

APPENDIX A



SETTLEMENT AGREEMENT

FILED

This Settlement Agreement (the “Agreement”), to be presented to the California Public Utilities Commission (the “Commission”) for approval and adoption, by and among Complainant Utility Consumers’ Action Network (“UCAN”) and Defendant MCI Communication Services, Inc. (“MCI”) (collectively, the “Parties”), resolves the case known as *Utility Consumers’ Action Network (UCAN) v. MCI Communication Services, Inc., dba WorldCom LLC (U 5378 C)*, CPUC Case No. 06-10-023 (the “Action”).

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I. THE PARTIES

A. The Utility Consumers’ Action Network (“UCAN”) is a consumer advocacy organization at 3100 Fifth Ave., Suite B, San Diego, CA. 92103, which represents approximately 40,000 ratepayers in California.

B. MCI Communications Services, Inc. (“MCI”) is certified by the California Public Utilities Commission under U-5378-C to provide interexchange telecommunications services.

II. RECITALS

A. In this Action, UCAN alleged that as early as May 2006, MCI began erroneously charging certain local service-only customers a long distance-related “Basic Monthly Fee” and related fees, taxes and surcharges. In particular, UCAN alleged that Jack Duclo, an individual who at all times relevant to the Action resided in California and was a local service-only customer of MCI, began receiving erroneous charges for a Basic Monthly Fee and related fees, taxes and surcharges beginning with his June 2006 bill. UCAN also alleged that MCI failed to fully credit Mr. Duclo’s account in response to his complaints.

B. MCI acknowledges that due to a computer coding error, Mr. Duclo was erroneously billed for a Basic Monthly Fee and related taxes, fees and surcharges between June 2006 and October 2006. In total, Mr. Duclo’s account was erroneously overcharged the amount of \$33.63 between June 2006 and October 2006. The erroneous charges and billings continued despite the fact that Mr. Duclo called MCI’s customer service numerous times during this time period. Because the Customer Service Representative (“CSR”) was not aware of the root cause of the billing error they did not realize their efforts would not fully resolve Mr. Duclo’s complaint each time he called. Ultimately, in response to his complaints, MCI credited Mr. Duclo’s account a total amount of \$ 69.99, including a \$25.00 courtesy credit. MCI acknowledges that when the CSR’s issued credits errors were made in crediting the related fees, taxes and surcharges.

C. On October 10, 2006, UCAN filed the Action with the Commission alleging 1) MCI improperly billed Mr. Duclo for a long distance Basic Monthly Fee between June 2006 and September 2006 and, 2) after Mr. Duclo brought the errors to MCI’s attention, MCI did not properly credit Mr. Duclo for related taxes, fees and surcharges.

MCI's Investigation Into Mr. Duclo's Complaints

D. MCI's formal investigation into Mr. Duclo's complaints began upon its receipt of UCAN's Complaint on or about October 25, 2006. The investigation revealed that Mr. Duclo was impacted by a computer coding error that failed to exempt certain customers from being assessed the long distance "Basic Monthly Fee." The computer coding error occurred because certain hard-coded logic was not applied to a new billing component implemented on June 1, 2006, increasing the Basic Monthly Fee to \$5.95.

E. This coding error was detected prior to MCI's receipt of the formal Complaint filed by UCAN and MCI was in the process of investigating the issue when it was served with the complaint on October 25, 2006. In fact on or about, October 13, 2006, the Mass Markets Billing Calculations and System Support Group had determined the root cause was a coding error and specifications were implemented to correct the coding error on October 19, 2006.

F. UCAN has been intricately involved in a process of verifying how the errors occurred and MCI's subsequent corrective action including preventing future coding errors. UCAN and MCI have also engaged in a constructive and detailed dialogue about MCI's customer service practices, particularly escalation of complaints, application of companion credits. UCAN identified areas of customer service improvement in both the escalation of customer complaints at MCI, as well as the crediting of taxes, fees and surcharges. MCI's efforts to correct the billing problems and customer service issues are the result of this dialogue between MCI and UCAN.

