

For Six Month Period Ending 18 SEP 1994
(Insert date)

Name of Registrant **BT Government Relations,
Washington Office**

Registration No.

4566 *jr*

Business Address of Registrant **North Building, Suite 725
601 Pennsylvania Avenue, N.W.
Washington, DC 20004**

I-REGISTRANT

1. Has there been a change in the information previously furnished in connection with the following:

(a) If an individual:

- (1) Residence address Yes No
- (2) Citizenship Yes No
- (3) Occupation Yes No

(b) If an organization:

- (1) Name Yes No
- (2) Ownership or control Yes No
- (3) Branch offices Yes No

2. Explain fully all changes, if any, indicated in item 1. **Not Applicable.**

IF THE REGISTRANT IS AN INDIVIDUAL, OMIT RESPONSE TO ITEMS 3, 4, and 5.

3. Have any persons ceased acting as partners, officers, directors or similar officials of the registrant during this 6 month reporting period? Yes No

If yes, furnish the following information:

Name
William Anthony Crane

Position
Manager, Government Relations

Date Connection
Ended
July 1, 1994

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4. Have any persons become partners, officers, directors or similar officials during this 6 month reporting period?
 Yes No

If yes, furnish the following information:

<i>Name</i>	<i>Residence Address</i>	<i>Citizenship</i>	<i>Position</i>	<i>Date Assumed</i>
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5. Has any person named in Item 4 rendered services directly in furtherance of the interests of any foreign principal?
 Yes No **Not Applicable.**

If yes, identify each such person and describe his services.

6. Have any employees or individuals other than officials, who have filed a short form registration statement, terminated their employment or connection with the registrant during this 6 month reporting period? Yes No

If yes, furnish the following information:

<i>Name</i>	<i>Position or connection</i>	<i>Date terminated</i>
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7. During this 6 month reporting period, have any persons been hired as employees or in any other capacity by the registrant who rendered services to the registrant directly in furtherance of the interests of any foreign principal in other than a clerical or secretarial, or in a related or similar capacity? Yes No

If yes, furnish the following information:

<i>Name</i>	<i>Residence Address</i>	<i>Position or connection</i>	<i>Date connection began</i>
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II—FOREIGN PRINCIPAL

(PAGE 3)

8. Has your connection with any foreign principal ended during this 6 month reporting period? Yes No

If yes, furnish the following information:

Name of foreign principal

Date of Termination

-
9. Have you acquired any new foreign principal¹ during this 6 month reporting period? Yes No

If yes, furnish following information:

Name and address of foreign principal

Date acquired

-
10. In addition to those named in Items 8 and 9, if any, list the foreign principals¹ whom you continued to represent during the 6 month reporting period.

British Telecommunications plc (BT plc)

III—ACTIVITIES

11. During this 6 month reporting period, have you engaged in any activities for or rendered any services to any foreign principal named in Items 8, 9, and 10 of this statement? Yes No

If yes, identify each such foreign principal and describe in full detail your activities and services:

See Attachment III - 11.

¹The term "foreign principal" includes, in addition to those defined in section 1(b) of the Act, an individual or organization any of whose activities are directly or indirectly supervised, directed, controlled, financed, or subsidized in whole or in major part by a foreign government, foreign political party, foreign organization or foreign individual. (See Rule 100(a)(9)).
A registrant who represents more than one foreign principal is required to list in the statements he files under the Act only those foreign principals for whom he is not entitled to claim exemption under Section 3 of the Act. (See Rule 208.)

12. During this 6 month reporting period, have you on behalf of any foreign principal engaged in political activity² as defined below?
Yes No

If yes, identify each such foreign principal and describe in full detail all such political activity, indicating, among other things, the relations, interests and policies sought to be influenced and the means employed to achieve this purpose. If the registrant arranged, sponsored or delivered speeches, lectures or radio and TV broadcasts, give details as to dates, places of delivery, names of speakers and subject matter.

See Attachment III - 12.

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13. In addition to the above described activities, if any, have you engaged in activity on your own behalf which benefits any or all of your foreign principals? Yes No

If yes, describe fully.

²The term "political activities" means the dissemination of political propaganda and any other activity which the person engaging therein believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, persuade, or in any other way influence any agency or official of the Government of the United States or any section of the public within the United States with reference to formulating, adopting, or changing the domestic or foreign policies of the United States or with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party.

IV—FINANCIAL INFORMATION

14. (a) RECEIPTS—MONIES

During this 6 month reporting period, have you received from any foreign principal named in Items 8, 9 and 10 of this statement, or from any other source, for or in the interests of any such foreign principal, any contributions, income or money either as compensation or otherwise? Yes No

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies.³

<i>Date</i>	<i>From Whom</i>	<i>Purpose</i>	<i>Amount</i>
4/1/94 - 9/30/94	BT plc	Costs of operating BT Government Relations, Washington Office plus associated administrative expense	
			<u>\$ 362,110.58</u>
			Total

NOTE: A substantial majority of monies received during this period was for services and activities that do not require registration under the Act.

(b) RECEIPTS—THINGS OF VALUE

During this 6 month reporting period, have you received any thing of value⁴ other than money from any foreign principal named in Items 8, 9 and 10 of this statement, or from any other source, for or in the interests of any such foreign principal? Yes No

If yes, furnish the following information:

<i>Name of foreign principal</i>	<i>Date received</i>	<i>Description of thing of value</i>	<i>Purpose</i>
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³A registrant is required to file an Exhibit D if he collects or receives contributions, loans, money, or other things of value for a foreign principal, as part of a fund raising campaign. See Rule 201(c).
⁴Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

15. (a) **DISBURSEMENTS—MONIES**

During this 6 month reporting period, have you

(1) disbursed or expended monies in connection with activity on behalf of any foreign principal named in Items 8, 9 and 10 of this statement? Yes No

(2) transmitted monies to any such foreign principal? Yes No

If yes, set forth below in the required detail and separately for each foreign principal an account of such monies, including monies transmitted, if any, to each foreign principal.

<i>Date</i>	<i>To Whom</i>	<i>Purpose</i>	<i>Amount</i>
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See Attachment IV - 15(a).

Total

15. (b) **DISBURSEMENTS—THINGS OF VALUE**

During this 6 month reporting period, have you disposed of anything of value⁵ other than money in furtherance of or in connection with activities on behalf of any foreign principal named in items 8, 9 and 10 of this statement?

Yes No

If yes, furnish the following information:

<i>Date disposed</i>	<i>Name of person to whom given</i>	<i>On behalf of what foreign principal</i>	<i>Description of thing of value</i>	<i>Purpose</i>
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(c) **DISBURSEMENTS—POLITICAL CONTRIBUTIONS**

During this 6 month reporting period, have you from your own funds and on your own behalf either directly or through any other person, made any contributions of money or other things of value⁵ in connection with an election to any political office, or in connection with any primary election, convention, or caucus held to select candidates for political office?

Yes No

If yes, furnish the following information:

<i>Date</i>	<i>Amount or thing of value</i>	<i>Name of political organization</i>	<i>Name of candidate</i>
4/3/94	\$100.00	McGuire for Congress	Sheila McGuire
8/24/94	\$100.00	McGuire for Congress	Sheila McGuire

V—POLITICAL PROPAGANDA

(Section 1(j) of the Act defines "political propaganda" as including any oral, visual, graphic, written, pictorial, or other communication or expression by any person (1) which is reasonably adapted to, or which the person disseminating the same believes will, or which he intends to, prevail upon, indoctrinate, convert, induce, or in any other way influence a recipient or any section of the public within the United States with reference to the political or public interests, policies, or relations of a government of a foreign country or a foreign political party or with reference to the foreign policies of the United States or promote in the United States racial, religious, or social dissensions, or (2) which advocates, advises, instigates, or promotes any racial, social, political, or religious disorder, civil riot, or other conflict involving the use of force or violence in any other American republic or the overthrow of any government or political subdivision of any other American republic by any means involving the use of force or violence.)

16. During this 6 month reporting period, did you prepare, disseminate or cause to be disseminated any political propaganda as defined above? Yes No

IF YES, RESPOND TO THE REMAINING ITEMS IN THIS SECTION V.

17. Identify each such foreign principal.

⁵Things of value include but are not limited to gifts, interest free loans, expense free travel, favored stock purchases, exclusive rights, favored treatment over competitors, "kickbacks," and the like.

18. During this 6 month reporting period, has any foreign principal established a budget or allocated a specified sum of money to finance your activities in preparing or disseminating political propaganda? Yes No

If yes, identify each such foreign principal, specify amount, and indicate for what period of time.

19. During this 6 month reporting period, did your activities in preparing, disseminating or causing the dissemination of political propaganda include the use of any of the following:

- Radio or TV broadcasts Magazine or newspaper articles Motion picture films Letters or telegrams
- Advertising campaigns Press releases Pamphlets or other publications Lectures or speeches
- Other (specify) _____

20. During this 6 month reporting period, did you disseminate or cause to be disseminated political propaganda among any of the following groups:

- Public Officials Newspapers Libraries
- Legislators Editors Educational institutions
- Government agencies Civic groups or associations Nationality groups
- Other (specify) _____

21. What language was used in this political propaganda:

- English Other (specify) _____

22. Did you file with the Registration Section, U.S. Department of Justice, two copies of each item of political propaganda material disseminated or caused to be disseminated during this 6 month reporting period? Yes No

23. Did you label each item of such political propaganda material with the statement required by Section 4(b) of the Act? Yes No

24. Did you file with the Registration Section, U.S. Department of Justice, a Dissemination Report for each item of such political propaganda material as required by Rule 401 under the Act? Yes No

VI—EXHIBITS AND ATTACHMENTS

25. EXHIBITS A AND B

- (a) Have you filed for each of the newly acquired foreign principals in Item 9 the following:

Exhibit A⁶ Yes No **Not Applicable.**
 Exhibit B⁷ Yes No

If no, please attach the required exhibit.

- (b) Have there been any changes in the Exhibits A and B previously filed for any foreign principal whom you represented during this six month period? Yes No

If yes, have you filed an amendment to these exhibits? Yes No

If no, please attach the required amendment.

⁶The Exhibit A, which is filed on Form CRM-157 (Formerly OBD-67) sets forth the information required to be disclosed concerning each foreign principal.

⁷The Exhibit B, which is filed on Form CRM-155 (Formerly OBD-65) sets forth the information concerning the agreement or understanding between the registrant and the foreign principal.

26. EXHIBIT C

If you have previously filed an Exhibit C⁸, state whether any changes therein have occurred during this 6 month reporting period. Yes No

If yes, have you filed an amendment to the Exhibit C? Yes No

If no, please attach the required amendment.

27. SHORT FORM REGISTRATION STATEMENT

Have short form registration statements been filed by all of the persons named in Items 5 and / of the supplemental statement? Yes No

Not Applicable.

If no, list names of persons who have not filed the required statement.

The undersigned swear(s) or affirm(s) that he has (they have) read the information set forth in this registration statement and the attached exhibits and that he is (they are) familiar with the contents thereof and that such contents are in their entirety true and accurate to the best of his (their) knowledge and belief, except that the undersigned make(s) no representation as to the truth or accuracy of the information contained in attached Short Form Registration Statement, if any, insofar as such information is not within his (their) personal knowledge.

(Both copies of this statement shall be signed and sworn to before a notary public or other person authorized to administer oaths by the agent, if the registrant is an individual, or by a majority of those partners, officers, directors or persons performing similar functions who are in the United States, if the registrant is an organization.)

(Type or print name under each signature)

James E. Graf II
James E. Graf II

Subscribed and sworn to before me at District of Columbia

this 28th day of October, 19 97

My Commission Expires
April 30, 1999

Aileen B. Koratz
(Signature of notary or other officer)

⁸The Exhibit C, for which no printed form is provided, consists of a true copy of the charter, articles of incorporation, association, constitution, and bylaws of a registrant that is an organization. (A waiver of the requirement to file an Exhibit C may be obtained for good cause upon written application to the Assistant Attorney General, Criminal Division, Internal Security Section, U.S. Department of Justice, Washington, D.C. 20530.)

