	17	17	169,285	16	16	2,657,486	17	17	18
	1,228,514	14	12	928,953	15	16	161,306	15	15	2,318,773	14	15	16
	591,391	7	6	489,586	8	8	80,020	8	7	1,160,997	7	5	7
5 or more	481,440	6	2	365,023	6	6	49,146	5	3	895,609	6	4	5
Household Income**													
Less than \$15,000	3,550,168	41	28	2,868,788	45	16	465,667	45	35	6,884,623	43	27	40
\$15,000 - \$29,999	2,715,739	31	38	1,935,194	30	34	352,124	33	38	5,003,057	31	37	32
\$30,000 - \$49,999	1,828,915	21	23	1,212,729	19	31	196,652	18	22	3,238,296	20	25	21
\$50,000 or more	549,811	6	12	329,240	5	20	38,664	4	6	917,715	6	11	7

*Estimated from census data for heads of household, not total population.

**Census income cohorts interpolated to reflect sample measurements.

(CONTINUED)

Lastly, an independent review of the experimental design was conducted by Dr. Paul E. Green, S.S. Kresge Professor of Statistics from the Wharton School, University of Pennsylvania and Dr. Abba Krieger, Associate Professor, Department of Statistics of the University of Pennsylvania, who were retained by AT&T. They conclude that the experimental design is both valid and practical and that the experiment itself meets scientific standards for validity and reliability. A complete copy of their review of the Optional Calling Plan experiment is annexed to this report as Attachment A.

V. Customer Purchases of Optional Calling Plans

During the trial offering, over 4,400 customers purchased under the Optional Calling Plans. This represents 2.9% of the total of 151,000 customers to whom the plans were offered in the experimental NXXs. It is important to note the extremely short period of time available to promote the experiment. Further, once a customer decided to purchase under an Optional Calling Plan, the decision could generally not be implemented until the next effective billing period, a delay of up to one month. The 2.9% purchase rate is a composite average reflecting all purchases under the plans. In order to more accurately determine the percentage of potential purchases, any analysis must take into account the fact that two different kinds of sales promotion were involved (direct mail and telemarketing) during the experiment.

The actual market trial of the Optional Calling Plans began in July of 1983, with a direct mail promotion to approximately 151,000 customers in the 24 trial exchanges. This was the first of the sales methods employed during the experiment. The direct mail brochure was developed to communicate essentially the same message for each plan offered. It was not targeted to any customer grouping.

Customer response to the offer was immediate and took the form of calls to an 800 Service order number as well as the return of coupons ordering the new options. Orders were received from customers in every geographical trial area, and from every demographic and historical long distance usage stratum. Sales results from these channels were as follows:

<u>800 Service and Coupon Orders</u>	
New York	1037
California	749
Iowa	653
TOTAL	<u>2439</u>

Expressed as a percentage response to the direct mail campaign, the results translate to an average purchase rate of 1.6% ($2,439 \div 151,000 \times 100$).

However, these results must be adjusted to reflect the customer awareness of the Optional Calling Plan offer. Therefore, in August 1983, Data Development

Corporation conducted a survey to determine customer awareness in the trial exchanges of AT&T's Optional Calling Plans. As noted above, this survey concluded that the direct mail promotions campaign had resulted in a 19% awareness level. Thus, the 1.6% purchase level represented a response from a customer population wherein only 19% of the customers were aware of the offer.

To further identify purchase interest in Optional Calling Plans, Salesnet Corporation of Connecticut conducted an outbound telemarketing campaign directed at 30,000 customers, representing 20%, selected randomly from each exchange in the three trial locations. This was the second sales method employed during the experiment. The campaign began in August 1983 and concluded in early September. Approximately 24,000 calls were completed to customers in every demographic and historical usage strata. Sales results were very good with 1,968 completed sales representing an 8.2% initial take rate. Sales by trial area were as follows:

	<u>Telemarketing</u>
New York	753
California	561
Iowa	654
TOTAL	1968

We now see from the two sales channels (and a very limited promotions campaign) a positive indication that, on average, about 8% of the customer base actually aware of Optional Calling Plans had an immediate desire to participate in night/weekend options to the basic MTS pricing schedule. Significantly, these experimental results confirm the information obtained from the pre-experimental mail surveys conducted by Data Development Corp. during the second quarter of 1983 in the trial exchanges. Customers were asked to evaluate, on a scale of 1-10, the likelihood that they would purchase the very same Optional Calling Plan to be offered in that NXX. In the scale, a 10 response represented a definite intent to purchase. As noted above, about 6,000 customers responded. Those, who stated that they would definitely purchase at the "10" level, represented the following percentage purchase range rate of the total of 6,000 responses:

<u>State</u>	<u>Range of Purchase Rates for Different Plans</u>
New York	7% - 14%
Iowa	4% - 8%
California	5% - 13%

Thus, it is clear that the average purchase rate during the experiment confirms the survey data obtained prior to the experiment.

VI. Benefits of Optional Calling Plans to Customers

Based on the Optional Calling Plans actually purchased during the experiment, AT&T concluded that no one plan structure was dominant. No single Optional Calling Plan was preferred by all customers. Thus, on a total experiment basis, the following distributions of purchase per plan type was obtained:

<u>Plan Type</u>	<u>Number of Customers</u>
Linear	1572
Tapered	1232
Blocked	1603

Thus, all plan structures and rate levels satisfied various customer needs.

Having concluded that customers want some form of off-peak Optional Calling Plans, it is now important to focus on the experimental findings with respect to customer perceptions of the benefits of Optional Calling Plans.

One major conclusion is that immediate savings over current long distance expenditures is only one of the perceived benefits. Indeed, as is shown later, the majority of customers expanded their long distance calling after purchase.

As noted above, market surveys were conducted within the experimental NXXs first prior to the experiment, then during the experiment, and, finally, at the end of

the experiment. Customer perception of the benefits to be derived from Optional Calling Plans did not vary significantly from survey to survey.

The pre-trial research was conducted by Data Development Corporation via a direct mail questionnaire. Customers stated that they believed the benefits of Optional Calling Plans were:

- Saving money
- Ability to make more calls
- Ability to make longer calls

During the telemarketing campaign conducted by Salesnet Corporation in August 1983, customers who purchased an Optional Calling Plan as a result of this sales promotion were asked to identify the major reasons for purchasing the plan. The following reasons for purchase were identified from a total of 1,938 purchasers:

- | | |
|--------------------------|-----|
| - More Savings | 58% |
| - More Control Over Bill | 16% |
| - More Calls Per Dollar | 26% |

A major finding here is that 42% of the responses fall into the areas of control and more calling. On closer inspection, however, of those customers indicating

"more savings," a majority of the respondents would not have saved money based on their long distance usage from the month immediately prior to purchase. This finding strongly suggests that many customers purchased an Optional Calling Plan with the intention of increasing usage in order to take full advantage of the savings offered under the plan.

As a final measure of customer benefits from the Optional Calling Plans, Data Development Corporation conducted a third and final research survey. This survey was conducted among customers who had purchased an Optional Calling Plan during the experiment.

One major focus of this survey was to determine perceived customer benefits from that group of customers who not only purchased a plan, but also had experienced several months of service under the conditions of the plan.

To initiate an open ended discussion, customers were asked if they believed they had received a "good deal" for themselves and their family. 72% of the customers said Yes. This was across all plans offered.

The major reasons supporting the perception of having received a "good deal" were as follows:

- saving money on long distance calls.

- OCPs are easy to understand and convenient to use.
- OCPs provide the ability to make more and longer calls.
- Increased ability to keep in touch with family and friends.
- High quality of service.

To determine if customers would have continued the plan if the experiment had not been terminated, they were asked whether they would have bought under the plan if it was to be offered on an ongoing basis. 67% of the respondents said they would purchase, 14% said they might and the remainder stated they probably would not buy.

The overall major conclusions to be derived from these surveys from a customer perspective can be summarized as follows:

- Customers want Long Distance Optional Calling Plans.
- Customers see Optional Calling Plans as providing benefits that are in addition to the price savings these plans offer.

- The majority of customers who purchased an optional plan state that they received value -- a good deal.
- The majority of customers would have continued the plans had the experiment not terminated.

VII. Demand Response After Purchase Under an Optional Calling Plan

Customer specific long distance usage data were collected for all 151,000 residence customers in the trial exchanges and for the 60,000 residence customers in the control exchanges.

Once a customer purchased under a plan, the inter-state long distance usage of that customer for the month prior to purchase and for the months after purchase were analyzed.

That analysis provided the following distributions:

<u>Average Long Distance Minutes of Use for the Month Prior to Purchase</u>	<u>Percent of Purchasers</u>
Up to 120 Minutes/Mo.	69.3%
Over 120 Minutes/Mo.	30.7%

The major conclusion here is that options are not attractive just to heavy users of long distance. Indeed, more than two thirds of the customers selecting an option averaged less than two hours of calling for the month immediately preceding purchase.

A major objective of the experimentation program was to determine if customers who purchased Optional Calling Plans increased their long distance usage following purchase.

To quantify the degree of change, customer specific interstate long distance usage data were analyzed for one month preceding purchase and for all available months following purchase. The analysis was performed by matching each customer who bought under a plan with a corresponding customer in the control NXX in the same wire center. Customers were matched on the basis of pre-purchase minutes of use and total long distance bill. For example, a purchasing customer, whose usage in the month prior to purchase was 30 minutes and whose long distance bill was \$7.50, was matched with the customer in the control NXX, whose usage and bill were closest to that. This provides an accurate determination of the effect of the Optional Calling Plans which includes controls for seasonal and calendar effects, for general economic conditions and for demographics on the average. The tables below summarize the results of the analysis and include the t-statistic as well.

In terms of standard statistical procedures, the t-statistic measures whether the observed change is significantly greater than would be expected based on the

normal range of variation for the variable under study. For very large sample sizes, a t-statistic exceeding 2.0 would only occur from normal variation with probability of .0228. For a t-statistic of 3.0, this probability is .0013. Therefore, the t-statistics displayed in the following tables demonstrate very high levels of confidence that indeed the changes noted are statistically significant.

Total Usage Change By Calls

<u>Trial Customer Usage Segment</u>	<u>% Purchasers</u>	<u>Percentage Change in Avg. Long Distance Calls During Experiment*</u>	<u>t-STATISTIC</u>
Up to 120 Minutes	69.3	74.3	18.5
Over 120 Minutes	30.7	26.7	5.9

Total Usage Change By Minutes

<u>Trial Customer Usage Segment</u>	<u>% Purchasers</u>	<u>Percentage Change in Avg. Long Distance Minutes During Experiment*</u>	<u>t-STATISTIC</u>
Up to 120 Minutes	69.3	117.6	26.2
Over 120 Minutes	30.7	27.4	8.6

Thus, we can state that customers not only want AT&T Optional Calling Plans but will also increase their calling after purchase.

* Adjusted to remove changes observed for controls.

