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State of Florida



Public Service Commission

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DATE: OCTOBER 5, 2000

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF COMPETITIVE SERVICES (KENNEDY/OLLILA)
DIVISION OF LEGAL SERVICES (VACCARO)
DIVISION OF REGULATORY OVERSIGHT (VANDIVER)

RE: DOCKET NO. 001411-TI - INVESTIGATION AND DETERMINATION OF METHOD TO CREDIT ACCESS FLOW-THROUGH REDUCTIONS BY MCI WORLDCOM COMMUNICATIONS, INC. AND TTI NATIONAL, INC., AS REQUIRED BY SECTION 364.163, F.S.

AGENDA: 10/17/00 - REGULAR AGENDA - PROPOSED AGENCY ACTION ISSUES 1 AND 2 -INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMP\WP\001411.RCM

CASE BACKGROUND

- 1998 - Legislative Session: The House and Senate passed revisions to Section 364.163(6), Florida Statutes, that modified existing requirements for switched access rate reductions and the flow-through of those reductions to customers.
- March 31, 1998 - Staff opened Docket No. 980459-TP to address flow-through of 1998 switched access reductions by interexchange telecommunications companies (IXCs), pursuant to Section 364.163(6), Florida Statutes.

DOCUMENT NUMBER-DATE
12697 OCT-58
FPSC-RECORDS/REPORTING

- June 8, 1998 - The Commission issued Proposed Agency Action (PAA) Order No. PSC-98-0795-FOF-TP to implement the revisions to Section 364.163(6), Florida Statutes.
- June 29, 1998 - MCI Telecommunications Corporation and SouthernNet, Inc. d/b/a Telecom*USA and d/b/a Teleconnect filed Requests for Extension of Time to File Flow-through Reduction Tariffs on July 15, 1998, for the first of two scheduled switched access rate reductions, which was originally due on June 30, 1998.
- September 28, 1998 - MCI Telecommunications Corporation and SouthernNet, Inc. d/b/a Telecom*USA and d/b/a Teleconnect filed Requests for Extension of Time to File Flow-through Reduction Tariffs on October 21, 1998, for the second switched access rate reduction, which was originally due on September 30, 1998.
- October 26, 1998 - The Commission issued Order No. PSC-98-1437-PCO-TP granting MCI Telecommunications Corporation's and SouthernNet, Inc.'s Requests for Extension of Time to File Flow-through Reduction Tariffs to July 15, 1998, for the first scheduled switched access rate reduction.
- April 6, 1999 - The Commission issued Order No. PSC-99-0666-SC-TP granting MCI Telecommunications Corporation's and SouthernNet, Inc.'s Requests for Extension of Time to File Flow-through Reduction Tariffs to October 21, 1998, for the second, and final, switched access rate reduction.
- June 1999 - Commission staff initiated audits of several carriers to determine if the carriers had appropriately implemented the 1998 flow-through reductions pursuant to Section 364.163(6), Florida Statutes, and various Commission Orders issued in Docket No. 980459-TP.
- August 3, 1999 - The Commission issued Order No. PSC-99-1510-PAA-TP in Docket No. 990732-TP, approving the merger of WorldCom companies with MCI. Consummating Order No. PSC-99-1671-CO-TP finalized the Commission's proposed agency action on August 30, 1999.
- February 23, 2000 - Commission staff filed Audit Report, Control No. 99-078-1-3, MCI WorldCom Flow-through of Switched Access Rate Reductions, July 1, 1998 and October 1, 1998, which concluded that MCI WorldCom had not fully credited consumers the required switched access rate reductions.

