



MCI Telecommunications Corporation  
 Regulatory and Governmental Affairs  
 780 Johnson Ferry Road  
 Suite 700  
 Atlanta, Georgia 30342

Original  
 FILE COPY

September 12, 1996

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

Re: In re: Initiation of Show Cause Proceedings for Violation  
 of Rules 25-24.620, 25-24.630, 25-24.471, 24-24.515, and  
 25-24.516, Florida Administrative Code  
 Docket 950617-TI

Dear Ms. Bayó:

I am enclosing for filing in the above-referenced docket the  
 original and 15 copies of MCI's Motion to File Substitute Offer of  
 Settlement.

If you should have any questions, please do not hesitate to  
 call me at (404) 843-6375.

Thank you for your attention to this matter.

Very truly yours,

*Martha O. McMillin*

Martha McMillin  
 Senior Attorney

- ACK
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
- EAG \_\_\_\_\_
- LEG 1
- LIN 5
- OPC \_\_\_\_\_
- RCH \_\_\_\_\_
- SEC 1
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

MM/cc  
 Enclosures  
 cc: Alan Taylor  
 Rick Moses

RECEIVED & FILED

EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

09706 SEP 12 96

FPSC-RECORDS/REPORTING



BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Initiation of Show Cause	)	Docket No. 960617-TI
Proceedings for Violation of Rules	)	
25-24.620, 25-24.630, 25-24.471,	)	
25-24.515, and 25-24.516, Florida	)	Filed: September 12, 1996

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MOTION TO FILE SUBSTITUTE OFFER OF SETTLEMENT

MCI Telecommunications Corporation ("MCI") hereby files a substitute Offer of Settlement in place of the Offer of Settlement filed in this docket on July 9, 1996, and moves that the Florida Public Service Commission ("Commission") consider and accept the below-described Offer of Settlement. The issues in this docket arise out of MCI's contract with the Florida Department of Corrections ("DOCs") to provide telecommunications services at the State of Florida's correctional facilities. The facts in support of this Motion are set forth below. The issues are divided into three segments, with the proposed resolution of each contained within the particular section. While MCI denies any wrongdoing, in order to avoid the time and expense of any show cause proceeding against MCI, as well as to expeditiously resolve this matter to the mutual satisfaction of the Commission, DOCs and MCI and to set a "clean slate" for future dealings, MCI submits the following Motion to File Substitute Offer of Settlement as a resolution of the concerns the Commission and DOCs have raised over MCI's charges for collect calls from state correctional facilities.

A. THE \$ 3.00 SURCHARGE

1. The telephone service MCI provides DOCs is known as "Maximum Security." It was developed specifically to help governmental corrections facilities deal with abuse of telephone service, which costs the public millions of dollars a year. Abuse arises in a number of ways, from call forwarding schemes to credit card abuse, subscription improprieties, and harassing phone calls to victims, witnesses, judges, etc. Maximum Security alleviates these problems by offering a collect calling service based on a value-added program providing an extensive, flexible set of tools for the prison administrator, all designed on a customized, site-by-site basis.

2. The contract between MCI and DOCs is a six page document which incorporates by reference the original Invitation to Bid ("ITB") and the MCI response to the ITB ("response"). The contract is silent on the issue of the rate/surcharge which may be billed for calls. The ITB provides in Section 4.2 (Allowable Rates) that:

At all times the rates charged by the contractor to the called party shall not exceed the dominant carrier (AT&T) rates for the same call - distance, length of call, time of day, and day of week. These maximum allowable rates shall reflect the AT&T interlata and interstate rates in effect at the time of the call. It shall be the responsibility of the contractor to remain current on allowable rates; the Department will not provide rates to the contractor. There shall be no add-ons, such as service charges or surcharges, which are not in the approved AT&T tariff.

