Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of:	**)**	
	)	
Verizon Tariffs No. 1, 11, 14 & 16	**)**	**Transmittal No. 226**
	)	

WORLDCOM PETITION TO REJECT OR,
IN THE ALTERNATIVE, SUSPEND AND INVESTIGATE

I. Introduction and Summary

WorldCom, Inc. (WorldCom), pursuant to Section 1.773 of the Commission's Rules, hereby petitions the Commission to reject or, in the alternative, suspend and investigate the above-captioned transmittal filed by the Verizon Telephone Companies (Verizon) on July 25, 2002.[1]

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[1] Rejection of a proposed tariff or proposed changes to an existing tariff is warranted when the proposal is prima facie unlawful in that it can be demonstrated that it conflicts with the Communications Act or a Commission, rule, regulation or order. See, e.g., American Broadcasting Companies, Inc. v. FCC, 633 F.2d 133, 138 (D.C.Cir. 1980); Associated Press v. FCC, 448 F.2d 1095, 1103 (D.C.Cir. 1971); MCI v. AT&T, 94 FCC 2d 332, 340-41 (1983); AT&T, 67 FCC 2d 1134, 1158 (1978), recon. denied, 70 FCC 2d 2031 (1979).

Suspension and investigation of a proposed tariff or tariff modification is warranted when significant questions of unlawfulness arise in connection with the tariff. See AT&T Transmittal No. 148, Memorandum Opinion and Order, FCC 84-421 (released Sept. 19, 1984); ITT, 73 FCC 2d 709, 719 (1979); AT&T, 46 FCC 2d 81,86 (1974); see also Arrow Transportation Company v. Southern Railway Company, 372 U.S. 658 (1963).

The Commission should reject or, in the alternative, suspend and investigate Verizon Transmittal No. 226 because (1) Verizon's proposal to reduce the notice period for refusal or discontinuance of service from 30 days to 7 days is not just and reasonable; (2) Transmittal No. 226 violates a Commission prescription; (3) the proposed security deposit and advance payment provisions conflict with the Bankruptcy Code; (4) the proposed security deposit and advance payment provisions are unjust and unreasonable in violation of Section 201(b) of the Act; and (5) Verizon has failed to make the showing required by the Commission's "substantial cause" test.

II. Reducing the Notice Period from 30 Days to 7 Days is Not Just and Reasonable

The Commission should reject or, in the alternative, suspend and investigate Verizon Transmittal No. 226 because Verizon's proposal to reduce the notice period for refusal and discontinuance of service from 30 to 7 days is unjust and unreasonable.

The 30-day notice period has been found in every LEC access tariff for almost twenty years, since the initial post-divestiture access tariff investigation in 1984.[2] After the LECs had initially proposed 10-day and 20-day notice periods, the Commission's concern about those extremely short notice periods led the LECs to revise their tariffs to provide for a 30-day notice period.[3]

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[2] Investigation of Access and Divestiture-Related Tariffs, Memorandum Opinion and Order, CC Docket No. 83-1145 Phase I, 97 FCC 2d 1082 (1984) (Phase I Order), Appendix D, discussion of Section 2.1.8.

[3] Id.

In 1987, when BellSouth proposed reducing the notice period to 15 days, the Commission "believe[d] . . . that the revisions may place undue burdens on customers."[4] The Commission further "believe[d] that the advantages of BellSouth's revisions are outweighed by the disadvantages to customers."[5] While the Commission did not find that BellSouth proposal was so unlawful as to warrant rejection,[6] the Commission imposed strict conditions that BellSouth was apparently unable to satisfy. BellSouth's tariff continues to provide for a 30-day notice period, as does every other LEC interstate access tariff.[7]

As the Commission has explained, the 30-day notice period is essential because it allows sufficient time for the LEC and customer to investigate or cure alleged tariff violations before the LEC takes the drastic step of refusing or discontinuing service. In the Phase I Order, for example, the Commission noted with approval commenters' statements that the 30-day notice period "provides reasonable time for [customers] to convey their concerns to the telco."[8] And, in reviewing BellSouth's 1987 proposal for a 15-day notice period, the Commission expressed concern that the BellSouth proposal "may impair the cooperative spirit we have attempted to promote between carriers and

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[4] Annual 1987 Access Tariff Filings, Memorandum Opinion and Order, 2 FCC Rcd 280, 304-305 (1986) (1987 Access Tariff Order)

[5] Id.