UNITED STATES DEPARTMENT OF JUSTICE
REGISTRATION UNIT
CRIMINAL DIVISION
WASHINGTON, D.C. 20530

NOTICE

Please answer the following questions and return this sheet in triplicate with your supplemental statement:

1. Is your answer to Item 16 of Section V (Political Propaganda - page 7 of Form CRM-154, formerly Form OBD-64--- Supplemental Statement):

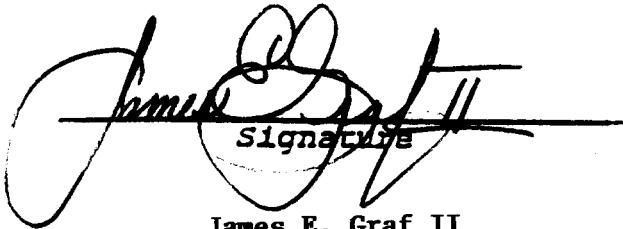
Yes _____ or No X _____

(If your answer to question 1 is "yes" do not answer question 2 of this form.)

2. Do you disseminate any material in connection with your registration:

Yes X _____ or No _____

(If your answer to question 2 is "yes" please forward for our review copies of all such material including: films, film catalogs, posters, brochures, press releases, etc. which you have disseminated during the past six months.)


Signature

James E. Graf II

Please type or print name of signatory on the line above

Vice President

Title

26 OCTOBER 1994
Date
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ATTACHMENT III - II.

11. Activities for and services rendered to British Telecommunications plc (BT plc):

- (1) Provided advice and information to BT plc and its subsidiaries with respect to U.S. telecommunications regulation and legislation.
- (2) Attended European Institute Luncheon for Sir Leon Brittan, European Commission Commissioner for Trade, 25 April 1994, Washington, D.C.
- (3) Attended luncheon meeting with C. Arnst (Business Week) for discussion of US/UK telecommunications issues. [Entertainment expenditure - see response to 15(a)].
- (4) Attended European Institute Luncheon for Honorable Stuart Eisenstat, US Ambassador to the European Union, 12 May 1994, Washington, D.C.
- (5) Attended European Institute Conference re post-GATT environment and Dinner honoring Senator Bill Bradley and Viscount Etienne Davignon, 28 June 1994, Washington, D.C.
- (6) Attended American Enterprise Institute Conferences on competition in telecommunications, 7 July 1994, and foreign investment, 18 July 1994, Washington, D.C.
- (7) Participated in Aspen Institute Telecommunications Conference on Strategic Alliances 7-11 August 1994, Aspen, Colorado.
- (8) Attended European Institute Annual Meeting and Conference on US/EU investment, 19 September 1994, Washington, D.C.
- (9) Attended Networked Economy Conference, 26-27 September 1994, Washington, D.C.

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ATTACHMENT III-12.

12. Political activities engaged in on behalf of British Telecommunications plc (BT plc):

- (1) Meeting on 14 April 1994 among Richard Metzger, Acting Chief of the FCC Common Carrier Bureau; Jennifer Warren, Jim Olson, FCC; James E. Graf II, Vice President, BT Government Relations; Janet McDavid and David Saylor of Hogan & Hartson, BT's attorneys and counsel; and John Preston, Economists Incorporated to discuss structure of the BT-MCI Alliance and the markets to be served and the services to be provided by the Alliance.
- (2) Telephone conference call on 21 April 1994 among Richard Rosen, Jonathan Rich, Carl Willner, and Sara DeSanto, DOJ; Janet McDavid and David Saylor, Hogan & Hartson; Anthony Epstein, Jenner & Block; James E. Graf II, Vice President, BT Government Relations; and Colin Green, Timothy Cowen, Chris Hobson, and John Butler, BT to discuss BT-MCI Alliance/Hart-Scott-Rodino review.
- (3) Telephone conference call 4 May 1994 among Carl Willner and Sara DeSanto, DOJ; James E. Graf II, Vice President, BT Government Relations; Timothy Cowen and Chris Hobson, BT; Janet McDavid and David Saylor, Hogan & Hartson; and Michael Salsbury and Anthony Epstein, Jenner & Block to discuss BT-MCI Alliance/Hart-Scott-Rodino review.
- (4) Meeting on 4 May 1994 among Steven Sunshine, Constance Robinson, Diane Wood, Jonathan Rich, Carl Willner, Sara DeSanto, David Majerus, Andrew Joskow, and Charles Stark, DOJ; James E. Graf II, Vice President, BT Government Relations; Colin Green, Timothy Cowen, and Chris Hobson, BT; Janet McDavid, David Saylor, Hogan & Hartson; Michael Salsbury and Anthony Epstein, Jenner & Block; and John Worthington, MCIC to discuss BT-MCI Alliance/Hart-Scott-Rodino review.
- (5) Meeting on 5 May 1994 among Jonathan Rich, Carl Willner, and Sara DeSanto, DOJ; James E. Graf II, BT Government Relations; Timothy Cowen and Chris Hobson, BT; Janet McDavid and David Saylor (Hogan & Hartson); and Anthony Epstein, Jenner & Block to discuss BT-MCI Alliance/Hart-Scott-Rodino review.
- (6) Meeting on 27 June 1994 among Jennifer Warren, Attorney Adviser, International Policy Division, FCC/CCB; Don Evans, MCI; and James E. Graf II, Vice President, BT Government Relations to discuss BT-MCI Amended & Restated Joint Investment Agreement.
- (7) Luncheon meeting on 27 June 1994 between Carol Darr, General Counsel, Department of Commerce, and Jeanne M. Schaaf, Assistant Vice President, BT Government Relations to discuss NII International Task Force.
- (8) Meeting on 30 June 1994 among Carl Willner and Sara DeSanto, Department of Justice; Janet McDavid and David Saylor, Hogan & Hartson; John Butler, Director of Regulatory Affairs, British Telecommunications plc; and James E. Graf II, Vice President, BT Government Relations to discuss international alliances.
- (9) Meetings 1 July 1994 with John Butler, Director of Regulatory Affairs, British Telecommunications plc; and James E. Graf II, Vice President, BT Government Relations; and Diane Cornell, Chief, and Jennifer Warren, Attorney Adviser, International Policy Division, FCC/CCB; Ruth Milkman, Senior Legal Adviser to Chairman Hundt, FCC; Scott Blake Harris,

Director of the Office of International Communications/FCC to discuss BTNA Section 214 Application/US-UK Equivalence. A copy of "BT North America Inc. Application for Authority Under Section 214 of the Communications Act to Provide International Resale Services as a Nondominant Carrier" is included in the response to the attached printed matter questionnaire.

- (10) Prepared and filed at FCC Letter commenting on reports filed 13 July 1994 by ACC Global Corp. and MFS International, Inc. A copy of the Letter, filed 2 August 1994, is included in the response to the attached printed matter questionnaire.
- (11) Assisted in preparation and filing at FCC of BT North America Inc. Supplemental Filing in Docket No. I-T-C-93-126. A copy of the Supplemental Filing, filed 3 August 1994, is included in the response to the attached printed matter questionnaire.
- (12) Transmitted Letters to House Telecommunications & Finance Subcommittee Chairman Edward J. Markey and FCC Chairman Reed E. Hundt regarding FCC study of French, German, and UK telecommunications markets. Copies of the letters, transmitted 4 August 1994, are included in the response to the attached printed matter questionnaire.
- (13) Meetings on 17 August 1994 with James E. Graf II, Vice President, BT Government Relations, and James Ball, FCC-OIC; and Judith Nitsche, Chief, Tariff Review Branch, FCC/CCB to discuss BT North America Inc./Concert tariff.

ATTACHMENT IV - 15.(a)

15.(a) If yes, set forth below in the required detail and separately for each foreign principal on account of such monies, including monies transmitted, if any, to each foreign principal.

Note: All monies disbursed or expended in connection with activity on behalf of British Telecommunications plc (BT plc) or its domestic U.S. companies. A substantial part of the monies disbursed or expended were in connection with non-registrable activities.

Date	To Whom	Purpose	Amount
04/01/94- 09/30/94	Various Vendors	Office Expenses--including real property, equipment & vehicle leases; telephone; supplies; postage & overnight; documents, books & subscriptions; printing; registration fees; parking & taxis	\$ 60,614.93
04/01/94- 09/30/94	James E. Graf II, Vice President Jeanne M. Schaaf, Assistant Vice President William A. Crane, Manager Betty R. Austin, Office Manager Sharon Plevyak/Beth Davidson Secretary/Receptionist	Salaries, Fringe Benefits, Other Employee-related Expenses	\$ 261,585.35
04/01/94- 09/30/94	Various vendors	Travel & Travel Meals Note: No U.S. Government officials or media representatives were guests.	\$ 27,604.57
04/01/94- 09/30/94	Various vendors	Entertainment Meals/Business Conferences Note: No U.S. Government officials or media representatives were guests.	\$ 5,715.56
04/01/94- 09/30/94	Hogan & Hartson	Legal Services	\$ 1,590.17
04/25/94	The European Institute	Sponsorship of luncheon by European Institute in honor of Sir Leon Brittan, Vice President for Economic Affairs, European Commission. Note: While U.S. Government officials or media representatives may have been luncheon attendees, their attendance was not invited or solicited by BT plc. (Invoice date 5/24/94)	\$ 5,000.00
04/26/94	C. Arnst, <u>Business Week</u>	Luncheon meeting See entry, Item 11.	\$ 120.69 (3 persons)
TOTAL			\$ 362,231.27



Telephone (202) 639 8222
Facsimile (202) 434 8867

James E. Graf II
Vice President - Government Relations

15 April 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: Ex Parte Filing
MCI Communications Corporation
British Telecommunications plc
Petition for Declaratory Ruling Concerning
Section 310(b)(4) and (d) of the Communications
Act of 1934, as amended
File No. ISP-93-013

Dear Mr. Caton:

This is to advise that on 14 April 1994 representatives of British Telecommunications plc ("BT") met with Richard Metzger, Acting Chief of the Commission's Common Carrier Bureau, Jennifer Warren, and Jim Olson to discuss the above-referenced Petition for Declaratory Ruling.

BT representatives were myself, Janet McDavid and David Saylor of Hogan & Hartson, BT's attorneys and counsel, and John Preston of Economists Incorporated.

Matters discussed were the structure of the BT-MCI Alliance and the markets to be served and the services to be provided by the Alliance.

Two copies of this notice are enclosed in accordance with Section 1.1206(a)(1) of the Commission's Rules. Please include this letter in the record of this proceeding.

Sincerely yours,

BT Government Relations
North Building, Suite 725
601 Pennsylvania Avenue, N.W.
Washington, DC 20004
(Represented in U.S. by BT North America Inc.)



Telephone (202) 639 8222
Facsimile (202) 434 8867

James E. Graf II
Vice President - Government Relations

1 July 1994

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

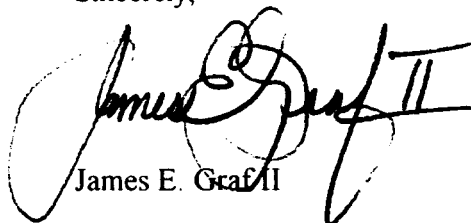
Re: Ex Parte Filing
BT North America Inc.
Application for Section 214 Authority -
Request for International Simple Resale Authority
File No. I-T-C-93-126

Dear Mr. Caton:

This is to advise that today John Butler, Director of Regulatory Affairs for British Telecommunications plc (BT) and I met with Diane Cornell and Jennifer Warren of the International Policy Division, Common Carrier Bureau; Ruth Milkman, Senior Legal Adviser to Chairman Hundt; and Scott Blake Harris, Director of the Office of International Communications to discuss BT's interest and views in the above-captioned proceeding. A copy of the summary provided the Commission officials is attached.

Two copies of this notice and the attachment are enclosed in accordance with Section 1.1206(a)(1) of the Commission's Rules. Please include this letter and attachment in the record of the above-captioned proceeding.

Sincerely,



James E. Graf II

Attachment

BT Government Relations
North Building, Suite 725
601 Pennsylvania Avenue, N.W.
Washington, DC 20004
(Represented in U.S. by BT North America Inc.)



**BT North America Inc.
Application for Authority Under Section 214
of the Communications Act to Provide
International Resale Services as a Nondominant Carrier**

BTNA March 8, 1993 Request for 214 Authority:

- Resale of international private line circuits (IPLCs) -- not interconnected to public switched networks (PSNs) -- to the UK, Canada, France, Germany, Sweden, Australia, and The Netherlands.
- Resale of the switched services of authorized carriers between the U.S. and international points served by those carriers.
- Resale of IPLCs -- connected to public switched networks at either end (single-end) or at both ends simultaneously (simple resale) -- to the UK and Canada.