VIII. Network Costs and Efficiency

For purposes of identifying demand changes that reflect a more efficient use of the telecommunications network, the following criteria were employed:

1. Increased conversation length per off-peak call demonstrates improved network efficiency by increasing network utilization during off-peak periods.
2. Relatively higher increases in off-peak calling (Night/Weekend) versus peak calling (Day) also demonstrates an improvement in network utilization. Significant network capacity exists during the Night/Weekend rate periods. Options that stimulate and/or shift calling to these periods are desirable in that they more efficiently utilize the network and help control network costs.

From the trial exchanges, we can observe the following average percentage changes in conversation length following purchase:

Average Conversation Length

<u>Customer Usage Segment</u>	<u>% Purchasers</u>	<u>Percentage Change in Conversation Length During the Experiment*</u>	<u>t-STATISTIC</u>
Up to 120 Minutes	69.3	22.7	8.0
Over 120 Minutes	30.7	5.5	1.6

A review of the above analysis clearly demonstrates that customers who purchase Optional Calling Plans respond with longer conversation times, thus improving the efficient use of the telecommunications network.

Turning our attention now to changes in long distance calling demand by time of day, we observe the following in the trial population:

Changes in Time of Day Distributions

<u>Total Minutes of Use</u>	<u>Percent Distribution Prior to Purchase</u>	<u>Percent Distribution after Purchase*</u>	<u>t-STATISTIC</u>
Day	13.1	9.5	-3.9**
Evening	40.2	33.0	-8.2**
Night/Weekend	<u>46.7</u>	<u>57.5</u>	10.8
	100.0	100.0	

* Adjusted to remove changes observed for controls.

** The negative t-statistic reflects the negative change in the distribution of calling during the day and evening rate periods.

This dramatic improvement in network utilization during off-peak periods, combined with significantly longer conversation times, supports the conclusion that properly designed Optional Calling Plans can be expected to yield improved network efficiencies.

VIII. Revenue Analysis

The revenue analysis for the market trial was developed by comparing Interstate Long Distance revenues for the month preceding purchase of the Optional Calling Plan (and residual Interstate Long Distance revenues) for the months following purchase.

The following table contains the results of this analysis:

<u>Changes in DDD Long Distance Revenues</u>		
<u>Total Minutes Of Use</u>	<u>Percentage Change in Customer Bill LD Revenues During the Experiment *</u>	<u>t-STATISTIC</u>
Up to 120 Minutes	116.9%	33.8
Over 120 Minutes	17.5	5.1

The above results clearly demonstrate that customer response to Optional Calling Plans in the trial areas resulted in a significant increase in long distance revenues.

* Adjusted to remove changes observed for controls.

SECTION 4

Billing Availability For Block-of-Time Calling Plan

<u>Availability Date</u>	<u>Local Exchange Carrier</u>	<u>% Customers</u>	<u>Total Cumulative</u>
June 1984	New York Telephone	7.4	28.6
	New England Telephone		
	Telegraph	4.2	
	Pacific Bell	9.1	
	Cincinnati Bell	.7	
	Northwestern Bell Telephone	3.0	
	Ohio Bell Telephone	2.8	
	Wisconsin Bell	<u>1.4</u>	
July 1984	Illinois Bell Telephone	3.9	60.5
	Indiana Bell Telephone	1.4	
	Michigan Telephone	3.3	
	Southern Bell Telephone		
	and Telegraph and	12.7	
	South Central Bell		
	Telephone		
	Mountain States Telephone		
	and Telegraph	4.3	
	Southern New England		
	Telephone	1.4	
	Chesapeake & Potomac		
	Telephone	<u>4.9</u>	
August 1984	Southwestern Bell		70.0
	Telephone	<u>9.5</u>	
September 1984	Bell Telephone Co. of		74.2
	Pennsylvania	<u>4.2</u>	
October 1984	New Jersey Bell	<u>3.3</u>	77.5
November 1984	Pacific Northwest Bell		79.7
	Telephone	<u>2.2</u>	
January 1985	Other Carriers	<u>20.3</u>	100.0

Section 5

ECONOMIC DATA

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Section 5

ECONOMIC DATA

I. INTRODUCTION

Pursuant to Section 61.38 of the Commission's Rules and Regulations, the following economic data in support of Transmittal No. 79, revisions to Long Distance Message Telecommunications Service (MTS), are provided.

This information demonstrates that the introduction of Block-of-Time Optional Calling Plan will result in benefits for consumers and for AT&T. Customers will be provided additional choices for their interstate MTS calling and an opportunity to save money on their long distance bills. Further, the Block-of-Time Plan increases network efficiency. Lastly, AT&T will be provided with new sources of revenue and the Block-of-Time Plan will result in an improvement in the interstate earnings ratio after the initial stages of its introduction, i.e., when AT&T will incur the startup costs associated with implementing any new service.

II. BASIS OF RATEMAKING

A. Existing Rate Structure

Under the existing MTS rate structure, the charge for a domestic MTS call is based on: (1) class of service; (2) mileage between the calling and called parties by rate steps; (3) time of day/day of week of the call; and (4) the duration of the call.

The initial billing period for all domestic MTS calls is one minute. Call duration in excess of the initial minute is measured in additional minutes with fractional minutes rounded to the next (higher) minute.

There are 11 rate steps in the domestic MTS rate schedule, based on the distance of the call. The mileage in the 11 rate steps ranges from 1 to 5750.

The existing domestic MTS rate schedule includes discounts of 40 percent during the evening rate period (5 p.m. - 11 p.m. everyday except Saturday) and 60 percent during the night/weekend rate period (11 p.m. - 8 a.m. daily, all day Saturday and Sunday until 5 p.m.).

B. The Optional Calling Plans Experiment

AT&T's Optional Calling Plans experiment commenced on July 1, 1983, and terminated on December 31, 1983.* The experiment was designed to properly quantify customer purchase and usage decisions with regard to the Optional Calling Plans and to analyze the effect of the demand changes in terms of network costs and efficiency, in order to determine whether a nationwide offering of Optional Calling Plans is desirable.

* Memorandum Opinion and Order, 94 F.C.C.2d 551 (1983).

The Optional Calling Plans experiment was offered within selected central office codes in California, New York and Iowa during off-peak periods. The three rate plans involved in the experiment were:

1. Linear Plan - Subscribing customers paid a monthly charge entitling them to receive an additional uniform percent discount within the existing night/weekend rate period. This plan incorporated the existing distance-sensitive MTS rate structure by applying the additional discount to existing rates.
2. Tapered Plan - Subscribing customers paid a monthly charge and an additional hourly usage rate for the first hour of calling each month during the night/weekend rate period. When monthly usage was a portion of an hour, the customer was charged the appropriate fraction of the hourly rate. Usage in excess of one hour was billed at a lower hourly usage rate. This plan differed from the existing MTS rate

structure in that the rates were not distance-sensitive, and a fixed monthly subscription charge was applied.

3. Block-of-Time Plan - Subscribing customers paid a monthly charge entitling them to receive an initial allotment of either one or two hours of monthly usage during the night/weekend rate period. However, unlike the Tapered Plan, usage of less than the initial allotment was not prorated. Usage in excess of the initial allotment was billed at a lower additional hourly rate which charge was prorated to reflect the appropriate portion of hourly usage. This plan also established rates that were not distance-sensitive.

For each of the above three Optional Calling Plan pricing structures, AT&T developed five rate levels. Thus, the experiment was composed of 15 different Optional Calling Plan rate schedules. (See Section 3 for further description.)

C. Block-of-Time Rate Structure

The rate structure selected for this nationwide Optional Calling Plan offering is the Block-of-Time Plan.

Although AT&T's analysis of the data obtained during the experiment indicated that all three Optional Calling Plans satisfied customer needs,* AT&T selected the Block-of-Time Plan because customers who purchased the Block-of-Time Plan generated higher average levels of messages, minutes and revenues after purchase than customers who purchased the other plan structures. The Block-of-Time Plan also had the greatest positive impact on improving network efficiency. Further, customer surveys conducted during and after the experiment indicated that a higher percentage of purchasers of the Block-of-Time plan thought they received a "good deal" than customers who purchased the Linear or Tapered plans. Thus, the Block-of-Time structure best satisfies customer needs and also delivers the most benefits to AT&T. In addition, the Block-of-Time structure introduces several new concepts to AT&T's MTS customers. These include (1) a monthly recurring fee; (2) rates which are distance insensitive; (3) rates which include an initial minimum usage allotment;

* The following represents the distribution of plans purchased during the experiment:

<u>Plan Type</u>	<u>Sales</u>
Block-of-Time	1603
Linear	1572
Tapered	1232

and (4) rates which do not distinguish between the initial minute and the additional minute. Thus, this offering presents customers with a significant choice vis-a-vis the existing rate structure.

D. Optional Calling Plan Rate Levels

One of the major objectives of the Optional Calling Plans experiment was to select an appropriate rate for a nationwide offering by measuring customer reaction to the various price levels offered during the experiment. The rates selected for the Block-of-Time Plan will provide a positive contribution to the MTS category and the firm.

Option A offers a rate of \$10 for the initial hour of usage and an hourly rate of \$8.75 for additional hours of night/weekend usage.* It is anticipated that the initial hour rate will be attractive to customers because it represents a discount from the present average price for one hour of calling during the night/weekend rate period. This rate reflects underlying costs, including access expenses, and takes into account the experimental data regarding customer response to the Block-of-Time Plan.

* The experiment tested initial hour rates ranging from \$8 to \$16 and additional hour rates ranging between \$5 and \$7.

The additional hour rate of \$8.75 is designed to provide medium and low users with an incentive to increase their calling beyond the first hour. Heavy users will be encouraged to increase their calling as well. Yet, the rate is still high enough to be profitable.

Option B offers all the benefits of Option A, plus, for an additional \$1.50 per month, Option B entitles customers to an additional 15% discount during the evening rate period. The determination that 15% was an appropriate level for the additional evening discount is based on experimental results. Additional evening discounts ranging between 10 and 20 percent were tested. It was determined that 15% was the lowest level of additional discount that was of interest to most customers.

The increased customer choice provided by the presence of both Option A and Option B results in significantly higher customer interest in the Block-of-Time Plan. This results in increased customer purchase rates and correspondingly higher demand stimulation and revenues.* Consequently, AT&T will be better off financially by offering both options. Customers are also better served because presenting both options provides another

* The experiment contained certain exchanges in which customers were offered a choice of plans. Data obtained from these exchanges confirms these conclusions.

alternative to the existing rate structure and a further opportunity to save money. Thus, the proposed offerings will meet the needs of a greater number of customers.

E. Service Order Charge

This offering introduces a nonrecurring service order charge of \$10. The purpose of the charge is to recover the costs that the Local Exchange Companies will impose on AT&T for the service order processing associated with establishing billing for the Optional Calling Plan. A service order charge is appropriate because it places the costs associated with establishing the Optional Calling Plan directly on the users of the service.