[6] Id.

[7] BellSouth Tariff FCC No. 1, Section 2.1.8.

[8] Phase I Order, Appendix D, discussion of Section 2.1.8.

customers."[9]

Reducing the notice period from 30 days to 7 days would drastically alter the balance of power in any dispute between Verizon and its customers. The threat of imminent refusal or disconnection of service would give Verizon an unreasonable degree of leverage in any negotiations between Verizon and the customer concerning the alleged tariff violations. Given that there are in many instances no alternatives to Verizon's interstate access services, and that customers would be unable to switch in time even if facilities were available, customers receiving a 7-day notice simply could not afford to risk the possibility that Verizon would stop processing orders or terminate service altogether.

Verizon contends in the D&J that the shorter notice period is sufficient because "the notice period typically is triggered by Verizon only after it and the customer have been involved in protracted negotiations."[10] But there is nothing in Verizon's tariff that guarantees customers such a negotiation period. Verizon would be able to issue the 7-day refusal or discontinuance notice as soon as it believed a tariff violation had occurred, without any preliminary negotiations.

In any event, Verizon's proposal to reduce the notice period to 7-days is, as the Commission noted regarding BellSouth's 1986 proposal, an excessively broad response to a limited "problem."[11] While Verizon presents the shorter notice period as a tool for

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[9] 1987 Access Tariff Order, 2 FCC Rcd at 304.

[10] D&J at 9.

[11] 1987 Access Tariff Order, 2 FCC Rcd at 304.

limiting exposure to financially-troubled customers,[12] the shorter notice period's application is not limited to only those customers where there is a high risk of nonpayment. Rather, Verizon could invoke the 7-day notice period with respect to any dispute, with any customer, where Verizon can allege a tariff violation, regardless of the customer's financial condition.

One of the Commission's concerns about the BellSouth 1986 proposal was that it could reach customers that have needed additional time to review and verify their bills. The Commission stated that the proposed BellSouth revisions "should not reach customers who have not paid their bills by the late payment date if such failure occurred because they did not receive their bills in a timely manner and sufficiently in advance of the late payment date so as to allow them an opportunity to review and verify their bills; such customers do not pose a risk to BellSouth."[13] For that reason, the Commission stated that it would require BellSouth to file clarifying revisions that indicated that BellSouth would discontinue service 15 days after nonpayment only in those cases where the customer receives the bill within 3 days after the billing date.[14] As discussed above, BellSouth decided not to revise its tariff on those terms.

III. Transmittal No. 226 Violates a Commission Prescription

The existing security deposit language in Section 2.4.1(A) of Verizon's interstate

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[12] Transmittal No. 226, D&J at 8.

[13] 1987 Access Tariff Order, 2 FCC Rcd at 304.

[14] Id.

access tariff was prescribed by the Commission in its investigation of the post-divestiture access tariffs in 1984. In the Phase I Order, the Commission rejected the security deposit language proposed by the LECs and concluded that "Section 2.4.1(A) must be amended to allow the telco to require deposits only from an 'IC which has a proven history of late payments to the Telephone Company or does not have established credit except for an IC which is a successor of a company which has established credit and has no history of late payments to the Telephone Company . . . ."[15] Reflecting its prescription by the Commission, that language has been found in Verizon's interstate access tariff since 1984.

There can be no doubt that Verizon's current tariff language was prescribed by the Commission in the Phase I Order. The Commission not only provided precise tariff language, but (1) the Commission stated that the relevant section of the LECs' tariffs "must" be amended to reflect that language;[16] and (2) the Commission made no provision for the LECs to propose or try to justify alternate tariff language.