- March 8, 2000 - Commission staff filed Audit Report, Control No. 99-078-4-2, WorldCom Technologies, Inc. Flow-through of Switched Access Rate Reductions, July 1, 1998 and October 1, 1998, which concluded that WorldCom Technologies, Inc. had not fully credited consumers the required switched access rate reductions.
- August 18, 2000 - Offer of Settlement submitted to the Commission by MCI WORLDCOM Communications, Inc., formerly known as WorldCom Technologies, Inc.; MCI WORLDCOM Network Services, Inc., formerly known as MCI Telecommunications Corp. and WorldCom Network Services, Inc.; TeleCom*USA, Inc.; TTI National, Inc.; and Biz-Tel Corporation (collectively, the WorldCom Operating Companies).
- October 4, 2000 - Amended Offer of Settlement (Attachment A, pages 14-20) submitted to the Commission by MCI WORLDCOM Communications, Inc., formerly known as WorldCom Technologies, Inc.; MCI WORLDCOM Network Services, Inc., formerly known as MCI Telecommunications Corp. and WorldCom Network Services, Inc.; TeleCom*USA, Inc.; TTI National, Inc.; and Biz-Tel Corporation (collectively, the WorldCom Operating Companies).

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission accept the Amended Offer of Settlement proposed by the WorldCom Operating Companies, whereby, (1) MCI WORLDCOM Communications, Inc. will reduce prospectively the rates for its WorldOne service by an amount necessary to return to customers the \$741,328 not previously flowed through, plus interest, plus an additional amount necessary to bring the total reduction to \$1,482,656, (2) TTI National, Inc. will issue a one-time refund to the affected customers of \$64,000, plus interest, plus an additional amount necessary to bring the total refund to \$128,000, (3) MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s customers using its Vision and Vnet services of \$23,125, plus interest, plus an additional amount necessary to bring the total refund to \$46,250, and (4) MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s customers using its 1-800 services of approximately \$150,000 to \$175,000 (with a true-up required), plus interest, plus an additional amount necessary to bring the total refund to approximately \$300,000 to \$350,000?

RECOMMENDATION: Yes. Staff recommends that the Commission should accept the Amended Offer of Settlement proposed by the WorldCom Operating Companies, whereby, (1) MCI WORLDCOM Communications, Inc. will reduce prospectively the rates for its WorldOne service by an amount necessary to return to customers the \$741,328 not previously flowed through, plus interest, plus an additional amount necessary to bring the total reduction to \$1,482,656, (2) TTI National, Inc. will issue a one-time refund to the affected customers of \$64,000, plus interest, plus an additional amount necessary to bring the total refund to \$128,000, (3) MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s customers using its Vision and Vnet services of \$23,125, plus interest, plus an additional amount necessary to bring the total refund to \$46,250, and, (4) MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s customers using its 1-800 services of approximately \$150,000 to \$175,000 (with a true-up required), plus interest, plus an additional amount necessary to bring the total refund to approximately \$300,000 to \$350,000. The rate reductions of \$1,482,656 proposed by MCI WORLDCOM Communications, Inc. should be completed within 15 months from the date the Commission Order approving the stipulation becomes final. MCI WORLDCOM Communications, Inc. should be required to submit quarterly status reports to the Commission beginning three months from the date the Commission Order approving the stipulation becomes final. The

reports should identify the number of customers affected and the total dollars in reductions for the previous three-month period. The reports should be submitted until the proposed rate reduction equaling \$1,482,656 has been achieved. The one-time refunds proposed by TTI National, Inc. and MCI WORLDCOM Communications, Inc., should be made through credits to customers' bills and refund checks mailed to former customers of each of the companies beginning December 1, 2000. Any monies that cannot be refunded should be remitted to the Commission for deposit in the General Revenue Fund in accordance with Section 364.285(1), Florida Statutes. **(KENNEDY/OLLILA)**

STAFF ANALYSIS: In 1998, Chapter 98-277, Section 4, General Laws of Florida, amended Section 364.163(6), Florida Statutes. The amendment modified existing requirements for switched access rate reductions and the flow-through of those reductions to customers. As amended, Section 364.163(6), Florida Statutes, provides as follows:

Any local exchange telecommunications company with more than 100,000, but fewer than 3 million, basic local telecommunications service access lines in service on July 1, 1995, shall reduce its intrastate switched access rates by 5 percent on July 1, 1998, and by 10 percent on October 1, 1998. Any interexchange telecommunications company whose intrastate switched access rate is reduced as a result of the rate decreases made by a local exchange telecommunications company in accordance with this subsection shall decrease its intrastate long distance rates by the amount necessary to return the benefits of such reduction to its customers but shall not reduce per minute intra-LATA toll rates by a percentage greater than the per minute intrastate switched access rate reductions required by this act. The interexchange telecommunications carrier may determine the specific intrastate rates to be decreased, provided that residential and business customers benefit from the rate decreases.

