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February 6, 1997

970166-12

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Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

FPSC-RECORDS/REPORTING

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Telecommunications Corporation in the above docket are the original and 15 copies of MCI's Petition for Exemption.

By copy of this letter this document has been provided to the persons on the attached service list.

Very truly yours,

Richard D. Melson

- ACK RDM/cc
- AFN Enclosures
- APP cc: Service List
- CAF
- CMU
- CTR
- EAG
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- LIN
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DOCUMENT NUMBER-DATE
01382 FEB-65
FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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In re: Petition for exemption from Rules)
25-4.113, 25-24.471, and 25-24.515 and for)
authorization to discontinue service without)
notice and to require advance payment for service)
from certain customers , and for such other)
relief as may be appropriate, by MCI)
Telecommunications Corporation)

Docket No. 970166-TZ

Filed: February 6, 1997

PETITION FOR EXEMPTION

Pursuant to Commission Rule 25-24.505 (3), Florida Administrative Code, MCI Telecommunications Corporation ("MCI") petitions the Florida Public Service Commission ("Commission") for an exemption from Rules 25-4.113, 25-24.471, and 25-24.515 to the extent necessary to enable MCI to require customers to provide advance payment for service and to block calls without notice when it is necessary to prevent nonpayment for its service. In support of its petition, MCI states:

INTRODUCTION

1. Petitioner's complete name and address is:

MCI Telecommunications Corporation
780 Johnson Ferry Road
Suite 700
Atlanta, Georgia 30342

2. All notices, pleadings, orders, and other materials in this docket should be directed to the following on behalf of MCI:

Martha McMillin
Senior Attorney, MCI
780 Johnson Ferry Road
Suite 700
Atlanta, Georgia 30342

Richard D. Melson
Hopping, Green, Sams & Smith
P.O.Box 6526
Tallahassee, Florida 32301

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3. MCI is certificated by the Commission as an interexchange carrier.

RELIEF REQUESTED

4. Pursuant to Rule 25-24.505 (3), Florida Administrative Code, MCI is seeking an exemption from Rule 25-4.113, Refusal or Discontinuance of Service by Company; Rule 25-24.471, Application for Certificate; and Rule 25-24.515, Pay Telephone Service. Specifically, MCI seeks authority to require advance payment for service from customers and to block calls, without notice, to prevent nonpayment for service. These measures would apply to the use of all MCI service, whether outgoing or incoming collect or third-party billed calls, including collect calls from prison facilities. This will enable MCI to better control toll fraud by consumers who use MCI's telephone service and then do not pay for it.

BACKGROUND

5. In providing telecommunications services to consumers, it is MCI's goal to provide quality service while protecting both MCI and its customers from fraud. The latter is an increasing and troubling problem for the telecommunications industry as well. In 1996, fraud losses for United States telecommunications carriers was estimated at \$ 3.7 billion, a 12% increase over 1995. Fraud drives the cost of service higher for all consumers.

6. To combat this pernicious problem, MCI has implemented high toll monitoring efforts to identify and control this risk by limiting exposure to fraud, which occurs when a customer uses MCI service and then does not pay for it. A significant amount of this write-off is generated by new accounts that never make a payment. New accounts typically receive 60 - 90 days of unrestricted usage before they are cancelled for non-payment, which results in MCI pursuing collection efforts for the unpaid debt. If the collection efforts are unsuccessful, MCI must write-off the debt. The key to avoiding such protracted fraud is to stop it before it gets to the point of cancelling the account and implementing collection efforts. Thus, MCI monitors the usage of customers, before bills are sent, to look for indicators of a fraud problem, for toll fraud falls into patterns and bears certain characteristics. If fraud is detected at an early stage, instead of waiting to go through the cycle of sending a bill and waiting for payment, customers benefit by being

alerted to fraud of which they were not aware or by learning to better manage telecommunications expenses, and MCI and its shareholders benefit by halting a fraudulent situation before its magnitude is increased.

