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BEFORE THE
FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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OFFICE OF THE SECRETARY

In the Matter of	)	
800 Data Base Access Tariffs and the Service Management System	)	CC Docket No. 93-129

REPLY OF SOUTHWESTERN BELL TELEPHONE COMPANY TO OPPOSITIONS TO DIRECT CASE

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SUMMARY*

Although the parties filing Oppositions to SWBT's Direct Case were given over seven months for preparation of their briefs, this Commission has denied SWBT's request for a sixty day extension of time, thereby requiring SWBT to prepare its Reply (including KCDC issues unique to SWBT) and the SMS/800 Reply in nine working days. SWBT believes that its right to due process of law has been infringed and therefore files this Reply under protest.

The Commission has not explicitly excluded SSP costs from exogenous treatment. Instead, the Commission has allowed exogenous treatment to be extended to "those costs incurred specifically for the implementation of basic 800 data base service." Since SWBT's only use for 800 SSP is to perform 800 data base queries, SWBT has properly treated its SSP costs as exogenous.

Because commencement of 800 data base service required SWBT to replace the main SCP processors to handle increased traffic and records, SWBT has properly allocated to exogenous costs the expense of SCP processor replacement.

SWBT properly allocated common costs between LIDB and 800 data base to determine 800 exogenous costs. Allocation was based on per-query usage, the most stable data available. SWBT used only investment costs incurred since 1992 and non-capitalized expenses incurred since mid-1991 in identifying costs allocated to 800 data base, insuring that those costs were not recovered in the initial

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* All abbreviations used herein are referenced within the text.

price cap rates or LIDB rates and, thus, double recovered in 800 data base.

The Unit Investment and Cost data in Exhibit B of SWBT's Direct Case represent interstate 800 data only, because SWBT interpreted the Commission's request to produce costs to mean costs underlying the filed rate, namely the interstate query.

Some 800 data base costs were incurred prior to the establishment of the query rate element. In addition, there are certain costs which will continue over time. SWBT properly measured the past unrecovered costs on a present value basis. These costs were then levelized over a five year recovery period to avoid the impact on the query rate which a one year recovery would produce. The 1993/1994 costs, representing ongoing expenses, were averaged and added to the levelized past costs. There was obviously no need to reduce the 1993/1994 costs to present value. Once total average annual exogenous costs were determined, they were divided by 1991 recast query demand to produce the query rate.

MCI complains that SWBT's Direct Case is insufficient to determine whether there will be a "double recovery." This argument is especially hard to follow because it appears to be based on numbers pulled out of someone's sleeve and also on the mistaken assumption that SWBT and other RBOCs will receive some portion of the payment made to DSMI by SMS/800 customers. In fact, the revenues generated by DSMI billings for the use of the SMS/800 data base merely provide the cash necessary to pay the DSMI expenses. The cash collected by DSMI is not somehow siphoned off to the RBOCs. There is no double recovery.

SWBT's use of restructure Method 2 is perfectly appropriate. SWBT will show that AT&T's argument that Method 2 gives SWBT inappropriate pricing flexibility is moot. Although Method 2 slightly increased upward pricing flexibility and decreased downward pricing flexibility for existing service categories, SWBT did not adjust any rates in these categories in the 800 data base filing or at any time prior to the 1993 annual filing. Since unused pricing flexibility is lost at the end of each tariff period, the additional pricing flexibility complained of by AT&T did not result in any rate, index or permanent change in pricing flexibility for any existing SWBT rate element.

MCI complains that SWBT has not shown that the KCDC costs are incurred solely for the provision of SMS/800 service. This is incorrect. Approximately 25 pages of SWBT's Direct Case deal with this very issue. MCI is also mistaken when it complains that the current SMS/800 contract was not awarded by competitive bidding. It was. Moreover, the KCDC is reviewed monthly by Bellcore.