On June 8, 1998, this Commission issued Order No. PSC-98-0795-FOF-TP implementing the new statutory provisions (June Order). Two local exchange companies (LECs), Verizon (then known as GTE Florida) and Sprint-Florida, were required to make two switched access reductions. The first was 5 percent, to be effective on July 1, 1998, and the second, of 10 percent, was to be effective on October 1, 1998. Interexchange telephone companies (IXCs) were

required to flow-through to their customers the benefits of the switched access rate reductions, although certain restrictions were placed on the IXC's.

Section 364.163(6), Florida Statutes, as amended, required that IXCs meet three flow-through requirements. First, an IXC's intrastate rates were to be decreased by the amount necessary to return the benefits of the switched access reduction to its customers. Second, an IXC was not permitted to reduce per minute intraLATA toll rates by a percentage greater than the required per minute switched access rate reduction. Third, an IXC was permitted to determine the specific rates to be decreased, provided that both residential and business customers benefited from the decreases.

For the July 1, 1998 rate reduction, the June Order required the LECs to file their tariffs and supporting documentation no later than June 9, 1998. IXC tariffs and supporting documentation were ordered to be filed no later than June 30, 1998, with a July 1, 1998 effective date.

For the October 1, 1998 reduction, LECs were ordered to file their tariffs and supporting documentation no later than September 1, 1998. All affected IXCs, including MCI and WorldCom (then separate companies) were ordered to file their tariffs and supporting documentation no later than September 30, 1998, to be effective October 1, 1998.

The June Order detailed the required supporting documentation for IXCs. IXCs, which paid less than \$20 million in total Florida intrastate switched access charges in 1997, did not need to file supporting documentation; rather, they were required to certify that they paid less than \$20 million and that they had met the statutory flow-through requirements. IXCs that paid \$20 million or more in total Florida intrastate switched access charges in 1997, which included MCI and WorldCom, were required to provide supporting documentation. The documentation included: (1) a calculation of the dollar benefit associated with the LECs' intrastate switched access rate reductions; (2) separate demonstrations that residence and business long distance rates had been reduced and the estimated annualized revenue effect, residence versus business, including a description of how those estimates were made; (3) a demonstration that any reduction to intraLATA toll rates was equal to or less than the switched access rate reduction percentage; and (4) a demonstration that all reductions had been flowed-through.

WorldCom filed its tariffs and supporting documentation on time for both reductions. Staff reviewed WorldCom's tariff changes and its supporting documentation and found that according to its filing, WorldCom was in compliance with the June Order, and, therefore, with Section 364.163(6), Florida Statutes.

On June 29, 1998, MCI Telecommunications Corporation and SouthernNet, Inc. d/b/a Telecom*USA or Teleconnect (MCI companies) filed their Request for Extension of Time to File Flow-through Reduction Tariffs. As grounds for their request, the MCI companies alleged that they could not meet the deadline because of the short time frame between the filing of the LECs' information and the due date for the MCI companies' filing of tariffs. The MCI companies requested a two week extension of time and suggested that tariffs should be given a retroactive effective date of July 1, 1998. The MCI companies also stated that they would insure that Florida consumers received the full benefit of the reduction through a retroactive credit effective back to July 1, 1998. The MCI companies filed their flow-through reduction tariffs on July 15, 1998.