BTNA February 4, 1994 Letter Request:

- Request for immediate Commission action on bullets one and two, above.
- Noted that the Commission may wish to act separately on point three and defer action on BTNA's request to provide service as a nondominant carrier on all proposed routes.

Commission Should Take Immediate Action on BTNA Letter Request to Provide Resale of IPLCs Not Interconnected to PSNs and IMTS.

- Action on non-interconnected IPLCs or IMTS resale does not require an equivalency finding.
- Action on non-interconnected IPLCs or IMTS resale does not require postponement, pending AT&T's petition for rulemaking or any suggestion to establish a new test of market access comparability.
- Action on non-interconnected IPLCs or IMTS resale is consistent with Commission policy to promote international competition through resale.

- Action on requests for non-interconnected IPLCs or IMTS resale is routine -- the Commission has granted approximately 175 similar requests for IMTS resale and 14 requests for non-interconnected IPLC resale.
- Action on non-interconnected IPLCs or IMTS resale is non-controversial (without prejudice, BTNA would accept dominant carrier treatment on all routes at this juncture).

Immediate Action Serves the Public Interest.

- Permits BT to provide international virtual network service for customers with locations in the U.S., thus providing better, more complete service to multinationals with a U.S. business presence and facilitating global commerce.
- Increases competition in international services and introduces a new menu of international voice, data, and video services to U.S. businesses that incorporates an expanded feature set and more cost-effective service delivery.

March 8, 1994



Telephone 202 639 8222
Facsimile 202 434 5567

James E. Graf II
Vice President - Government Relations

August 2, 1994

VIA MESSENGER

Mr. William F. Caton
Secretary, Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, DC 20554

Re: ACC Global Corp. - File NO. I-T-C-93-035;
MFS International, Inc. - File Nos. I-T-C-94-049, I-T-C-94-051,
Reports of Execution of Interconnection Between ACC Long Distance UK
Limited and MFS Communications Limited and British Telecom and of Waiver of
Access Deficit Charges.

Dear Mr. Caton:

By this letter, BT North America Inc. ("BTNA") comments on the reports filed July 13, 1994, by ACC Global Corp. ("ACC") and MFS International, Inc. ("MFSI") in the above-referenced matters.

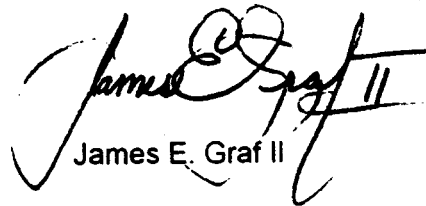
Concurrently with its comments, BTNA is also filing today a supplement to its application pursuant to Section 214 for authority to provide international simple and single-end resale service between the U.S. and the U.K. filed in March 1993 (File No. I-T-C-93-126) ["Supplemental Filing"]. Two (2) copies of this filing are enclosed as submissions in these proceedings. In its Supplemental Filing, BTNA advises the Commission of a number of events that have occurred in the U.K. over the last year that bear on open entry, competition, and interconnection in the U.K. telecommunications market. These events clearly demonstrate that equivalent resale opportunities for U.S. carriers exist in the U.K. and provide conclusive support for the grant of BTNA's request for simple and single-end resale authority.

ACC and MFSI have made similar requests to the Commission for authority to provide private line resale between the U.S. and the U.K. In their reports, ACC and MFSI inform the Commission of the completion of their interconnection agreements with British Telecommunications plc ("BT") and of the waiver of access deficit charges ("ADCs") granted to them by the U.K. Office of Telecommunications ("OFTEL"). In light of these agreements and OFTEL's action, ACC and MFSI request that the Commission grant their individual applications for resale authority pursuant to the requisite finding of equivalent resale opportunities. BTNA's Supplemental Filing supports grant of the ACC and MFSI applications as well.

Mr. William F. Caton
August 3, 1994
Page 2 of 2

AS BT demonstrates in detail in its Supplemental Filing, and as ACC's and MFSI's reports confirm, the U.K. is as committed to open markets and fair competition as the U.S. and continues to act affirmatively in the pursuit of these objectives. Competition is thriving at all levels of the U.K. telecommunications market as a result of these policies of open markets and effective pro-competitive regulation. It is respectfully submitted that the Commission should now find that the U.K. affords equivalent resale opportunities for U.S.-based carriers and accordingly grant BTNA's application, as well as those of ACC and MFSI.

Sincerely,



James E. Graf II

Enclosures

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
)
BT NORTH AMERICA INC.) Docket No. I-T-C-93-126
)
Application for Authority)
under Section 214 of the)
Communications Act to Provide)
International Resale Service)
as a Nondominant Common)
Carrier)

SUPPLEMENTAL FILING

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August 3, 1994

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Summary

On March 8, 1993, BT North America Inc. filed an application pursuant to Section 214 of the Communications Act for authority, inter alia, to provide international simple and single-end resale services between the U.S. and the U.K. Under the Commission's rules and policies, grant of ISR authority for the U.K. requires the applicant to demonstrate that the U.K. affords equivalent resale opportunities to U.S.-based carriers. Accordingly, BTNA demonstrated in its application that the U.K.'s policy of open entry and nondiscrimination in licensing, tariffing, and interconnection for resale services establishes the requisite equivalent resale opportunities.

In the application, BTNA also requested that it be regulated as a nondominant carrier on all of its proposed routes for the resale of all services. An applicant (such as BTNA) with a foreign affiliation that seeks to be regulated as nondominant for the provision of international communications service to the foreign affiliate's home country must demonstrate that the foreign carrier does not have the ability to discriminate against unaffiliated U.S. international carriers through control of bottleneck facilities. Thus, BTNA demonstrated in its application that its parent company, British Telecommunications plc, is subject to open market competition and effective government regulation which ensures that BT cannot unreasonably discriminate against unaffiliated U.S. carriers.

Over the last year, a number of events have occurred in the U.K. that are relevant to matters of open entry and competition, interconnection, U.K. regulation, and the like. In this filing, BTNA provides information about those events to the Commission. These events provide further evidence that equivalent resale opportunities exist in the U.K. and that BT is not capable of discriminating against unaffiliated entities through the control of "bottleneck" facilities.

Open entry and competition. Actual and prospective competition continues to develop and expand in all facets -- local, long distance, and international -- of the U.K. telecommunications market. U.S.-based carriers are actively involved at every level. In the local services market, the cable companies -- which are still consolidating around large North American players such as NYNEX and Southwestern Bell -- are increasingly providing telephony services to their customers. In addition, new carriers such as MFS and City of London Telecommunications (another company with U.S. ownership) have been licensed to provide telephony services in major metropolitan areas.

In the long distance market, Energis has commenced providing service. Reportedly, AT&T until recently considered purchasing a substantial ownership share in Energis; now Sprint and TeleWest (a joint venture between U S West and TCI) are allegedly interested. In recent months, both Sprint and IDB were granted licenses to

establish their own local and national networks in the U.K. and provide ISR services. Both of these carriers, as well as AT&T, have already entered the U.K. international telecommunications market and provide international services under a class license (which requires no prior regulatory approval to commence service). In the case of Sprint and IDB, those services apparently bypass the settlements process in one direction only, thereby exacerbating the U.S. balance of payments deficit.

Interconnection. In the last year, BT signed numerous interconnection agreements with new operators, including many U.S.-based operators such as NYNEX, Jones Intercable, MFS, IDB, Sprint, and ACC. Reaching agreement on interconnection with these and other operators was facilitated by the use of two standard interconnection agreements -- one for cable TV operators, and one for other telecommunications operators -- that BT developed during the last year. Today virtually all new operators are obtaining interconnection from BT pursuant to these standard interconnection agreements. These agreements enhance transparency, assure nondiscriminatory treatment among operators, provide advance knowledge to operators of the core interconnection services that are available (including the charges for those services), and shorten the time it takes to interconnect new operators to BT's network.

In the last few weeks, the Director General of Telecommunications released eight of these operators for two

years from certain access deficit contributions. ADCs fund the loss that exists because line rental and connection charges in the U.K. are below cost and BT is prevented by its license from raising these charges to economic levels. Six of the companies who received ADC waivers are U.S.-based -- ACC, IDB, COLT, MFS, Telewest, and NYNEX. The DGT granted the waivers to facilitate these operators' entry into the U.K. telecommunications markets.

In addition, in the last year the DGT, pursuant to a request of the parties, determined the charges payable by Mercury Communications Ltd., BT's primary facilities-based competitor in the U.K., for connecting the parties' systems and conveying calls passed over such connections. As a result of the changes ordered by the DGT, MCL will realize substantial savings in its interconnection charges. Such reduction in charges will make MCL an even more effective competitor to BT.

U.K. Regulation. During the last year, the U.K. Office of Telecommunications commenced a review of the U.K. interconnection regime. By this proceeding, OFTEL looks to establish a revised interconnection scheme that will achieve OFTEL's key policy objectives of promoting fair competition and "obtaining the best possible deal for the end user in terms of quality, choice, and value for money." U.S.-based carriers (including AT&T) have actively participated in all phases of this proceeding thus far.

In early March, the DGT issued a statement setting forth OFTEL's program for the introduction of revised interconnection arrangements. As detailed in the statement, OFTEL has decided that the recent BT/MCL determination should be used, beginning immediately for new interconnection agreements, as a standard methodology for calculating interim interconnection charges. This decision is significant, because use of standard pricing methodology along with standard agreements should assure operators that interconnection services are readily available and that the rates and other terms and conditions of service are just, reasonable, and not unduly discriminatory. New and stronger competition should result.

Other changes are planned for both the near future and longer term. By January 1995, OFTEL will implement a standard list of interconnection services with OFTEL-determined charges that are based on fully allocated costs of components using historical cost accounting procedures and transparent cost allocations procedures. In connection therewith, OFTEL has prescribed accounting separation for the different lines of business within BT's existing corporate structure, and is requiring BT to publish its cost allocation system and details of its transfer charging arrangements. OFTEL is already addressing a range of non-pricing issues that are relevant to interconnection, such as number portability and equal access. Over the longer term, OFTEL is also considering other issues such as use of

alternative costing bases to establish interconnection costs, alternative charging structures for interconnection services, and issues surrounding the universal service obligation. These further refinements should give even more confidence to operators in the U.K. that BT's interconnection charges are fair, not unduly discriminatory, and derived through a transparent process.

Accounting rates. In the last year, BT proposed further accounting rate reductions to its U.S. correspondents. A reduction of approximately 15 percent from the current settlement rates for IMTS and US Direct services was proposed to all of BT's U.S. correspondents and was accepted by AT&T, MCI, Sprint, and IDB. Although petitions for waivers of the Commission's settlements policy to implement the reductions have been pending since November 1993, the Commission has not yet granted the requested waivers. To move the matter forward, BT has proposed to all U.S. carriers a single settlement rate of 0.165 SDRs (\$.23), effective April 1, 1994, applicable to all voice services. To date this proposal has been accepted by Sprint, IDB, and MCI.

* * *

The information provided in this filing is further evidence that the U.K., while differing in certain respects from the U.S. in its approach to regulation, shares the commitment of the U.S. to open markets and competition. Competition is rapidly increasing in U.K. telecommunications

markets, and U.S.-based carriers have not hesitated to take advantage of the many opportunities that the U.K. affords them to compete. This increase in competition has been accompanied in the last year by significant changes in the provision of interconnection in the U.K. Today interconnection can be arranged through standard interconnection agreements and priced on the basis of standard charges. As a result, customers have assurance that interconnection services are readily available and that rates and other terms and conditions of service are just, reasonable, and not unduly discriminatory. This in turn results in an already open market being made even more accessible to competition. These benefits for customers and the marketplace are the same benefits that result when interconnection is provided pursuant to a tariff regime.

The developments discussed in this filing further underscore that the U.K. affords equivalent resale opportunities for U.S. carriers, and that BT cannot unreasonably discriminate against unaffiliated U.S. entities. Accordingly, the Commission should proceed promptly to grant BTNA's request to provide single-end and simple resale services between the U.S. and the U.K. and to regulate BTNA as a nondominant carrier on all routes.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, DC 20554

In the Matter of)
BT NORTH AMERICA INC.) Docket No. I-T-C-93-126
Application for Authority)
under Section 214 of the)
Communications Act to Provide)
International Resale Service)
as a Nondominant Common)
Carrier)

SUPPLEMENTAL FILING

BT North America Inc. ("BTNA") hereby submits additional information in support of the Application captioned above.