Nor can there be any doubt that the tariff language proposed by Verizon in Transmittal No. 226 would violate the Commission's prescription. The tariff language prescribed by the Commission in the Phase I Order states that LECs may request a deposit "only" from customers that have a proven history of late payment or do not have established credit.[17] Consequently, the Phase I Order's prescription prohibits Verizon

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[15] Investigation of Access and Divestiture-Related Tariffs, Memorandum Opinion and Order, CC Docket No. 83-1145 Phase I, 97 FCC 2d 1082 (1984) (Phase I Order), Appendix D, discussion of Section 2.4.1(A) (emphasis added).

[16] Phase I Order, Appendix D, discussion of Section 2.4.1(A).

[17] Id.

from amending its tariff to include the additional criteria proposed in Transmittal No. 226.

Given that the tariff language proposed in Transmittal No. 226 would violate a Commission prescription, the Commission cannot permit that language to take effect unless the Commission first waives that prescription or adopts an order modifying, suspending, or setting aside the prescription.[18] Because Verizon has not even sought such a waiver or order, the Commission should reject Transmittal No. 226 for violating a Commission prescription. It is well-established that the Commission can reject a tariff transmittal that violates a Commission prescription as patently unlawful, and the Commission has done so on several occasions.[19]

[18] See, e.g., Pacific Northwest Bell Telephone Company, Revisions To Tariff FCC No. 9, Transmittal No. 159, Memorandum Opinion and Order, released October 11, 1985, at ¶ 7. In that order the Commission indicated that it had the discretion to consider certain elements of a tariff filing as a request for modification of a prescription, but declined to do so in that instance. However, the Commission noted that it had previously found that the issues raised by PNB were best addressed in a proceeding that would afford all interested parties the opportunity to present their views and provide the Commission with an adequate record upon which to base its decision. Similarly, because any change to the prescribed security deposit tariff language would affect all LECs and all customers, potential changes to that language should not be addressed in a tariff proceeding.

[19] Pacific Northwest Bell Telephone Company Transmittal No. 159, Memorandum Opinion and Order, released June 10, 1985; Beehive Telephone Company, Inc. Transmittal No. 14, Order, 14 FCC Rcd 1984 (1998); Beehive Telephone Company Transmittal No. 11, Order, 13 FCC Rcd 12647 (1998).

IV. The Proposed Criteria for Triggering Security Deposit Demands Conflict with the Bankruptcy Code

In Transmittal No. 226, Verizon proposes to amend its tariff to allow Verizon to demand a security deposit or advance payment from any customer that has "commenced a voluntary receivership or bankruptcy proceeding (or had a receivership or bankruptcy proceeding initiated against it)."[20] That provision is unlawful because it conflicts with the U.S. Bankruptcy Code.

Under section 366 of the Bankruptcy Code, utilities such as Verizon may not discontinue service unless the debtor fails to furnish "adequate assurance" of payment in the form of a "deposit or other security." Importantly, "[t]he bankruptcy courts are in agreement that section 366(b) vests in the bankruptcy court the exclusive responsibility for determining the appropriate security which a debtor must provide to his utilities to preclude termination of service for non-payment of pre-petition utility bills . . . ."[21]

The Commission should reject or, in the alternative, suspend and investigate Verizon Transmittal No. 226 because Verizon's proposal to assess a security deposit or advance payment pursuant to tariff on any customer that has declared bankruptcy conflicts with the bankruptcy courts' "exclusive responsibility" for determining the appropriate security due utilities under such circumstances. Only the bankruptcy court, not Verizon, can determine whether a security deposit or advance payment is required in order to

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[20] See, e.g., Transmittal No. 226, Tariff FCC No. 1, 1st Revised Page 2-26.