Staff reviewed the tariff changes, supporting documentation for the MCI companies' filings, and the Request for Extension of Time to File Flow-through Reduction Tariffs. Staff found that after certain corrections had been made by MCI, the MCI companies appeared to be in compliance with the June Order, and, therefore, with Section 364.163(6), Florida Statutes. In Order No. PSC-98-1437-PCO-TP, issued October 26, 1998, (October Order), the Commission stated:

It is well established that retroactive ratemaking is prohibited. However, in this case, the reduction was statutorily mandated by a date certain and the back-dating of the tariffs inures to the benefit of customers. These tariffs effect a reduction, not an increase. Further, to require the tariffs to be re-adjusted to reflect the two week delay in filing would be inefficient and unreasonable.

Accordingly, we believe it is appropriate to grant Petitioners' Request for an Extension of Time. Although the tariffs were filed later than required by Order No. PSC-98-0795-FOF-TP, the actual flow-through reduction has been accomplished and all customers of Petitioners have or will receive credits for the full rate reduction amount. Thus, the purpose of the statute has been fully realized, as though accomplished on July 1, 1998.

Therefore, the Request for Extension of Time is granted.
(October Order at 2, 3)

On September 28, 1998, the MCI companies filed a Request for Extension of Time to File Flow-through Reduction Tariffs for the October 1, 1998 reduction. Again, the MCI companies alleged that they could not meet the deadline because of the short time frame between the filing of the Local Exchange Carriers' filing information and the due date for the MCI companies' filing of tariffs. The MCI companies requested an extension of time to October 21, 1998. In their request, the MCI companies stated that they would insure that Florida consumers would receive the full benefit of the reduction through a retroactive credit effective back to October 1, 1998. The MCI companies actually filed their flow-through reduction tariffs on November 9, 1998.

Staff reviewed the tariff changes, supporting documentation for the MCI companies' filings, and the Request for Extension of Time to File Flow-through Reduction Tariffs, and found that, according to its filing, the MCI companies were in compliance with the June Order, and, therefore, with Section 364.163(6), Florida Statutes.

On April 6, 1999, the Commission issued Order No. PSC-99-0666-SC-TP (April Order), which included the Commission's decision on the September 28, 1998 Request for Extension of Time to File Flow-through Reduction Tariffs for the October 1, 1998 reduction. By that Order, the Commission approved the MCI Companies request for extension with an effective date of October 1, 1998, for the flow-through tariff reduction.

Beginning in June 1999, staff initiated audits to verify that affected carriers had implemented the flow-through reductions in accordance with the filings each had submitted in response to Commission Order PSC-98-0795-FOF-TP. Order No. PSC-99-1510-PAA-TP which approved the merger of the WorldCom companies with MCI became final by Commission Order No. PSC-99-1671-CO-TP, issued August 30, 1999. For discussion purposes, staff uses "WorldCom Operating Companies" throughout the remainder of this document, where appropriate, to collectively categorize the merged entities.

Between February 8, 2000, and July 5, 2000, staff issued a series of audit reports, which set forth the results and findings of the audits of the WorldCom Operating Companies. Staff determined that the WorldCom Operating Companies had appropriately flowed-through reductions on certain of its products, but had failed to do so on other product lines.

Staff and representatives of the WorldCom Operating Companies met on several occasions to negotiate a resolution. As a result of these negotiations, the companies submitted an Offer of Settlement on August 18, 2000. On October 4, 2000, the companies submitted an Amended Offer of Settlement which is included as Attachment A, pages 14-20.

In their Amended Offer of Settlement, the WorldCom Operating Companies have proposed a combination of refunds and prospective rate reductions ranging from \$1,956,906 to \$2,006,906 (true-up required). Of this amount, MCI WORLDCOM Communications, Inc. has proposed to reduce the rates for the WorldOne product line by the amount necessary to return to customers the \$741,328 not previously flowed through, plus interest, plus an additional amount necessary to bring the total reduction to \$1,482,656. TTI National, Inc. will issue a one-time refund to the affected customers of \$64,000, plus interest, plus an additional amount necessary to bring the total refund to \$128,000. MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s Vision and Vnet customers of \$23,125, plus interest, plus an additional amount necessary to bring the total refund to \$46,250. Also, MCI WORLDCOM Communications, Inc. will issue a one-time refund to former MCI Telecommunication Inc.'s 1-800 service customers of approximately \$150,000 to \$175,000 (with a true-up required), plus interest, plus an additional amount necessary to bring the total refund to \$300,000 to \$350,000.