The basis for the service charge is the cost estimates for service order processing received from the Local Exchange Companies. These range from a low of \$3.00 to a high of \$25.00. However, these estimates are under discussion with the Local Exchange Companies. Due to the large variability in these cost estimates and the anticipation that these costs may be lowered, AT&T selected a nationwide averaged service order cost at \$10, although a weighted nationwide average of the estimated costs is \$12.37.

Optional Calling Plans represent a new concept for AT&T's customers. To encourage customers to purchase an Optional Calling Plan, AT&T will waive the service

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* Figure 1 contains a description of the development of the estimate for the service order charge.

order charge for 90 days after the Optional Calling Plan is available in a rate center area.* It is anticipated that the temporary waiver of the service charge will increase customer interest for Optional Calling Plan by making the offering even more attractive to potential customers, and more profitable to AT&T in the long term.

III. DEMAND ANALYSIS

The demand analysis for the Block-of-Time Optional Calling Plan is heavily based on the results of the interstate Optional Calling Plans rate experiment,** which tested the same Block-of-Time rate structures that are the subject of this filing.***

A. Overview of Demand Analysis Approach

The demand analysis approach utilized experimental data in two key ways. First, the number of customers who could be expected to purchase or "take" the tariffed plans was estimated. To do this, information about the customers in

* Section 3.2.1 I 1(a) of Tariff F.C.C. No. 4.

** The Rate Evaluation System (RES) model elasticities (TFP 1303, Section 2) were not used for this purpose because the "Block-of-Time" Plan offers a zero marginal price for use within the first hour. RES is used to analyze the demand for long distance when the marginal price is greater than zero.

*** In the experiment, the Block-of-Time Plan was offered both with and without the feature of the additional evening discount.

the trial ("treatment") exchanges where the Block-of-Time plans were offered and their MTS usage was modeled to obtain a measure of take for each plan offered in the experiment. The model relates the probability of take to the expected amount of a customer's MTS bill savings from use of the plan. This model, which is documented in Section 6, "Appendix on Demand Analysis", was then used to estimate the take rates for the filed plans. Second, the amount of change in customers' usage of MTS service which could be expected as a result of purchase of each filed plan was estimated. To do this, the net change in minutes of use was measured for plan takers in the experiment and compared to the net change for customers in the control exchanges. This comparison was then used to obtain a measure of the change in usage induced by the experimental rate plan. This two-stage analysis, along with knowledge of the specific rate structure and levels included in this tariff filing, allowed for the estimation of the number of plan takers and corresponding changes in their usage and revenue for the nationwide plan.

B. Estimation of the Take Rate

The first step in the take rate estimation was to develop a model which relates the probability of take to the expected amount of a customer's MTS bill savings from use of the plan.* Development of the model parameters was based on the experimental data.

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* This model is described in more detail in Section 6.

First, the pre-experimental usage of all the customers in the treatment exchanges was examined. For each customer, the MTS bill was calculated for one month of Dial Station usage at current rates. Then, based on the same usage, the bill was calculated under the Optional Calling Plan rate offered in that experimental exchange. The difference between the two calculations produced an estimate of potential savings. The potential savings varied according to the rate levels for the selected plan and the amount of usage of each customer.

Second, the experimental data were examined to determine which customers took the Block-of-Time Plans. With information about the amount of potential savings for each customer taking the plan and each customer not taking the plan, the parameters of a take function were estimated utilizing a discrete choice model framework.* The take function relates potential bill savings to purchase probability and the parameters are employed to calculate the probability that a customer will take a plan.**

* The statistical technique of maximum likelihood estimation was used. See Section 6 for detailed information.

** The parameters apply to the full range of Block-of-Time plans offered in the experiment based on the initial economic assumption that it is savings and not the structure of a particular plan (except as it influences savings) that primarily influences the take decision.

The next step in estimation of the take rate for the proposed plans was to estimate the amount of take on a nationwide basis. This was accomplished through use of monthly toll billing details from the Market Analysis of Revenue and Customer (MARC) data base, a nationwide representative panel of residence customers.* The MARC data base includes sample inflation factors for extrapolation to nationwide results. The potential bill savings of each customer in the MARC data base was calculated just as it had been for those customers in the experiment. Then, using the take parameters described above, the probability of take could be calculated for each customer in the MARC data base.** Finally, the total number of customers taking the plans nationwide could be determined by summing together the take probabilities of the plans for all of the customers in the MARC sample, inflated to a nationwide customer base by the sample inflation factors in the MARC data base.** The summation of takers was completed for each of seven usage segments. These

* The effect of the price changes resulting from optional calling plans is specific to a customer's level of savings; therefore, customer-specific data was needed to estimate demand effects. The MARC data base contains such data.

** Analysis of the proposed plans required estimating the probability of take for both options. See Section 6 for details.

segments based on customer usage for one month are defined as follows: 0 minutes, 0-15 minutes, 15-30 minutes, 30-45 minutes, 45-60 minutes, 60-120 minutes, and greater than 120 minutes.*

The analysis described above produced estimates of the number of customers who could be expected ultimately to take the plans. The final step was to determine how many customers could be expected to take the plans in 1984, 1985 and 1986. To do this, estimates were scaled down to reflect advertising budget and sales force limitations. These final estimates of the takers in 1984, 1985 and 1986 were utilized in the next series of calculations to determine usage stimulation.

C. Estimation of Usage Stimulation

The first step in estimating stimulation was to develop a model which relates the amount of change in usage to the amount of change in price.** It was necessary to determine appropriate measures for change in usage and change in price and then to estimate model parameters.

To calculate the change in night/weekend usage for the Block-of-Time structure (which is present in both Option A and Option B), takers in the experiment were segmented into

* These usage segments were required in the calculation of Optional Calling Plan revenues as described later.

** This model is explained in more detail in Section 6.

four usage categories: 0 minutes, 0-60 minutes, 60-120 minutes and greater than 120 minutes. This segmentation was based on night/weekend Dial Station usage from a single pre-experiment month. Then, the amount of usage in the pre-experiment month was subtracted from the amount of usage in each month of the experiment.

To account for the effect of other circumstances besides the plans, data from the control groups were processed in the same manner described above for the takers. The change in usage for the control group in each experiment month was subtracted from the change in usage for the takers in each experiment month to determine the change in usage caused by the Block-of-Time structure. The adjusted change in usage for the takers for each experiment month was used in the development of the model.

To calculate the change in price for the Block-of-Time structure, the marginal price of the Block-of-Time feature was compared to the appropriate marginal Dial Station price. Then, to estimate the parameters of the model relating change in usage to change in price, regression analysis was utilized.* The result of the analysis was a set of price response parameters for usage categories.

* This process yields partial derivative parameters and is described in more detail in Section 6.

The next step in estimating stimulation was to determine how much additional usage (or stimulation) in minutes would result from the takers of the plans. The marginal price difference between the Block-of-Time rate and the night/weekend Dial Station rates was calculated for each of the MTS tariff rate steps within the seven usage segments defined previously.* The changes in marginal price were then multiplied by the price response parameters to determine the change in usage minutes per month per customer. This calculation was completed for each rate step within each usage category. For each usage category the changes in usage by rate step were then weighted by the rate step distribution of usage to produce the average usage change.

The last step to determine the amount of stimulation for the Block-of-Time structure was to multiply the annualized usage change per customer in each of the seven categories by the number of estimated takers in the category. This process produced the total stimulation of demand in minutes in each usage category for the night/weekend rate period.

The price difference between the evening discount rate and the evening Dial Station rates is a uniform additional discount of 15% on the current evening rates. To estimate the evening stimulation due to the evening discount structure, a price elasticity was developed based on the experiment data.

* Supra at 12-13.

Iowa was the only state which offered interstate optional calling plans with an evening discount. By a process similar to that used for the estimation of night/weekend price response parameters, separate parameters were developed for the evening and the night/weekend periods using Iowa data alone. Because it was perceived that an elasticity based exclusively on Iowa data might not be fully representative of a nationwide response, the following process was employed to assure that the estimates were representative. First, the night/weekend parameters used for the Block-of-Time plan were transformed to elasticity estimates* and then aggregated to a single elasticity for the night/weekend rate period. Second, the ratio of the Iowa evening price response parameter estimate to the Iowa night/weekend parameter estimate was determined, and then applied to the night/weekend elasticity. This process produced an elasticity appropriate for the nationwide analysis of the evening discount structure.

To calculate the change in usage for the evening rate period, the elasticity estimate was applied to the 15% price change to yield the percentage change in usage for the takers. To translate this percentage change into minutes, the takers' evening usage was multiplied by the percentage change. This process produced the total stimulation of minutes for the evening period.

* There is an established relationship between elasticity estimates and partial derivative estimates.

Message stimulation was calculated by dividing total minute stimulation by the historical residence market average call length adjusted for the experimentally induced increase in average call length.* After stimulation had been calculated, stimulated usage for takers of options in the Optional Calling Plan was added to their base usage to derive total usage for each option. The impact of the filed Optional Calling Plan on demand, in minutes and messages, is shown in Figure 3.

D. Revenue Calculation for the Optional Calling Plan

Usage for each option was priced out according to the option's charges. Specifically, for Option A, all minutes per customer in the night/weekend rate period in excess of one hour per month for each of the seven usage categories were priced at a prorated amount of the additional hourly rate of \$8.75. These revenues were added to the \$10 per customer minimum charge in order to obtain total Option A revenue per customer in the usage category. Then, revenue per customer was multiplied by the number of takers in the usage category to obtain total category revenues. Finally, revenues were summed over categories to obtain total Option A revenues. Option B was priced out in the same manner as Option A, except that the first Hourly charge was \$11.50 and all (base

* See the Optional Calling Plans Rate Experiment Report filed with the Commission on March 12, 1984. A copy is attached hereto as Section 3.

and stimulated) evening usage was priced at a fifteen percent discount off of existing evening rates. The impact of the filed Optional Calling Plan on revenues is shown in Figure 3.

E. Cross-Elastic Impacts

The Block-of-Time Plan can be expected to have cross-elastic impacts with AT&T MTS Dial Station daytime and operator-handled services. These cross-elastic impacts were calculated by computing the aggregate residence market sector price changes for Dial Station under the Block-of-Time Plan and applying the operator-handled services cross-elasticities from the RES model (see TFP 1303). Similarly, the aggregate residence market sector price changes for Dial Station evening and night/weekend periods were computed and rate period cross-elasticities consistent with the RES model for the residence Dial Station day market sectors were applied.* Demand and revenue impacts in these sectors were estimated using the indicated elasticities and the procedure described in TFP 1303, Section 4.

F. Disaggregation of Demand and Revenue for Cost Analysis

The changes in AT&T MTS demand and revenues due to the Block-of-Time Plan is added to the base demand and revenues (see TFRV) and disaggregated for cost input as described in TFP 1301, Sec. 8.