MCI's response clarified which AT&T tariff provided the cap for intrastate calls, noting that AT&T's prison collect service tariffs should be the reference point:

MCI understands and will comply. If the dominant carrier has filed in its interstate tariff charges for prison collect services or charges, and has not filed corresponding tariffs for services or charges in the intrastate tariff, MCI's rates for Department of Corrections services shall not exceed the dominant carrier's interstate tariff rates for similar services.

Thus, since AT&T does not have a prison collect tariff at the intrastate level, it is MCI's position that it is entitled to apply rates and charges up to those in the AT&T interstate prison collect tariff, including up to a \$ 3.00 surcharge, since that is contained in the AT&T tariff.

3. In order to implement the terms of the contract with DOCs, on January 29, 1996, MCI filed at the Commission proposed revisions to its intrastate tariff which reflected a \$ 3.00 surcharge for intrastate calls from prison facilities, to be effective on thirty days notice. This was a \$ 2.00 increase to the then-existing surcharge of \$ 1.00. This tariff was approved and became effective February 29, 1996. MCI thereafter billed customers receiving collect calls from Florida correctional facilities the tariffed rate of the \$ 3.00 surcharge per call.

4. The Commission Staff believes that the AT&T operator services tariff would apply to intrastate collect calls with an inmate control system. That tariff currently contains a surcharge of \$ 1.75. This has been effective since March 16,

1996. Before that date, AT&T's surcharge in this tariff was \$ 1.00 per call.

5. It is MCI's position that its tariff complied with Rules 25-24.630(1)(a) and 25-24.516 in that the rates it charges for intrastate collect calls from Florida prison facilities were approved by the Commission effective February 29, 1996, thereby meeting the rule requirement that the end-user be charged and billed "no more than the Commission-approved rate for intrastate calls."

6. MCI submits the following as a resolution of this issue:

(a) Although MCI has at all times believed its \$ 3.00 surcharge to be appropriate; had a tariff for the \$ 3.00 surcharge which was approved by the Commission after public notice; and has at all times been charging its tariffed rates, as it is required to do, MCI will refund the difference between the \$ 3.00 surcharge and the AT&T rate for collect calls with an inmate control system, the latter being a rate of a \$ 1.00 surcharge per call between February 29, 1996 through March 15, 1996 and thereafter a rate of a \$ 1.75 surcharge from March 16, 1996 through July 10, 1996. Indicative of its good faith, in support of a good, practical solution to this controversy, MCI filed a revision to its tariff which lowered the \$ 3.00 surcharge to \$ 1.75 effective July 11, 1996. Thus, the refund for February 29, 1996 through March 15, 1996 charges will be \$ 2.00 per call and the refund from March 16, 1996 to July 10, 1996 will be \$ 1.25 per call. This refund is contingent upon DOCs's agreement to refund its share of the increased surcharge. This agreement is set forth in the letter dated June 4, 1996, a copy of which is attached hereto as Exhibit A.

(b) The refund will be distributed as follows: MCI will write a check directly to the Inmate Welfare Trust Fund in an amount equal to 47% of the refund amount, minus the amount of the bad debt on prison collect calls (calculated as 11.4% of the total billing) plus interest as required by, and calculated pursuant to, the Commission's rules. Because DOCs has agreed that its 53% share may be withheld from future commission checks, MCI will send monthly checks for the

DOCs share directly to the Inmate Welfare Trust Fund. The chart attached hereto as Exhibit B details the refund calculated pursuant to this method.

7. The settlement proposal set forth in paragraph 6 is a substitution for the Motion to Consider and Accept Offer of Settlement dated July 9, 1996. The difference between the two is in the method proposed for distribution of the refund.