7. MCI's high toll monitoring works as follows: high dollar usage is tracked at intervals to gauge the amount of usage and the total balance due. If that tracking generates an alarm on a particular customer, MCI analyzes whether the customer: (1) has a previous history of the identified calling patterns; (2) has a history of usage at the level which generated the alarm; and (3) is current on charges with the local exchange company and/or MCI. Based on MCI's experience, if the customer's status indicates concern in one or more of these areas, it is likely that the customer is intentionally running up charges for telecommunications service without intending to pay for it. For example, if a customer's account suddenly shows a large number of calls in a short period of time to a telephone number in a country never before called by that customer, and the customer also happens to be past due on charges to his local telephone company, past experience shows that it is likely that the customer is engaging in toll fraud. MCI then contacts the local exchange company to ascertain the date the customer's account was installed, since new customers are problematic; the payment history; and the services used and spending patterns. If the factors continue to indicate concern is warranted, MCI then attempts to contact the customer to ascertain his explanation for the calls.

8. In these circumstances, where it appears that a customer is using a high volume of MCI's services without paying for them, MCI has two effective avenues of managing the risk of high bad debt: (1) block toll calls to the customer's number, so that they cannot continue to run up high bills, and (2) require payment for charges incurred to date, in advance of the billed invoice. While the full service denial available from local exchange companies is an effective way of combating high toll fraud, it does not cover all situations. The steps described are the only ones MCI can take on its own to stanch such bad debt. Neither measure is unduly burdensome on the honest customer. Requiring advance payment is simply asking the customer to immediately pay that which he already owes, instead of waiting for the monthly bill

containing the charges to be sent. When a customer makes an advance payment, that is reflected on the customer's monthly bill as a credit or payment received, with only any additional charges listed as the balance due. The toll call blocking is in effect until payment is received, so by having control over when payment is sent, the customer can time when the block is removed.

9. MCI believes that these practices comply with Rule 25-4.113, Refusal or Discontinuance of Service by Company. Subparagraph (j) of that Rule authorizes a company to discontinue service without notice in the event of unauthorized or fraudulent use of service. MCI's policy is fashioned to protect against all customers who engage in toll fraud, but especially those who have no payment history with MCI but run up large bills during the first month or two of service, before any bill has been paid. This category of customers typically engage in fraudulent use of service by using MCI's toll service in high volume and never rendering payment. It is considered to be fraud because the customer intentionally uses the service without paying, which is a form of constructive fraud.

10. MCI believes that these practices comply with Rules 25-24.471 (4) (c) and 25-24.515 (18), which require completion of all inmate calls allowed by the applicable confinement facility. Inmates are able to make their calls; any blocking occurs only on the recipient end. This is identical to the situation which occurs when a customer's local telephone service is discontinued for nonpayment. Such customers would not be able to receive calls made by inmates, for their telephone service would be discontinued. Under any circumstance of discontinuance of service, customers cannot receive calls, whether they are placed by inmates at a confinement facility or by a business or by a college student, for the callers have no control over the conduct of the recipient of the calls.

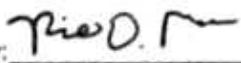
11. The Commission Staff has advised that it does not believe that subscription fraud falls within Rule 25-4.113 (j) and that MCI's practices, which have been in effect at the interstate level via FCC Tariff No. 1, Revised Page 9.1 and Revised Page 12.3.3.2, do not comply with the Rule. Staff has further suggested that to the extent these practices affect customers who receive calls from inmates at confinement facilities, they do not comply with Rules 25-24.471 (4) (c) and Rule 25-24.515 (18). MCI accordingly requests that

the Commission grant an exemption from those Rules to allow MCI to require advance payment and place toll blocks without notice in circumstances which suggest toll fraud. The Commission's approval of this exemption request is consistent with the legislative mandates to avoid "unnecessary regulatory constraints" and to eliminate rules that "delay or impair the transition to competition." Sections 364.01 (4) (e) and 364.01 (4) (f), Florida Statutes (1995).

WHEREFORE, MCI respectfully requests that it be granted an exemption from the applicable rules to the extent the Commission interprets them to prohibit a company from placing toll blocks upon, and requiring advance payment from, customers in circumstances suggesting toll fraud, and for the Commission to take such other relief as is consistent with this petition and the competitive policies embodied in revised Chapter 364.

Respectfully submitted, this 6th day of February, 1997.

HOPPING, GREEN, SAMS & SMITH

By: 
Richard D. Melson
Post Office Box 6526
Tallahassee, Florida 32301
(904) 222-7500

Martha McMillin, Esq.
MCI Telecommunications Corporation
780 Johnson Ferry Road
Suite 700
Atlanta, Georgia 30342

Attorneys for MCI Telecommunications Corp.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by U.S. Mail this 6th day of February, 1997.

Martha Carter Brown
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399

Rio D. M.

Attorney