I. Introduction

In its Application, BTNA requested authority to resell, inter alia, international private lines to the United Kingdom ("U.K."), with interconnection to public switched networks ("PSNs") at either end ("single-end resale") or at both ends simultaneously ("simple resale").¹ Under Section

¹ BTNA also requested authority to resell (1) international private lines to Australia, Canada, France, Germany, the Netherlands, Sweden, and the U.K. for private line service not interconnected to PSNs, and (2) the switched services of various authorized carriers between the U.S. and international points served by those facilities-based carriers. By letter dated February 4, 1994, BTNA asked the Commission to proceed immediately to grant these portions of the Application. As discussed in the letter, because action on such requests for authority does not require a finding of equivalent opportunities for resale, the Commission may grant such authority without further delay, and may act separately on the request for single-end and simple resale authority.

(footnote continued next page)

unaffiliated U.S. international carriers through control of bottleneck facilities.² BTNA demonstrated that its parent company, British Telecommunications plc ("BT"), is subject to open market competition and to effective government regulation, which ensures that BT cannot unreasonably discriminate against unaffiliated U.S. carriers. Accordingly, nondominant treatment is appropriate for BTNA on all routes.

The Application has been pending for over a year. During that period, a number of events have occurred in the U.K. which are relevant to matters of open entry and competition, interconnection, U.K. regulation, and the like. The purpose of this filing is to provide information concerning those events to the Commission. The developments discussed below include:

- The increase in actual and potential competition in all sectors of the U.K. telecommunications market, most notably through the entry of U.S.-based carriers (Section II);

² However, under Section 63.10(a)(4) of the Commission's Rules, BTNA's resale of switched services is presumptively nondominant on all routes, since BTNA will provide that service solely through the resale of an unaffiliated U.S. facilities-based carrier's international services. Furthermore, a carrier affiliated with a foreign carrier is presumptively considered nondominant on a particular U.S. international route if the affiliated foreign carrier does not operate in the destination country. 47 CFR §63.10(a)(1). The only location to which BTNA has requested private line resale authority and in which BTNA has an affiliation with foreign carriers (as defined in Sections 63.01(r)(i) and (ii) of the Commission's Rules) is the U.K. Thus, BTNA's provision of private line resale service between the U.S. and Australia, Canada, France, Germany, the Netherlands, and Sweden is presumptively considered nondominant.

- Events relevant to interconnection arrangements, specifically the determination of interconnection charges for Mercury Communications Ltd. ("MCL"), the development of two standard interconnection agreements, and the grant of Access Deficit Contribution ("ADC") waivers to eight companies (Section III);
- The U.K. Office of Telecommunications' ("OFTEL's") proceeding on interconnection and accounting separation (Section IV); and
- BT's proposed reductions in accounting rates for services between the U.S. and the U.K. (Section V).

As discussed in Section VI below, these developments provide further evidence that equivalent resale opportunities exist in the U.K. and that BT is not capable of discriminating against unaffiliated entities through the control of "bottleneck" facilities. The information set forth herein thus provides conclusive support for the grant of BTNA's request for simple and single-end resale authority to the U.K., and BTNA's proposal to be treated as a nondominant carrier on all routes. BTNA therefore renews its request that the Commission move expeditiously to grant its Application.

II. Open Entry and Competition

As discussed in the Application and in BTNA's Opposition to Petitions to Deny and Response to Comments ("Opposition") filed in this proceeding, the U.K. regulatory regime actively promotes open entry and competition in the local, interexchange, and international markets. Indeed, as the U.S. Congressional Office of Technology Assessment has recognized, the U.K. telecommunications market is "the most

broadly liberalized telecommunications market in the world."³ Furthermore, U.K. law does not impose any regulatory restrictions on foreign investment in, or establishment of, telecommunications ventures licensed under the Telecommunications Act 1984 ("the Telecomms Act") or the Wireless Telegraphy Act 1949. Thus, BT faces considerable competition in the U.K., much of it from U.S.-based carriers. BTNA described this competition at length in its Opposition.⁴

As industry analysts have recognized, actual and prospective competition continues to develop and expand in the U.K.⁵ In this section, BTNA reviews the growth in actual and prospective competition that has taken place in the U.K. in the last year.

A. Local Services

The local service market has seen perhaps the greatest growth in competition during this period. Cable TV companies are confirming their status as major competitors for the residential and small business market. Cable

³ Office of Technology Assessment, U.S. Congress, U.S. Telecommunications Services in European Markets (OTA-TCT-548) 49 (U.S. Government Printing Office, Aug. 1993); accord, MCI Communications Corp., FCC 94-188, released July 25, 1994 at ¶28.

⁴ See Opposition at 48-58.

⁵ See Credit Suisse First Boston Ltd., Year-end Telecommunications Review: Europe - Industry Report 4 (Dec. 2, 1993) (recognizing the "growing momentum of competition across the industry" in the past year) [hereinafter "Credit Suisse Report"].

franchise ownership continues to consolidate around large North American players such as NYNEX.⁶ As of April 1, 1994, 46 cable franchises offer telephony, an increase of over 50 percent from the last year.⁷ Cable franchises as a whole now have in excess of 376,000 telephone access lines in the U.K., an increase of 162 percent since April 1993.⁸ U S West recently reported that TeleWest increased the number of its cable TV subscribers by more than 50 percent and the number of telephone lines it serves by more than 70 percent in the 12 months ending April 1994.⁹ Industry analysts

⁶ Of the top 19 cable investors in the U.K., nine are U.S.-based: NYNEX, TCI, U S West, International Cabletel, Southwestern Bell, Diamond, Jones, Cox, and Comcast. TeleWest, a partnership between Telecommunications Inc. and U S West, is the biggest cable operating group in the U.K. in terms of "equity-adjusted homes" -- the number of homes in its franchises adjusted according to the size of its shareholdings. NYNEX and International Cabletel are second and third, respectively. New Media Markets, New Media Markets Guide to Who Owns UK Cable I-II (Feb. 10, 1994).

It has been reported that as of January 1, 1994, more than 98 percent of British cable subscribers who were also subscribing to cable telephony service were served by cable operators owned in whole or in part by a foreign telephone company. For about 72 percent of such subscribers, the foreign telephone company was either NYNEX, U S West, or Southwestern Bell. J. Gregory Sidak, Telecommunications: The big picture, ROLL CALL Telecommunications Policy Briefing, June 27, 1994, at 4.

⁷ Cable telephone business continues its expansion, Independent Television Commission press release, May 5, 1994 at 1.

⁸ Id.

⁹ US West Reports 9.5 Percent Increase in Earnings, Record Growth in Telephone Lines and Cellular Subscribers, Business Wire, Apr. 18, 1994 [hereinafter "TeleWest Article"]. U S West also reports that it has been able to capture 19 percent of the residential telephone market and 15 percent of the business market. Testimony of Richard D. McCormick, Chairman and Chief Executive Officer, U S West, before the Senate Commerce, Science and Transportation Committee, May 4, 1994, at 3 [hereinafter "U S West Testimony"].

believe that the success of the cable operators in providing telephony services in the last year will prompt these operators to undertake additional major construction in the next two to three years.¹⁰

Within the last nine months, additional competition has emerged in the local market. The U.K. Department of Trade and Industry ("DTI") granted MFS Communications Ltd. ("MFS"), a U.S.-based carrier, a PTO license¹¹ last year to provide a variety of dedicated and switched services. MFS recently completed construction of a fiber optic network in London and reportedly has 70 business customers, mainly U.S. and U.K. multinational customers, who have already agreed to buy service.¹² City of London Telecommunications Ltd. ("COLT"), another U.S.-based carrier,¹³ was granted a PTO license last year to develop a telecommunications network in the London area and offer a variety of advanced business-oriented telecommunications services. COLT has also recently begun providing service to customers. Further

¹⁰ Credit Suisse Report, supra note 5, at 4.

¹¹ A public telecommunications operator or "PTO" is an entity that is authorized to operate a telecommunications system under Section 7 of the Telecomms Act and whose system is designated by the Secretary of State for Trade and Industry as a public telecommunications system. For a system to qualify for such designation, the PTO's license must, under the Telecomms Act, contain conditions and obligations -- for example, with respect to interconnection -- to which other types of individual licensees (such as ISR licensees) are not subject.

¹² Gautan Naik, MFS will offer trans-Atlantic audio, data, video, The Wall Street Journal, May 25, 1994, Section B, at 3.

¹³ COLT is owned by Fidelity Investments.

competition in the local market is imminent as the DTI recently awarded a license to Videotron City and Westminster City Ltd. to provide a wide range of telecommunications services throughout Westminster and the City of London. These carriers are expected to commence providing services this year.

B. Long Distance Services

Competition in the U.K. long distance market has also grown substantially. During the last year, the cable TV companies have emerged as long distance carriers. Through collaboration with other operators, cable franchisees are forming an independent long-distance capability to augment their local service operations.

In addition, a number of facilities-based applications have been granted in the last year for long distance service. Possibly the most significant new player in this market is Energis Communications Ltd. ("Energis"). Energis is constructing "a high-capacity fixed trunk digital network, initially for point-to-point services, but with a possible extension to voice telephony"¹⁴ by stringing fiber optic cables along the electricity pylons of its parent company, the National Grid Company.¹⁵ Reportedly, AT&T

¹⁴ OFTEL Register of Licence Applications, May 1994, at 7 [hereinafter "OFTEL Register"]. Energis may also provide local service to some of its customers.

¹⁵ National Grid Company is in turn owned jointly by 12 privatized regional electricity companies in England and Wales. Reportedly, Energis has invested \$200 million to establish its network. Energis -
(footnote continued next page)

offered to purchase a one-third interest in Energis for approximately \$300 million, but the deal foundered on the valuation of Energis; allegedly, Sprint and TeleWest are now interested.¹⁶ Industry analysts expect Energis to be a major player in the long distance market and that its presence will exert pressure on prices for long distance service.¹⁷ It is BTNA's understanding that Energis is now in service.

Also granted in the last year were the applications of Scottish Hydro-Electric plc (fiber and radio trunk network), ScottishPower Telecommunications Ltd. (fiber trunked network),¹⁸ and Telstra (UK) Ltd. (formerly Australian & Overseas Telecommunications Corporation Ltd.) ("Telstra"). Several carriers have filed new applications for facilities-based long distance service, such as Racal Network Services

the sleeping giant poised to light up the UK telecommunications market, Reuter Textline Computergram, Mar. 8, 1994 [hereinafter "Reuters Article"].

¹⁶ Grid search for telecoms tie-up, The Daily Telegraph (London), Mar. 22, 1994, at 27; Andrew Adonis and Michael Smith, AT&T hits impasse in Energis negotiations, Financial Times, Mar. 19, 1994, at 11.

¹⁷ Credit Suisse Report, supra note 5, at 4. Because of its ready access to pole attachments, the cost to Energis of building its network is believed to be dramatically lower than that of other operators, making Energis a larger potential threat to BT than MCL. Reuters Article, supra note 15.

¹⁸ BTNA notes that the Public Utilities Regulatory Policies Act of 1978, 16 U.S.C. §2601 et seq. (1993), forecloses electric, gas, and water utility companies in the U.S. from providing telecommunications services. Thus, in permitting utility companies such as Scottish Hydro-Electric and ScottishPower to provide telecommunications services, the U.K. regulatory regime is more liberal on entry than the U.S. regime.

Ltd. which seeks a PTO license to provide a "wide range of basic and value-added voice and data services."¹⁹

C. International Services

Competition continues to increase in the provision of international services. The applications of several carriers -- INCOM (UK) Ltd., Kingston Communications (Hull) plc, and Maxat Ltd. -- to provide international satellite services on a facilities basis were granted. Esprit Telecom and Telia International UK Ltd. (formerly Swedish International Telecom) were each granted an international simple resale ("ISR") license. In addition, the PTO licenses of COLT, MFS, and Telstra give these carriers the right to provide ISR services as well.²⁰ A number of new applications for international services now appear on DTI's Register, including the application of International Exchange Network, a U.S.-based company, for an ISR license, and the application of Services Sound and Vision Corporation to provide "international satellite services with interconnection to the public switched network."²¹

¹⁹ OFTEL Register, supra note 14, at 9.

