Gina Harrison
Director
Federal Regulatory Relations

1275 Pennsylvania Avenue, N.W., Suite 400
Washington, D.C. 20004
(202) 383-6423

PACIFIC TELESIS
Group-Washington

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OFFICE OF SECRETARY

April 10, 1995

William F. Caton
Acting Secretary
Federal Communications Commission
Mail Stop 1170
1919 M Street, N.W., Room 222
Washington, D.C. 20554

Dear Mr. Caton:

Re: *RM-8614 - Unbundling of Local Exchange Carrier Common Line Facilities*

On behalf of Pacific Bell and Nevada Bell, please find enclosed an original and six copies of their *"Comments"* in the above proceeding.

Please stamp and return the provided copy to confirm your receipt. Please contact me should you have any questions or require additional information concerning this matter.

Sincerely,

Gina Harrison/AFC

Enclosure

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List A B C D E

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

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OFFICE OF SECRETARY

In the Matter of Unbundling of Local Exchange Carrier Common Line Facilities	RM - 8614

COMMENTS OF PACIFIC COMPANIES

Pacific Bell and Nevada Bell (the "Pacific Companies" or "Pacific") hereby file comments in response to the Petition for Rulemaking filed by MFS Communications Company, Inc. ("MFS Petition") pursuant to 47 C.F.R. § 1.405 of the Commission's rules.

I. State Level Proceedings Promise to Examine and Resolve Issues Related To Unbundling.

MFS' Petition only addresses unbundling. State proceedings are attempting to balance and address the related issues of universal service, network interconnection and the provision of other optional support services by incumbent LECs to the incoming competing LECs.[1] In support of local competition in our region, we intend to offer full interconnection to our network to competitive LECs. We will also provide interim number portability to other

[1] See for example, In the Matter of Alternative Regulatory Frameworks For Local Exchange Carriers, I.87-11-033, Interim Opinion at 2, 6 (December 21, 1994).

service providers, access to E 9-1-1 interconnection, and access to operator services and listing services if desired by the competing LECs.[2]

These steps will facilitate the introduction of local competition along the timelines proposed by the California Commission[3] and will also meet the requirements of the California Long Distance Telecommunications Consumer Choice Act ("Consumer Choice Act").[4] The Consumer Choice Act became effective on the first of this year. It seeks to increase competition in the long distance market in California by assisting in the elimination of outdated Consent Decree restrictions which prohibit us from competing in the provision of long distance services. In addition to focusing on opening all telecommunications markets to competition and balancing competing issues, this legislation requires that "... all competitors have fair, nondiscriminatory, and mutually open access to exchanges currently subject to the modified final judgment and interexchange facilities, including fair unbundling of exchange facilities, as prescribed in the Commission's Open Access and Network Architecture Development Proceeding..."[5] The statute reflects state policy to allow us into the interLATA market when specified safeguards are met. It further recognizes that our "economy and infrastructure will benefit if all communications service providers are allowed to invest and compete on a fair and equal basis without the prohibitions imposed by the federal court."[6]

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[2] See In the Matter of Alternative Regulatory Frameworks For Local Exchange Carriers, Proposal of Pacific Bell Concerning Interim Rules For Local Competition at 14 (January 31, 1995) (hereinafter referred to as "Interim Rules Proposal").
[3] Enhancing California's Competitive Strength: A Strategy For Telecommunications Infrastructure, California Public Utilities Commission at 19 (November 1993).
[4] Cal. Pub. Util. Code section 709.2.
[5] See Cal. Pub. Util. Code section 709.2(c)(1).
[6] Id.

II. The States Are Best Able to Oversee Local Competition Issues. A Rulemaking Is Unnecessary.

We support the introduction of local competition and have actively participated in California and Nevada proceedings which are currently investigating and adjudicating local competition issues. We have offered to unbundle our voice grade local loops when local competition is authorized.[7] Moreover, there is no state that has ordered local competition that is not also moving to unbundling of the local loop.