[21] See, e.g., Adelphia Business Solutions et al., 2002 Bankr. LEXIS 705, *48 (citing Begley v. Philadelphia Elec. Co., 41 B.R. 402 (E.D. Pa. 1984), aff'd, 760 F.2d 46 (3rd Cir. 1985)) (emphasis added).

provide "adequate assurance" of payment of any post-petition bills.

V. The Other Proposed Criteria for Triggering Security Deposit Demands Are Not Just and Reasonable

In assessing whether LEC tariff terms and conditions are just and reasonable, the Commission has consistently emphasized that the interests of the LEC must be balanced against the interests of its customers. While the Commission has recognized the legitimate interests of the LEC, it has at the same time required that any regulations designed to protect the LEC's interests not place undue burdens on customers. In particular, the Commission has required that any regulations designed to protect the LEC's interests be limited in scope, commensurate with the risk faced by the LEC, and narrowly targeted to address the source of the risk.

For example, in considering security deposit provisions, the Commission has "recogniz[ed] that it is prudent for the telephone company to seek to avoid non-recoverable costs imposed by bad credit risks."[22] At the same time, however, the Commission has rejected "vague charges [that] could become unreasonably burdensome," provisions that "allow[ed] the telco unnecessarily broad discretion" and provisions that had "potential anticompetitive effects."[23]

Similarly, when considering 1987 BellSouth tariff revisions that were intended to

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[22] Investigation of Access and Divestiture-Related Tariffs, Memorandum Opinion and Order, CC Docket No. 83-1145 Phase I, 97 FCC 2d 1082 (1984) (Phase I Order), Appendix D, discussion of Section 2.4.1(A) (emphasis added).

[23] Id.

mitigate the impact of potential customer bankruptcy, the Commission "recognize[d] that the proposed tariff revisions could reduce BellSouth's liability under the circumstances that it has described."[24] At the same time, however, the Commission "believe[d] . . . that the revisions may place undue burdens on customers . . . . Provisions that more directly applied only to those customers that might default and that are supported with adequate documentation would be more reasonable."[25]

The tariff language proposed in Transmittal No. 226 is not just and reasonable because it does not provide the requisite balancing of carrier and customer interests. Verizon's proposed tariff language is not narrowly targeted to only those customers that present a substantial risk of nonpayment; rather, the criteria are so broad as to permit Verizon to demand a security deposit or advance payment from classes of customers that present only a low or moderate risk of nonpayment. While such a policy would benefit Verizon, by eliminating virtually all of Verizon's risk of nonpayment, it would not be just and reasonable to impose burdensome two-month security deposits or advance payment requirements on hundreds of low-risk customers simply because a small percentage of such customers might default at some point in the future.

First, it would not be just and reasonable to demand a security deposit or advance payment simply because "the senior debt securities of a customer or its parent are below

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[24] Annual 1987 Access Tariff Filings, Memorandum Opinion and Order, 2 FCC Rcd 280, 304-305 (1986) (1987 Access Tariff Order).

[25] Id.

investment grade."[26] While issuers of speculative-grade debt securities may present a higher risk of nonpayment than issuers of investment-grade debt securities, issuers of speculative-grade debt securities do not present a risk of nonpayment that is so substantial that a security deposit or advance payment is required to protect Verizon's interests. Statistics published by Moody's Investors Service show that the rate of default among speculative-grade issuers in 2001 was only 10.2 percent.[27] Moreover, 2001 was the second-worst year in history for speculative-grade defaults; in more typical years, the rate of default has been even lower.[28] And the *credit* loss rate, which reflects the amounts recovered in the bankruptcy process, is lower still.[29]

The "non-investment grade" criterion protects Verizon's interests by virtually insulating it against risk. Virtually all customers with rated debt that default have speculative debt ratings. However, the converse is not true: it is not true that customers with speculative debt ratings are likely to default in the next year. As the Moody's statistics discussed above show, in most years over 90 percent of speculative-grade issuers will continue to pay their bills. By imposing a burdensome security deposit policy on a broad group of customers that presents only a limited risk of nonpayment, in order to virtually eliminate Verizon's risk of nonpayment, Transmittal No. 226 does not reasonably

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[26] Transmittal No. 226, Tariff FCC No. 1, 1st Revised Page 2-26.