MCI also complains that it does not have enough information to determine if "start-up" costs were properly allocated to SMS/800. Prior to number portability, the KCDC was providing an SMS/800 service to LECs. Hardware upgrades necessary for portability and ongoing support services were determined by Bellcore and installed in July of 1992. This equipment is easily identifiable as specific to the SMS/800 system. For equipment not dedicated to SMS/800, allocations of costs to the system were determined by specific usage measurements.

Allnet is incorrect when it insinuates that KCDC expenses may be causing inflated 800 rates. The current SMS/800 contract was awarded after competitive bidding and reflects reasonable rates. Also, the KCDC costs and charges are reviewed monthly by Bellcore.

Allnet is also mistaken in asserting that Commission Rule 32.27(d) applies to KCDC rates. KCDC is a nonregulated business line providing service to Bellcore. Though this is, by definition, an affiliate transaction meriting inclusion in SWBT's Cost Allocation Manual, the Part 32 rules apply only to transactions between a carrier performing a regulated function and an affiliate. The Rules do not apply to a carrier performing a nonregulated function such as the KCDC.

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REPLY OF SOUTHWESTERN BELL TELEPHONE COMPANY TO OPPOSITIONS TO DIRECT CASE

On September 20, 1993, Southwestern Bell Telephone Company (SWBT) filed its Direct Case in Support of its 800 data base access tariff. On April 15, 1994, approximately seven months later, seven parties filed Oppositions.[1] On April 22, 1994, two additional parties filed Oppositions.[2] The different filing dates for the Oppositions occurred because, after the filing date of April 15 -- which itself was the fifth extension of the original September 20, 1993, filing date for Oppositions--the Commission granted one last extension to April 22. Seven parties did not get the message. Two did, thereby waiting an additional seven days to add another ninety pages or so to the Record, including a thirty page analysis prepared by a hired consultant.

SWBT has been given only nine business days to respond. As SWBT pointed out in its Motion for Extension of Time, which was denied, SWBT has had to prepare and file, in that nine days, not only this Reply but also the jointly-prepared Reply involving the

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[1] CompuServe Incorporated, First Financial Management Corporation, AT&T, Sprint Communications Company LP (Sprint), Aeronautical Radio, Inc. (ARINC), Allnet Communication Services, Inc. (Allnet) and MCI Communications Corporation (MCI).

[2] Ad Hoc Telecommunications Users Committee and National Data Corporation.

800/SMS tariff. In filing this pleading SWBT is not waiving, but rather is specifically preserving for any subsequent Commission proceeding or judicial appeal, the argument that the failure to grant SWBT additional time to respond constitutes a denial of due process of law.

I. ALL EXOGENOUS COSTS INCLUDED IN SWBT'S 800 DATA BASE QUERY RATE ARE APPROPRIATE.

A. SWBT'S SSP Costs Are Appropriately Treated As Exogenous.

MCI and Ad Hoc incorrectly contend that the Commission excluded Service Switching Points (SSPs) from exogenous cost treatment.[3] The Commission did not explicitly exclude SSP costs, nor did the Commission explicitly state that SSP costs are core Signaling System 7 (SS7) technology. The Commission concluded instead that "it is appropriate to allow the LECs to treat as exogenous the reasonable costs they incurred specifically for . . . 800 data base service."[4] The Commission went on to "emphasize, however, that exogenous treatment will only extend to those costs incurred specifically for the implementation of basic 800 data base service."[5] SWBT's SSP costs meet these criteria.

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[3] MCI at 9: "However, the Commission excluded SSPs, which are part of core SS7 technology, from its definition of exogenous." Ad Hoc at 7: "All other costs (e.g., for STPs, SSPs and tandem switching) are presumptively core SS7 costs (i.e., they are necessary components of SS7 deployment) and are therefore not eligible, even in part, for exogenous cost treatment in connection with provision of 800 data base access service."

[4] In the Matter of Provision of Access for 800 Service, Second Report and Order, 8 FCC Rcd. 907 (1993), ¶27.