We have performed technology tests, successfully, of unbundled links and ports as we promised in the proposal we filed in the California Public Utilities Commission's (CPUC's) investigation concerning open access and network architecture development over a year ago.[8] The success of these tests illustrate that there are no technical issues associated with unbundling the local loop for this Commission to address in a rulemaking. We therefore agree with MFS when it states that "loop unbundling will not require a significant development of new standards, hardware upgrades or software changes. In most cases, it will be in the best interest of all carriers if the incumbent LECs continue to use primarily the same technical practices that they are using today."[9] A rulemaking is not necessary to identify and resolve technical issues.

The relief sought by MFS in its Petition-- "the ability to interconnect at a LEC central office to transmission facilities that provide voice-grade transmission paths to customers'

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[7] See Interim Rules Proposal at 14. See also "Competition to the Core. California's Plan for Local Telecommunications Competition," presented by Pacific Bell to the California Public Utilities Commission, April 3, 1995 (attached).

[8] See Investigation on the Commission's Own Motion into Open Access and Network Architecture Development of Dominant Carrier Networks, I.93-04-002, Opening Comments of Pacific Bell at 120 (February 8, 1994).

[9] MFS Petition at 35.

premises within the service area of that central office,"[10] -- is being met through state local competition proceedings. MFS appears to be looking for problems to solve that are already being solved by state jurisdictions. Legislation pending in Congress will also likely address unbundling and local competition issues.[11] A rulemaking by this Commission is premature and unnecessary and, if initiated, would be redundant and could be in conflict with the legislation or have the unintended result of delaying implementation of local competition rules at the state level pending resolution of the federal rulemaking. Any necessary action on interstate issues may be addressed as they arise (e.g., Part 69 waivers to change the way and manner in which End User Common Line and Carrier Common Line Charges are levied).

III. If a Rulemaking Is Opened, It Must Be Modified.

The states are in the process of addressing unbundling issues and therefore a rulemaking is not necessary. However, if the Commission determines that a rulemaking is appropriate, MFS' petition should not be used as the sole guide. In particular, MFS has proposed pricing recommendations that are self-interested and economically unsound.

Although MFS accurately states that "the Commission has no jurisdiction over the pricing of unbundled loops in state tariffs," MFS urges the Commission to develop "voluntary" standards for pricing.[12] MFS contends that once the LEC unbundles its local loop, it must set prices in such a way as to avoid a "price squeeze" caused by "pricing the loop so high relative to its rates for local exchange service as to make it impossible for competitors to use the unbundled

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[10] Id. at 5.
[11] See Senate Bill No. 652 sponsored by Senator Pressler, "Telecommunications Competition and Deregulation Act of 1995."
[12] MFS Petition at 33.

loop to provide local exchange service at a price competitive with the incumbent LEC."[13] MFS' price squeeze rationale is flawed because the unbundled local loop supports the offering of more products than subsidized local exchange service; it also provides access to toll services and interexchange access services. The price to be charged for the unbundled local loop must consider these corollary products and services for which the loop provides access.

MFS' analogy of the local loop to the aluminum ingot as discussed in the *Alcoa* case is limited and inappropriate.[14] The aluminum ingot in *Alcoa* was an element only in the manufacture of aluminum sheeting. The market that Alcoa and its wholesale competitors were involved in was aluminum sheets. Thus, the price of the ingot was critical to pricing of aluminum sheets. MFS contends that the price of the unbundled loop is key to the development of local exchange service pricing and that the LEC must price its loop such that MFS may sell local exchange service at a competitive price with LECs.[15] It is well known that local exchange service is priced below its cost, receiving subsidy from other services. In California, local exchange basic rates were intentionally set well below fully allocated cost.[16] The incumbent LEC's losses from these contributing services that local competition will bring pose serious universal service questions. However, for MFS to suggest that the local loop should be priced well below current LEC retail local exchange service prices fails to acknowledge that (1) local exchange services are priced below cost, (2) they receive subsidy and (3) the local loop provides

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[13] Id. at 24 (emphasis added).
[14] Id. at 25.
[15] Id.
[16] In the Matter of Alternative Regulatory Frameworks For Local Exchange Carriers, __ Cal.P.U.C.2d __, D.94-09-065, mimeo at 315-316 (Sept. 15, 1994) (hereinafter referred to as the "IRD Decision").

access to additional services, including toll and interLATA access. MFS' price squeeze arguments have no support in the law or common sense.