²⁰ None of the licenses granted permit the licensee to provide ISR service to the U.S. The DTI has not yet found the U.S. to offer equivalent resale opportunities for U.K.-based carriers.

²¹ OFTEL Register, supra note 14, at 9.

D. Sprint and IDB

Perhaps the most significant awards of licenses in recent months are the grants of licenses to two U.S.-based carriers, Sprint Holding (UK) Ltd. ("Sprint UK") and Worldcom International Inc., now known as IDB Worldcom Europe ("IDB"). Sprint UK was awarded a PTO license that will enable it, inter alia, to establish its own local and national network in the U.K. and to provide ISR services. In announcing receipt of the license, Sprint stated that the license is a "critical step toward implementing Sprint's commitment to be a global facilities-based carrier"²² and "has the potential to significantly expand Sprint's operating base,"²³ but that Sprint UK "doesn't plan on breaking ground [on its own network] any time soon."²⁴ It appears that Sprint has already entered the U.K. international telecommunications market and provides international services under a class license, the Telecommunications Services License ("TSL").²⁵ At present, Sprint UK furnishes a one-way calling service via

²² Sprint Granted Domestic Operating License in the United Kingdom, PR Newswire, Apr. 6, 1994.

²³ Jeannine Aversa, Sprint Gets License to Expand Business in U.K., The Associated Press, Apr. 6, 1994 [hereinafter "Associated Press Article"].

²⁴ Id.

²⁵ As previously discussed in the Application, under a class license, all operators in the defined class are entitled, without application, to provide service subject to the general conditions of the license. There is no authorization or notification procedure, license fee, or tariff filing requirement under the TSL.

international private lines.²⁶ While the service is interconnected to the PSN in the U.S., it is apparently not so connected in the U.K.²⁷ As of August 1993, Sprint UK reportedly provided this service to 12 customers, including Reuters, who resells the service to third parties in the U.K.²⁸

Similarly, IDB was awarded a temporary (one-year) license in July 1993 and a long-term PTO license in April 1994 to provide "national and international telecommunications services, including a range of advanced networking services such as centrex, virtual private networking, and intelligent network applications."²⁹ IDB Worldcom Europe has been operating in the U.K. for three years and "as a result, has established a leading position as a new international entrant..."³⁰ IDB's existing U.K.

²⁶ According to filings submitted by IDB, the service is usage-based and is accessed by the customer in the U.K. via a dedicated access line between the customer's premises and Sprint's U.K. technical operating center. Per IDB, Sprint furnishes the U.K. half-channel by leasing facilities in undersea fiber optic cables from MCL or BT. Answer and Affirmative Defenses of IDB Communications Group in In re AT&T v. World Communications, Inc., File No. E-93-103, filed Dec. 1, 1993, at 4 [hereinafter "IDB Filings"].

²⁷ Since the U.K. regulatory regime permits single-end resale under the TSL, Sprint's service appears to be permissible under U.K. law.

²⁸ Guidi Says Sprint's U.K. Fiber Plan on 'Back Burner,' Telecommunications Reports, Aug. 9, 1993, at 33-34.

²⁹ OFTEL Register, supra note 14, at 22. IDB's license also allows it to provide ISR services.

³⁰ IDB Worldcom Europe Granted 25-Year License as a Public Telecommunications Operator in the U.K., PR Newswire, Apr. 5, 1994 [hereinafter "IDB Newswire Article"].

services include "WorldCall," a one-way calling service using international private lines that are interconnected to the U.K. PSN. According to IDB, WorldCall is "virtually identical" to the service offered by Sprint.³¹ With its new license, IDB plans to "greatly expand its market [in the U.K.], bringing the benefit of competitively priced international services to smaller businesses and residential customers."³² In announcing the award of the license, IDB stated that it "applaud[s] the U.K. government's action in this significant opening of the U.K. market to competition."³³

E. AT&T

Just as Sprint and IDB have entered the U.K. telecommunications market without prior regulatory approval -- i.e., under the TSL -- so has AT&T. AT&T recently introduced "WorldPlus Communication Service" in the U.K. through its AT&T (UK) Ltd. ("AT&T UK") subsidiary.³⁴ WorldPlus is a telecoms chargecard service that can be accessed through speech recognition (voice commands). The service is designed for world travelers; initially, customers will be able to reach WorldPlus from more than 40

³¹ IDB Filings, supra note 26, at 4.

³² IDB Newswire Article, supra note 30.

³³ Id.

³⁴ AT&T Launches 'WorldPlus (sm) Communication Service', AT&T press release, Apr. 6, 1994, at 1-2.

countries and locations. In addition to global calling, the service offers a wide range of messaging and advanced calling features, such as international directory assistance, multilingual customer service, speed dialing, sequence calling, and conference calling.³⁵

In the U.K., WorldPlus will be marketed and sold to residents by AT&T UK on a subscription basis.³⁶ It is BT's understanding that a subscriber will access WorldPlus by calling an 800 number that will connect the subscriber to an AT&T UK point of presence. From there, the subscriber's call will be routed over IMTS to its destination. Since the U.K. regulatory regime permits the resale of switched services under the TSL, it could be argued that this service is permissible under U.K. law.

In addition, BTNA notes that the DTI recently announced its decision in principle to grant AT&T a PTO license.³⁷ When granted, this license will give AT&T authority to provide domestic switched voice and data services as well as private line and international resale services. AT&T filed

³⁵ Id.

³⁶ Id.

³⁷ Agreement in Principle for Concert and AT&T Telecoms Licence Applications, DTI press release, July 8, 1994. The DTI is required by law to seek public comment on AT&T's license before taking any final action on it. The DTI has announced that it will accept comments on AT&T's application until September 13, 1994. Public Consultation on Draft Telecoms Licences for Concert and AT&T, DTI press release, August 2, 1994.

this application in April, 1993, one month after BTNA filed its application with this Commission.

F. MCL

BT continues to face strong competition from MCL in all markets. MCL has installed its network in more than 110 towns and cities in the U.K.³⁸ at a cost of approximately \$3 billion.³⁹ In excess of 90 percent of the U.K. population is located in an MCL access area. MCL provides local, long distance, and international services to its customers over its facilities.

MCL's business has witnessed substantial growth in the last year. BT estimates that between April 1, 1993 and January 1, 1994, the number of business lines directly connected to MCL's network increased by 21 percent and now exceeds 234,000 while the number of business lines indirectly connected increased by 7 percent to more than 634,000. Reportedly, more than half of the outgoing City of London traffic is now carried by MCL.⁴⁰ During the period April 1, 1993 - January 1, 1994, by BT's estimates, the number of residential lines indirectly connected to MCL's network increased 33 percent to approximately 373,000.

³⁸ Cable & Wireless plc, SEC Form 20-F, filed Sept. 27, 1993, at 15 [hereinafter "Cable & Wireless Form 20-F"].

³⁹ Salomon Brothers Inc., Cable and Wireless - Company Report 2 (November 29, 1993) [hereinafter "Salomon Brothers Report"].

⁴⁰ Andrew Adonis, Survey of International Telecommunications, Financial Times, Oct. 18, 1993, at IV [hereinafter "Financial Times Survey"].

MCL's rapid growth is undoubtedly due in part to its introduction of "Residential 132,"⁴¹ a new variant of indirect access that employs exchange-derived calling line identity rather than telephone-based passwords. As such, this new form of access offers improved customer connection to MCL's network. Industry analysts estimate that a total of 1.4 million lines have been connected to MCL's network in some fashion.⁴²

MCL is permitted under its license to expand its trunk network anywhere in the U.K. and has stated that it "plans to increase...the capacity of its existing network in response to increased demand for its services from both existing and new customers."⁴³ In that regard, MCL recently announced a \$300 million program to install intelligent network technology (supplied by DSC, a U.S.-based company) so that it will be better able to compete in the provision of advanced telecommunications services.⁴⁴ This investment will reportedly give MCL one of the most advanced networks in Europe.⁴⁵ MCL has also announced that it intends to establish a wireless local distribution network; two pilot

⁴¹ Cable & Wireless Form 20-F, supra note 38, at 16.

⁴² Salomon Brothers Report, supra note 39, at 2.

⁴³ Cable & Wireless Form 20-F, supra note 38, at 15.

⁴⁴ Andrew Adonis, Mercury to spend £200m on network, Financial Times, Mar. 10, 1994, at 9.

⁴⁵ Id.

trials of this network are planned for 1994.⁴⁶ MCL has stated that if this network is successful, it will enable MCL to bypass BT entirely.⁴⁷

Perhaps the most significant undertaking by MCL in the last year has been the launch of Mercury One-2-One, the world's first personal communications service. MCL provides this service as a joint venture with U S West; full commercial service began in September 1993. Although the service is available at this time only within 30 km of central London, it is widely viewed as a success.⁴⁸ Allegedly, demand for the service has been considerable, and usage figures have exceeded MCL's expectations.⁴⁹ It has been reported that MCL and U S West plan to accelerate the construction program for Mercury One-2-One to have a presence in most major metropolitan areas in the U.K. by the end of 1994.⁵⁰

* * *

In sum, competition in the U.K. telecommunications market has experienced substantial growth in the last year. As is evident from the developments discussed above, the

⁴⁶ Andrew Adonis, Hong Kong aids C&W advance, Financial Times, Nov. 19, 1993, at 27.

⁴⁷ Id.

⁴⁸ Financial Times Survey, supra note 40, at XIII.

⁴⁹ Merrill Lynch Capital Markets, Cable & Wireless - Company Report 3 (Nov. 24, 1993).

⁵⁰ TeleWest Article, supra note 9.

U.K. regulatory regime affords U.S.-based carriers numerous opportunities to participate in U.K. telecommunications markets and to compete in all sectors with BT. U.S.-based carriers have not hesitated to take advantage of these opportunities, while continuing to oppose similar market entry by U.K.-based carriers in the U.S.

III. Interconnection Arrangements

As discussed in the Application,⁵¹ BT is required under Condition 13 of its license to enter into agreements to provide interconnection to other PTOs and to other individual licensees authorized to provide service to the public for reward. Such interconnection is, in the first instance, a matter of commercial negotiation between the licensed operators, but within the constraints of BT's obligation under Condition 17 of its license not to discriminate unduly between operators. If the parties cannot agree on mutually satisfactory interconnect terms, either party may request OFTEL to make a determination on the terms of the agreement. After entering into an interconnection agreement, BT is required, pursuant to Condition 16A of BT's license, to publish within 28 days either the agreement itself in its entirety or an "adequate description" of the agreement and the precise method of calculating the charges, unless OFTEL (in either case)

⁵¹ Application at 14-16.

agrees to the exclusion of any particular matter. BT's policy is to publish agreements in their entirety, though it remains open to the other party to seek permission from OFTEL to have particular matters excluded.

During the last year, BT has entered into a number of interconnection agreements with other operators and has developed two standard interconnection agreements. The first standard agreement is tailored to meet the needs of cable TV operators, while the second addresses the requirements of trunk network, ISR, and radio-based operators. In addition, the Director General of Telecommunications ("DGT") has issued his determination of key terms and conditions of BT's interconnection agreement with MCL and has waived ADCs for certain competitors of BT. These events and their significance are discussed below.

A. BT/MCL Determination

In 1986, BT and MCL entered into an agreement for the interconnection of their respective telecommunications systems which gave each party the right to ask the DGT to determine specific terms and conditions in the event of a material change in circumstances. In June 1992, BT and MCL asked the DGT to determine charges for connecting the parties' systems and conveying calls passed over such connections. On December 2, 1993, the DGT issued his determination.

The DGT determined that certain amendments should be made to the parties' agreement. These amendments concern the charges MCL must pay to BT for the installation and maintenance of interconnection links between the two systems and for the conveyance of calls over BT's system.⁵² As an initial matter, the DGT reduced MCL's interconnection and conveyance charges from the level payable under the existing agreement and made such reduction retroactive to June 1992. In addition, the DGT in his determination explicitly waived ADCs⁵³ to the maximum extent allowable for both international and national calls.⁵⁴ Finally, the DGT modified other aspects of the agreement, including the method of charging for uncompleted calls and the procedures for reviewing the agreement. In reaching his determination, the DGT used a return on capital employed that is below that which BT considers appropriate, and disallowed certain types of costs (including overhead costs) which BT believes should

⁵² The DGT did not, at that time, determine any of the charges to be paid by BT to MCL.