[5] Id., ¶28.

SWBT's only use for 800 SSP is to perform 800 data base (DB) queries to support 800 number portability. Because SSP Generic Requirements (TR-TSY-000024) identify possible additional uses for 800 SSP, testing has been performed by SWBT to verify whether the 800 SSP capabilities support ubiquitous deployment of other data base services. Test results indicate that each switch vendor's 800 SSP design is slightly different; the only common function is responding to 800 queries. Thus, SWBT is using its current SSP capability (TR-TSY-000024) solely for 800 service.

Allnet is incorrect in claiming that "[a]ny SSP costs claimed as exogenous by any LEC should be disallowed based on the fact that Ameritech conceded it an [sic] identify no costs associated with SSP costs for 800 data base service."[6] SWBT's purchase of 800 SSPs from switching vendors involved the purchase of an optional software feature easily identified and isolated from costs associated with other SS7 features. SWBT is unfamiliar with purchase arrangements made by other Local Exchange Carriers (LECs) and therefore is unable to comment on others' ability to identify SSP costs associated solely with 800 service.

B. SWBT Only Included Appropriate SCP Costs As Exogenous.

MCI contends that SWBT and others had, prior to 800 data base service, already deployed Service Control Points (SCPs) in their networks; therefore "much of this investment should be considered part of the network upgrade to SS7."[7] Use of the word

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[6] Allnet at 3.

[7] MCI at 15.

"much" rather than "all" indicates that even MCI concedes that a portion of SCP costs are properly classified as exogenous. SWBT agrees and thus did not include full SCP expense in developing its exogenous costs. The commencement of 800 data base service required SWBT to replace the main SCP processors to handle increased traffic and records. Therefore, SWBT allocated to exogenous costs only the expense of SCP processor replacement.[8]

MCI also alleges that "none of the LECs appears to have assigned any costs to their interexchange basket, even though they provide interstate, intralata 800 services and, therefore, must assign costs to this service above and beyond access."[9] However, SWBT did not offer interstate intraLATA 800 service to its customers on either the filing date or the effective date of SWBT's original 800 data base filings.

Ad Hoc and National Data complain that SWBT "includes the cost of shared SCPs in its exogenous cost development, and does not account for any future modifications to the uses of the existing SCPs for other services."[10] As SWBT's D & J notes at pages 3-1 and 3-2, SWBT did not include the total costs of its SCPs in determining the exogenous costs associated with 800 data base. SWBT used only those costs incurred in the SCPs as a result of bringing the 800 data base system on line. SWBT did not allocate those specific costs to any other services.

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[8] This is also discussed on page 3-1 of SWBT's Description and Justification (D & J).

[9] MCI at 16.

[10] Ad Hoc and National Data at page 17 of Economics and Technology, Inc.'s "Analysis of Local Exchange Carrier 800 Data Base Direct Case Filings."

C. SWBT's Allocation Of Costs Between 800 DB And LIDB Is Reasonable.

SWBT allocated common costs between Line Information Data Base (LIDB) service and 800 data base to determine 800 data base exogenous costs. Allocation was based on per-query usage. MCI contends that SWBT and other LECs have not demonstrated that a LIDB query is equivalent to an 800 data base query.[11] The only alternative method of allocation, however, would be based on "octets," the common unit of query measurement. The use of octets is not appropriate, though, because 800 queries can vary in length, depending on the number of processing decisions required. This, coupled with the flexibility of 800 number portability, allows changes in 800 queries as often as one desires, thereby significantly increasing the items underlying an allocation factor. Comparing LIDB queries to 800 DB queries on a one-to-one basis is the most reasonable allocation method, because it is based on the most stable data.

No LEC, according to MCI, has shown that its 800 data base rates do not double recover LIDB costs.[12] "For example," says MCI, "SWBT uses 1992 demand for LIDB because 'LIDB was not a tariffed service until 1992,' but fails to demonstrate that it has allocated at least as much investment to LIDB as was recovered in the LIDB tariffs."[13] SWBT used only investment costs incurred since 1992 and non-capitalized expenses incurred since mid-1991 in identifying costs allocated to 800 data base, insuring that those

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[11] MCI at 25.