MFS further claims the Commission must address how interstate End User Common Line (EUCL) and Carrier Common Line (CCL) charges will be assessed and calculated for unbundled loops.[17] LECs have the option to apply the current charges and procedures to unbundled loops or to request a waiver as Rochester Telephone did. We do not believe a rulemaking is required to determine new rules solely for unbundled loops. However, if the Commission does decide to address the issue, then as discussed below, the Commission should consider proposals to eliminate the remaining CCL charges.

Currently, Pacific Bell and other local exchange carriers recover the interstate portion of local loop costs through the EUCL and CCL charges. Our EUCL charge is $3.50 per month for residence and single line business customers and $4.72 per month for multiline business. The EUCL is billed directly to the end user customer while the CCL charge is billed to interexchange carriers (IXCs) based on the access minutes carried over the local loops. When a competitor orders an unbundled loop, it will bundle the loop with its switch and sell message services to end users and access services to IXCs. Also, depending on presubscription requirements, competitors might resell IXC toll services instead of providing access to IXCs. If we applied existing tariffs to unbundled loops, we would bill competitors the appropriate residence or business EUCL charge and CCL charges. We would know the total number of local loops provided but the competitor would have to identify how many were for residence and

[17] MFS Petition at 32.

single line business. The competitor would also need to report the number of interstate access minutes carried by the unbundled loops.

In its petition, MFS proposes that the EUCL charge be recovered from the competitor ordering the unbundled loop, but that CCL not apply since the LEC cannot measure the minutes of use.[18] However, the competing provider will measure the minutes and could report them to the LEC. MFS' proposal to exempt competitors from the CCL would result in an inappropriate subsidy to competitors. It would cause LECs to provide loops to competitors at rates below existing tariffs and would create a price umbrella for competitors. When the LECs provide access to IXCs, (loops and switching bundled together) the CCL would apply. However, if the loop was unbundled and connected to a competitor's switch and used to provide access to IXCs, the CCL would not apply. At our current CCL rate, the competitor would have a price umbrella of $.0072 per minute when providing switched access to IXCs. This is clearly an inappropriate outcome and would place us at a competitive disadvantage.

We have long urged the Commission to reform the interstate access structure and eliminate inappropriate subsidies, such as the CCL, in the current structure.[19] In our requests for access charge reform we've proposed rate restructuring, pricing flexibility and decodification of Part 69 in addition to recommending the elimination of inappropriate subsidies. By applying common line charges to a LEC's unbundled loops, competitors would have to self-report the volume of interstate minutes on the loops for LECs to bill the CCL. Such CCL reporting by

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[18] Id. at 43.

[19] See , Reform of the Interstate Access Charge Rules, Petition for Rulemaking of the United States Telephone Association, RM-8356, filed September 17, 1993; and see Reply Comments of Pacific Bell and Nevada Bell, filed November 15, 1993.

competitors would not be a reasonable long-term solution. Individual LECs should have the option of having competitors self-report CCL minutes or file a waiver to recover CCL on a per link basis as Rochester Telephone obtained.[20] Either of these would be satisfactory in the short-term until the Commission reforms the access structure.

Therefore, if the Commission decides to open a rulemaking to address common line charges for unbundled loops, we urge the Commission to expand the scope to include proposals to eliminate the interstate CCL. The California Public Utilities Commission eliminated the intrastate CCL for all California LECs on January 1, 1995.[21] We believe that this Commission should take the necessary steps to finally eliminate the remaining interstate CCL as well. The Commission could then either increase the EUCL or develop a competitively neutral funding mechanism for the CCL in the universal service proceeding.