8. New information arising after the July 9, 1996 Motion to Consider and Accept Offer of Settlement requires a fresh look at this issue, necessitating that a practical solution be fashioned. MCI's regulatory organization has learned from the technical billing staff that the bad debt on prison collect calls presents an insurmountable problem with regard to issuing refunds directly to individuals in this situation, whether by an 800 call-in number, as MCI previously proposed, or by a credit on customer bills, as suggested by Staff. As discussed in more detail in Paragraph 11, the bad debt on inmate collect calls averages 11.4% per month in Florida and is on an upward trend, running as high as 14%. This is drastically higher than the normal long distance calling bad debt of 3%. The bad debt comes directly out of MCI's share of the surcharge, which is 47%.

9. Another problem with issuing refunds directly to individuals is that many of these people may not be living at the same address they were located when they paid the collect call charges; thus, it would now be impossible to get refunds to them even if it were determined that they at one time paid for collect calls.

10. An additional problem inherent in issuing refunds is that in many cases, customers have already called their local exchange company ("LEC") to receive refunds, which the LEC issues liberally. MCI has no way to track the amount of such refunds, as they are lumped into a generic category when reported to MCI. This creates a potential double credit or double refund payment problem, in that the customer could have already received credit from the LEC but then get it again by receiving a refund for the same amount from MCI.

11. MCI cannot refund money which was billed but not paid. Determining the amount of bad debt involves a significant delay. Most of the LECs which bill casual traffic, including prison collect calls, send MCI an electronic file on a monthly basis indicating which accounts have been uncollectible and the amount of write-off. BellSouth and GTE provide electronic write-off. 85% of the prison revenue generated out of Florida terminates in LEC regions where electronic write-off reporting is available. These write-off results typically lag anywhere from two to twelve months following the month in which the revenue was generated. Under the electronic write-off reporting available to MCI for Florida, the most recent revenue month reported is July 1995, which reflected a bad debt rate of 14.2%. The average of the bad debt rate for Florida prison calls from July 1994 through July 1995 is 11.4%, with the trend toward a higher bad debt rate. Thus, the determination of whether the amount billed was actually paid in the case of the prison collect calls at issue is one

which likely cannot be finalized until July 1997 at the earliest.

12. For all of these reasons, it has become apparent that MCI's initial settlement proposal is not practical and needs to be revised. The substitute proposal set forth in paragraph 6 above ensures that the refund will be issued immediately and will benefit the inmates who made the collect calls, which in turn is a benefit to the relatives and friends who accepted the calls. The legislature's establishment of the Inmate Welfare Trust Fund indicates its intention for DOCs to establish user fees for the purpose of providing needed DOCs services without having to appropriate funds from the State's General Fund. By submitting the refund to the Inmate Welfare Trust Fund, these funds will be deposited into the fund where the surcharges already are applied, one which benefits the inmates by supporting services essential to their well-being.

B. 0+ INTRALATA TRAFFIC IN SMALL LOCAL EXCHANGE COMPANY ("LEC") TERRITORY

13. MCI began carrying 0+ intraLATA traffic in the territory of small, rate-base regulated LECs on the dates indicated in the letter from MCI dated May 14, 1996, a copy of which is attached hereto as Exhibit C. In the case of several small LECs, MCI did not begin to carry 0+ intraLATA traffic until after January 1, 1996; in the case of some, this was begun in approximately the last two weeks of December 1995; and for one, it started on November 29, 1995.



14. MCI carried 0+ intraLATA traffic at the correctional facilities identified on Exhibit C because the Automated Call Processing ("ACP") equipment contained database discrepancies. When this problem was discovered, MCI requested the ACP manufacturer to develop software which would distinguish between local, intraLATA, and interLATA traffic. Once this was accomplished, MCI was able to correct the routing tables, which was effective May 10, 1996, in St. Joseph's territory and no later than May 31, 1996, for the remaining LECs listed on Exhibit C.

15. It is MCI's position that after January 1, 1996, under Chapter 364.052, Florida Statutes, it is permitted to carry 0+ intraLATA traffic from pay telephones in inmate correctional facilities, as this is non-basic telephone service. The statutory prohibition on local competition in small LEC territories applies to competition in basic local telecommunications services, which this is not. Therefore, under its ALEC certificate, MCI is permitted to carry such calls after January 1, 1996.

