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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Local Exchange Carrier Line Information Database	)	CC Docket No. 92-24
	)	
	)	

OPPOSITION TO DIRECT CASES

Sprint Communications Company Limited Partnership hereby opposes the direct cases of Ameritech Operating Companies ("Ameritech"), Bell Atlantic Telephone Companies ("Bell Atlantic"), BellSouth Telephone Companies ("BellSouth"), NYNEX Telephone Companies ("NYNEX"), Pacific Bell Telephone Companies ("Pacific"), Southwestern Bell Telephone Company ("SWB"), and U S West, Inc. ("U S West"), filed pursuant to the Common Carrier Bureau's Order Designating Issues for Investigation, released March 20, 1992 (DA 92-347) ("Investigation Order"). In support thereof, Sprint states as follows.

In the Investigation Order (para. 2), the Bureau identified issues concerning the local exchange carriers' ("LECs") provision of common channel signalling ("CCS") service and access to their line information databases ("LIDBs") which warranted further investigation. Sprint believes that the LECs' rates are, in general, excessive and unjustified and therefore is particularly concerned about the third issue: "Are the rate levels established in the tariffs excessive?" Sprint's discussion below follows the Bureau's four specific questions about the rate levels for LIDB and STP rate elements.

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List A B C D E

I. IF CCSCIS IS USED FOR RATEMAKING PURPOSES, LEC INPUTS AND RATIONALE FOR ITS USE FOR CERTAIN INVESTMENT CATEGORIES SHOULD BE PROVIDED (QUESTIONS III (1) AND (2)).

The first question raised by the Bureau reflects concerns about the use by the LECs of Bell Communications Research, Inc.'s proprietary costing model, "Common Channel Signalling Cost Information System" ("CCSCIS"). Specifically, the Bureau requested "[a]ny carrier who relied on CCSCIS to develop its rates [to] explain why use of such a model is appropriate for common channel signalling services" (id.)

The majority of the LECs used CCSCIS or a comparable model to identify certain investments associated with the four rate elements under investigation here, and some provided a description of the model. The fact remains, however, that the Commission and interested parties are unable to review the apportionment of investment made by CCSCIS because the model is considered proprietary. Thus, its reasonableness cannot be evaluated.

To run the model, the user must provide data inputs and select among various parameters and assumptions. In its description of CCSCIS, Bell Atlantic categorizes these user inputs as follows (Attachment A, p. 4): (1) cost study parameters or assumptions (e.g., marginal or average cost methodology, study period, cost of money, date of equipment prices, and whether material or EF&I equipment prices should be used); (2) cost and investment data (e.g., annual charge factors, link lease expenses, capitalized right to use fees and facility investments by account); (3) information about the network and equipment (e.g., equipment configuration, number of miles and terminations

of links); and (4) utilization (e.g., service demands, number of links or STP link terminations, and, switch utilization of the processor for shared processors on STPs). These inputs have a significant impact on the results produced by CCSCIS. For example, if projected demand is too low and the equipment is underutilized, the unit investment will be inflated. The inputs, parameters and assumptions are not proprietary and, therefore, should be provided by the LECs in support of the proposed rates.

The LECs' use of CCSCIS for determining investments varies considerably. (See Attachment 1 for a list of LECs which used CCSCIS and the rate elements for which it was used.) For example, SWB uses the model only for the STP port investment (at 5), while Pacific used it for the investments associated with the LIDB Transport, LIDB Query and the STP port rate elements (at 5). The lack of consistent use of the model to justify the prices for the four rate elements raises concerns and questions as to why the model was or was not used. Presumably, CCSCIS has sufficient flexibility to model the different common channel signalling networks and equipment of all the LECs using it. It would therefore be useful for the LECs to identify the specific accounts for which it was used and, further, to provide the rationale for why the model was or was not used for each of the investment accounts associated with the rate elements under investigation.

The Commission did not request, and therefore did not receive, information about the alternative methods used to develop investment costs. Consequently, there is little information about the numerous "Company Studies" used, and an

evaluation of the reasonableness of the investments generated by them cannot be conducted.