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* These elasticities were estimated by a modification of the RES model which 1) included separate cross price terms for each individual rate period, 2) incorporated "symmetry" restrictions on the cross impacts, and 3) utilized a random coefficient panel data model specific-

IV. COST ANALYSIS

This subsection documents the estimated changes in costs, settlements and revenues that will result from the Block-of-Time Optional Calling Plan included in this filing. Results are displayed for both the interstate and MTS reporting categories. No separate data is provided for the Block-of-Time Plan, because it is not a separate service. The Block-of-Time Plan represents an off-peak pricing option for MTS users. MTS has been, and is today, provided as a single service.

The baseline view of 1984 was developed and described in the update to AT&T's Tariff Filing Reference View (TFRV) filed April 23, 1984. The revised TFRV replaces the financial view filed October 3, 1983. Before introduction of the Block-of-Time Plan, the total 1984 interstate earnings ratio is 4.926 percent and the MTS category earnings ratio is 3.549. (Figure 2) Figure 4 shows the 1984 baseline results adjusted to reflect the financial effects of the Block-of-Time Plan. The manner in which the baseline was adjusted is described below.

The 1984 expense and settlement effects of changes in demand and revenue resulting from the introduction of the Block-of-Time Plan were determined using the Network

Network Cost System (NCS)* using as inputs the changes in demand and revenues expected to result from the introduction of the Block-of-Time Plan. (See Figure 3)

Changes in access expenses for 1985 and 1986 are developed first using the estimating process which is described in the Tariff Filing Reference Package filed April 23, 1984.** The next step reflects the commitment that AT&T understands the National Exchange Carrier Association has made to promptly reflect in reduced per unit access rates, the decreased per unit revenue requirements the exchange carriers will experience as the result of any stimulation in demand.

The term "fixed access revenue requirement" is applied to the assumption that total exchange carrier non-traffic sensitive revenue requirements will remain fixed and not change due to stimulated demand resulting from introduction of the Block-of-Time Optional Calling Plan. It is assumed that the fixed access revenue requirement will be reallocated across the stimulated demand volumes,

* NCS is described in TFP 1505.

** See Volume I, Attachment 1, Appendix 5.

resulting in lower per unit access rates.* The 1984 results assume that the baseline per unit access rates would be applied to the stimulated demand.

Sales, marketing and promotional expenses associated with the introduction of the Block-of-Time Plan are developed from estimates which reflect the promotional effort planned to implement this offering. The NCS results, access expenses and promotional expenses are input to the Network Prospective Cost System (NPCS)** to develop changes in interstate investments and to compute the adjusted total interstate financial results and the earnings ratio. Reporting category results are subsequently developed consistent with the interim cost allocation manual using the Predictive Fully Distributed Cost (PFDC) process.***

Results for 1984, reflecting the implementation of the Block-of-Time Plan, are shown in Figure 4.

* See Response submitted by NECA in CC Docket Nos. 78-72 and 83-1145 on April 3, 1984. NECA recalculated the access charge taking into account demand stimulated by an MTS rate reduction. The methodology used by NECA corresponds to that utilized by AT&T.

** The NPCS and PFDC processes are described in TFP 1503 and 3000-3999, respectively.

*** The NPCS and PFDC processes are described in TFP 1503 and 3000-3999, respectively.

A similar process is employed to develop the results for 1985 and 1986 which are shown in Figures 5 and 6, respectively. However, the underlying baseline 1984 costs are used as the proxy baseline for 1985 and 1986 costs because no financial view of these years presently exists. These figures demonstrate that beginning in 1985, the Block-of-Time Plan provides positive contribution, that is, annual revenues exceed annual costs. The amount of the contribution increases in later years. The 1985 and 1986 financial results also anticipate a phase-in of end user access line charges at \$2 starting in June 1985* and an OCC discount estimated at 39% for 1985 and 22% for 1986.

As a result of the introduction of the Block-of-Time Plan, the interstate earnings ratio improves in 1985 (Figure 5) compared to the 1984 base, reflecting the combined effects of both MTS and WATS category earnings ratio improvement. (The WATS category experiences some savings in access charges as a result of the fixed access revenue requirement.)

In 1986 (Figure 6), both the total interstate and MTS category earnings ratios are positive when compared to the 1984 base.

* Further Reconsideration Order, Docket 78-72 (FCC 84-36), released February 15, 1984.

Figure 1 Shows the development of the Service Order Charge estimate.

Figure 2 Shows the baseline financial view of MTS, WATS and total interstate for 1984 before the addition of the Block-of-Time Plan.

Figure 3 Shows the expected change in messages, minutes and revenues due to the addition of the Block-of-Time Plan in 1984.

Figure 4 Shows the adjusted financial view of MTS, WATS, and total interstate with the introduction of the Block-of-Time Plan in 1984.

Figure 5 Is a proxied financial view of MTS, WATS and total interstate with the Block-of-Time Plan in place in 1985. This was accomplished by adding the messages, minutes and revenues expected from the addition of the Block-of-Time Plan in 1985 to the 1984 Financial Base. This view reflects the "fixed access revenue requirement."

Figure 6 Is a proxied financial view of MTS, WATS, and total interstate with the Block-of-Time Plan in place in 1986. This was accomplished by adding the messages, minutes and revenues expected from the addition of the Block-of-Time Plan in 1986 to the 1984 Financial Base. This view reflects the "fixed access revenue requirement."

SERVICE ORDER COST ESTIMATE

<u>COMPANY</u>	<u>TOTAL CUSTOMERS (MILLIONS)</u>	<u>% TOTAL</u>	<u>COST ESTIMATE PROVIDED BY LOCAL EXCHANGE COMPANY</u>	<u>NATIONWIDE AVERAGE WEIGHTED COST ESTIMATE</u>
NYNEX				
NY	5.7	9.5	\$ 5.30	\$.50
NE	3.3	5.5	5.60	.31
AMERITECH	10.3	17.1	\$10.00	1.71
PACIFIC	7.1	11.8	5.30	.63
U.S. WEST				
MTN	3.4	5.6	12.58	.70
NWB	2.3	3.8	3.00	.11
PNB	1.7	2.8	4.80	.13
S.W. BELL	7.3	12.1	18.48	2.42
BELL SOUTH				
SCB	4.8	8.0	10.70	.86
SB	5.2	8.6	14.20	1.22
BELL ATLANTIC	<u>9.1</u>	<u>15.1</u>	25.00	<u>3.78</u>
TOTAL	<u>60.2</u>	<u>100.0</u>		<u>\$12.37</u>

Negotiations are still being conducted on the service order charge. AT&T Communications is attempting to obtain lower final charges for service order processing.

FIGURE 2

1984 FINANCIAL VIEW (BASELINE)

(\$ Thousands)

REVENUES	MTS	WATS	TOTAL INTERSTATE
GROSS SERVICE REVENUES	21,341,128	6,874,338	31,647,777
LESS-SETTLS. EXCEPT DRG	4,111,470	146,607	4,340,380
SERVICE REVENUES	17,229,658	6,727,731	27,307,397
MISC. OPERATING REVENUES	15,852	478	16,700
LESS-UNCOLL. REVENUES	727,310	17,111	745,000
TOTAL REVENUES	16,518,200	6,711,098	26,579,097

EXPENSES AND OTHER TAXES			
MAINTENANCE	688,572	281,812	1,579,851
DEPRECIATION AND AMORT.	493,734	185,538	872,350
TRAFFIC EXPENSES	583,306	67,229	668,539
COML. AND MKTG. EXPENSES	1,028,258	393,410	1,704,065
OPERATING RENTS	744,856	183,465	1,136,384
RELIEF AND PENSIONS	334,515	114,750	635,010
GEN'L. SVCS. AND LICENSES	140,350	56,331	237,931
OTHER GENERAL. EXPENSES	728,669	296,165	1,231,746
OTHER EXPENSES	788	290	1,415
OTHER TAXES	286,804	124,084	544,278
ACCESS CHARGE	11,310,901	4,829,206	17,420,232
TOTAL EXPENSES AND OTHER TAXES	16,340,753	6,532,281	26,031,801
FEDERAL TAXES ON INCOME	-7,159	49,793	97,064
TOTAL EXPENSES	16,333,594	6,582,073	26,128,865

NET EARNINGS	184,607	129,025	450,232

INVESTMENTS AND RESERVES			
TELEPHONE PLANT IN SERVICE	7,416,101	2,733,201	13,316,273
TELEPHONE PLANT UNDER CON.	104,104	38,099	188,709
PROP HELD FOR FUT TEL USE	5,016	1,836	8,285
SATELLITE EARTH STATIONS	62,325	0	63,000
MATERIAL AND SUPPLIES	3,481	1,274	5,976
CASH WORKING CAPITAL	351,889	128,783	484,853
LESS-DEPREC. AND AMORT. RES	1,803,384	653,862	3,253,745
-ACCUM. D'FD. INC. TAX	937,232	343,005	1,673,115
-CUSTOMERS' DEPOSIT	603	221	1,017
AVERAGE NET INVESTMENT	5,201,696	1,906,106	9,139,219

EARNINGS RATIOS	3.549	6.769	4.926

Figure 3

EFFECTS OF BLOCK-OF-TIME OPTIONAL CALLING PLAN
ON MESSAGES, MINUTES AND GROSS SERVICE REVENUES
IN 1984, 1985 AND 1986 (MILLIONS)*

	1984		
	<u>Messages (M)</u>	<u>Conversation Minutes (M)</u>	<u>Revenues (\$M)</u>
Forecast			
(including OCP)	6,063	46,222	15,432
Reference View	6,044	45,982	15,385
Estimated Change	19	240	47
	1985		
	<u>Messages (M)</u>	<u>Conversation Minutes (M)</u>	<u>Revenues (\$M)</u>
Forecast			
(including OCP)	6,287	47,472	15,633
Reference View	6,181	46,201	15,369
Estimated Change	106	1,271	264
	1986		
	<u>Messages (M)</u>	<u>Conversation Minutes (M)</u>	<u>Revenues (\$M)</u>
Forecast			
(including OCP)	6,678	49,699	16,152
Reference View	6,433	46,895	15,567
Estimated Change	245	2,804	585

* Includes offshore.