[12] Id. at 26.

[13] Id.

costs were not recovered in the initial price cap rates or LIDB rates and, thus, not double recovered in 800 data base. SWBT also specifically removed the LIDB portion of the costs prior to determining the total 800 data base exogenous costs, thereby insuring that 800 data base rates did not recover any LIDB related costs.

D. SWBT Properly Allocated Costs Between State And Interstate Services.

MCI alleges that the investment amounts reported by SWBT for exogenous costs do not match the interstate investment amounts reported for jurisdictional separations.[14] In addition, Ad Hoc alleges that the separations results included in Appendix B to SWBT's Direct Case "failed to include results for anything but the interstate 800 category."[15] To respond to this issue, SWBT will provide for the record the same information previously provided in response to MCI's questions during the seven months in which Oppositions were being prepared. The Unit Investment and Cost data provided in Exhibit B of SWBT's Direct Case represent interstate 800 data only, because SWBT interpreted the Commission's request to produce costs to mean costs underlying the filed rate, namely the interstate query. The Total Investment represents SWBT's total company investment, because SWBT interpreted the word "total" to mean "total prior to allocation to the interstate jurisdiction." That SWBT's interpretation of the Commission's request might be different than MCI's does not make SWBT's data invalid or

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[14] MCI at 30.

[15] Ad Hoc at Attachment A, p. 16.

nonsensical, nor does it in any way affect the validity of SWBT's 800 data base rates.

E. SWBT Used The Correct Demand In Its Calculation Of The Exogenous Costs.

Sprint disputes SWBT's query rate calculation (based on exogenous costs incurred over time), claiming that "[i]t makes no sense here to use demand and costs from different time periods."[16] Specifically, Sprint objects to SWBT's dividing the present value of 1991 and 1992 unrecovered costs plus the ongoing 1993/94 costs by 1991 demand. According to Sprint, such a "mismatch" results in an excessively high query rate.[17]

Sprint is incorrect and demonstrates a lack of understanding of the Price Cap restructure Rules. The Commission has allowed 800 data base specific costs to be treated as exogenous cost changes. But some of these costs were incurred prior to the establishment of the query rate element. Plus, there are certain costs which will continue over time. SWBT properly measured the past unrecovered costs on a present value basis. These costs were then levelized over a five year recovery period to avoid the impact on the query rate which a one year recovery would produce. The 1993/1994 costs, representing ongoing expenses, were averaged and added to the levelized past costs. There was obviously no need to reduce the 1993/1994 costs to present value. Once total average annual exogenous costs were determined, they were divided by 1991 recast query demand to produce the query rate. Because the Price

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[16] Sprint at 12.

[17] Id.

Cap restructure Rules require use of base period demand (1991 in this case) to calculate the effect on the API (Actual Price Index), one must divide by this demand to develop a query rate resulting in an API no greater than the PCI (Price Cap Index) increased by total exogenous cost. If costs are divided by demand from a measuring period subsequent to 1991, the rate would result in an API below the cap (assuming demand were higher than 1991 demand), because the change in the API is based on 1991 demand. The query rate or some other Traffic Sensitive basket rate could then be increased to increase the API to the level of the PCI. If the query rate were increased, the resultant rate would equal the rate derived by dividing the exogenous costs by 1991 demand--exactly the result obtained by SWBT. Therefore, dividing exogenous costs by demand from a period other than 1991 is inconsistent with Price Cap Rules and also makes no sense.[18]

Ad Hoc and National Data complain that "SWB created a 1992 count of 800 'queries' . . . [but] [n]o information was provided on how the translation from minutes to queries was accomplished."[19] However, as SWBT's Direct Case explained, SWBT developed the 1992 query count by dividing the actual 800 minutes of use by 2.75.