MCI's Efforts to Correct the Billing Problems and Credit Customers

G. In order to rectify the billing issues caused by the computer coding error, MCI conducted a credit recovery beginning in November 2006 to ensure that its customers who experienced the same billing errors as Mr. Duclo were properly credited for overcharges. All MCI customers that were impacted by the coding error have received credits of fees, taxes and surcharges equal to or greater than those previously charged.

H. Ultimately, MCI has determined that 1,860 of its California customers were affected by the problem experienced by Mr. Duclo. The total amount of credits given to California customers was \$24,454.26 and all affected customers have been fully credited.

I. As of October 19, 2006, MCI added the missing hard code logic, which resolved the billing error issue. Additionally, on March 1, 2007 a note was added to the plan page of MCI's billing system alerting the user to add the hard code logic before changing the Basic Monthly Fee component in the future. Thus, the billing error at issue in this proceeding should not be repeated.

MCI's Cooperation with UCAN

J. Since the commencement of the Action, MCI has cooperated in good faith with both UCAN and the Commission and provided UCAN with extensive information regarding the billing error experienced by Mr. Duclo as well as its problems in crediting Mr. Duclo's account. MCI has also provided information to UCAN explaining how the errors occurred and what has

been done to rectify the problems and avoid similar mistakes in the future. Extensive dialogue along with the creativity and persistence of both parties has produced this agreement.

K. After providing this information, the Parties have reached an agreement to fully resolve the Action and UCAN's concerns on the terms and conditions set forth below.

III. SETTLEMENT TERMS

A. As set forth above, MCI acknowledges that between June 2006 and October 2006, Mr. Duclo and other California customers were erroneously charged a Basic Monthly Fee and related taxes, fees and surcharges. Since then, MCI engaged in a credit recovery and fully credited all affected customers. Further, in an effort to prevent the recurrence of the issues raised in the Action, MCI has undertaken the following as a result of discussions with UCAN:

1. MCI has modified its billing system to alert the user to add the hard code logic before changing the Basic Monthly Fee;

2. MCI has implemented a new policy, suggested by UCAN, whereby a customer complaint will enter the escalation process when there are multiple credits issued to a customer on what appears to be the same issue. MCI has also implemented training for the CSRs to inform them about the new policy. UCAN has been provided with the revised CSR training. The training on the new policy began on April 17, 2007 and was completed by April 27, 2007. MCI also added the new escalation process to the CSR training.

3. MCI has added a bullet to the "pop-up" April 19, 2007 that appears as part of the crediting procedures to remind CSRs to apply a companion credit when applicable and has included the "pop-up" in its CSR training;

B. In addition, MCI has also agreed to make the following operational improvements in its business practices:

1. MCI will provide a contact person for UCAN to contact if there are future problems. UCAN agrees to try and contact this individual to endeavor to resolve any concerns before filing any formal complaints against MCI.

2. Unrelated to this Action, MCI is in the process of reviewing and consolidating its billing systems to create a more unified and automated system for each jurisdiction. 90 and 180 days after completion of the review and consolidation of the billing systems, MCI will provide UCAN with a random sampling of 12 long distance stand alone accounts that were issued corrective credits through a CSR, including the internal detail showing how all fees, taxes and surcharges were credited. This agreement is made under the expectation that MCI will exercise good faith in trying to complete its review and consolidation of the billing systems as promptly as possible. MCI will provide UCAN within 90 days of the commission's approval of this Agreement with a preliminary date for expected completion and implementation of the billing system review and consolidation.

3. UCAN acknowledges that because these efforts are still in the development stage no guarantees can be made by MCI about the capabilities of the system. However, MCI intends for these changes to internally allow it to see a line-by-line review of the associated fees, taxes and surcharges calculated for the credit amount.