II. THE INCONSISTENCY IN PART 32 INVESTMENT ACCOUNTS SHOULD BE REVIEWED (QUESTION III(3)).

The Bureau requested that all carriers "provide the total investment underlying each of the four rate elements and identify the accounts established by Part 32 of the Commission's Rules, 47 C.F.R. Part 32, in which these investments are recorded" (id.). Attachment 2 summarizes the carriers' responses for the Part 32 accounts used for the LIDB Query Transport, LIDB Validation and STP Port rate elements. This attachment visually displays substantial variation in the investment categories employed by the LECs. This variation undoubtedly contributes to the wide range in rates for these comparable services.

For example, for LIDB Transport, BellSouth and SWB included investments for land and buildings. Some carriers (e.g., Ameritech, Bell Atlantic and BellSouth) included investment in Poles and Aerial Cable. SWB alone included computer equipment.

For LIDB Validation, a similar range of investments were used. However, in general, Bell Atlantic and BellSouth again included investment in poles, and cables and conduit equipment, which the other LECs omitted. The rationale behind including such equipment for the SCP Query rate element is not provided, and their inclusion seems inherently unreasonable.

For STP Ports, all LECs used Digital Electronic Switching equipment. This is the only investment category which was consistently used by the LECs for these three rate elements. Other investment categories were again added by certain LECs.

While there is some consistency in the underlying categories of investment for STP Ports, there is an extreme inconsistency in the investment costs, as shown in Attachment 3. Bell Atlantic's unit investment of $25,408 is 2.64 times that of SWB ($9,486 for Texas).[1] Certainly, some variation in the investment resulting from different equipment and network configurations is warranted. However, this range for relatively comparable STP port equipment seems unreasonable. Because direct and overhead costs are generally based on investment, inflated investments produce inflated costs.

Identification of the actual Part 32 investment accounts for the provision of the four rate elements under investigation here demonstrates (1) that the LECs may not be using the categories consistently and (2) that certain LECs may be inflating the investment by allocating portions of investment categories which are not used in the provision of the particular rate elements. The Bureau should review the investment categories to determine the legitimacy of such categories and direct the LECs to remove investments which are not proper.

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[1]In response to Sprint's concerns about the high STP Port investment expressed in its Petition for Suspension and Investigation of Transmittal No. 476 (at 4), Bell Atlantic stated that its "costs <u>should</u> be higher...because it is undertaking a more ambitious deployment schedule than other regions during the tariff test period, and this faster deployment to more offices adds costs" (at 4, fn. omitted). While Bell Atlantic's total investment in CCS equipment may be higher, the unit investment cost of an STP port should not be greatly affected. Thus, Bell Atlantic's STP port investment appears to be unreasonably high.

III. THE FACTORS USED BY THE LECS VARY GREATLY AND SERVE TO UNREASONABLY INFLATE THE RATES (QUESTION III (4)).

In this investigation, the Bureau requested "[a]ll filing carriers...[to] identify and fully document all factors applied to the investment identified in response to the requests for information above to develop the rates" (Investigation Order at para. 2). Sprint is primarily concerned about the overhead loading factors which the Commission allowed the LECs to add "to derive the overall price of the new service" (Part 69 ONA Order, 6 FCC Rcd 4524, 4531 (1991), recon. pending) and which have a significant impact on the rates for common channel signalling and LIDB services. In its petitions filed concerning the LECs' individual tariff filings, Sprint demonstrated the unreasonableness of these factors.

As shown in Attachment 4, the overhead factors used by the LECs vary widely. The principal reason for the variation is the different methodologies used to derive the overhead factor. For example, Pacific's loading factor of 5.535 is calculated by first dividing the Interstate Switched Revenue Requirement (revised for a 11.25 percent return) by switched access usage usage, producing an average traffic sensitive access cost per minute of $0.02203 (see Transmittal No. 1557, Workpaper II and Direct Case at 9). This average cost is then divided by the "incremental" switched access cost of $.00398 to produce the loading factor. The source of this "incremental cost" is a "Company Study" about which no information has been provided. Because of its failure to provide any information concerning "incremental cost" in the denominator of its ratio, Pacific Bell has not complied with the

Bureau's request for full documentation of all factors. Further, Pacific's methodology of dividing an average cost by an incremental cost to produce the fully loaded factor is highly suspect.[2]

BellSouth's loading factor of 3.65 is similarly undocumented. In its Transmittal No. 439, BellSouth divided "existing recurring revenues [numerator] and incremental costs for service in the local transport group [denominator]" (D&J, pp. 10-11). The source of the "incremental costs" is not provided in the initial transmittal, and no discussion or documentation is provided in the Direct Case. Thus, BellSouth has also failed to meet the Bureau's request for full documentation of this critical factor.[3]