IV. Conclusion

MFS' petition proposes solutions looking for problems that simply do not exist. There is no need for the Commission to open a rulemaking to address the unbundling of local loops; it is being addressed by state Commissions, including California and Nevada. Pending Federal legislation may also render MFS' petition moot. There are no disputed technical issues that the Commission needs to address in order to create national uniform standards for interconnection to the local switch; current standards are well understood and if issues arise with new technology, the national standards bodies can better resolve them. The issue of pricing of

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[20] In the Matter of Rochester Telephone Corp. Petition For Waivers to Implement its Open Market Plan, FCC 95-96, Order, released Mar. 7, 1995.
[21] IRD Decision at 121,312.

the local loop is not one for this Commission; it lacks jurisdiction to set prices for intrastate tariff services.

The resources of this Commission are better spent attacking the myriad of issues before it, including universal service requirements. If the Commission wishes to open a meaningful rulemaking, it should initiate one related to our petition to offer interexchange services filed in 1993.[22] The only way to truly benefit consumers is to authorize full competition by all providers in the local and long distance markets.

Respectfully submitted,

PACIFIC BELL

Theresa L. Cabral

MARLIN D. ARD
THERESA L. CABRAL

2600 Camino Ramon, Rm. 2W806
San Ramon, California 94583
(510) 823-4463

JAMES L. WURTZ

1275 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
(202) 383-6472

Its Attorneys

Date: April 10, 1995

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[22] In The Matter Of Petition For Rulemaking To Determine The Terms And Conditions Under Which Tier 1 LECs Should Be Permitted To Provide InterLATA Telecommunications Services, RM-8303, Petition for Rulemaking of the Bell Companies, filed July 15, 1993.

J. A. Guldner
Vice President
Regulatory

140 New Montgomery Street, Room 1814
San Francisco, California 94105
(415) 542-4916

PACIFIC BELL®
A Pacific Telesis Company

April 3, 1995

President Daniel Wm. Fessler
California Public Utilities Commission
505 Van Ness Avenue, Room 5218
San Francisco, Ca. 94102

Dear President Fessler,

The settlement process may be over but our commitment to local competition remains very strong. Attached are two items; a summary of the Plan titled "Competition to the Core", and a more detailed description of how the plan can be implemented to move ahead with local competition even earlier than the Commission's January 1, 1997 target. We believe that the Plan provides what Californians want. Californians enjoy service quality and network reliability which is among the best in the U.S. and the world. They don't want this to be placed at risk by plans that would prevent current Local Exchange Providers from continued investments.

The Plan rests on two simple points. First, it focuses on the Commission's objective of opening local markets soon. Second, it addresses the integrated issues that require action when local markets face wide-open competition instead of relying on stop-gap interim rules. We urge that the Commission promptly move ahead with proceedings on NRF reform, rules for Local Competition, and adoption of a specific plan to protect Universal Service. We also note that pending federal legislation is designed so that presubscription and interLATA relief occur at the same time. Given this development, the Commission should turn its attention - and apply its limited resources - to proceedings that will bring about Local Competition, NRF Reform, and Universal Service Protection on a coordinated basis. The Plan does just that.

Thank you for considering these proposals, and we look forward to working with the Commission and other parties to bring life to the Commission's infrastructure Report Goals.

Sincerely,

Attachments
cc: J. Jiminez

"Competition to the Core"
California's Plan for Local Telecommunications Competition

California's goal is to "open all markets" to competition by January 1, 1997. Local Competition is a top priority which Pacific Bell endorses. But throwing local markets open without reforming regulation and also without enabling competition across the board would be a damaging and lasting mistake. It would be wrong to assume that local competition will have no effect on universal service. Californians enjoy service quality and network reliability which are among the best in the U.S. and the world. They don't want this to be placed at risk by plans that would prevent current Local Exchange Providers from continued investments. Before local competitors unleash their highly targeted marketing plans to capture the most profitable revenues --- revenues that are the bedrock of universal services --- a plan to protect universal service must be in place.