⁵³ As discussed later in this section, ADCs represent a contribution to the cost burden BT bears in respect of operating the local exchange line network, the costs of which exceed the rates BT is permitted by regulation to recover from customers by way of connection charges and exchange line rentals.

⁵⁴ The DGT stated in the explanatory document accompanying his determination that the policy on granted waivers of ADCs will be reviewed by OFTEL in 1994 for the international market and in 1995 for the domestic market.

have been reflected in the calculation of payments to be made by MCL.⁵⁵

As a result of these changes, MCL will realize substantial savings in its interconnection costs. BT estimates that MCL's payments to BT for the use of BT's network for interconnected traffic will be reduced by more than 25 percent as a result of the DGT's determination.

The BT/MCL determination is significant in a number of respects. In providing substantial cost savings to MCL, the reductions in interconnection charges will make MCL an even stronger competitor to BT in providing both domestic and international communications services. Further, the determination demonstrates that OFTEL actively regulates BT. Finally, as discussed in Section IV below, OFTEL has proposed (and BT has agreed) that the BT/MCL determination be used to establish standard interconnection charges that will be employed for interconnecting operators generally while a revised interconnection regime is being developed.

⁵⁵ Subsequent to the DGT's issuance of his determination, MCL requested a declaratory ruling from the High Court on the appropriate interpretation of Condition 13 of BT's license. MCL seeks a declaration, for the purposes of future negotiations/determinations, that the correct interpretation of Condition 13 is that MCL should pay BT only those costs which BT actually incurs on effecting interconnection, installing additional peak-hour capacity in its network, and conveying MCL's messages -- i.e., incremental rather than fully allocated costs.

B. The Cable Interconnect Benchmark Agreement

In its Opposition, BTNA noted that a standard interconnection agreement between BT and the cable TV industry was being developed. In April 1992, BT commenced negotiations with NYNEX, acting on behalf of the Cable Television Association in the U.K., to reach an agreement specifying the terms and conditions for BT's provision of interconnection and call conveyance services to cable TV companies that provide telephony services. The intent of the parties with respect to the agreement was to develop one set of terms and conditions, tailored to meet the needs of cable TV operators, that would be available to all franchised cable TV companies that want to interconnect with BT's system.

The cable interconnect benchmark agreement was completed in July 1993. Since that time, more than 60 agreements with cable TV operators have been executed.⁵⁶ Cable TV operators that have signed the agreement include many companies that are U.S.-based or have U.S. ownership, such as NYNEX, Southwestern Bell, TeleWest, Cambridge Cable, Anglia Cable, and Jones. The agreements are identical in all respects except with respect to the terms that relate to the particularities of each operator. The terms and

⁵⁶ The extent to which cable TV operators are interconnected with BT in the U.K. contrasts sharply with the situation in the U.S.; reportedly, the interconnection agreement that Time Warner Communications and Rochester Telephone signed in May for the conveyance of telephone calls in the Rochester area is the "first of its kind." Rochester Tel close to implementing landmark plan, Communications Daily, May 18, 1994 at 2.

conditions of the agreement form the basis of the standard interconnection agreement for trunk network operators, international simple resellers, and radio-based operators that is discussed in the next subsection.

The intention of the parties in developing an omnibus set of terms and conditions was to facilitate the interconnection of cable TV operators to BT's system. The agreement also enhances transparency and further assures that there will be no unduly discriminatory treatment of operators. In light of the number of operators that have signed the agreement and are obtaining interconnection with BT's network, it is clear that the agreement has successfully fulfilled its purposes.

C. Standard Interconnection Agreement for Trunk Network Operators, International Simple Resellers, and Radio-Based Operators

In the past year, BT has developed a standard interconnection agreement for use with trunk network operators, international simple resellers, and radio-based operators (other than mobile operators) that are authorized by their licenses to interconnect with BT. The agreement was developed in consultation with a number of operators in active negotiation with BT for interconnection at that time, including four U.S.-based carriers (ACC U.K. Limited ("ACC UK"), MFS, IDB, and COLT). Work on the agreement commenced in the fall of 1993. OFTEL was kept informed of progress on the development of the standard agreement.

The standard interconnect agreement had its genesis in the cable TV benchmark agreement discussed in the previous section. However, the standard interconnect agreement is suitable for a somewhat wider customer base.⁵⁷ The agreement is set up in a modular format, consisting of a master document and associated appendices. The agreement covers the following topics:

- Standard contractual matters such as scope and duration of the agreement; charges to be paid; call measurement, billing, and payment; system protection and safety; review; confidentiality; liability; force majeure; and dispute resolution;
- Technical specifications and requirements for interconnection and other services; and
- Details of the services available from BT, such as system interconnection; telephony, including inland and international calls, transit to other licensed operators, termination of calls on other operators' networks, inland and international ISDN, and indirect access; operator services, such as operator assistance; and ancillary services, such as access to U.K. services equivalent to 800 and 900 services, telephone books, and BT's directory assistance system.

The agreement covers all core interconnection services available from BT today. The details of individual services are covered by individual schedules to the master document. Since not all services are required by all customers, the modular format of the agreement enables BT easily to tailor a specific contract to a specific customer. The modular

⁵⁷ Whereas cable TV operators may serve customers within a defined franchise area, operators that obtain interconnection with BT through use of the standard interconnect agreement may serve customers on a national and/or international basis.

format facilitates the amendment of contracts to add new services.

The standard interconnect agreement for trunk network operators, international simple resellers, and radio-based operators was completed in late January 1994. The agreement is now the vehicle by which all new operators (other than cable TV or mobile operators) will obtain interconnection with BT -- subject, of course, to any amendments required to cater to different operator licenses, network structure, or interconnect configurations. Seven operators have signed the agreement thus far -- COLT, IDB, ACC UK, MFS, Torch, Sprint UK, and Energis. Numerous additional operators are expected to sign in the next year. These agreements are subject to Condition 16A of BT's license, which as noted above requires BT to publish new interconnection agreements or an adequate description thereof, subject to the agreement of the DGT on the exclusion of any particular matter. Thus far, all of the executed standard interconnection agreements have been published.

During 1994, BT expects to refine and further develop the standard interconnect agreement in light of experience and customer needs. Additional schedules will be developed to cover new and additional services. BT intends that as the standard agreement develops, it will become applicable to a wider customer base, including existing interconnect customers such as mobile, paging, and PCN operators (to handle their future requirements).

The development of the standard interconnection agreement for trunk network operators, international simple resellers, and radio-based operators is significant because use of a standard agreement will alleviate many of the timing problems previously encountered with establishing interconnection.⁵⁸ Furthermore, as is the case with the cable interconnect agreement, the standard interconnect agreement will enhance transparency and assure non-discriminatory treatment among operators. BT anticipates that any new licensed operator that purchases services for which a schedule has already been developed and that uses the standard agreement will be able to execute a contract and physically interconnect to BT's network within approximately six months of receipt by BT of a suitable statement of requirements. The experiences of several operators recently executing standard interconnection agreements with BT suggests that this timescale is realistic.

⁵⁸ See Letter from Joan M. Griffin, BTNA to William F. Caton, FCC, Feb. 28, 1994, in File No. I-T-C-93-126, regarding interconnection negotiations with ACC UK. As of May 1994, ACC UK has been interconnected with BT's network.

D. Waiver of Access Deficit Contributions

In early July of this year, the DGT granted waivers of ADCs to various operators.⁵⁹ The DGT's action and its significance are discussed below.

As previously noted, the access deficit is the loss BT incurs in establishing and maintaining lines to customers. A loss is incurred on this business because BT is not permitted to raise line connection and rental charges to the point at which such charges would cover BT's costs. In 1992/93, the access deficit was approximately \$2.83 billion.

Historically, BT and its predecessors in interest have been required to keep line rental and connection charges low as a social subsidy -- to make it cheaper for people to connect to the network. The deficit is recovered by setting local, long distance, and international calling prices high relative to the cost of calls. Thus, with every call made on BT's local, long distance, and international network, BT customers pay an amount to subsidize access to the network. BT's preference would be to rebalance its prices, raising access charges and lowering call prices, to eliminate the access deficit, since at present the bulk of the access deficit is recovered from BT's customers. However, BT is

⁵⁹ Office of Telecommunications, Explanatory Document for the determination of waivers of access deficit contributions granted to ACC, Worldcom, COLT, MFS, Energis, Telewest, Videotron and NYNEX, July 1994, at 2 [hereinafter "ADC Waiver Document"].

given only limited discretion by its license to rebalance prices.

BT's inability to rebalance its prices as quickly as it would like has two effects over the longer term. Over time, BT's ability to recover the costs of access from its calls business is reduced as market share is lost to other operators, who are encouraged to enter the most lucrative parts of the calls market by BT's limited ability to make a competitive response. Furthermore, since unbalanced prices reduce competitors' incentives to invest in the more costly access business while competing with BT in the calls market, investment by BT's competitors becomes focused on exploiting unbalanced prices rather than on creating more efficient networks or innovative services.

As a means of offsetting these potentially damaging effects, the concept of ADCs was developed and agreed between OFTEL and BT in 1991. Condition 13 of BT's license requires interconnecting operators to pay to BT a contribution to the access deficit whenever an operator's customer uses BT's local network to make or receive a call. The result is that operators should pay out of their call profits contributions to funding the access deficit that are intended to be equivalent to those which BT pays out of its call profits. The rate of contribution varies according to the type of call (local, national, or international). In 1992/93, the average ADCs in pence per minute for local, national, and international calls were 0.4, 1.2, and 6.4

respectively.⁶⁰ The DGT estimates that ADCs, if paid, would represent approximately 10 percent of an operator's total costs.⁶¹

At the same time, Condition 13 of BT's license gives the DGT authority to waive all or part of an operator's ADCs. The DGT can waive all or part of the ADCs that would otherwise be payable on those calls that constitute the operator's first 10 percent share of the relevant market, measured in retail revenues received. The DGT may grant such a waiver to facilitate an operator's entry into or presence in a particular market. The DGT's power to grant waivers is not unlimited, however. When an operator achieves a market share of 25 percent or more, full ADCs become payable on all of that operator's calls. In addition, the DGT has no power to grant ADC waivers to the extent that those waivers would have the effect of increasing the share of the relevant market on which BT fails to recover full ADCs, either implicitly from its own customers or explicitly from interconnecting operators, above 15 percent.⁶² Until recently, the only ADC waivers

⁶⁰ Id.

⁶¹ OFTEL Grants Eight Access Deficit Contribution (ADC) Waivers, OFTEL press release, July 13, 1994 at 2 [hereinafter "OFTEL press release"].

⁶² In addition, Section 3 of the Telecoms Act imposes on the DGT the duty of exercising certain of his functions, including the waiver power, in a manner which he considers is best calculated, inter alia, to promote the interests of consumers, purchasers, and other users in the U.K. in respect of the prices charged for, and the variety and quality of, telecommunications provided (Section 3(2)(a)) and to maintain and

(footnote continued next page)

granted have been for MCL. MCL currently enjoys a full waiver of ADCs on all calls that constitute its first 10 percent share of the local and national market for the period from June 1992 to March 31, 1995. In addition, MCL was given a full waiver of ADCs on all calls that constituted its first 10 percent share of the international market for the period June 1992 to March 31, 1994.⁶³

Following the execution of their interconnection agreements with BT, eight operators -- ACC, IDB, COLT, MFS, Energis, Telewest, Videotron, and NYNEX -- individually applied to the DGT for waivers of ADCs.⁶⁴ On July 13, 1994, the DGT granted the waiver requests of these companies, as follows:

- In the case of ACC, IDB, COLT, MFS, and Energis, these operators will not be required to pay ADCs on any calls made before April 1, 1996 in respect of that part of their respective shares of the market in ISR calls which does not comprise international direct dial calls up to a maximum of 10 percent; and
- In the case of ACC, COLT, MFS, Energis, and the respective group companies of Telewest, Videotron, and NYNEX, these operators will not be required to pay ADCs on any calls made before April 1, 1996 in

promote effective competition between persons engaged in commercial activities with telecommunications in the U.K. (Section 3(2)(b)).