In addition, the WorldCom Operating Companies' Amended Offer of Settlement provides that:

- Failures to implement the flow-through reductions were not the result of any refusal to comply with, or willful violation of, any Florida Statutes or Commission rules or orders. Because of inadvertent oversight, Worldcom Operating Companies failed to implement tariff changes properly in the respective billing systems for its various companies;
- Subsequent to the merger of WorldCom and MCI Communications Corporation, all tariff and billing responsibilities have been consolidated into two rate organizations and process improvements have been implemented to ensure that billed rates match tariffed rates. Specifically, rate changes are now input into the billing systems directly from approved tariff sheets, and internal auditing is conducted to ensure that the changes have been properly made;

- The Amended Offer of Settlement shall be a complete settlement and resolution of any and all claims, actions, causes of action, liabilities, and demands against the WorldCom Operating Companies; and
- If the Amended Offer of Settlement is not accepted by the Commission in its entirety and without modification, it shall have no further force and effect and shall not be admissible in any current or future Commission or judicial proceeding arising out of, or related to, the 1998 Flow-Through Reductions, the Audits and the Audit Reports.

Therefore, staff recommends that Commission should accept the Amended Offer of Settlement proposed by the WorldCom Operating Companies. The rate reductions of \$1,482,656 proposed by MCI WORLDCOM Communications, Inc. should be completed within 15 months from the date the Commission Order approving the stipulation becomes final. MCI WORLDCOM Communications, Inc. should be required to submit quarterly status reports to the Commission beginning three months from the date the Commission Order approving the stipulation becomes final. The reports should identify the number of customers affected and the total dollars in reductions for the previous three-month period. The reports should be submitted until the proposed rate reduction equaling \$1,482,656 has been achieved. The one-time refunds proposed by TTI National, Inc. and MCI WORLDCOM Communications, Inc., should be made through credits to customers' bills and refund checks mailed to former customers of each of the companies beginning December 1, 2000. Any monies that cannot be refunded should be remitted to the Commission for deposit in the General Revenue Fund in accordance with Section 364.285(1), Florida Statutes.

ISSUE 2: Should the Commission authorize staff of the Division of Legal Services and the Division of Competitive Services to approve administratively the "true-up" adjustments of refund amounts identified in Issue 1, offered by MCI WORLDCOM Communications, Inc. to former MCI Telecommunication Inc.'s 1-800 service customers of approximately \$150,000 to \$175,000, plus interest, plus an additional amount necessary to double the total refund to approximately \$300,000 to \$350,000 to meet the access flow-through rate reductions required by Section 364.163 (6), Florida Statutes?

RECOMMENDATION: Yes. However, if the final settlement amount falls outside the MCI WORLDCOM Communications, Inc.'s projected settlement window, staff will bring this matter back to the Commission for resolution.
(KENNEDY/OLLILA)

STAFF ANALYSIS: Staff asks that the Commission support staff's request to approve administratively any "true-up" adjustments related to the MCI WORLDCOM Communications, Inc.'s refunds to former MCI Telecommunication Inc.'s 1-800 service customers of approximately \$150,000 to \$175,000, plus interest, plus an additional amount necessary to double the total refund to \$300,000 to \$350,000. Based on information provided by MCI WORLDCOM Communications, Inc., the refund to the 1-800 service customers will fall between \$300,000 and \$350,000.

The records used by the companies date back to 1998 and the merger of WorldCom and MCI has resulted in significant personnel changes. As a result, personnel researching the records to determine the required credits and refunds are not as familiar with the data as those personnel who were originally involved in the access flow-through rate reductions scheduled for July and October of 1998. The companies have continued their investigation and analysis of historical records to identify if any additional monies are needed to be refunded to fully meet the access flow-through rate reductions required by Section 364.163(6), Florida Statutes.