FIGURE 4

ADJUSTED 1984 FINANCIAL VIEW

(\$ Thousands)

REVENUES	MTS	WATS	TOTAL INTERSTATE
GROSS SERVICE REVENUES	21,387,642	6,874,338	31,694,291
LESS-SETTLS. EXCEPT DRG	4,111,208	146,480	4,339,966
SERVICE REVENUES	17,276,434	6,727,858	27,354,325
MISC. OPERATING REVENUES	15,852	478	16,700
LESS-UNCOLL. REVENUES	728,896	17,111	746,586
TOTAL REVENUES	16,563,390	6,711,225	26,624,439

EXPENSES AND OTHER TAXES			
MAINTENANCE	689,372	281,396	1,580,231
DEPRECIATION AND AMORT.	494,606	185,372	873,073
TRAFFIC EXPENSES	583,586	67,131	668,716
COML. AND MKTG. EXPENSES	1,034,413	395,260	1,713,459
OPERATING RENTS	745,293	183,215	1,136,417
RELIEF AND PENSIONS	334,737	114,728	635,185
GEN'L. SVCS. AND LICENSES	140,579	56,241	238,036
OTHER GENERAL. EXPENSES	729,787	295,558	1,232,033
OTHER EXPENSES	789	290	1,415
OTHER TAXES	281,147	126,475	543,513
ACCESS CHARGE	11,371,201	4,829,206	17,480,532
TOTAL EXPENSES AND OTHER TAXES	16,405,509	6,534,871	26,102,610
FEDERAL TAXES ON INCOME	-16,346	48,679	85,223
TOTAL EXPENSES	16,389,163	6,583,550	26,187,833

NET EARNINGS	174,227	127,675	436,606

INVESTMENTS AND RESERVES			
TELEPHONE PLANT IN SERVICE	7,429,318	2,730,841	13,327,130
TELEPHONE PLANT UNDER CON.	104,288	38,067	188,861
PROP HELD FOR FUT TEL USE	5,019	1,832	8,285
SATELLITE EARTH STATIONS	62,325	0	63,000
MATERIAL AND SUPPLIES	3,487	1,273	5,981
CASH WORKING CAPITAL	353,658	129,090	486,947
LESS-DEPREC. AND AMORT. RES	1,806,576	653,310	3,256,385
-ACCUM. D'FD. INC. TAX	938,897	342,712	1,674,487
-CUSTOMERS' DEPOSIT	604	220	1,017
AVERAGE NET INVESTMENT	5,212,019	1,904,862	9,148,315

EARNINGS RATIOS	407	3.343	6.703

		4.773	

FIGURE 5

ADJUSTED 1985 FINANCIAL VIEW

(\$ Thousands)

REVENUES	MTS	WATS	TOTAL INTERSTATE
GROSS SERVICE REVENUES	21,601,533	6,874,338	31,908,182
LESS-SETTLS. EXCEPT DRG	4,113,865	146,761	4,342,959
SERVICE REVENUES	17,487,668	6,727,577	27,565,223
MISC. OPERATING REVENUES	15,852	478	16,700
LESS-UNCOLL. REVENUES	736,190	17,111	753,880
TOTAL REVENUES	16,767,330	6,710,944	26,828,043

EXPENSES AND OTHER TAXES			
MAINTENANCE	693,762	279,712	1,583,586
DEPRECIATION AND AMORT.	498,509	184,519	876,200
TRAFFIC EXPENSES	585,326	66,720	670,037
COML. AND MKTG. EXPENSES	1,058,040	401,903	1,748,879
OPERATING RENTS	747,339	182,032	1,136,634
RELIEF AND PENSIONS	336,076	114,596	636,450
GEN'L. SVCS. AND LICENSES	141,636	55,921	238,766
OTHER GENERAL. EXPENSES	734,649	293,237	1,234,353
OTHER EXPENSES	792	288	1,415
OTHER TAXES	290,067	128,097	548,743
ACCESS CHARGE	11,505,201	4,793,406	17,578,732
TOTAL EXPENSES AND OTHER TAXES	16,591,398	6,500,432	26,253,795
FEDERAL TAXES ON INCOME	-8,685	64,553	108,790
TOTAL EXPENSES	16,582,712	6,564,985	26,362,585

NET EARNINGS	184,618	145,958	465,458

INVESTMENTS AND RESERVES			
TELEPHONE PLANT IN SERVICE	7,488,424	2,718,700	13,374,095
TELEPHONE PLANT UNDER CON.	105,116	37,899	189,521
PROP HELD FOR FUT TEL USE	5,036	1,816	8,285
SATELLITE EARTH STATIONS	62,325	0	63,000
MATERIAL AND SUPPLIES	3,515	1,267	6,003
CASH WORKING CAPITAL	356,114	128,395	488,722
LESS-DEPREC. AND AMORT. RES	1,820,850	650,457	3,267,806
-ACCUM. D'FD. INC. TAX	946,343	341,200	1,680,422
-CUSTOMERS' DEPOSIT	607	219	1,017
AVERAGE NET INVESTMENT	5,252,730	1,896,202	9,180,381

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FIGURE 6

ADJUSTED 1986 FINANCIAL VIEW

(\$ Thousands)

REVENUES	MTS	WATS	TOTAL INTERSTATE
GROSS SERVICE REVENUES	219,919,370	6,874,338	32,226,019
LESS-SETTLS. EXCEPT DRG	4,118,676	147,362	4,348,489
SERVICE REVENUES	17,800,694	6,726,976	27,877,530
MISC. OPERATING REVENUES	15,852	478	16,700
LESS-UNCOLL. REVENUES	747,028	17,111	764,718
TOTAL REVENUES	17,069,518	6,710,343	27,129,512

EXPENSES AND OTHER TAXES			
MAINTENANCE	701,130	277,323	1,590,145
DEPRECIATION AND AMORT.	504,436	183,138	880,861
TRAFFIC EXPENSES	588,367	66,124	672,482
COML. AND MKTG. EXPENSES	1,060,373	399,384	1,747,314
OPERATING RENTS	750,548	180,183	1,137,176
RELIEF AND PENSIONS	338,668	113,883	638,708
GEN'L. SVCS. AND LICENSES	143,462	55,744	240,507
OTHER GENERAL. EXPENSES	741,963	291,028	1,239,276
OTHER EXPENSES	798	284	1,415
OTHER TAXES	308,706	124,442	558,647
ACCESS CHARGE	11,674,901	4,776,106	17,731,132
TOTAL EXPENSES AND OTHER TAXES	16,813,351	6,467,639	26,437,663
FEDERAL TAXES ON INCOME	27,289	79,633	162,073
TOTAL EXPENSES	16,840,640	6,547,272	26,599,736

NET EARNINGS	228,878	163,071	529,776

INVESTMENTS AND RESERVES			
TELEPHONE PLANT IN SERVICE	7,578,192	2,698,950	13,444,113
TELEPHONE PLANT UNDER CON.	106,372	37,626	190,504
PROP HELD FOR FUT TEL USE	5,061	1,790	8,285
SATELLITE EARTH STATIONS	62,325	0	63,000
MATERIAL AND SUPPLIES	3,557	1,258	6,036
CASH WORKING CAPITAL	358,488	126,804	489,508
LESS-DEPREC. AND AMORT. RES	1,842,525	645,808	3,284,832
-ACCUM. D'FD. INC. TAX	957,653	338,740	1,689,271
-CUSTOMERS' DEPOSIT	610	216	1,017
AVERAGE NET INVESTMENT	5,313,208	1,881,664	9,226,326

EARNINGS RATIOS	409 4.308	8.666	5.742

Section 6

APPENDIX ON DEMAND ANALYSIS

A. INTRODUCTION

This appendix presents the basic economic theory underlying the demand modeling as well as the specification and estimation techniques used for the Block-of-Time Optional Calling Plans (OCP). Conceptually, there are two major questions that a demand model in this context must address. First, as a function of current calling patterns, who chooses a given OCP? Second, for the set of customers who choose the plan, how does their calling behavior change? These questions are related in a nontrivial way, since customers who might not appear to benefit from the plan given current usage might in fact benefit after demand response to the OCP's lower prices.

Traditional consumer demand theory provides a partial answer to these questions. For each customer, the value of an OCP is computed by evaluating the compensating variation in the customer's income under the OCP tariff relative to the current tariff. The traditional, deterministic theory predicts that the consumer will purchase the OCP if this value exceeds the monthly recurring charge for the plan. A more general theory will allow for some stochastic variables to influence choice. For example, individual levels of toll calling vary stochastically over time due to transitory changes. Thus, toll calling is a stochastic variable which influences the choice to purchase an OCP.

In this appendix, deterministic consumer demand theory is augmented by a stochastic decision rule which specifies for any level of "willingness to pay" (defined by compensating variation) there is a probability that a customer with that computed value will purchase the plan. The probability increases with "willingness to pay", so that customers with low values of "willingness to pay" have low purchase probabilities while customers with high values of "willingness to pay" have high purchase probabilities. This analysis assumes that all customers have the same own price elasticity of demand and that all cross price demand elasticities are zero; it also assumes that income effects are negligible.

B. "WILLINGNESS TO PAY"

Let $U(\pi, I)$ be the utility a consumer would receive if the price of a given product were π , his income were I , and he purchased all products in the quantities that would maximize utility. The function $U(\pi, I)$ is called the indirect utility function; it is decreasing in π , increasing in I , homogeneous of degree zero in π and I taken together, and quasi-concave in π . Similarly, let $U(p, I)$ be the utility the same consumer would receive if the price of the same given product were lowered to p and his income remained at I . The amount of income the customer would be willing to pay for the new, lower price p , thus maintaining the same level of utility, is given by the compensating variation, CV , in income due to the price change

$$U(p, I - CV) = U(\pi, I) \quad (1)$$

Now, let $C(\pi, U)$ be the cost the consumer would incur if the price of the given product were π , his utility were $U(\pi, I)$ and he purchased all products in the quantities that would minimize cost. The function $C(\pi, U)$ is called the expenditure function; it is increasing in π , increasing in U , and homogeneous of degree one in π . Thus, we may equivalently state (1) as

$$CV = C(\pi, U) - C(p, U) = \omega(p, I, \pi) \quad (2)$$

and we may define the function $\omega(p, I, \pi)$ as the "willingness to pay" for the lower price p instead of price π . Note that under this definition, if a consumer were given a binary choice between the current Dial Station marginal price π and an OCP two-part tariff with constant marginal price p , $p < \pi$, and monthly recurring charge B , he would choose the two-part structure if

$$\omega(p, I, \pi) > B \quad (3)$$

This conclusion is justified as follows. Since the monthly recurring charge can be viewed as a reduction in income, condition (3) implies that

$$U(p, I-B) > U(p, I-\omega(p, I, \pi)) = U(\pi, I)$$

That is, utility under the two-part tariff is greater than utility under π .

According to the deterministic decision rule given by (3), a consumer would choose a two-part pricing option if his willingness to pay (WTP) for the option's marginal price is greater than its recurring monthly charge. We approximate WTP with the first three terms of a Taylor expansion of $C(p, U)$ about the point $p=\pi$ as follows

$$C(p, U) = C(\pi, U) + \frac{\partial C(\pi, U)}{\partial \pi} (p - \pi) + \frac{\partial^2 C(\pi, U)}{\partial \pi^2} \frac{(p - \pi)^2}{2} \quad (4)$$

However, it is a well known property of the expenditure function that

$$\frac{\partial C(\pi, U)}{\partial \pi} = h(\pi, U) \quad (5)$$

where $h(\pi, U)$ is the compensated demand function; furthermore duality theory states that

$$h(\pi, U) \equiv q(\pi, I) \quad (6)$$

where $q(\pi, I)$ is the ordinary (uncompensated) demand function.