16. MCI submits the following as a resolution of this issue:

The 0+ intraLATA traffic carried by MCI in the territory of small LECs before January 1, 1996 is offset by the 0+ intraLATA traffic which MCI has been routing to the small LECs since, in the case of St. Joseph, May 10, 1996, and in the case of the remainder, May 31, 1996. Going forward, MCI will be permitted to unblock and carry such 0+ intraLATA traffic in the territory of small LECs. This means that the 0+ intraLATA traffic MCI carried in the small LEC territory before January 1, 1996, which belonged to the

small LECs, is offset against the 0+ intraLATA traffic belonging to MCI which has been blocked in small LEC territory for more than a corresponding amount of time in May, June, and July 1996. The difficulties of ascertaining the calls and revenue involved in these two different time periods warrant treating this situation as a "wash," since it is likely that equal amounts of traffic were involved in both periods.

C. BILLING FOR SIXTEEN MINUTE CALLS

17. MCI's contract with DOCs requires conversation to be terminated after 15 minutes. In some cases, consumers have been charged for 16 minute calls. This occurred because, although the equipment is designed to terminate calls at 15 minutes, in some instances the calls are continued beyond that point. They are billed in the usual fashion, in that calls beyond each minute mark are rounded up to the next minute (see MCI tariff, attached hereto as Exhibit D.) Thus, customers are not "overbilled" for 16 minute calls; they are simply receiving additional calling beyond what is contemplated for correctional facility collect calls and are billed accordingly.

18. MCI submits the following as the resolution of this issue: MCI will work with its vendor to modify the issue of billing for calls over 15 minutes, with calls of 15 minutes, 15 seconds to be billed at 15 minutes, and calls of 15 minutes, 16 seconds and above to be billed at the rate of 16 minutes. Refunds to customers are not warranted, since they were billed in accordance with MCI's tariff (see Exhibit D).

D. CONCLUSION

19. MCI does not, by this Offer of Settlement or otherwise, admit any violation of any statute, Commission Rule or any other rule or regulation, or any facts which might form the basis of a cause of action against MCI. By making this Offer of Settlement, MCI does not waive any of its legal rights in the event the Commission does not accept this Offer of Settlement, including the right to contest any assertions of law or fact. If this Offer of Settlement is accepted by the Commission, it shall be attached to the final Order accepting the settlement and closing this matter.

Dated this 12th day of September, 1996.

MCI TELECOMMUNICATIONS CORPORATION

*Per D. Mason*  
\_\_\_\_\_  
Martha McMillin, Senior Counsel



**FLORIDA  
DEPARTMENT of  
CORRECTIONS**

An Affirmative Action/Equal Opportunity Employer

Governor  
**LAWTON CHILES**  
Secretary  
**HARRY K. SINGLETARY, JR.**

2601 Blair Stone Road • Tallahassee, FL 32399-2500

June 4, 1996

Mr. Ross Preston  
National Account Marketing Manager  
Southern Region  
325 John Knox Road  
Tallahassee, Florida 32303

Dear Mr. Preston:

**Re: Refunds to Customers per the Public Service Commission Request**

As we indicated, the Department of Corrections wishes to refund its share of the excess charges collected from MCI customers as a result of the tariff filed February 29, 1996. Our preferred method of refund is for MCI to deduct a portion of our commission for the next 90 days constituting the amount we must refund, with MCI paying the total refunds directly to the customers. A period of other than 90 days will be acceptable if necessary and justified. Prior to initiating the deduction from our commission, please provide us with an explanation of how the amount will be calculated and tracked with the commission payments.

Should you have any questions, please call Tom Brooks, communications engineer, at (904) 488-2810. Thank you.