Staff recognizes that this is an unusual request, however, it is staff's opinion that further delays in the initiation of the rate reductions and refunds are not in the best interest of the customers. However, if the final settlement amount falls outside the MCI WORLDCOM Communications, Inc.'s projected settlement window, staff will bring this matter back to the Commission for resolution.

DOCKET NO. 001411-TI
DATE: OCTOBER 5, 2000

ISSUE 3: Should MCI WORLDCOM Communications, Inc. and TTI National, Inc. be required to show cause why each should not pay a fine for failing to fully implement the flow-through of 1998 switched access reductions by interexchange telecommunications companies pursuant to Section 364.163(6), Florida Statutes?

RECOMMENDATION: No. (KENNEDY/OLLILA)

STAFF ANALYSIS: By Section 364.285, Florida Statutes, the Commission is authorized to impose upon any entity subject to its jurisdiction a penalty of not more than \$25,000 per day, if such entity is found to have refused to comply with or to have willfully violated any lawful rule or order of the Commission, or any provision of Chapter 364.

Staff believes that MCI WORLDCOM Communications, Inc. and TTI National, Inc. have offered a fair and reasonable resolution to correct the problem and have cooperated fully with staff during the investigation. Moreover, each company has agreed to refunds and rate reductions to flow-through the 1998 switched access reductions at rates greater than the principle and any interest in lieu of a fine. Staff believes this action is appropriate in this proceeding.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No. If no person, whose interests are substantially affected by the proposed action files a protest of the Commission's decision on Issues 1 and 2 within the 21 day protest period, the Commission's Order will become final upon issuance of a Consummating Order. This docket should remain open pending the completion of the refunds and scheduled rate reductions, and receipt of the final reports. After completion of the refund, scheduled rate reductions, and receipt of the final reports, this docket may be closed administratively. **(VACCARO)**

STAFF ANALYSIS: Whether staff's recommendation on Issue 1 and 2 are approved or denied, the result will be a proposed agency action order. If no person, whose interests are substantially affected by the proposed action files a protest of the Commission's decision on Issues 1 and 2 within the 21 day protest period, the Commission's Order will become final upon issuance of a Consummating Order. This docket should remain open pending the completion of the refunds and scheduled rate reductions, and receipt of the final reports. After completion of the refund, scheduled rate reductions, and receipt of the final reports, this docket may be closed administratively.

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Consideration of 1998 Access Charge)
Flow-Through Reductions by)
MCI WORLDCOM Communications, Inc.,)
MCI WORLDCOM Network Services, Inc.,)
TeleCom*USA, Inc., TTI National, Inc. and)
Biz-Tel Corp.)
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Docket No. 001141-TI

FILED OCTOBER 4, 2000

AMENDED OFFER OF SETTLEMENT

This Amended Offer of Settlement is submitted to the Florida Public Service Commission (the "Commission") by MCI WORLDCOM Communications, Inc., formerly known as WorldCom Technologies, Inc. (collectively, "MCIW"); MCI WORLDCOM Network Services, Inc. ("MWNS"), formerly known as MCI Telecommunications Corp. ("MCIT") and WorldCom Network Services, Inc. ("WNS"); TeleCom*USA, Inc. ("TUSA"); TTI National, Inc. ("TTI"); and Biz-Tel Corporation ("Biz-Tel") (collectively, the "WorldCom Operating Companies") in order to settle fully any and all claims or disputes relating to the matters described below.