Therefore, using equations (2), (5), and (6) we may restate (4) as

$$\omega(p, I, \pi) = -q(p - \pi) - q \frac{(p - \pi)^2}{2} \frac{\epsilon}{\pi} \quad , \quad \epsilon = \frac{\partial q}{\partial \pi} \frac{\pi}{q} \quad (7)$$

where ϵ is the common own price elasticity of demand.

C. THE TAKE CURVE - "MODIFIED" LOGIT MODEL

The take curve is a function of WTP; therefore, a modified logit choice model using WTP as a predictor was estimated from data on customers

from treatment exchanges in New York, Iowa, and California who were offered Block-of-Time OCPs. Pre-experimental total bill savings were calculated using June, 1983 as the base month for New York and Iowa, and May, 1983 as the base month for California, where total bill savings is the difference between the revenue under the current Dial Station price and the revenue under the given OCP price. Pre-experimental bill savings enter into the estimation of the take rate through the comparison of WTP to the plan's monthly recurring charge.

The deterministic decision rule (3) is appropriate for customers offered a linear tariff. Under a two-part nonlinear tariff the customer potentially faces two marginal prices, one marginal price during the first part and another marginal price for the second part. However, the nonlinear tariff is the sum of two linear tariffs, one linear tariff corresponding to usage under the first part and another linear tariff corresponding to usage under the second part. For customers with usage only under the first part, the analysis is identical to a linear tariff, i.e., equation (3) is applied. For customers with usage under the second part, the monthly recurring charge B needs to be adjusted. This adjustment reflects that the slope of the second part of the nonlinear tariff would imply a different monthly charge if the tariff were linear. This fact can be used to compute the adjustment factor.

Under the first part, let A be the maximum number of minutes, p_1 the marginal price per minute, and B_1 be the monthly recurring charge.

Under the second part, let p_2 be the marginal price per minute and B_2 be the adjusted monthly recurring charge. Then B_2 , the adjusted monthly charge, is calculated such that the revenues generated by each component linear tariff are equal at A

$$B_1 + p_1 A = B_2 + p_2 A$$

which implies

$$B_2 = B_1 + (p_1 - p_2)A$$

where the term $(p_1 - p_2)A$ is the adjusted factor to the actual monthly recurring charge B_1 that the customer faces at A. Therefore, the generalized decision rule is

$$\omega(p, I, \pi) > B^* = B + \theta(p_1 - p_2)A$$

where $\theta=1$ indicates usage exceeds A, $\theta=0$ otherwise.

The more general theory states that WTP, however, is not completely determined, but is subject to some variation depending on some random variable that accounts for unmeasured factors such as telephone usage volatility, attitudes toward risk, etc. The decision rule, then, should include a stochastic component; the probability that a customer chooses an OCP depends on whether his WTP subject to a stochastic component is greater than the (adjusted) monthly recurring charge.

The stochastic decision rule is given by

$$\omega^* = (\omega + v) > B^* \quad (8)$$

where v (the stochastic component of WTP) is assumed to have a standard logistic distribution with mean μ and variance $(\pi^2/3)\sigma^2$. Thus, the probability that the customer chooses the OCP is given by the binary choice logit model

$$P(\text{take OCP}) = P(\omega^* > B^*) = P(\omega + v > B^*) = P(-v < \omega - B^*) = \frac{1}{1 + \exp(-((\omega - B^* + \mu)/\sigma))}$$

To modify the model (9) to allow for the fact that all customers will not choose simultaneously, let α , ($0 \leq \alpha \leq 1$), represent the proportion of the population that has made a choice concerning the OCP offering. Then, equation (9) becomes modified as

$$P(\text{take OCP}) = \frac{\alpha}{1 + \exp(-((\omega - B^* + \mu)/\sigma))} \quad (10)$$

The effect of $\alpha < 1$ is that the asymptote of the modified logit is below one; in the short run, the take probability distribution will achieve a maximum value below one. An economic interpretation for the parameter α is that α measures the dynamic proportion of the long run equilibrium achieved at a particular point in time. In the economic long run, then, $\alpha = 1$ and a value of α less than one indicates a particular phase of the short run adjustment to the long run.

The parameters α , μ , σ , and ϵ ($\omega = \omega(\epsilon, \cdot)$) are estimated using the maximum likelihood technique.

The above procedure was carried out only for customers with nonzero pre-experimental interstate Dial Station usage. The estimate of the take probability for customers with zero pre-experimental interstate Dial Station usage is the sample proportion of zero users choosing to purchase an OCP.

D. EXTENSION TO TRINARY CHOICE

The extension from the binary choice to take an OCP or to stay with current Dial Station rates, to the trinary choice between option A, option B, or staying with current Dial Station rates involves redefining WTP in equation (7) as

$$\omega_j = -q_j (p_j - \pi_j) - q_j \frac{(p_j - \pi_j)^2}{2} \frac{\epsilon}{\pi_j} \quad (11)$$

where $j=1$ for option A, $j=2$ for option B, and $j=3$ for staying with current Dial Station rates. The stochastic decision rule (8) becomes

$$\omega_j^* = (\omega_j + v_j) > B_j^* \quad (12)$$

Thus, the modified logit model for a trinary choice becomes

$$\begin{aligned} \text{take OCP A} &= P(\omega_1^* > B_1^*, \omega_1^* - B_1^* > \omega_2^* - B_2^*) = \frac{\alpha}{1 + \exp(((\omega_2 - B_2^*) - (\omega_1 - B_1^*)) / \sigma) + \exp(-((\omega_1 - B_1^* + \mu) / \sigma))} \\ \text{take OCP B} &= P(\omega_2^* > B_2^*, \omega_2^* - B_2^* > \omega_1^* - B_1^*) = \frac{\alpha}{1 + \exp(-(((\omega_2 - B_2^*) - (\omega_1 - B_1^*)) / \sigma)) + \exp(-((\omega_2 - B_2^* + \mu) / \sigma))} \end{aligned} \quad (13)$$

$$P(\text{stay with Dial Station}) = 1 - P(\text{take OCP A}) - P(\text{take OCP B})$$

where $\omega_3 = 0$ and $B_3^* = 0$ in equation (12).

The parameters α , μ , σ , and ϵ ($\omega = \omega(\epsilon, \cdot)$) estimated from the binary choice model are directly applicable to the trinary choice model, since the same parameter estimates would result from estimating the trinary choice model directly.

E. NIGHT/WEEKEND USAGE STIMULATION

Night/weekend stimulation for those customers choosing the one-hour night/weekend Block-of-Time OCP was estimated from a weighted least squares model and data from the selected exchanges offering Block-of-Time plans in New York, Iowa, and California for the period August-November, 1983. The data was segmented by base month night/weekend interstate Dial Station minutes (the base month for New York and Iowa was June, 1983, and the base month for California was May, 1983) into four night/weekend usage segments: 0, 1-60, 61-120, and greater than 120 minutes. The data was adjusted by controls selected according to usage level, subscription month, and geographical location. Post-experimental data was then aggregated over the four usage segments and four cells representing time in months since purchase, resulting in sixteen data cells. The data includes only those customers that chose a night/weekend one-hour Block-of-Time OCP.

A weighted analysis of the data cells is required because the number of available observations (OCP purchasers) declines as the time since purchase increases. For example, data was available for the fourth month since purchase only for those customers who subscribe in July, the first month when the OCPs were offered.

The model that was estimated for night/weekend stimulation is

$$y = X\beta + u, \quad y = \frac{\Delta q}{\Delta p}, \quad \beta = \frac{\partial q}{\partial p}, \quad E(u) = 0, \quad \text{Cov}(u) = \sigma^2 D \quad (14)$$

where Δq is the sixteen cell vector of the control-adjusted differences per customer between the OCP post-experimental night/weekend usage and the pre-experimental base month night/weekend Dial Station usage. Δp is

the sixteen cell vector of the differences between the OCP marginal price and the night/weekend Dial Station marginal price^{*}. β is the vector of usage segment specific night/weekend stimulation parameters to be estimated, where $\partial q/\partial p$ is the vector of partial derivatives of night/weekend usage by usage segment with respect to the marginal price. The vector of heteroscedastic mean zero error terms is given by u .

Each element of the diagonal matrix D is directly related to the number of customers in the usage segment and month to which it corresponds. These elements are used to correct for heteroscedasticity in the error term as well as to correct for heteroscedasticity introduced in the dependent variable y because of y 's ratio form.

The X matrix is a group of binary dummy variables corresponding to the usage segments. Each binary variable equals one if the observation corresponds to that particular usage segment, and it equals zero otherwise. Hence, the model estimated in (14) is simply a weighted least squares regression on the means of the night/weekend usage segments.

* Customers choosing the night/weekend Block-of-Time OCP with zero base month usage were assigned the base month Dial Station average price from the MARC database.

Before the
FEDERAL COMMUNICATIONS COMMISSION
 Washington, DC 20554

4711

In the Matter of

AT&T COMMUNICATIONS, INC.

Transmittal No. 79

 Revisions to Tariffs F.C.C. No. 263
 and F.C.C. No. 1

MEMORANDUM OPINION AND ORDER

Adopted: June 6, 1984

; Released: June 6, 1984

By the Chief, Common Carrier Bureau:

1. Before the Bureau are petitions to reject or suspend tariff revisions filed under Transmittal No. 79 by AT&T Communications, Inc. (AT&T).¹ AT&T proposes to establish "a nationwide Block-of-Time Optional Calling plan" for Long Distance Message Telecommunications Service (MTS). Under the proposed plan, AT&T customers would be offered the following choice of billing options:

Option A: for a monthly charge of \$10.00, customers would receive up to one hour of interstate dial station calling during the night/weekend rate period. Calling during the night/weekend period in excess of one hour would be billed at the rate of \$8.75 per hour or fraction thereof.

Option B: for a monthly charge of \$11.50, customers would receive the services offered under "Option A" plus a 15% discount for interstate dial station calling during the evening rate period. The 15% discount would be applied in addition to the current 40% rate discount in effect for that period.

¹ Petitions to reject or suspend were filed by the Association of Long Distance Telephone Companies, GTE Sprint Communications Corp., Lexitel Corp., MCI Telecommunications Corp., Satellite Business Systems, Inc., Telesphere Network, Inc., Teltec Saving Communications Co., Clark Telecommunications, Inc., and Western Union Telegraph Co.

For both options, a nonrecurring charge of \$10.00 would be assessed when a customer orders a Block of Time plan. This charge would be waived during the first 90 days that the offering is available in a given local exchange area.