Sincerely,

James N. Bidy  
Deputy Director  
Office of Management & Budget

JNB/TGBjr/dam

cc: Lynn Griffin, Accounting Services Administrator, Bureau of Finance and Accounting  
Tom Brooks, Utility Systems/Communications Engineer, Bureau of General Services

# FL DOCS Financial Summary

Prepared 9/10/96

	Calls <small>(Per Mega Billing)</small>	Previously Approved Surcharges @ \$3.00 Per Call <small>(Per Mega Billing)</small>	Rate Per Call	Proposed Surcharges <small>(Calls x Rate Per Call)</small>	Combined Refund Amount <small>(Billing Surcharges Less Proposed Surcharges)</small>	MCI Portion of Combined Refund Amount <small>(47%)</small>	DOCS Portion of Combined Refund Amount <small>(53%)</small>
<b>2/29 - 3/15/96:</b>							
Intrastate/interstate	157,045	\$ 471,135	1.00	\$ 157,045	\$ 314,090	\$ 147,622	\$ 166,468
Intralata	18,661	\$ 55,983	1.00	\$ 18,661	\$ 37,322	\$ 17,541	\$ 19,781
Total	175,706	\$ 527,118		\$ 175,706	\$ 351,412	\$ 165,164	\$ 186,248
<b>3/16 - 7/10/96:</b>							
Intrastate/interstate	943,030	\$ 2,829,090	1.75	\$ 1,650,303	\$ 1,178,788	\$ 554,030	\$ 624,757
Intralata	124,260	\$ 372,780	1.75	\$ 217,455	\$ 155,325	\$ 73,003	\$ 82,322
Total	1,067,290	\$ 3,201,870		\$ 1,867,758	\$ 1,334,113	\$ 627,033	\$ 707,080
Grand Total	1,242,996	\$ 3,728,988		\$ 2,043,464	\$ 1,685,525	\$ 792,197	\$ 893,328

Less: Bad Debt of 11.4% x refund amount

Plus: Interest to be determined

\$ (192,150)

Total refund amount

\$ 600,047 | \$ 893,328

This document is prepared for use in conjunction with MCI's Offer of Settlement, by which MCI does not, by the Offer of Settlement or otherwise, admit any violation of any statute, Commission Rule, or any other rule or regulation, or any facts which might form the basis of a cause of action against MCI.



MCI Telecommunications  
Corporation  
Regulatory and Governmental Affairs  
780 Johnson Ferry Road  
Suite 700  
Atlanta, Georgia 30342

May 14, 1996

Rick Moses, Engineer Supervisor  
Bureau of Service Evaluation  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

VIA FAX: 904 413-6583

Re: Letter dated April 18, 1996 pertaining to 0+ intraLATA traffic

Dear Mr. Moses:

I am writing in response to the above-referenced letter in which you request certain information from MCI Telecommunications ("MCI") pertaining to the carriage of 0+ intraLATA traffic from prison confinement facilities. We appreciate you bringing this matter to our attention.

Your letter points out that certain rate base regulated local exchange companies ("LECs") are not subject to competition, meaning that MCI does not have the authority to handle 0+ intraLATA traffic at this time from confinement facilities in those areas. As you requested, identified below are the confinement facilities located in local exchange territories that are precluded by law from competition as well as the date MCI began carrying intraLATA traffic at each of those facilities:

CONFINEMENT FACILITY	LEC TERRITORY	MCI START DATE
Taylor Correctional Institution	Gulf	1/22/96
Gulf Forestry Camp	St. Joseph	12/21/95
Gulf Correctional Institution	St. Joseph	1/4/96
Calhoun Correctional Institution	St. Joseph	12/12/95
Liberty Correctional Institution	St. Joseph	12/12/95
River Junction Correctional Institution	St. Joseph	12/12/95