[27] Moody's Investors Service, "Default and Recovery Rates of Corporate Bond Issuers," February 2002, at 1 (http://riskcalc.moodysrms.com/us/research/defrate/02defstudy.pdf)

[28] Id. at 6.

[29] Id. at 20 (Exhibit 23).

balance Verizon's interests with those of its customers.

The other criteria proposed by Verizon are likely to be even less correlated with a significant risk of nonpayment. Verizon has presented no evidence that it has consistently experienced a high rate of nonpayment among customers that have either (1) paid late twice in the preceding 12 months; or (2) had $250,000 or more past due. In all likelihood, that formula would capture a far broader of group of customers that, on average, present only a very limited risk of nonpayment. Indeed, it would not be surprising if virtually every one of Verizon's customers has at one time or another "qualified" under Verizon's proposed formula.

The "return of deposit" provisions proposed in Transmittal No. 226 are even more unreasonable. Not only would a customer have to demonstrate that it does not meet the unreasonably broad criteria set forth in Section 2.4.1(A)(2), but the customer would have to show that it has not met those criteria for a period of at least one year.[30] It would be unreasonable to permit Verizon to wait an additional year before returning the security deposit. Any customer that does not meet the criteria set forth in proposed Section 2.4.1(A)(2) must already present a sufficiently low risk of nonpayment to warrant return of the deposit.

Verizon contends in the D&J that the proposed tariff revisions will "grant Verizon some of the same market-based protections other suppliers can – and do – routinely

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[30] Verizon Transmittal No. 226, Tariff FCC No. 1, Section 2.4.1(A)(4), original page 2-26.3.

exercise when dealing with financially troubled buyers."[31] But the issue is not whether security deposits or advance payment provisions are reasonable as a general matter; after all, the Commission has already permitted the LECs to request security deposits from "bad credit risks" identified by a "proven history of late payment." Rather, the issue is whether the specific criteria proposed by Verizon in Transmittal No. 226 are reasonable.

In that regard, it is clear that Verizon is seeking a far higher level of protection against the risk of nonpayment than any nondominant carrier could obtain. Nondominant carriers must always balance the risk of nonpayment against the risk that an overly strict security deposit policy would drive valuable customers to a competitor. Even when nondominant carriers' tariff or contract language allows them some discretion in determining whether to impose a security deposit, market forces ensure that nondominant carriers request security deposits from only those customers that present a significant risk of nonpayment. Only a dominant carrier with market power, whose customers have nowhere to go, could even contemplate a security deposit policy as stringent as the one that Verizon is proposing. As long as Verizon remains a dominant carrier, the Commission must ensure, through the tariff review process, that Verizon's tariff language limits Verizon to a security deposit policy that reasonably balances Verizon's interests against those of its customers. Transmittal No. 226 does not meet that test, and should therefore be rejected or, in the alternative, suspended and investigated.

The broad scope of the proposed tariff language is particularly unreasonable because it gives Verizon the power to use security deposits demands in an anticompetitive

[31] Transmittal No. 226, D&J at 2.

manner. The "non-investment grade" criterion alone would give Verizon the power to demand a security deposit from virtually every one of its competitors in the interLATA and local markets, including Sprint, Qwest, Time Warner, Allegiance, and others. The security deposit demand would permit Verizon to encumber financial resources that competitors would otherwise use to build out their networks or develop services to compete against Verizon.