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[18] MCI mistakenly asserts that SWBT used calendar year 1992 as base period demand. MCI at 42.

[19] Ad Hoc and National Data in Attachment at page 16, footnote 28.

F. SWBT's Administrative Costs Are Appropriate.

MCI complains that carriers have included unidentified administrative costs in their 800 data base rate calculations. Unless the costs are identified, says MCI, they should be treated as overhead and denied exogenous treatment.[20] In Exhibit B, Note 3 of its Direct Case, SWBT identified the composition of its administrative costs by Uniform System of Account (USOA) number. This cost was developed in accordance with Part 36 of the Commission's Rules and therefore is not only fully identified but also completely appropriate.

G. SWBT's SMS Exogenous Costs Are Appropriate.

MCI claims the SMS/800 data provided by SWBT is insufficient to (1) determine whether there will be a double recovery, and (2) compare SMS costs between Bellcore and the LECs in detail.[21] As with much of MCI's Opposition, this allegation is not supported by the record. SWBT did provide the data in question on pages 15-16 of its Direct Case, and the data is clearly sufficient to show that there will be no double recovery and also to allow MCI to make as many comparisons as it desires. Moreover, SWBT questions how MCI can expect to compare SWBT's data to anything when MCI doesn't even read SWBT's data correctly. MCI's Appendix I, Schedule C, identifies $1,153,547 as SWBT's interstate SMS cost. MCI then proceeds to separate the interstate cost into interstate and intrastate costs -- a neat trick. For the record,

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[20] MCI at 34.

[21] Id. at 37-38.

SWBT determined the interstate portion of the SMS costs ($1,153,595 - Direct Case Exhibit B) by multiplying the Total Company cost ($1,621,254) by a 72% PIU (Direct Case Page 16).

MCI's "double recovery" argument is especially difficult to follow. According to MCI, the LECs are "attempting to charge ratepayers over $10.5 million in SMS costs."[22] MCI then asserts:

> "The figure for these LECs should be lower than the total amount the RBOCs will recover from its [sic] SCP Owner Operator SMS contracts, which also includes [sic] contractual charges Bellcore would recover from other ITCs or entities such as ITN, which provides query capability to ITCs."[23]

MCI then alleges that the total amount which the RBOCs will recover from other LECs holding contracts with the RBOCs for SMS/800 service is $40.4 million from May 1, 1993, through December 31, 1997. MCI produces $6.7 million annually as a present value discount at the rate of 11 percent. MCI then concludes: "These figures demonstrate that the LECs will be recovering from their ratepayers in query costs around $4.3 million more annually than the RBOCs allege they will receive contractually for the SMS."[24] MCI then labels this a "double recovery."

It is difficult to know where to begin in analyzing MCI's miscalculations, misstatements and misunderstandings. The most obvious point is that 10.5 minus 6.7 does not equal 4.3. Also, the $10.5 million figure used by MCI as total SMS costs appears to be

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[22] MCI at 39.

[23] Id. at 39.

[24] Id.

based on myriad unstated assumptions and estimates, but who knows? MCI certainly does not explain where the number came from.[25]

MCI appears to be assuming, incorrectly, that SWBT and other RBOCs will receive some portion of the payment made to Data Base Services Management, Inc. (DSMI) by SMS/800 customers.

Here is how the system actually works. The SMS/800 costs submitted by SWBT for exogenous treatment represent SWBT's estimate of what will be billed to SWBT by DSMI for SMS/800 service. SWBT, as discussed repeatedly throughout this docket, has submitted in its Direct Case only the interstate portion of those costs. SWBT will pay a bill to DSMI each month, purely an outgoing SWBT expense, which will be recovered through SWBT's 800 data base query charges.