WHEREAS, Section 364.163(6), Florida Statutes, required certain local exchange telecommunications companies to reduce their intrastate switched access rates on July 1, 1998 and October 1, 1998;

WHEREAS, Section 364.163(6), Florida Statutes, required any interexchange telecommunications company ("IXC") that received the benefit of the July and October 1998 access charge reductions to decrease its intrastate long distance rates by the amount necessary to return the benefits of that reduction to its customers (the "1998 Flow-Through Reductions");

WHEREAS, Section 364.163(9), Florida Statutes, grants the Commission continuing regulatory oversight to determine the correctness of any rate decrease and to make necessary adjustments to those rates;

WHEREAS, beginning in or about June 1999, the Commission Staff conducted a series of audits of the WorldCom Operating Companies to determine, inter alia, whether they implemented properly the 1998 Flow-Through Reductions for various of their products, and whether they billed customers in accordance with the tariffs filed with the Commission (the "Audits") ;

WHEREAS, between February 8, 2000 and July 5, 2000, the Commission Staff issued a series of audit reports, which, among other things, set forth the results and findings of the Audits of the WorldCom Operating Companies (collectively, the "Audit Reports");

WHEREAS, the WorldCom Operating Companies and the Commission Staff have negotiated a mutually agreeable resolution to all of the issues, claims or disputes arising from, or relating to, the 1998 Flow-Through Reductions, the Audits and the Audit Reports;

NOW, THEREFORE, the WorldCom Operating Companies provide the following explanation, and propose to take the following actions, to resolve finally and fully any and all issues, claims or disputes arising out of, or relating to, the 1998 Flow-Through Reductions, the Audits, and the Audit Reports:

A. SUMMARY

1. Refunds and Rate Reductions. As set forth in more detail below, the Worldcom Operating Companies will make a combination of refunds and prospective rate reductions totaling more than \$1,700,656.

B. WTI

2. Background. During 1998, WTI offered a service to business customers known as WorldOne. As a result of inadvertent oversight, no tariffed rate changes (increases or decreases) for the WorldOne product were implemented into the billing system from October 1996 to May 1999. Consequently, an April 1998 rate increase, and the 1998 Flow-Through Reductions were not implemented into the billing system, and WTI billed below its tariffed rates from April 1998 to May 1999, and lost approximately \$2.3 million in revenue. Although they were billed less than they would have been had WTI implemented its tariff rate changes, the 1998 Flow-Through Reductions did not appear on WTI's WorldOne customers' bills. The actual amount of the 1998 Flow-Through Reductions that was not flowed through to WorldOne customers, from July 1998 through April 1999, totaled \$741,328.

3. Proposed Corrective Action. Because of the relatively large number of business customers that may have been affected by this error, and the fact that many of those customers are no longer WorldOne customers, it is impractical to attempt to issue refunds directly to customers. Instead, to rectify this situation, MCIW agrees to reduce prospectively the rates for the WorldOne service by the amount necessary to return to customers the \$741,328 not previously flowed through, plus interest, plus an additional amount necessary to bring the total reduction to \$1,482,656. Current and future WorldOne customers therefore will receive a total reduction of twice the amount that they would have realized had WTI timely implemented its tariffed rate changes. The rate reduction will be designed to return this amount to customers over a period of one year based on currently estimated call volumes; however the period of the reduction may be shortened or lengthened as necessary, based on actual experience, to accomplish the full \$1,482,656 reduction.

C. TTI

4. Background. As a result of inadvertent oversight, TTI did not implement

the 1998 Flow-Through Reductions until January 31, 2000. As a result of this delay, TTI overcharged its business customers by a total of approximately \$64,000.

5. Proposed Corrective Action. TTI agrees to issue a one-time refund to the affected customers of \$64,000, plus interest, plus an additional amount necessary to bring the total refund to \$128,000. This is twice the amount that those customers would have received if TTI had timely implemented its tariff changes. At the conclusion of the refund, TTI will report to the Commission the amount of any refunds that remain unclaimed, and will dispose of those funds as directed by the Commission.

D. MCIT/TUSA

6. Background. MCIT and TUSA obtained one-month extensions from the Commission to implement the 1998 Flow-Through Reductions. In connection with those extensions, MCIT and TUSA agreed to make such changes retroactive to July 1998 and October 1998, respectively, and to credit their customers accordingly. MCIT and TUSA implemented properly the 1998 Flow-Through Reductions and issued the proper credits to their residential customers, but inadvertently failed to credit their business customers. This resulted in overcharges to business customers totaling approximately \$23,125 for MCIT during the period July 1, 1998 through January 23, 1999 for its Vision and Vnet services and an undetermined amount, currently estimated to be approximately \$150,000 to \$175,000, for its 1-800 services. As a result of its failure to issue timely credits, TUSA overcharged its business customers by a total amount of only \$328.