U S West's overhead factor is the ratio of the revenue requirement (either Traffic Sensitive and Local Transport) to direct costs. As Sprint discussed in its Petition to Reject (at 4-5), U S West has neither explained or justified its overhead loading factors. In particular, Sprint pointed out that U S West failed to document the direct costs which are used as the denominator to its ratios. In its Direct Case, U S West provides additional information in support of the numerator of its ratios. However, U S West offers absolutely no additional information as to the derivation of the direct costs in the denominator or

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[2] See, also, Sprint's Petition to Suspend and Investigate Transmittal No. 1557 at 2-5.

[3] See, also, Sprint's Petition for Suspension and Investigation of Transmittal No. 439 at 2-5.

offered any explanation for the difference between the traffic sensitive and local transport factors. U S West therefore is not in complaince with the information requested in the Investigation Order.[4]

Ameritech (at 9-11) and NYNEX (at 15, fn. 25) argue that the rates for LIDB service can be priced above fully loaded costs. Ameritech alleges (at 10) that "LIDB service is a part of a billing service which is not required to transport or route calls" and that "[a]s a result of the existence of...substantial competitive billing alternatives (e.g., calling cards issued by interexchange carriers and commercial credit cards) and the discretionary nature of the service, the Companies priced LIDB service to market, based upon the prices of competitive alternatives." In its Report and Order and Request for Supplemental Comment in CC Docket No. 91-115, FCC 92-168, released May 8, 1992, the Commission rejected the LECs arguments that LIDB service is a competitive billing and collection service and that validation and associated functions are not Title II services (paras. 23, 26, fn. omitted):

> We thus conclude that, as services "incidental" to the LECs' local exchange access service, validation and screening services are "wire" communications under Section 3(a) of the Act and thus are properly considered a communications service.

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[4]As Sprint discussed in its Petition for Rejection of Transmittal No. 203 (at 4 and 7), U S West's failure to apply a consistent loading factor to direct costs results in discriminatory rates.

> ...only LECs can provide validation and screening data in its original, accurate, and up-to-date form. Since the LECs alone have a virtual monopoly in the first instance over this essential information, the provision of validation services is not subject to the competitive pressures we found existed in the billing and collection market.

Thus, prices above fully loaded costs cannot be justified on the basis of competitive alternatives.

In its Part 69 ONA Order (6 FCC Rcd 4524, 4531 (1991)), the Commission provided certain flexibility for the LECs to price above cost to compensate for the higher risk associated with new services. However, the Commission required the LECs to "show that they are undertaking a particularly risky venture, which would not be economically practical absent the risk premium they requested" (id.). No LEC has attempted to justify rates above fully loaded costs based on risk, and indeed, there would appear to be no justification for such an argument. Clearly, pricing above the fully loaded costs is unwarranted, and Ameritech and NYNEX should be directed to lower their rates.

IV. BELL ATLANTIC IMPROPERLY INCLUDES "CALLING CARD COSTS" IN ITS QUERY DIRECT UNIT COSTS.

In its development of the costs for BVS Validation, Bell Atlantic included Calling Card Costs of $8,255,284 (Workpaper F-11). In its Petition to Suspend and Investigate Transmittal No. 476 (at 3-4), Sprint questioned these costs. Bell Atlantic replied (at 7, fn. omitted) that "[t]hese unit costs include a portion of the costs of the issuance, reissuance, distribution, manufacturing, marketing and administration of calling cards."

In support of the inclusion of these costs, Bell Atlantic argued (at 7-8) that

> Interexchange carriers benefit from the availability of Bell Atlantic's IQ(sm) card, which provides an additional billing mechanism for customers wishing to make calls on the carriers' networks. Bell Atlantic must incur these expenses in order to offer the IQ(sm) card. Since there would be little need for BVS without the IQ(sm) card, a portion of calling card administration costs should be included in BVS rates.

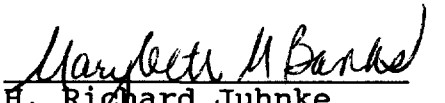
Costs such as those incurred for the issuance and manufacture of Bell Atlantic's IQ(sm) cards should not be included in the cost of validating the card. Further, Bell Atlantic fails to show how the $8,255,284 cost was derived. Finally, no explanation is provided for why the Validation demand of 299,731,925 is 76,508,814 less than the Query Transport demand (Workpaper F-10).