VI. Transmittal No. 226 Fails to Meet the "Substantial Cause for Change" Test

The Commission should reject or, in the alternative, suspend and investigate Transmittal No. 226 because Verizon's proposal to revise the discontinuance, security deposit, and advance payment regulations applicable to existing term plan and contract tariff customers in mid-term fails to meet the Commission's "substantial cause for change" test. As the Commission recognized in the RCA Americom Decisions,[32] customers have "legitimate expectations . . . for stability in term arrangements."[33]

A. The Substantial Cause Test is Applicable to Transmittal No. 226

The substantial cause for change test is applicable not only to individually-negotiated contract tariffs, but to any long-term service arrangement in dominant carrier

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[32] RCA American Communications, Inc., Memorandum Opinion and Order, 86 FCC 2d 1197 (1981) (RCA Americom 1981 Order); RCA American Communications, Inc., Memorandum Opinion and Order, 94 FCC 2d 1338 (RCA Americom 1983 Order); RCA American Communications, Inc., Memorandum Opinion and Order, 2 FCC Rcd 2363 (1987) (RCA Americom Final Order).

[33] RCA Americom 1981 Order, 86 FCC 2d at 1201.

tariffs.[34] Indeed, the RCA Americom Decisions involved generic long-term service arrangements, not individually-negotiated contract tariffs.

Transmittal No. 226 is subject to the requirements of the "substantial cause test" because it would modify the service discontinuance, security deposit, and advance payment provisions applicable to existing customers of the Facilities Management Service (FMS), Service Discount Plan, Commitment Discount Plan, and other term plans shown in Verizon's tariff.[35] Those plans constitute long-term service arrangements like the arrangements discussed in the RCA Americom Decisions and in other Commission "substantial cause" decisions;[36] as in those cases, customers of the Verizon term arrangements obtain reduced rates or other benefits by making a long-term commitment to Verizon, subject to termination liabilities if the commitment is not met. For example, customers may commit to the Facilities Management Service for either a three or five year term, and customers that fail to maintain a minimum number of circuits are subject to shortfall charges or termination liabilities.[37]

The tariff provisions at issue are clearly "material." First, the tariff revisions

[34] Hi-Tech Furnace Systems, Inc. and Robert Kornfeld v. Sprint Communications Company, Memorandum Opinion and Order, 14 FCC Rcd 8040, ¶ 13 (1999) (Hi-Tech Order).

[35] Verizon's term plans include the Facilities Management Service (FCC No. 1, Sections 6.8.26, 7.2.17; FCC No. 11 Section 7.2.16); Service Discount Plan (FCC No. 11, Section 7.4.10); Commitment Discount Plan (FCC No. 11, Section 25.1); DS1 Term and Volume Plan (FCC No. 14, Section 5.6.14).

[36] See, e.g, AT&T Communications Transmittal Nos. 2404 and 2535, Order, 5 FCC Rcd 6777, ¶ 2 (1990).

[37] Verizon Tariff FCC No. 1, Section 7.2.13(D)(3)(b).

proposed in Transmittal No. 226 would substantially increase the number of existing term plan customers that could be required to pay a security deposit.[38] Second, the amount of the security deposit that could be imposed on the additional customers targeted by Transmittal No. 226 is "material;" two months' access billings would, in the case of many existing term plan customers, amount to millions or tens of millions of dollars.

The Commission has recognized that changes to deposit, advance payment, and service discontinuance provisions applicable to existing term plans deserve special scrutiny. In granting AT&T's petition to be declared a nondominant carrier, the Commission relied in part on (1) AT&T's voluntary commitment to provide existing term plan customers with 14 days' notice to object to changes to the discontinuance, deposit, and advance payment provisions applicable to such plans, rather than the one day's notice that would normally be allowed a nondominant carrier;[39] and (2) AT&T's acknowledgment that the substantial cause test would continue to be applicable to such changes.[40] Plainly, tariff filings that amend dominant carrier term plans should receive even greater scrutiny.

B. Verizon Has Not Met the Requirements of the Substantial Cause Test

Pursuant to the RCA Americom Decisions, extensive revisions of a dominant

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[38] D&J at 2.

[39] Motion of AT&T Corp. to be Reclassified as a Non-Dominant Carrier, Order, 11 FCC Rcd 3271, 3343-3344 ¶ 134.