MCI appears to believe, mistakenly, that the RBOCs will receive some portion or all of the rates received initially by DSMI. DSMI will receive revenue from billings to customers for the use of the SMS/800 data base in Kansas City. These billings provide recovery of DSMI's costs, the largest of which is the data processing bills submitted to DSMI from the Kansas City Data Center (KCDC). There is no cash flow from DSMI to the RBOCs. DSMI revenue merely covers DSMI expenses. Indeed, DSMI has filed with the Commission a Motion for Waiver of certain Part 32 Rules to allow such accounting. Since none of the DSMI dollars flow to SWBT

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[25] Because of such mistakes and miscalculations in MCI's Opposition and the attachment thereto, SWBT needs the time to examine all of MCI's calculations and conclusions. The nine day response time, however, which the Commission has refused to extend, has denied SWBT the opportunity to make such a detailed examination in this Reply phase.

in its capacity as a customer of DSMI, SWBT receives no distribution from DSMI. There is thus no double recovery.

II. SWBT'S USE OF METHOD 2 TO RESTRUCTURE THE TRAFFIC-SENSITIVE BASKET WAS APPROPRIATE.

AT&T asserts that SWBT's use of the Method 2[26] restructure technique should be rejected, and that the Commission should require SWBT to use Method 3.[27] Although AT&T makes several valid observations, its conclusion is flawed and, at least in SWBT's case, also moot.

AT&T correctly notes that the Commission concluded that the existing Rules do not specifically address the 800 data base situation of a simultaneous exogenous cost adjustment and a restructure,[28] that the Commission found that Method 2 appears to comply with Price Cap Rules,[29] and that both Method 1 and Method 3 would require a waiver of the Rules.[30] AT&T nevertheless urges the Commission to, in effect, impose a waiver of the Rules upon SWBT when none is needed or requested, and further force SWBT to change to Method 3 for its calculations.

According to AT&T, Method 2 creates additional pricing flexibility in service categories other than 800 data base,[31]

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[26] Method 2 calculates changes associated with the exogenous cost change first and then restructures the Traffic-Sensitive basket.

[27] AT&T at 10.

[28] Id. at 4.

[29] Id. at 8.

[30] Id. at 6-7, ftnts. 14-15.

[31] Id. at 8.

contrary to Price Cap policy, which requires a restructure not to result in a change in pricing flexibility for existing service categories.[32] AT&T fails to mention, however, that any change in pricing flexibility will be caused not by the restructure but rather by the exogenous cost change--which results in a change in band limits and thus pricing flexibility whether the exogenous cost change occurs before or after restructure. Existing Rules specifically require a change in all service category band limits when a basket PCI is modified as a result of an exogenous cost change. As SWBT pointed out on page 5 of its Direct Case, the effect is no different than any other exogenous cost change (such as a Dial Equipment Minute [DEM] change) related to a specific service category. The current Rules were not designed to allocate the entirety of an exogenous cost to a specific service category or rate element. Under Price Caps, the rates must reflect service specific costs only for a new service filing. In the present case, the Commission has declared 800 data base to be restructured.

Although Method 2 slightly increased upward pricing flexibility and decreased downward pricing flexibility for existing service categories (less than 0.6%), SWBT did not adjust any rates in these categories in the 800 data base filing or at any time prior to the 1993 annual filing (which took effect two months after the effective date of the 800 data base tariff). Since unused pricing flexibility is lost at the end of each tariff period, the additional pricing flexibility complained of by AT&T did not result in any rate, index or permanent change in pricing flexibility for

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[32] Id. at 5.

any existing SWBT rate element. AT&T is simply wrong to claim that Method 2 will allow "permanent" upward pricing flexibility.[33]

In SWBT's case, 800 data base exogenous costs are not being recovered from other service categories. Imposing Method 3 on SWBT, as AT&T desires, would not change any 800 data base rates or indices. The rates would remain in-band, and the current band limits would be unchanged. Method 3 would also require a change or waiver of the Commission's Rules governing the exogenous adjustment mechanism. The more appropriate place to suggest changes in exogenous treatment is in the Notice of Proposed Rulemaking in CC Docket No. 94-1, the Price Cap Performance Review for Local Exchange Carriers.