⁶³ Any waiver for the period from March 31, 1994 will be determined by the DGT by October 1994. ADC Waiver Document, *supra* note 59, at 8. With respect to the international market, OFTEL's calculations show that MCL had, in the year to March 1993, 19 percent of the market in international calls. *Id.* at 7.

⁶⁴ BTNA notes that the interconnection agreements entered into by these parties gave the operators the right to request a review of the relevant charges by OFTEL and also suspended payment of ADCs pending an OFTEL determination on whether to grant a waiver.

respect of the first 10 percent of their respective shares of the relevant market in local and national calls.⁶⁵

In considering the waiver requests, the DGT found that granting the waivers would assist the new entrants in establishing themselves in the U.K. market, thereby leading to "a more competitive marketplace with a whole range of benefits for customers."⁶⁶ Accordingly, the DGT found that grant of the waivers until April 1, 1996 was "necessary and consistent" with Condition 13 of BT's license and other legal and policy constraints.⁶⁷

The DGT's decision to waive ADCs for these operators is significant in several respects. First, it is evidence of the commitment of the U.K. government to new entry in U.K. telecommunications markets. Waiving ADCs for these operators will make it easier for them to establish a position in the U.K. telecommunications markets by lowering their cost of providing service, albeit at the expense of BT and BT's customers. Second, the decision provides further evidence of the extent to which the U.K. government does not discriminate against foreign-based operators in the U.K. market -- six of the eight companies receiving waivers are U.S.-based.

⁶⁵ ADC Waiver Document, supra note 59, at 3.

⁶⁶ OFTEL press release, supra note 62, at 3.

⁶⁷ ADC Waiver Document, supra note 59, at 5.

IV. U.K. Regulation

In the Application and in the Opposition, BTNA discussed at length U.K. government regulation of telecommunications services in general and of BT in particular.⁶⁸ In this section, BTNA reviews important developments in the last year in the regulation of telecommunications and BT in the U.K.

Perhaps the most significant undertaking of the last year by OFTEL -- and one of the clearest demonstrations of the extent to which BT is subject to effective government regulation -- has been OFTEL's review of the interconnection regime. On March 8, 1994, the DGT issued a statement setting forth OFTEL's program for the introduction of revised interconnection arrangements.⁶⁹ The release of the statement is a significant milestone in OFTEL's review process, which began in June 1993 with the issuance of a consultative document on accounting separation and interconnection.⁷⁰ As part of the consultative process, OFTEL also held several workshops to foster discussion among

⁶⁸ Application at 11-16, 20-25; Opposition at 29-44, 54-58.

⁶⁹ Director General of the Office of Telecommunications, Interconnection and Accounting Separation: The Next Steps, Mar. 8, 1994 [hereinafter "OFTEL March 1994 Statement"].

⁷⁰ Director General of the Office of Telecommunications, Interconnection and Accounting Separation, June 1993. OFTEL uses consultative documents to set forth DGT's views on particular regulatory matters and solicits comments from the public on related issues. As such, a consultative document is much akin to an FCC notice of proposed rulemaking. OFTEL received some 56 responses to its consultative document in July 1993, including responses from entities such as AT&T.

operators and other interested parties on various issues relevant to interconnection.⁷¹ U.S.-based carriers have actively participated in all phases of OFTEL's proceeding.

By this review process, OFTEL looks to establish a revised interconnection regime that will achieve OFTEL's key policy objectives of promoting fair competition and "obtaining the best possible deal for the end user in terms of quality, choice and value for money." OFTEL has set forth four fundamental criteria for interconnection arrangements:

- Arrangements should be transparent in the sense that charges should be published and operators should understand how charges relate to costs;
- Charges should be efficient and sustainable;
- Arrangements should not be unduly discriminatory either between competing operators or between BT and other operators; and
- Sufficient information should be available to give operators confidence in the arrangements reached.

In the March 1994 Statement, OFTEL established a program for the introduction of revised interconnection arrangements that satisfy these four criteria. The program OFTEL established is in three parts.

⁷¹ These workshops, held in late 1993 and early 1994, considered the concept of standard interconnection charges, including their advantages and disadvantages, what should be included in the standard list of services, and the process for reaching standard charges; the relationship between BT's costs and interconnection charges; and the extent to which interconnection services should be unbundled for operators.

Stage 1. The first stage involves using the recent BT/MCL determination as a standard methodology for calculating interim interconnection charges. Connection charges would be as set forth in the BT/MCL determination, while conveyance charges would be based on the costs determined for the BT/MCL determination but using different routing factors that are more appropriate to the interconnect configurations of other operators. BT has agreed to this approach, and the DGT states in the March 1994 Statement that all other parties have agreed in principle as well. "MCL-based" charges are now available for any operator entering into a new interconnection agreement with BT.⁷²

Stage 2. The second stage began immediately and will be completed by January 1995. The primary goal of this stage is the implementation of a standard list of interconnection services with OFTEL-determined charges that are based on the fully allocated costs of service components using historical cost accounting procedures and transparent

⁷² BT will offer these "MCL-based" charges to all operators having existing contracts with BT, in line with the review provisions in those agreements which give the parties the right to revisit the terms and conditions of the agreement. For example, BT's standard interconnect agreements with COLT, ACC, IDB, MFS, and Energis have review dates of April 1, 1994; rate changes will be backdated to the date of contract signature. For cable TV operators already in service, prices for "trunk" segments would be backdated to December 2, 1993 (the date of the MCL determination); prices for local segments were referred to the DGT for determination by certain cable operators and the MCL-based prices would therefore apply as from the referral dates. Industry and OFTEL discussion of certain details of the application of costs derived from the MCL determination has continued since April.

cost allocation procedures. To achieve this goal, OFTEL has set forth a detailed work program that OFTEL will implement in 1994. The program includes the following projects.

OFTEL has prescribed accounting separation for different lines of business within BT's existing corporate structure. BT must publish separate audited financial statements for what the DGT has designated as "network," "retail," and "access" "businesses."⁷³ OFTEL views

⁷³ The OFTEL March 1994 Statement describes the various businesses as follows:

- The BT-Network account "will be composed of the costs, capital employed and revenue of the network, relevant overheads and all other services which BT either wholesales or is likely to wholesale to other operators....[the account] will also include services offered to BT-Retail only. The account will therefore include the cost of all network plant necessary for the set up and conveyance of messages, including signalling; all plant required for the provision of private circuits and point to point transport; all plant needed for the operation, management and maintenance of these activities; operator centres handling assistance, emergency and director enquiry services; all processes and systems needed for the planning, construction, operation, provision, maintenance and management of the plant above; all relevant overheads and all services which operators have identified they require or are likely to require."
- The BT-Access account "will include the costs, capital employed and revenue of BT's provision of connection, rental, and other access services to the business and residential PSTN market. It will include all the services covered by rental charges, for example, the provision of telephone directories. It will also show the ADCs received from BT-Retail and other operators, as well as that part of the access deficit not recovered."
- For the BT-Retail account, "regulated activities will be broken down into the categories...which largely follow the breakdown currently existing for BT's 'Financial Results by Service' [BT's current accounting system]...The accounts will include the operating costs and capital employed specific to BT's retail activities as well as the transfer charges paid by its retail activities for its network services....BT's non-regulated retail activities will be a separate category with the retail financial statements."

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accounting separation as integral to the achievement of its goals for this stage. BT will be producing separate accounts for the 1993/94 financial year, although these accounts will not meet OFTEL's full requirements. BT has agreed with OFTEL to work towards defining in detail the changes to the BT license which will be necessary to implement accounting separation. BT also agreed, in parallel and in advance of the requirement, to work on implementing the separation for the fiscal year beginning on April 1, 1994.

In addition, OFTEL has required that BT publish its cost allocation system, including principles and cost drivers. OFTEL will investigate the system and consult with industry on its findings. BT will also be required to publish the details of its transfer charging arrangements between the different BT "businesses". BT may be required to modify its cost allocation methodology or transfer charging scheme in light of the investigations.

OFTEL has also developed a list of standard interconnection services in conjunction with BT and other licensed operators. Charges for these services will be developed during this period on the basis of fully allocated historical costs of unbundled components. OFTEL will be working with BT and other operators to resolve various

OFTEL March 1994 Statement, supra note 69, at 10.

OFTEL's requirements for this period, including accounting separation, the standard list of interconnection services, and the calculation of standard interconnection charges. OFTEL has also proposed to amend BT's license to implement a new "no undue discrimination" provision that would require BT, where it offers new retail prices, to publish the underlying network charge and offer it without undue discrimination to all operators.

Stage 3. Finally, in parallel with Stages 1 and 2, OFTEL will consider longer term issues. According to OFTEL, issues to be considered in this third stage include, among other things, use of alternative costing bases such as incremental costs to establish interconnection costs, alternative charging structures for interconnection services (including "capacity charging"), ADCs, and the provision for and funding of the universal service obligation. This stage of OFTEL's work is already in hand but discussion of these complex issues requires a timescale stretching beyond January 1995. OFTEL anticipates that this work may impact the evolution of interconnection from 1995 onwards.

OFTEL's consultative process on interconnection and accounting separation continues. OFTEL's work program entails additional workshops and industry meetings in the coming months.

V. Accounting Rates

In its Petition to Deny the Application, AT&T raised various concerns about U.S.-U.K. accounting rates. Accordingly, in this section BTNA updates the Commission on the current status of BT's accounting rates negotiations with U.S. carriers.

In the last year, BT has proposed further accounting rate reductions to its U.S. correspondents. In October 1993, BT proposed to reduce the per-minute settlement rate for IMTS (peak and off-peak) to 0.17 SDRs (\$.24) as of April 1, 1994 and the per-minute settlement rate for US Direct services to 0.155 SDRs (\$.22) as of December 1, 1993.⁷⁵ This reflects a reduction of approximately 15 percent from the current settlement rates.⁷⁶

These reductions were proposed to all of BT's U.S. correspondents and were accepted by AT&T, MCI, Sprint, and IDB. It is BT's understanding that MCI and IDB individually petitioned the Commission in November 1993 for a waiver to implement the reductions as proposed.⁷⁷ AT&T requested a

⁷⁵ BT also proposed a further reduction in all rates to 0.125 SDRs (\$.18) effective April 1, 1995. All carriers that have responded to BT's proposal thus far have agreed to this further reduction subject to final review at the beginning of 1995 to confirm that this rate is still appropriate in light of any changes in exchange rates or traffic volumes.

⁷⁶ For IMTS traffic, the settlement rates at the time of the proposal were 0.22 SDRs (\$.31) peak and 0.175 SDRs (\$.25) off-peak, while the settlement rate for US Direct traffic was 0.22 SDRs (\$.31).

⁷⁷ See Letter from Robert S. Koppel, IDB, to William F. Caton, FCC, Jan. 27, 1994, in File No. USP-94-W-089; letter from Jodi L. Cooper, MCI to William F. Caton, FCC, Nov. 16, 1993 in File No. USP-94-W-034.

waiver on March 30, 1994.⁷⁸ However, the Commission has apparently not yet granted the requested waivers.⁷⁹

In an attempt to move this matter forward, on July 15, 1994, BT proposed to all U.S. carriers a single settlement rate of 0.165 SDRs (\$.23), effective April 1, 1994. This rate would apply equally to all voice products, including US Direct services. Sprint, IDB, and MCI have all accepted this proposal.

VI. Discussion

As BTNA noted in its Opposition, while the U.K. approach to regulation differs from that of the U.S. in some respects, the U.K. shares the commitment of the U.S. to open markets and competition. The information provided in this filing is further evidence of this salient fact.

As shown herein, competition is rapidly increasing in the U.K. telecommunications market and U.S.-based carriers are active participants in all sectors. U.S. carriers take full advantage of the U.K.'s policy of allowing virtually all forms of resale, both domestic and international, under a class license (i.e., without application). The provision of single-end resale services from the U.K. to the U.S. by

⁷⁸ See Letter from Elaine R. McHale, AT&T to William F. Caton, FCC, Mar. 30, 1994.

⁷⁹ See Letter from George Li, FCC to Robert S. Koppel, IDB, Feb. 14, 1994, in File No. USP-94-W-089; letter from George Li, FCC to Jodi L. Cooper, MCI, Dec. 3, 1993 in File No. USP-94-W-034 (waivers raise "complex issues").