"Competition to the Core" is a plan to open all California telecommunications markets and services to competition as early as January 1996. The plan provides customers with the benefits of competition and provides the competitors with all of the flexibilities needed to effectively enter any market that they choose. The plan has the following components and objectives:

Universal Service and Consumer Protections:
California customer's have the highest quality service at some of the most affordable prices in the nation. That can't change. The plan continues high quality service, the most successful Lifeline program in the nation, and puts in place a universal service funding mechanism to make sure no Californian sees a loss in quality of service.

Free and Open Entry for all Services:
Competitors should be able to enter any market with minimal regulation by January 1, 1996. An expedited procedure for entry should quickly be adopted.

Competitive Response to Meet Actual Competitors:
Where competitors enter, incumbent LECs are permitted to lower price and offer new services with the same regulation that governs new entry so long as other prices for basic services are not raised.

Unbundled Networks at Some of the Lowest Prices in the Nation:
Pacific Bell will unbundle its network into links (loops), ports (switching), and access to signaling systems. Moreover, a $10 link price will be provided, a price which is below Pacific's basic prices and a price which is among the lowest, if not the lowest, state-wide link price in the nation. A range of port types are provided starting with a basic port at $4.50/month.

Interconnection of Networks at Some of the Lowest Prices in the Nation:
Pacific Bell will interconnect with local competitors for a price of about 1.4 cent a minute (for terminating traffic), which again is one of the lowest interconnection prices in the country.

Interim and Permanent Number Portability, Including a Number Portability Trial:
Pacific Bell will provide immediate number portability through a remote call forwarding-like service. The price --- $3 a month with no usage charge --- matches the low price recently agreed to in New York. Moreover, Pacific Bell will commit $5,000,000 toward a standards based number portability trial if other industry participants will match that amount.

Resale of Local Exchange Services:
As soon as interLATA relief is implemented, full resale of basic exchange services will be offered, including both the access line and local usage.

Reform Regulation WITHOUT RATE REBALANCING or RAISING ANY BASIC PRICES:
Today's regulation needs to be changed to eliminate sharing, price indexing, and earnings caps and floors. This should happen effective for 1996, and Pacific Bell will cap current basic prices for three years.

HOW WILL THE PLAN BE ACCOMPLISHED?

Proceedings should be started immediately to adopt the rules for local competition, reform current regulation, and establish a plan for universal service funding. The Commission has already said that it will start a local competition proceeding and a proceeding for regulatory reform. It has in place a rule making proceeding for universal service. These proceedings should move ahead immediately, with two objectives:

- The Commission should continue to urge parties to settle these issues;
- Local competition, with regulatory reform and a universal service funding plan, should take effect in early 1996.

Are interim local competition rules necessary?
No. Interim rules will not address the broader issues of regulatory reform, competitive response, and universal service funding that are required before local competition can be effective. The Plan proposes that the Commission deals with all outstanding issues so that it can introduce rules that provide maximum benefit for customers and a fair balance among competitors. If interim rules are still desired, the plan proposed in Pacific Bell's January 31, 1995 filing should be adopted.

Does the Commission have to act on presubscription?
Again, the answer is plainly no. Pending federal legislation has tied presubscription to RBOC entry into the interLATA market. It would be premature, and possibly meaningless, for the Commission to commence a long and contentious proceeding on these topics when federal legislation could resolve the matter. As Judge Harold Greene stated seven years ago, presubscription without interLATA authority would put BOCs at an "insuperable disadvantage." The competitive imbalance would create long term service risks for Californians. Pacific Bell agrees --- as it always has --- to move ahead immediately with presubscription when interLATA relief is implemented.

"Competition to the Core"
California's Plan for Local Telecommunications Competition

THE FOLLOWING is a MORE DETAILED DESCRIPTION of the Plan "COMPETITION to the CORE"

I. Universal Service

The cornerstone of any effective plan for opening local markets to competition is a good Universal Service Plan. Most policy makers agree that there is a need to maintain telecommunications universal service. For the benefit of society, public policy requires that certain services should continue to be priced below costs. The services which are generally priced below costs are basic access lines and local usage. To the extent that these costs are not covered by the prices for these services, the costs are subsidized by prices of toll and switched access charges which are significantly above costs. A subsidy pool exists today which is funded by Pacific Bell's toll and switched access services. The pool then pays the uncovered costs of services which are priced below costs. The fundamental precept of the plan is that all suppliers of these services — not just Pacific Bell — should fund universal service in a competitively neutral way.