III. NPA/NXX ROUTING IS PART OF BASIC SERVICE.

MCI states that SWBT has not been clear that geographic AOS (area of service) routing at the NPA/NXX level is part of SWBT's basic service.[34] SWBT will review its tariff to determine if clarification is necessary.[35]

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[33] Id. at 10. Band limits are calculated annually by applying the allowed pricing flexibility to the end of tariff period SBI. The previous year band limits are irrelevant. Therefore, since the end of tariff period rates and SBIs were in-band relative to both Method 2 and Method 3 band limits, no permanent change in pricing flexibility resulted from SWBT's use of Method 2.

[34] MCI at 54.

[35] SWBT has already responded to this issue on April 1, 1993, in its Reply to the Petitions to Reject or Suspend SWBT's FCC Tariff No. 73, Transmittal No. 2264. At page six, SWBT comments that "Southwestern Bell's 800 NPAS basic query service includes the identification of a carrier for an 800 number based on the geographic origination of the call--from as low as a specific NPA/NXX, NPA, or LATA, up to any combination of the same."

IV. SWBT'S PIU PROPOSAL IS ACCURATE.

ARINC "is concerned" about SWBT's proposal to determine the Percentage of Interstate Usage (PIU) of 800 traffic from call detail.[36] Unless SWBT "describes specifically" its call detail and method of calculation, ARINC argues, customers should continue to report their own PIU.[37]

SWBT will bill according to actual jurisdiction if the POTS number is provided with the 800 call. When the POTS number is provided, SWBT's access recording will have both the originating and terminating numbers, and SWBT can then determine true jurisdiction. If the POTS number is not available (that is, if 800 turnaround is used), jurisdiction must be determined via the PIU billing factor. This is consistent with current SWBT procedures and tariffs (see page 2-36 of SWBT Tariff F.C.C. No. 73) and also with Commission directives to bill accurately whenever jurisdiction can be determined.

V. SWBT'S ZERO RATE FOR POTS TRANSLATION IS CORRECT.

MCI complains that SWBT must establish a non-zero rate for performing 800 queries which include POTS translations.[38] MCI claims that the FCC has mandated such action, and that SWBT is violating that mandate by filing a zero rate. SWBT has responded

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[36] The PIU issue is contained in the attachment to ARINC's Comments, which is a copy of ARINC's Petition to Reject or, in the Alternative, Suspend and Investigate. SWBT's Reply of April 1, 1993 (at page 8) has already responded to this issue, but SWBT will repeat its response again.

[37] Id.

[38] MCI at 56-57.

to this issue numerous times but will repeat that SWBT cannot identify any incremental costs resulting from POTS translation service. In response to a query, the SWBT SCP either returns a ten digit 800 number or a ten digit POTS number. SWBT has complied with the Commission directives by establishing a separate rate for 800 queries with POTS translation. In addition, SWBT has priced this rate element at or above its incremental cost as required by law. Thus, SWBT's zero rate for a POTS translation is correct.

VI. SWBT DOES NOT OFFER RESP ORG SERVICE.

MCI requests the Commission to require SWBT and others to file tariff language to define Resp Org (Responsible Organization) service.[39] Resp Org service is offered by any entity (LEC, RBOC, IXC, consulting firm, etc.) to providers of 800 service. The Resp Org loads, maintains and administers 800 routing records in the SMS/800 on behalf of each specific provider. As noted by MCI, this service is included in some RBOC tariffs, but not all (including SWBT). The Commission has never held that Resp Org service must be offered under Title II of the Communications Act. Carriers are free to offer it, or not, as they see fit. SWBT has simply chosen not to offer the service.

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[39] Id. at 60.