IV. GENERAL TERMS

A. Commission Approval. After executing this Agreement, the Parties shall actively support prompt approval of the Agreement, including briefing, comments on any proposed decision, written and oral testimony if necessary, appearances and other means as may be needed to obtain the necessary approval of the Commission. The Parties agree that if the Commission does not approve the Agreement unconditionally and without modification, any Party may, in its sole discretion, elect to terminate the Agreement.

B. Continuing Jurisdiction to Enforce Settlement. The Parties and their respective counsel agree to fully cooperate with each other to accomplish the terms of this Agreement in an expeditious manner. The Commission shall retain continuing jurisdiction over this matter, including jurisdiction to enforce the terms of this Agreement.

C. Scope and Effect of Agreement. This Agreement represents a full and final resolution of the Action, and the matters giving rise thereto, including, but not limited to, all potential claims, penalties, enforcement actions or investigations relating to complaints of California consumers from June 2006 to present that they were improperly charged a Dial 1 Basic Monthly Fee and related fees, taxes and surcharges or that consumers were not properly credited fees, taxes and surcharges. If the Commission does not approve this Agreement in full, it shall have no force and effect. Further, the parties acknowledge that the obligations set forth hereunder will expire as of December 31, 2012.

D. No Waiver. By entering into this Agreement, MCI does not waive its right to contest the extent of the Commission's jurisdiction or authority to impose any requirement of this Agreement in any other proceeding.

E. Other Proceedings. The Parties agree that nothing contained in this Agreement constitutes a binding admission or concession in any other proceeding. The Parties have entered into this Agreement to affect a compromise and settlement of the contested matters pending before the Commission.

F. Severability. No individual term of this Agreement is agreed to by any party except in consideration of the Parties' assent to all other terms. The Agreement is indivisible and each part is interdependent on each and all other parts. Any party may withdraw from this Agreement if the Commission modifies, deletes from, or adds to the disposition of the matters stipulated herein. The Parties agree, however, to negotiate in good faith with regard to any Commission-ordered changes in order to restore the balance of benefits and burdens, and to exercise the right to withdraw only if such negotiations are unsuccessful.

G. Successors and Assigns. This Agreement and all covenants set forth herein shall be binding upon and shall inure to the benefit of the respective Parties hereto, their successors, heirs, assigns, partners, representatives, executors, administrators, subsidiary companies, divisions, units, agents, attorneys, officers, and directors.

H. Knowing and Voluntary Execution. The Parties acknowledge each has read this Agreement, that each fully understands the rights, duties and privileges created hereunder, and that each enters this Agreement freely and voluntarily. Each Party further acknowledges that it has had the opportunity to consult with counsel and discuss the provisions hereof and the consequences of signing this Agreement, and that each Party or their counsel have made such investigation of the facts and law pertaining to the matters herein as they deem necessary, and that they have not relied and do not rely upon any statement, promise or representation by any other party or its counsel, whether oral or written, except as specifically set forth in this Agreement.

I. Authority to Execute Agreement. The undersigned acknowledge and covenant that they have been duly authorized to execute this Agreement on behalf of their respective principals and that such execution is made within the course and scope of their respective agency or employment.

J. Entire Agreement. The Parties expressly acknowledge that the consideration recited in this Agreement is the sole and only consideration of this Agreement, and that no representations, promises, or inducements have been made by the Parties or any director, officer, employee, or agent thereof other than as set forth expressly in this Agreement.

K. No Waiver or Modification. This Agreement constitutes the entire agreement between the Parties and no terms herein may be waived, modified, or amended, except in a writing signed by each of the Parties. Any party to the Agreement may petition the Commission for a modification of this Agreement in the event of: (1) an order from a court or agency in conflict with a provision or provisions of this Agreement; (2) a change of law rendering performance of a provision or provisions of this Agreement; or (3) a change in circumstances rendering the maintenance of some or all of the improvements referenced in Section II.B of the Agreement moot.

L. Choice of Law. This Agreement shall be governed by and interpreted in accordance with the laws of the State of California and the rules, regulations and General Orders of the Commission.