[40] Id.

carrier's long-term service tariff will be considered reasonable only if the carrier can demonstrate "substantial cause" for the revisions.[41] The Commission found that, in order to "balance[] the carrier's right to adjust its tariff . . . against the legitimate expectations of customers for stability in term arrangements," the reasonableness of a proposal to revise material provisions in the middle of a term "must hinge to a great extent on the carrier's explanation of the factors necessitating the desired changes at that particular time."[42]

Verizon has not, and could not, demonstrate compliance with the substantial cause test. In weighing customers' legitimate expectation of stability against carriers' business needs, the Commission has found carriers to meet the requirements of the substantial cause for change test only when they could demonstrate unforeseeable increases in cost or in traffic volume.[43] Verizon has not shown that it has experienced any material changes in business circumstances, much less experienced changes in circumstances that would "constitute an injury to [Verizon] that outweigh[s] the existing customers' legitimate expectation of stability."[44]

Verizon suggests in the D&J that the proposed tariff changes are warranted because its interstate uncollectibles "more than doubled in 2001 versus 2000."[45] But an

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[41] RCA Americom 1981 Order, 86 FCC 2d at 1201-1202

[42] Id.

[43] RCA Americom Final Order, 2 FCC Rcd at 2367-2368; Hi-Tech Furnace Systems, Inc. and Robert Kornfeld v. Sprint Communications Company, Memorandum Opinion and Order, 14 FCC Rcd 8040, 8046-8047 (1999) (Hi-Tech Order).

[44] 5 FCC Rcd at 6779 ¶ 21.

[45] D&J at 9.

increase in uncollectibles in 2001 does not, by itself, demonstrate "substantial cause" for a change in the security deposit provisions. It is perfectly normal for uncollectibles to vary depending on the point in the business cycle. All carriers, not just Verizon, have seen their uncollectibles increase as the telecommunications industry downturn has deepened. Time Warner Telecom, for example, recently reported to the SEC that its uncollectibles expense has increased due to customer bankruptcies.[46]

ARMIS data show that, despite the increase in uncollectibles in 2001, Verizon's absolute level of uncollectibles is still extremely low. In 2001, Verizon recorded interstate uncollectible revenues of only $138.6 million out of total interstate revenues of $11.8 billion – or about 1.2 percent of interstate revenues.[47] And it is likely that a significant portion of the $138.6 million reported in ARMIS as "uncollectible" does not represent true "bad debt;" Verizon, like BellSouth, may include in its uncollectible account certain amounts that were billed to customers in error and then successfully disputed.[48]

Finally, the modest increase in interstate uncollectible revenue in 2001 had only a negligible impact on Verizon's financial performance: Verizon's aggregate interstate rate of return in 2001 was a still-excessive 17.1 percent,[49] far above Verizon's cost of capital and the Commission's most recently-prescribed rate of return of 11.25 percent.

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[46] Time Warner Telecom, SEC Form 10-K, March 28, 2002, at 34.

[47] Verizon ARMIS 43-01, col.h, lines 1060, 1090 (aggregate of former GTE and former Bell Atlantic COSAs).

[48] BellSouth reply to petitions against BellSouth Transmittal No. 635, at 7.

[49] Verizon ARMIS 43-01, col. h, lines 1910, 1915 (aggregate of former GTE and former Bell Atlantic COSAs).

VII. Conclusion

For the reasons stated herein, the Commission should reject or, in the alternative, suspend and investigate Verizon Transmittal No. 226.

Respectfully submitted,
WORLDCOM, INC.

/s/ Alan Buzacott

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August 1, 2002

STATEMENT OF VERIFICATION

I have read the foregoing and, to the best of my knowledge, information, and belief, there is good ground to support it, and it is not interposed for delay. I verify under penalty of perjury that the foregoing is true and correct. Executed on August 1, 2002.

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CERTIFICATE OF SERVICE

I, Alan Buzacott, do hereby certify that copies of the foregoing Petition to Reject or, in the Alternative, Suspend and Investigate, were sent via first class mail, postage paid, and by facsimile*, to the following on this 1st day of August, 2002.

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