VII. THE KANSAS CITY DATA CENTER COSTS ARE REASONABLE.

A. Kansas City Data Center Costs Are Incurred Solely for the Provision of SMS/800 Service.

MCI complains that SWBT has not demonstrated that Kansas City Data Center (KCDC) costs "are incurred solely for the provision of SMS/800 access services."[40] Approximately 25 pages[41] of SWBT's Direct Case, however, describe KCDC costs and the method of cost apportionment to SMS/800. SWBT's Direct Case describes at length and in detail which KCDC costs are associated with SMS/800. MCI's allegation is simply wrong.

MCI also complains that the contract with SWBT for data center services was not awarded by competitive bidding. This allegation is also incorrect. The current SMS/800 contract with SWBT, effective since April of 1989, was established by competitive bidding. Moreover, the KCDC is reviewed monthly by Bellcore.

The KCDC costs are primarily determined by the equipment used to provide SMS/800 services, and the equipment requirements were established by Bellcore through a lengthy review by various industry participants. Thus, a major portion of SMS/800 costs is established by a third party.

Consequently, there are controls in place regarding the KCDC: (1) a contract established by competitive bid; (2) a monthly review of billed charges; and (3) equipment standards and requirements established by Bellcore.

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[40] Id. at 64.

[41] SWBT Direct Case at 20-40, Exhibits C & D.

MCI alleges that Commission Rule 32.27(d) requires SWBT to make a complete accounting of KCDC costs. This rule, however, is inapplicable. The service performed by the KCDC on behalf of Bellcore constitutes a nonregulated line of business, which, when provided to an affiliate, need not follow affiliate "costing" rules.[42]

B. SWBT Has Properly Allocated Start-Up Costs.

MCI also complains that "[s]ince no [SMS/800] usage would be generated by a service that is not yet deployed, it is unclear how incremental 'start-up' costs were allocated to SMS/800 for these components."[43] Prior to number portability, however, the KCDC was providing an intrastate SMS/800 service to LECs. Hardware upgrades necessary for portability and ongoing support services were determined by Bellcore and installed in July of 1992 to meet key conversion dates. Much of this equipment is thus easily identifiable as specific to the SMS/800 system. For equipment not dedicated to SMS/800, allocations of cost to the SMS/800 system were determined by specific usage measurements. This process is explained in depth on pages 29-39 and Exhibit D of SWBT's Direct Case.

MCI also questions what period of time was involved for start-up costs prior to May 1, 1993, and also wonders how SWBT has

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[42] In the Matter of United Telephone System Companies' Permanent Cost Allocation Manuals for the Separation of Regulated and Non-Regulated Costs, Order, AAD 90-22, released July 10, 1992, ¶12. "When a carrier provides a nonregulated service to its affiliate and records the transaction in a nonregulated revenue account, 32.27 does not apply."

[43] MCI at 67.

distinguished such supposedly incremental costs from ongoing expenses. The start-up period, as described above, began in July of 1992. The identification process, also discussed above, focused upon "incremental" hardware dedicated solely to SMS/800. Usage-based cost allocations were applied to upgraded hardware with more uses than strictly SMS/800.

C. Allnet's Troubled Sleep Is Not SWBT's Fault.

Though admitting that SWBT has priced KCDC services at fully distributed costs and secured the equipment for the center upgrade through competitive bidding, Allnet nevertheless asserts that "[n]either of these claims is a basis for a restful night's sleep."[44] The implication is that overpricing may be occurring because of KCDC expenses, but Allnet, typically, presents nothing beyond innuendo to support the claim. In fact, the KCDC has been providing system support and data communication to Bellcore and the telephone industry since 1984 and currently provides support for six systems other than SMS/800, several of which were established through competitive bidding. The SMS/800 contract was likewise open to competitive bidding. Also, the KCDC costs and charges are reviewed monthly by Bellcore.

Allnet also asserts that, because data processing services are commonly available from different sources, "Section 32.27(d) requires that such multi-sourcable [sic] services be 'recorded at the market rate.'"[45] The KCDC, however, is a

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[44] Allnet at 12.

[45] Id.