Sprint UK and IDB -- services that bypass the settlements process in one direction only, to the detriment of the U.S. balance of payments -- illustrates this fact. So does AT&T's new WorldPlus service, which involves the resale of IMTS. Yet BTNA cannot provide non-interconnected private line resale services or even IMTS resale services between the U.S. and the U.K. because the Commission has not yet granted those portions of the Application that request this authority. Under these circumstances, it is difficult to see how the resale opportunities afforded U.S. carriers in the U.K. are anything less than fully "equivalent."

In the same manner, U.S.-based carriers have taken full advantage of the fact that the U.K. regulatory regime does not consider national origin in granting individual licenses. Numerous U.S.-based carriers -- Sprint, MFS, NYNEX, and TeleWest, among others -- have been given authority to establish their own networks in the U.K. The willingness of the U.K. regulatory regime to grant individual licenses without regard to national origin has meant that U.S.-based carriers have played leading roles in the development of competition in the local loop -- traditionally considered a "bottleneck" facility. Indeed, competition in the U.K. local services market has progressed to an extent not yet seen in the U.S. The cable TV companies, dominated by U.S. local exchange carriers such as NYNEX, are increasingly providing telephony services in the U.K. By taking advantage of this openness, the U.S. local

exchange carriers are gaining experience in telco/cable services that they cannot provide in the U.S. under existing laws.⁸⁰

Similarly, a plethora of U.S.-based carriers -- including but not limited to ACC UK, IDB, COLT, and Southwestern Bell -- have been granted authority that permits them to provide ISR services. Other U.S.-based carriers, such as International Exchange Network, have ISR applications on file. The grant of ISR authority to these carriers gives them the ability to bypass the switched services of the U.K.'s existing international operators in providing service to those countries that the DTI has found to be equivalent.⁸¹ Indeed, Sprint contends that its newly granted license gives it authority today "to route calls [via private line] to and from points 'anywhere in the world' as long as they pass through one of three countries first"⁸² -- i.e., the countries designated as equivalent by the DTI. In sharp contrast, no U.K.-based carrier has been granted any ISR authority in the U.S.

The increase in competition in all sectors of the U.K. telecommunications market has had profound ramifications for

⁸⁰ As the Chairman and Chief Executive Officer of U S West has observed, U S West's investment in U.K. cable systems has provided a "'hands-on' laboratory" through which U S West has learned "how to package and market cable television and telephony [and] how to run an integrated company." U S West Testimony, supra note 9, at 4.

⁸¹ Today those countries are Sweden, Canada, and Australia.

⁸² Associated Press Article, supra note 23.

the provision of interconnection in the U.K. The use of individually negotiated and customized agreements with individually negotiated pricing for every customer is appropriate when there are few entities seeking interconnection. But with large numbers of new operators now in need of interconnection with BT's network, it is no longer practical to follow this path. Accordingly, BT and OFTEL have each modified the method by which interconnection arrangements are established in the U.K. -- BT by a move to the use of standard agreements; OFTEL by endorsing the use of the BT/MCL determination as a standard methodology for calculating interconnection charges pending the introduction of OFTEL-determined standard charges from January 1995.

The benefits of this change in approach for interconnection customers are substantial. Since interconnection agreements are standardized and published, customers know in advance the core interconnection services that are available and the terms and conditions pursuant to which those services are furnished. Customers are able to request interconnection and receive service more rapidly. With charges based on the OFTEL determination for MCL, customers should have confidence that the charges they incur are fair and available to all without undue discrimination. In short, use of standard agreements and charging methodology ensures that interconnection services are readily available and that rates and other terms and conditions of service are just, reasonable, and not unduly

discriminatory -- the same benefits that customers derive when interconnection is provided pursuant to a tariff regime.

Because customers benefit from this change in interconnection arrangements, the marketplace benefits as well. The publication and use of standard interconnection agreements with OFTEL-endorsed charges gives potential market entrants information they need to assess the risks of entry -- i.e., advance knowledge about the availability and cost of interconnection services, and assurance that competitors purchase service on the same terms. For those potential competitors who have assessed the risks and decided to enter the market, the use of standard interconnection agreements and standard pricing means that they will be able to enter the market more rapidly. Thus, a move to standardized interconnection agreements and pricing results in new and better competition in the market -- another benefit also found in a tariff regime.

The second and third stages of OFTEL's consultation on interconnection will result in further refinements of the U.K. interconnection scheme. The implementation of accounting separation, transfer charging, and the like, resolution of various non-pricing issues that are relevant to interconnection, and consideration of issues such as alternative costing bases should provide even more confidence to U.K. operators that interconnection charges are fair, not unduly discriminatory, and derived through a

transparent process. As such, these refinements on interconnection should further promote competition in all sectors of the market.

In sum, today competition in the U.K. telecommunications market is thriving at the national, international, and -- unique in the world -- local exchange levels; U.S. carriers actively participate in all sectors of the U.K. telecommunications market, including the market for resale services; interconnection is available on terms that are just, reasonable, and not unduly discriminatory, thus promoting competition; and further refinements on interconnection will soon be forthcoming. These developments over the course of the last year further underscore the fact that the U.K. affords equivalent resale opportunities for U.S. carriers, and that BT cannot unreasonably discriminate against unaffiliated U.S. entities.

VII. Conclusion

For the reasons stated herein and in BTNA's previous filings in this proceeding, the Commission should proceed promptly to grant BTNA's request to provide single-end and simple resale services between the U.S. and the U.K. and to regulate BTNA as a nondominant carrier on all routes.

Respectfully submitted,

BT NORTH AMERICA INC.

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Its Attorney


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August 3, 1994

CERTIFICATE OF SERVICE

I, Betty R. Austin, do hereby certify that on this 3rd day of August 1994, a copy of the foregoing Supplemental Filing of BT North America Inc. was served via U.S. first class mail, postage prepaid, to the parties listed on the attached service list.



Betty R. Austin

Dated: August 3, 1994

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James E. Graf II
Vice President - Government Relations

4 August 1994

BY HAND

The Honorable Edward J. Markey
Chairman
Subcommittee on Telecommunications and Finance
Committee on Energy and Commerce
US House of Representatives
316 Ford House Office Building
Washington, DC 20515

Dear Mr. Chairman:

I have seen a copy of the FCC's assessment of the French, German, and UK telecommunications markets which the Commission conducted in response to your request of 20 June 1994.

While the FCC's responses to your questions concerning the UK market in general represent the position quite well, I would like to correct one mischaracterization that appears in the answer to question (1)(a) under the sub-heading "Network Equipment" (at page 4). The FCC's statement is that the UK is "somewhat restricted" in this market "primarily because of a legislative pricing preference for EU content under the Utilities Directive," and that "BT purchases from US equipment suppliers what is not available from EU suppliers."

This statement is incorrect. BT operates an open and fully commercial procurement policy under which offers are considered from companies around the world, with no preference given to suppliers from any one country or area. Following this policy BT thus far in 1994 has awarded close to 25 percent of its contracts by value to non-European Economic Area suppliers (approximately two-thirds of which has been to US suppliers).

BT is aware that the EU's Utilities Directive has caused concerns in the US, and in recognition of this I wrote to the US Trade Representative on this subject last

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Washington, DC 20004
(Represented in U.S. by BT North America Inc.)

The Honorable Edward J. Markey
4 August 1994
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year to put BT's position and views on record. I am enclosing a copy of my letter to Ambassador Kantor of 5 May 1993 which explains the issues raised by the Directive and BT's rejection of interference in its commercial activities.

I have also written to FCC Chairman Hundt to clarify this matter and directly inform him of BT's position and views. A copy of my letter to him is also enclosed.

If you have any questions concerning this clarification or would like further information, please do not hesitate to call on me.

With best wishes, I am

Sincerely,

Enclosures

cc: The Honorable Reed E. Hundt



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James E. Graf II
Vice President - Government Relations

May 5, 1993

The Honorable Michael Kantor
U.S. Trade Representative
Winder Building
600 - 17th Street, N.W.
Washington, DC 20506

Dear Ambassador Kantor:

I am writing to advise you of the views of British Telecommunications plc - BT - with respect to the continuing dispute between the United States (US) and the European Community (EC) concerning public sector procurement of telecommunications equipment.

The EC's Utilities Directive, which became effective in January, is a significant market-opening initiative in that it obliges EC Member State governments to allow open competitive bidding on a wide range of utilities contracts that were previously in many cases notified only to local companies. However, Article 29 of the Directive gives a 3 percent price preference to EC bids in any case where, in all other respects, the bids are equivalent. It also permits an EC purchaser to ignore a bid completely if its European content is less than 50 percent.

BT's position on Article 29 is straightforward. We do not contemplate using the option of rejecting bids with less than 50 percent EC content. While this provision may be used by some Community telecoms operators as a means of continuing to favor national suppliers, perhaps at the behest of their national governments who own or control them, BT has an entirely commercial and non-discriminatory policy. BT does not intend to change its policy. Similarly, BT regards the 3 percent price preference for EC contract bids as an inefficient and unacceptable intrusion into the commercial affairs of the entities covered by the Directive. BT believes that it should not be required to subsidize suppliers of EC origin.

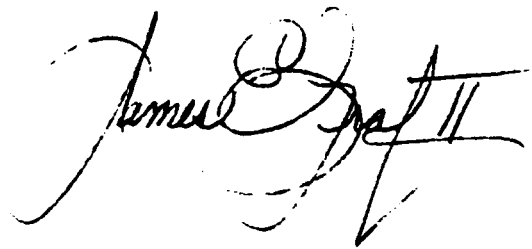
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(Represented in U.S. by BT North America Inc.)

The Honorable Michael Kantor
May 5, 1993
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BT's position with respect to Article 29 is consistent with its strongly held view that open competition is the market structure that will best serve the public and consumer interest in the innovative and efficient use of resources and the availability of high quality reasonably priced domestic and international services. BT welcomes the opportunity to work with both governments and the private sector in pursuing the cause of worldwide free trade in telecommunications facilities and services.

With best wishes, I am

Sincerely,

A handwritten signature in black ink, appearing to read "James D. Galt II". The signature is written in a cursive style with a large, sweeping initial "J" and a double vertical line at the end.



Telephone (202) 639 8222
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James E. Graf II
Vice President - Government Relations

4 August 1994

BY HAND

The Honorable Reed E. Hundt
Chairman
Federal Communications Commission
1919 M Street, N.W., Room 814
Washington, DC 20554

Dear Chairman Hundt:

I have seen a copy of your response of 15 July 1994 to Chairman Markey of the House Subcommittee on Telecommunications and Finance and the attached Commission assessment of the French, German, and UK telecommunications markets. While the responses to the questions concerning the UK market in general represent the position quite well, I would like to correct one misstatement with respect to the effect of the EU's Utilities Directive on the procurement practices of BT.

The Utilities Directive contains certain requirements relating to preferences for EU bids in the absence of reciprocal arrangements with other countries. This matter was, of course, at the center of a major trade dispute between the US and the EU last year. In recognition of this controversy, I wrote to the US Trade Representative on 5 May 1993 to put BT's position and views on record. As stated in that letter to Ambassador Kantor, a copy of which is enclosed, BT operates an open and competitive procurement policy which does not favor suppliers from any one country or area over another. BT procures on the basis of best value for money irrespective of the source of supply. Following this policy BT thus far in 1994 has awarded close to 25 percent of its contracts by value to non-European Economic Area suppliers (approximately two-thirds of which has been to US suppliers). The statement in the assessment provided Chairman Markey that "BT purchases from US equipment suppliers what is not available from EU suppliers. . ."

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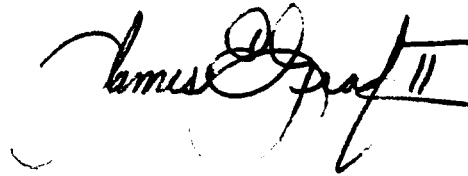
(Answer to Question (1)(a) under sub-heading "Network Equipment," Attachment, at 4) is therefore inaccurate.

I have written in similar terms to Chairman Markey directly and enclose a copy of that letter for your information.

If you have any questions concerning this letter, please do not hesitate to call on me.

With best wishes, I am

Sincerely,

A handwritten signature in black ink, appearing to read "James D. Graf II". The signature is written in a cursive style with a double underline at the end.

Enclosures

cc: The Honorable Edward J. Markey