2. Although AT&T characterizes the Block of Time calling plan as a "nationwide" offering, the introduction of the service in particular areas is contingent on the billing capabilities of local exchange companies, who will be responsible for implementing Block of Time billing. The tariff contains a listing of 19 local exchange carriers (all Bell Operating Companies) and sets forth specific dates of availability for proposed plans ranging from June 1984 to November 1984. AT&T states that it expects to make this service available in substantially all other areas of the country by January 1, 1985. AT&T explains, however, that the tariff listings merely reflect the current state of negotiations with local exchange carriers. Actual service availability may change depending on the willingness and ability of individual exchange carriers to offer the necessary billing arrangements on behalf of AT&T.

3. Petitioners urging rejection or suspension of AT&T's Block of Time plan uniformly argue that AT&T's proposed rates for Block of Time calling are below even the basic, underlying cost of obtaining Switched Access Service from local exchange carriers and must, therefore, be far below AT&T's actual cost of providing MTS service. Under either option, the flat rate charged for the first hour of calling would result in revenue to AT&T of 16.67 cents per minute (assuming that a subscriber used the entire 60 minutes purchased). At the rate of \$8.75 for succeeding hours, the per minute price would amount to only 14.6 cents. By contrast, AT&T's access costs were estimated by petitioners to equal about 18.5 cents per minute.² Considering AT&T's own costs in providing MTS service, petitioners argue that AT&T's Block of Time calling plan will unavoidably result in significant losses to AT&T. Such below-cost pricing, in their view, would be predatory, contrary to the Communications Act, and would inhibit development of competition in the long distance message service marketplace.

2 These estimates were made using the National Exchange Carrier Association (NECA) Access Service Tariff F.C.C. No. 1, filed on March 15, 1984. Since that time, the Commission has directed NECA to reduce those charges by 8.58 percent. See Investigation of Access and Divestiture Related Tariffs, Phase I, CC Docket 83-1145, FCC 84-201, released May 15, 1984. Under current rates, therefore, AT&T's basic out-of-pocket costs for access would amount to approximately 16.9 cents per minute. This change will decrease AT&T's access costs, but will not affect other expenses encountered by AT&T in its provision of MTS.

Discussion

4. In general, the Communications Act requires that rates for common carrier services regulated by this Commission be based upon costs. 47 U.S.C. § 201(b); See AT&T (WATS), 59 FCC 2d 671, 687 (1976) and cases cited therein. As noted above, assuming that customers make full use of their initial 60 minute time period, AT&T's basic out-of-pocket cost of obtaining access to local exchange networks will alone amount to more than AT&T will realize in revenue from the service offering. Even without considering AT&T's own costs of providing the service, therefore, it is clear that the proposed rates of \$10.00 and \$8.75 per hour will likely be noncompensatory under current access tariffs.

5. In reply, AT&T argues that, because its overall MTS service category is profitable, the Commission should not separately examine individual rate elements within MTS. It is true that we allow AT&T to aggregate its costs within broad service categories such as MTS. See AT&T (ICAM), 84 FCC 2d 384, 400 (1981). The Commission has stated, moreover, that a strict or inflexible rate of return requirement within service categories, including new or reconfigured ones, could stifle innovation and the satisfaction of consumer demands. Id. To a certain extent this flexibility is born of necessity--a requirement that each service earn the exact interstate rate of return would be, under most circumstances, unenforceable. See id. Here, however, AT&T's access costs, at least, are clearly defined. No serious question of cost allocation arises. Instead, simple mathematics reveal that AT&T's Block-of-Time plan is probably priced below its current access costs. For this reason, we reject AT&T's argument that "overall" MTS profitability is the only relevant inquiry.

6. AT&T does not dispute that, when viewed under traditional cost allocation methods, the Block-of-Time plan will operate at a loss in 1984. AT&T would have us take a longer term approach, arguing that consumer acceptance of the Block of Time plan will eventually result in increased night/weekend calling levels. AT&T claims that because certain parts of the access charge burden represent fixed, non-traffic sensitive costs, the increased calling levels attributable to Block of Time calling will result in lower per-minute access charges in future years. Using these long term projections, AT&T calculates that the properly assignable access cost for Block of Time minutes, even in the current year, amounts to only 10.3 cents per minute, rather than 18.5 cents as claimed by petitioners. Therefore, according to AT&T, the Block of Time service would actually be profitable even when viewed separately from the remainder of AT&T's MTS service.

7. We have not accepted AT&T's attempt to justify current losses on these grounds. Until such time that the access charge tariffs are revised, AT&T's Block of Time plan would appear to remain unprofitable. In any event, we cannot be certain that AT&T is correct in its assertion that Block of Time calling will increase overall demand levels, or that access costs will

necessarily be reduced next year or the year after. 3

8. Having weighed these concerns along with the possible advantages of the proposed plan, however, we have determined that it would not be against the public interest to allow AT&T's Block of Time plan to take effect. This optional calling plan appears to be a relatively simple, easy to understand billing system that many consumers would find useful. Moreover, the results of AT&T's optional calling plan experiments, which preceded the instant filing, appear to show that customers who purchase a Block of Time option increase their off-peak usage levels, which in turn may stimulate traffic and increase network efficiency. In view of these potential benefits, we are unwilling to reject the proposed plan summarily.

9. Petitioners opposing the Block of Time filing argue that because AT&T's out-of-pocket access costs exceed revenues, the plan should be rejected on that ground alone. That argument, however, proves too much in that it can also be directed against AT&T's current MTS rates. At the presently effective discount level of 60%, for example, MTS calls during the night/weekend rate period of more than a few minutes duration do not generally recover access costs unless the call distance falls within the uppermost mileage bands. 4 In fact, close examination of AT&T's Block-of-Time plan reveals that the proposed rates approximate an average rate under AT&T's current night/weekend rate schedule. 5

10. Moreover, because of the unusual circumstances surrounding the transition from the pre-divestiture settlements/division of revenues process

3 In the event that the Block of Time offering fails to generate sufficient revenue to allow AT&T to realize its authorized rate of return, we will carefully scrutinize losses attributable to the Block of Time plan in determining appropriate rates in the future.

4 Because MTS rate schedules are distance sensitive, and moreover, are priced under an initial minute/additional minute rate structure, it is difficult to compare precisely the price of ordinary MTS calling and the proposed Block of Time prices. For example, one sixty-minute call under ordinary MTS rate schedules would be priced lower than sixty one-minute calls of identical distance because initial minute rates are higher than additional minute rates. This would not be true under the Block of Time rate structure.

5 This assumes an average night/weekend call length of about 12 minutes and 650 miles. Under AT&T's Tariff F.C.C. No. 263, the charge for an hour of such calling (i.e. five twelve-minute calls) would be priced at approximately \$9.96.

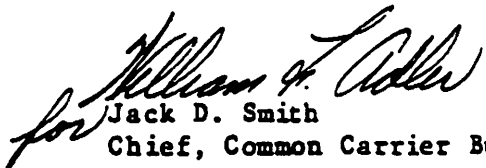
to the access charge environment, we are reluctant to find that the Block of Time plan is unlawful on its face. It may be argued, for example, that the disparity between AT&T's proposed Block of Time price and AT&T's access cost is mainly attributable to the fact that access charge rate schedules are not structured on a peak/off-peak basis. This is essentially an anomaly in the current access charge price structure that is under investigation in CC Docket 83-1145. Should we find in that proceeding that time of day sensitive pricing is reasonable for access charge prices, it would be more than likely that the disparity between AT&T's access costs and its night/weekend rates would disappear. In these limited circumstances, it appears that it would be more reasonable to allow AT&T to develop its Block of Time offering, rather than require rejection of that plan solely for the reason that AT&T's access charge costs exceed per minute revenue from the Block of Time plan. 6

11. As noted above, the availability of the Block of Time plan is contingent upon the development of billing contracts with the various local exchange companies. We expect that this service will be fully available nationwide, and that this availability will take place on an expedited basis. We will therefore carefully monitor AT&T's progress in establishing billing arrangements during the coming six months. If it should develop that the availability of this service is unreasonably withheld, we shall act accordingly.

12. For the reasons stated above, IT IS ORDERED, That petitions filed by the Association of Long Distance Telephone Companies et. al. ARE DENIED.

13. IT IS FURTHER ORDERED, That this Memorandum Opinion and Order is effective upon adoption.

FEDERAL COMMUNICATIONS COMMISSION


for Jack D. Smith
Chief, Common Carrier Bureau

6 Petitioners raise a number of other objections to the Block of Time plan. These appear to be premised on the assumption that the hourly rate from Block of Time calling is not cost justified. For the reasons stated above, we find these arguments, though not without merit, do not warrant rejection of the proposed plan.

The first part of the question asks for the definition of a function. A function is a relation between a set of inputs and a set of possible outputs, where each input is related to exactly one output. In other words, a function is a rule that assigns to each element of a set a unique element of another set.

The second part of the question asks for the definition of a linear function. A linear function is a function whose graph is a straight line. It is a function of the form $y = mx + b$, where m is the slope and b is the y-intercept.

The third part of the question asks for the definition of a quadratic function. A quadratic function is a function whose graph is a parabola. It is a function of the form $y = ax^2 + bx + c$, where a , b , and c are constants and $a \neq 0$.

The fourth part of the question asks for the definition of a cubic function. A cubic function is a function whose graph is a curve that is symmetric with respect to the origin. It is a function of the form $y = ax^3 + bx^2 + cx + d$, where a , b , c , and d are constants and $a \neq 0$.

The fifth part of the question asks for the definition of a rational function. A rational function is a function that can be expressed as the ratio of two polynomials. It is a function of the form $y = \frac{p(x)}{q(x)}$, where $p(x)$ and $q(x)$ are polynomials and $q(x) \neq 0$.

The sixth part of the question asks for the definition of an irrational function. An irrational function is a function that cannot be expressed as the ratio of two polynomials. It is a function that is not rational.

The seventh part of the question asks for the definition of a transcendental function. A transcendental function is a function that is not algebraic. It is a function that cannot be expressed as a finite combination of the four basic operations of arithmetic.

The eighth part of the question asks for the definition of an elementary function. An elementary function is a function that can be constructed from a finite number of the basic operations of arithmetic and the basic functions (polynomial, rational, irrational, and transcendental).

The ninth part of the question asks for the definition of a non-elementary function. A non-elementary function is a function that cannot be constructed from a finite number of the basic operations of arithmetic and the basic functions.

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Office of the Secretary

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

In the Matter of)
)
AT&T Communications, Inc.) Transmittal No. 79
Revisions to Tariffs F.C.C. No. 263)
and F.C.C. No. 1)

APPLICATION OF THE DEPARTMENT
OF JUSTICE FOR REVIEW

I. INTRODUCTION AND STATEMENT OF POSITION

On June 6, 1984 the Chief, Common Carrier Bureau ("Bureau") acting under delegated authority denied several petitions to reject or suspend tariff revisions filed under Transmittal No. 79 by AT&T Communications, Inc. ("AT&T"). 1/ The tariff revisions establish a "Block-of-Time Optional Calling Plan" for long distance MTS service which would charge callers at a flat rate for each hour of calling during the night/weekend rate period.