V. CONCLUSION.

The information provided by the LECs indicates that many of the rates for the services under investigation here have been inflated. Sprint therefore urges the Commission to review the loading factors and the investment categories as discussed above and to direct the LECs to provide additional information concerning the inputs to CCSCIS and the rationale for its use for specific investment categories.

Respectfully submitted,

SPRINT COMMUNICATIONS COMPANY L.P.



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CCSCIS

Company	CCSCIS Used?	Rate Elements	Source
Ameritech	Yes	LIDB and STP Access	p. 12
Bell Atlantic	Yes	STP-to-SCP Transport and the Digital Switching Components of the STP Port and Validation Charges.	p. 2
BellSouth	No		
NYNEX	Yes	CCSA Interconnection and LIDB Access.	p. 15
Pacific	Yes	LIDB Transport and LIDB Query, STP Port.	p. 5
SWB	Yes	STP Port	p. 5
USW	No	Own comparable model used for all components except SCP.	p. 16

INVESTMENT ACCOUNTS

LIDB QUERY TRANSPORT

Account	Amer	BA	BS	NYNEX	Pacific	SWB	USW
2212 Digital Electronic Switching	X		X				X
2232 Circuit Eqpt.	X	X	X	X	X		X
2411 Poles	X	X	X				
2422 Undrgrnd Cable	X	X	X	X			
2423 Buried Cable	X		X				
2441 Conduit	X	X	X	X			
2421 Aerial Cable	X	X	X				
2111 Land			X			X	
2121 Bldgs.			X			X	
2124 Computer						X	
LIDB VALIDATION							
2111 Land			X			X	
2121 Bldgs.			X			X	
2124 Computer (DBAS)		X		X		X	X
2212 Digital Electronic Switching	X	X	X	X	X		
2232 Circuit Eqpt.		X	X		X		

LIDB VALIDATION (Cont'd.)

Account	Amer	BA	BS	NYNEX	Pacific	SWB	USW
2411 Poles		X					
2421 Aerial Cable		X	X				
2422 Undrgrnd Cable		X	X				
2423 Buried Cable		X	X				
2441 Conduit		X	X				
2211 Analog Electronic Switching					X		
STP ACCESS - PORT							
2212 Digital Electronic Switching	X	X	X	X	X	X	X
2232 Circuit Eqpt.	X	X			X		X
2121 Bldgs.						X	
2111 Land						X	

INVESTMENTS

Company	STP Port	Validation	Source
Ameritech	$19,707	$4,376,670	Appendix A
Bell Atlantic	$25,408	$6,550,429	Attachment C
BellSouth	$13,500	$2,187,660	Pages 5-6
NYNEX - NYT NET	$19,040 $13,689	$4,126,000	Attachment A Page 1
Pacific	$14,284*	$2,582,323	Attachment B
SWB	$ 9,486 to $16,335	$7,171,140	Page 8
U S West	$ 7,459	$0.019072	Attachment 1

* Estimated by dividing total STP Port investment of $271,393 by the estimated demand of 19 (Worksheet 1).

OVERHEAD LOADING FACTORS

Company	Factor	Source
Ameritech	1.4404	Exhibit 3
Bell Atlantic	1.2598	Workpaper F-13
BellSouth	3.65	Tr. 439, Appendix A, Workpaper 2, Page 2 of 2
NYNEX* - NYT	.206048	Attachment B, Exh. 2, Page 7
NET	.134290	Attachment B, Exh. 1 , Page 7
Pacific	5.525	
SWB	1.2580	Tr. 2148, Figure 2, Page 3 of 3
U S West - T.S.	4.42	p. 19
L.T.	10.54	p. 20

* To compare the factors of Ameritech, Bell Atlantic and SWB, the Total Direct and Indirect Cost factor is divided by the Total Direct Cost factor:

NYT: .480704/.274656 = 1.7502
NET: .375130/.240840 = 1.5576

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing "Opposition to Direct Cases" of Sprint Communications Company L.P. was sent via United States first-class mail, postage prepaid, on this the 5th day of June, 1992, to the below-listed parties:

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