EXHIBIT C



CONFINEMENT FACILITY	LEC TERRITORY	MCI START DATE
Hamilton Correctional Institution	Alltel	12/3/95
Hamilton Correctional Institution Annex	Alltel	12/26/95
North Florida RC-Main	Alltel	11/29/95
North Florida RC-West	Alltel	1/16/96
Franklin Work Camp	St. Joseph	12/18/95
Quincy Correctional Institution	Quincy	12/12/95

MCI carried intraLATA traffic at these facilities because the Automated Call Processing ("ACP") equipment contained database discrepancies. When this problem was discovered, MCI requested the ACP manufacturer to develop software which would distinguish between local, intraLATA, and interLATA traffic. This has now been accomplished. As of May 10, 1996, MCI has corrected the routing tables for the ACP equipment in St. Joseph's territory so that all intraLATA calls are now routed to St. Joseph. The ACP equipment in all other independent territories is being checked, as we are completing audits of the routing tables at each location specified above to confirm that intraLATA traffic is routed to the independent LEC. Any discrepancies found will be corrected by May 31, 1996.

Your letter requested the amount of revenue MCI received from carrying intraLATA traffic at the facilities and during the periods identified above. I am still attempting to obtain this information. The problem is that it is not readily obtainable and thus far my internal contacts have been unable to fashion a way to identify and calculate this sum. I will continue to pursue this issue.

Thank you for allowing extra time to respond to your letter. Your consideration is much appreciated.

Very truly yours,

*Martha McMillin*

Martha McMillin

cc: Richard D. Melson

**SECTION 3 - DESCRIPTION OF SERVICE****3.5 METERED USE SERVICE OPTIONS (Cont.)****3.5.1 Option A (Execunet) 1/**

Execunet Service is a one-way, dial in - dial out multipoint service allowing the customer to originate and terminate calls via customer-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 who presubscribe to MCI may do so on a direct-dial basis, by dialing 10222, or via a 7 digit access number. 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 Account Service arrangement and Corporate Account Service PLUS. Customers who elect Corporate Account Service and Corporate Account Service PLUS are subject to the provisions of Sections 2.6.3A and 2.6.3B preceding. At their option, business entities which are members of a Commercial Affinity Program (CAP) or Commercial Affinity Program Plus (CAP Plus) (as defined in Section 1 of this Tariff) may order Execunet Service through their group. The per minute rates set forth in Section 4.1.1 will apply to all Execunet Service calls. In addition, Volume Discounts, as described in Section 4.1.1 will be available.

**Operator Assistance/Public Payphone Service:**

Intrastate operator assistance is provided for calls placed from residential or business lines or public payphones which are pre-subscribed to MCI service. Usage rates which apply to these calls can be found in Section 4.1.1.3. The undiscounted surcharges are located in Section 4.1.1.3(A).

**1-800-COLLECT SERVICE**

1-800-COLLECT Service permits collect or third party billed calls to be placed with the assistance of a live or automated operator by dialing the 1-800-COLLECT (1-800-265-5328) access number. Pre-subscription to MCI is not necessary to complete or receive a 1-800-COLLECT call. Usage rates can be found in Section 4.1.1.3 (C).

**MCI Sure Savings Option 2/**

A variation of Option A (Execunet - Dial "1" only), MCI Sure Savings Option offers calling within the state of Florida. Customers may place calls 24 hours a day, seven days a week. The per minute usage rates set forth in Section 4.1.6 apply to all MCI Sure Savings calls. All calls will be rounded to the next higher full minute.

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- 1/ Beginning September 9, 1993, Option A (Execunet) is available only to Residential Service customers and customers who access service by dialing an MCI carrier identification code (CIC).
  - 2/ Effective July 14, 1995, the MCI Sure Savings Option will no longer be available to new subscribers.
- 

ISSUED: November 20, 1995

by:

Sherry Schelble  
 Manager, Rates and Tariffs  
 780 Johnson Ferry Road  
 Suite 700  
 Atlanta, Georgia 30342  
 (800) 759-3813

EFFECTIVE: DEC 20 1995