The United States Department of Justice ("Department"), the executive agency responsible for enforcing the antitrust laws

1/ ~~AT&T Communications, Inc., Revisions to Tariffs F.C.C. No. 263 and F.C.C. No. 1, Transmittal No. 79, Memorandum Opinion and Order (released June 6, 1984) ("Bureau Opinion").~~

and promoting competition, urges the Commission to review and reverse the Bureau's decision. 2/ The Bureau approved the AT&T tariff even though it found that the proposed rates for the Block-of-Time Plan are below AT&T's actual cost of providing MTS service. The Bureau's decision conflicts with established FCC ratemaking policy and could result in harm to the competition developing in interexchange telecommunications. 3/ Indeed, the effect of the decision may be to undermine the Commission policy of cost-based regulation of AT&T. If the Commission determines that the access charge rate structure causes inefficiency, it should address that problem directly, rather than attempt to remedy it by authorizing an MTS tariff that is apparently below cost. It is highly inappropriate in

2/ The submission of these comments does not affect the independent enforcement responsibilities of the Department of Justice. See, e.g., United States v. RCA, 358 U.S. 344, 350 (1959).

3/ The Commission's rules require anyone filing an application for review who has not already participated in the proceeding to describe the manner in which the person is aggrieved by the action taken and to show good reason why it was not possible to participate in the earlier stages of the proceeding. 47 C.F.R. § 1.115 (1983). As the executive branch agency responsible for promoting competition and enforcing the antitrust laws, the Department seeks Commission review of the Bureau's decision, although we did not participate in this proceeding. We are concerned that the Bureau's decision could have significant anticompetitive consequences in the interexchange services marketplace. Moreover, the Opinion constitutes a sharp departure from long-established Commission ratemaking policy that could not have been anticipated at the time AT&T filed Transmittal No. 79.

the context of review of an individual tariff for the Commission to reject the long-standing regulatory practice that a firm's rates for its menu of services should each cover its costs.

II. BACKGROUND

The AT&T tariff would establish "a nationwide Block-of-Time Optional Calling Plan" that would offer two billing options:

Option A: for \$10.00 per month customers could make up to one hour of interstate calling during the night/weekend rate period. Calling during the night/weekend period in excess of one hour would be billed at the rate of \$8.75 per hour or fraction thereof.

Option B: for \$11.50 per month customers would receive the services offered under "Option A" plus a 15% discount for interstate calling during the evening rate period. The 15% discount would be applied in addition to the current 40% rate discount in effect for that period. 4/

The Bureau acknowledged that AT&T's basic cost of access to local exchange networks will exceed AT&T's revenues from the proposed service. 5/ The Bureau rejected AT&T's argument that the Commission is required only to examine overall MTS profitability and need not separately examine individual rate

4/ Bureau Opinion at ¶ 1.

5/ Id. at ¶¶ 3, 4, 7, n.2.

elements within MTS. 6/ It also rejected AT&T's argument that the cost of providing Block-of-Time service will go down as the volume of the service increases. The Bureau found that it could not be certain that Block-of-Time calling will increase overall demand levels or that access costs will be reduced in the next few years. 7/ Despite complete rejection of these arguments, the Bureau allowed the Block-of-Time Plan to be implemented. It cited as its primary justification possible gains in network efficiency resulting from simplification of the billing system and compensation for anomalies in the access charge rate structure, such as the absence of off-peak pricing.

6/ Id. at ¶ 5.

7/ Id. at ¶¶ 6-7.

III. DISCUSSION

The Bureau recognized that the Block-of-Time tariff will not cover AT&T's costs of providing the service. 8/ The Bureau stated:

[A]ssuming that customers make full use of their initial 60 minute time period, AT&T's basic out-of-pocket cost of obtaining access to local exchange networks will alone amount to more than AT&T will realize in revenue from the service offering. Even without considering AT&T's own costs of providing the service, therefore, it is clear that the proposed rates of \$10.00 and \$8.75 per hour will likely be noncompensatory under current access tariffs. 9/

The Commission has long recognized that cost-based pricing is most likely to promote efficient use of the telephone network. 10/ Indeed, one of the central purposes of the

11/ Id. at ¶ 4. The Opinion states that the flat rate charged for the first hour of calling would result in revenue to AT&T of 16.67 cents per minute. At the rate of \$8.75 for succeeding hours, the per minute price would be only 14.6 cents. The Bureau estimated that after the most recent access charge decision, AT&T's costs for access would be approximately 16.9 cents per minute. Id. at ¶ 3, n.2.

12/ Id. at ¶ 4. The Bureau repeated this conclusion in two other sections of its Opinion. At ¶ 5 it stated: "[S]imple mathematics reveal that AT&T's Block-of-Time plan is probably priced below its current access costs." At ¶ 7 it stated: "Until such time that the access charge tariffs are revised, AT&T's Block-of-Time plan would appear to remain unprofitable."

13/ AT&T (WATS), 59 F.C.C.2d 671, 678 (1976); MTS and WATS Market Structure, 93 F.C.C.2d 241, 251 (1983), reconsideration, 8 Fed. Reg. 42984 (Sept. 21, 1983), further reconsideration, 9 Fed. Reg. 7810 (Mar. 2, 1984), aff'd sub nom. Nat'l Ass'n of Reg. Util. Comm'rs v. FCC, No. 83-1225 (D.C. Cir. June 12,

Footnote Continued

Modified Final Judgment 11/ and the access charge decision was to make explicit and visible the relative costs of local exchange services and interexchange services. This information is important primarily to ensure that market power is not exploited to the detriment of consumers through charging excessive prices. Our competitive concerns here are that AT&T may be able to recover the losses resulting from below-cost pricing, either through current cross-subsidization that raises the rates for the provision of services outside the Block-of-Time periods, or from enhanced ability to charge prices in excess of costs in the future. 12/ Moreover, pricing below true costs of services generally is not economically efficient.

10/ Continued

1984)("Economics teaches us that, except in certain circumstances involving market failure, prices equal to the cost of producing another increment of a good, i.e., equal to the marginal cost of production, are optimal)."

11/ United States v. American Tel. & Tel. Co., 552 F. Supp. 131, aff'd mem. sub nom., Maryland v. United States, 104 S. Ct. 1240 (1983).

12/ In comments filed in the Commission's Notice of Inquiry examining the need for continued regulation of AT&T, the Department expressed concern that AT&T would continue to have market power in interexchange services for some period of time. See Long-Run Regulation of AT&T's Basic Domestic Interstate Services, United States Department of Justice Comments at 11-20 (filed April 2, 1984), Reply Comments at 4-22 (filed June 4, 1984).

In light of the importance of ensuring that prices reflect costs of providing services, it is clear that the reasons advanced by the Bureau provide no basis for approval of a tariff that the Bureau admitted is below cost. The Bureau argued that AT&T's optional calling plan experiments appear to show that customers who purchase a Block-of-Time option increase their off-peak usage levels, which in turn may stimulate traffic and increase network efficiency. 13/ This finding is inconsistent with the Bureau's conclusion in the Opinion's previous paragraph that "we cannot be certain that AT&T is correct in its assertion that Block of Time calling will increase overall demand levels" 14/

The Bureau then stated that optional calling is a relatively simple, easy to understand billing system that many consumers would find useful. 15/ This observation is of no consequence to the issue of cost-based pricing. Whether pricing by the hour is simpler or more difficult than pricing by the minute has no relevance to the question of whether AT&T's tariff is permissible under the Commission's cost-based pricing scheme. A simplified tariff structure could be implemented at rates that cover AT&T's access charges.

13/ Bureau Opinion at ¶ 8.

14/ Id. at ¶ 7.

15/ Id. at ¶ 8.

The Bureau then also argued that if the Block-of-Time tariff were found impermissible, all of AT&T MTS night/weekend rates would also be suspect. 16/ This argument is hardly a justification for approval of the Block-of-Time tariff. Sound economic theory and regulatory policy generally dictate that each of AT&T's services, regular MTS and Block-of-Time, should cover its costs. If other MTS services do not cover costs, then they ought to be reviewed by the Commission.

Finally, the Bureau also cited the "unusual circumstances surrounding the transition . . . to the access charge environment" and suggested that access charge rates might be restructured on a peak/off-peak basis, a change that would likely eliminate the disparity between AT&T's access costs and its night/weekend rates. 17/ Again this argument provides no basis for approval of the Block-of-Time tariff. The Bureau noted that access charges are under investigation in CC Docket 83-1145, but specifically did not indicate that the Commission intends to order peak/off-peak charges. Moreover, the Bureau made no generalized finding that peak/off-peak rate schedules for access charges would be desirable.

If the Commission determines that peak/off-peak access charges are desirable, it should address that issue directly in

16/ Id. at ¶ 9.

17/ Id. at ¶ 10.

the docket examining access and divestiture related tariffs, 18/ rather than abdicating regulatory responsibility to AT&T. We recognize that if the underlying access charge structure is itself inefficient, then economic welfare may be adversely affected if consumers are forced to pay prices for interexchange services that reflect that inefficiency. As a matter of effective regulatory practice, however, it is most inappropriate for the Commission to rely on AT&T to compensate for otherwise avoidable distortions induced by an inefficient access charge structure. Absent a detailed analysis and prescription by the FCC of MTS prices, the likely conclusion of the Bureau's approach would be carte blanche pricing by AT&T. 19/ Moreover, if the existing access charges do reflect costs appropriately or have been otherwise designed to meet public interest concerns, AT&T's pricing below those costs may be considered blatantly anticompetitive or otherwise contrary to the goals underlying the access charge structure. 20/

18/ Investigation of Access and Divestiture Related Tariffs, CC Docket No. 83-1145.

19/ The Department's comments filed in CC Docket No. 83-1147 recognized the need for continued regulation of AT&T's rates for some period. See Long-Run Regulation of AT&T's Basic Domestic Interstate Services, United States Department of Justice Comments at 32-39; Reply Comments at 26-30.


20/ The Department's comments in CC Docket No. 83-1147 recognized that predatory pricing remains as a possible risk. Comments, *id.*, at n.49; Reply Comments, *id.*, at n.78. We do not argue here that the Block-of-Time tariff is predatory. The inescapable conclusion, however, which is only reinforced by the Bureau's opinion, is that the AT&T tariff is below-cost under any reasonable measure.


IV. CONCLUSION

The Department urges the Commission to review the Common Carrier Bureau's decision to approve AT&T's Block-of-Time rate offering. The Bureau's explicit finding that the tariff does not even cover the cost of access charges ordinarily should be sufficient grounds for rejecting the tariff. If the Commission determines that peak/off-peak pricing or other modifications to access rate structures are appropriate, it should consider those changes in its docket examining access and divestiture related tariffs. It is wholly inappropriate to attempt to remedy possible defects in the access tariffs by allowing AT&T to disregard its out-of-pocket costs for access. The Bureau's action could seriously undermine Commission regulation of AT&T and could have serious anticompetitive effects as well.

Respectfully submitted,

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Section