7. Proposed Corrective Action. MCIW agrees to issue a one-time refund of \$23,125, plus interest, plus an additional amount necessary to bring the total refund to \$46,250, to the former MCIT Vision and Vnet business customers affected by this error. This is twice the amount that those customers would have received if MCIT had timely implemented its tariff changes. Similarly, once the final overcharge with respect to 1-800 service is determined, MCIW will issue a one-time refund of the amount of the

overcharge, plus interest, plus as additional amount necessary to bring the total refund to two times the amount of the overcharge. At the conclusion of the refund, MCIT will report to the Commission the amount of any refunds that remain unclaimed, and will dispose of those funds as directed by the Commission. Due to the de minimis nature of the TUSA overcharges, TUSA does not propose to issue any refund or rate reduction for this inadvertent error.

E. ADDITIONAL TERMS

8. During the period when the above-identified rate implementation errors occurred, the various WorldCom Operating Companies each maintained their own separate billing system or systems, some of which were managed in-house and some of which were managed by outside contractors. Each of the failures with respect to the 1998 Flow-Through Reductions was the result of the failure to implement properly tariff changes in the respective billing systems. Due to changes in personnel since 1998, the relevant WorldCom Operating Companies are unable to determine the specific circumstances surrounding each failure to implement properly the 1998 Flow-Through Reductions. In any event, however, these failures were caused by inadvertent errors, which resulted in a significant revenue loss. These errors were not the result of any refusal to comply with, or willful violation of, any Florida Statutes or Commission rules or orders.

9. Subsequent to the merger of WorldCom and MCI Communications Corporation ("MCIC"), all tariff and billing responsibilities have been consolidated into two rate organizations and process improvements have been implemented that are designed to ensure that billed rates match tariffed rates. In particular, rate changes are now input into the billing systems directly from approved tariff sheets. After rate changes are input, MCIW employs an internal audit function designed to ensure that the changes were made properly. While no process is 100% error free, MCIW and TTI believe that the post-1998 procedures should prevent a recurrence of the types of

errors experienced in 1998.

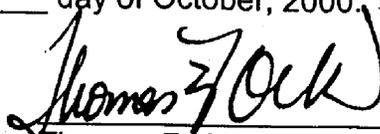
10. If accepted by the Commission, this Offer of Settlement shall be a complete settlement and resolution of any and all claims, actions, causes of action, liabilities, and demands against the WorldCom Operating Companies and their respective predecessors, successors, parents, direct subsidiaries, indirect subsidiaries, affiliates, assigns, agents, directors, officers, employees, and shareholders arising out of, or in any way relating to, the 1998 Flow-Through Reductions, the Audits and the Audit Reports.

11. If the Commission finds that the acceptance of this Offer of Settlement is in the public interest, the Commission will enter an "Order Approving Settlement Offer" (the "Order") which approves and accepts this Offer of Settlement. This Offer of Settlement will be included as an attachment to the Order, and incorporated therein by reference.

12. By making this Offer of Settlement, the WorldCom Operating Companies and their respective predecessors, successors, parents, direct subsidiaries, indirect subsidiaries, affiliates, assigns, agents, directors, officers, employees, and shareholders do not admit to any refusal to comply with, or to any willful violation of, any Florida statutes or Commission rules or orders. Indeed, the WorldCom Operating Companies expressly deny that they refused to comply with, or willfully violated any Florida statutes or Commission rules or orders.

13. If this Offer of Settlement is not accepted by the Commission in its entirety and without modification, it shall have no further force and effect and shall not be admissible in any current or future Commission or judicial proceeding arising out of, or related to, the 1998 Flow-Through Reductions, the Audits and the Audit Reports.

RESPECTFULLY SUBMITTED this _____ day of October, 2000.



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