The plan shows how the current internal Pacific Bell subsidy pool can be made more generally applicable to the needs of the total local exchange industry as the market is opened to competition. The Universal Service Solution shall address state and interstate universal service funding requirements and shall meet the following requirements:

1. The Fund shall apply to below cost Basic Services provided by a carrier of last resort (COLR).

2. Basic Services are the following:
   a. Voice Grade Residence Local Exchange Service
   (includes access to directory assistance, operator service, emergency service)
   b. Voice Grade Business Local Exchange Service
   (includes access to directory assistance, operator service, emergency service)

3. All providers of local telecommunications services, whether facilities based or resale, should contribute to the Universal Service Fund in a competitively neutral manner

4. All universal service support should flow from the Universal Service Fund. All implicit or hidden subsidies should be eliminated upon implementation of the Fund.

5. In addition to meeting the above described price vs. cost deficit, Universal Service should be supportive of the achievement of the goal of 95% penetration of disadvantaged customers, meeting the needs of deaf and disabled customers, and the provisioning of lifeline service.

II. Entry by New Providers:

New entrants have requested immediate approval to enter local markets and the CPUC has stated their goal to open the local markets to competition by January 1997. Pacific Bell's plan provides for significant new competitive opportunities in 1995 and very broad market opening as early as January 1996 which includes unbundling of local facilities.

New Entrant Certification:
New entrants have asked for streamlined processes for entry and certification with minimum regulation. The Plan would enable new entrants to enter effectively. Requirements proposed for certification are consistent with and no more stringent than processes already designed by the CPUC to protect the customers of California. The Plan provides the consumer protection requirements that are in place today for existing LECs. Requirements such as those which protect Customer Proprietary Network Information are important to customers and Pacific's plan supports the CPUC's emphasis on such consumer protections. Pacific continues to be obligated to meet service availability and quality standards.

III. Competitive Response by Incumbent LECs:
Consumers will receive maximum benefits from a communications market in which all participants can compete vigorously. All competitors must have equal rules and requirements governing competitive flexibilities.

Downward Pricing Flexibility:
The Plan enables new entrant LECs to enter all or any part of the California market that they choose. The relaxation of regulatory requirements on Pacific Bell should be effective only for the areas in which competitors have requested certification. In such areas where competitors have entered, Pacific should be given downward pricing flexibility. In addition, Pacific Bell commits to not increase basic service prices in any area for 3 years with the implementation of this complete plan. Reduced prices are obviously of benefit to customers.

IV. Resale of Basic Services:
In their public filings, new entrants have asked that Pacific Bell offer all of its basic services for resale. The Plan makes this offer to be implemented at the time that Pacific is permitted to enter the interLATA markets. This is one of the most significant offers in the plan because it enables the very large number of competitors who have little or no facilities to enter the market. It is also of significant value to current IECs with facilities.

V. Access to Telephone Numbers:
Number Assignment
Pacific Bell will continue to act as the NNX custodian until a third party custodian is established. In the role of custodian, Pacific will provide access to telephone numbers (and NXX's until a permanent number portability solution is implemented) for assignment to new entrant LEC's telephone exchange service customers based on the CPUC defined rate areas. New entrants have asked for complete flexibility in the assignment of numbers to customers. The Commission understands the importance to customers of number planning, and particularly the importance of the relationship of particular NNXs to geographic locations. Wide-open access to numbers could cause chaos for customers. For example, if numbering issues are not carefully considered and implemented, customers will not know if a call is a local or toll call.

The Plan requires that existing rate areas, as established by the CPUC, be maintained. This enables continued geographic recognition by customers to permit estimation of call costs. Using the existing rate areas does not restrict the flexibility of new entrants to offer any creative pricing and service bundling plan that they may wish to establish. New entrants need not offer local calling included in a low line rate even though Pacific may continue to be obligated to do so.

Number Portability
In their public filings, new entrants have stated that number portability is necessary for open competition. The Plan offers competitors the best form of number portability available today plus a commitment to support the development of new technology for number portability. Until long term number portability is developed, number portability will be provided through remote call forwarding with a very attractive price. The price offered is $3.00/month per line with no usage charges associated with the number portability feature. A long term number portability arrangement will be implemented when national standards are created and implementation is technically feasibility and economically reasonable. Pacific Bell agrees to conduct a permanent number portability trial designed consistent with national standards. Pacific Bell will invest $5 million for the development of permanent number portability if other industry participants will contribute a like amount.

VI. Unbundling of LEC Networks:

New entrants have asked to be able to utilize Pacific's local loops and switching systems on an unbundled basis in conjunction with their own facilities. The Plan offers local loop transmission (i.e., transmission from the central office to the customer's premises) unbundled from local switching or other services and local switching unbundled from the remainder of the network. The Plan would make these available by January 1996. The Plan price of an unbundled loop is $10.00 per month plus universal service funding and end user common line charge.

Access to Pacific Bell Facilities:
New entrants have also asked for access to the poles, ducts, conduits, and rights of way owned or controlled by Pacific Bell where Pacific has the legal authority to permit such access and where there is capacity available. The Plan provides for this access.

Access to Pacific Bell Support Services:
New entrants have asked for access to support services. The Plan provides for access to 911 and E911 services and also access to directory assistance services to allow other carriers' customers to obtain telephone numbers. The plan also offers access to operator call completion services and also white and yellow page directory listings. Also offered is effective coordination of end user repair, maintenance, and activation services

VII. Network Interconnection:

New entrants have asked that interconnection arrangements be established for completion of local calls between LECs with appropriate coverage of the costs of the use of each network. The Plan establishes the capability to exchange local calling between customers of two or more local carriers with reciprocal compensation arrangements between the carriers. The price for interconnection will be equal to switched access charges, about 1.4 cents per minute, which is among the lowest in the country. new entrants should establish their interconnection prices based on their costs.

Meet Point:
The Plan permits each carrier specify where their facilities will terminate on (meet) the facilities of the other carrier and this is what new entrants have requested.

VIII. Presubscription (IntraLATA Equal Access):

New entrants have asked that equal access (1+ dialing, no 10XXX) be implemented for intraLATA calls. Presubscription will be implemented when interLATA relief is granted so that extra digits are not required to reach the presubscribed carriers for any calls.

IX. Centrex FRS:

Material deleted in compliance with ex parte rules.

X. Resale of Basic Services:

New entrants have asked to be permitted to resell basic services. When interLATA flexibility is authorized, Pacific Bell will offer to resell its local access lines (with or without local usage) and intraLATA services. Access lines and local usage will be offered to others on a resale basis on the same basis that these services are charged internally for Pacific Bell's own marketing of the services.

XI. Regulatory Reform - Changes to Regulation

The Plan calls for the transformation of the current new regulatory framework (NRF) structure to a pure price regulation structure when local competition is authorized. This Plan recognizes that the market structure for which NRF was designed has changed. The Plan's specific proposals are:

- Elimination of price indexing (inflation less productivity).
- Basic prices are frozen for three years, with only downward pricing flexibility allowed, as a part of the adoption of the overall plan.
- Earnings floors, ceilings, and sharing are eliminated.
- Except for jurisdictional cost shifts, Z factors are eliminated.

XII. Satisfying Costa Bill Requirements:

The Plan provides all of the ingredients requested by the California Legislature in the Costa Bill. Upon implementation of the plan, Pacific Bell will meet the Costa Safeguards.

XIII. InterLATA Market Entry:

The Plan calls for permission to enter the interLATA market at the time that resale and presubscription are implemented. If local markets are opened to unrestricted competition while the local exchange carriers are barred from providing long distance service - even within California - California customers will be disadvantaged. Customers would be denied one-stop shopping at Pacific Bell - the only major California based competitor. Thus, competition would be reduced and customers would pay more for less value.