APPENDIX 1

PACIFIC BELL'S SURVEY CONFIRMS THE IMPORTANCE OF GEOGRAPHIC NUMBER PORTABILITY

Pacific's own data show that there are situations in which number portability is the most important factor in a customer's decision as to whether to switch to an alternative local service provider, and that number portability is a critical factor in almost all of the scenarios considered in the Pacific survey. For example, if no discount on local service is offered, Pacific found that 10% of businesses would be willing to switch their main lines even if they had to switch their number; this figure more than doubles, to 21%, if number portability is available.[1] Therefore, at no discount, number portability is the most significant factor in a customer's decision to switch. Even at a 25% discount, ability to retain the current telephone number accounts for a one-third increase in the percentage of businesses willing to switch their main lines (from 34% to 45%; *id.*). These results demonstrate that availability of number portability is in fact an extremely significant factor in a customer's choice of local service provider.

While a shift in market share of "only" 10% may seem inconsequential to Pacific, a 10% gain in market share is enormous to entities battling for customers in a competitive environment. For example, 11 years after divestiture and after the expenditure

[1] See Pacific Survey, p. 49. These figures assume that the incumbent long distance company offers local, toll and long distance service.

of billions of dollars in network upgrades and marketing expense, Sprint Communications Co. has approximately 10% of the toll service market as measured by long distance carriers' revenues, and 6.4% of the market as measured by presubscribed lines.[2] Competitive access providers, which collectively had an estimated 0.4% share of interstate access revenues in 1993,[3] would no doubt be delighted with a ten percentage point increase in market share.

Moreover, a discount of "only" 12% is hardly insignificant, and indeed, 12% appears to be the minimum required for business customers to even consider switching;[4] according to Pacific's survey, larger discounts would be needed to attract larger market shares. Pacific's study provides no insight into how many years a competitive local service provider would have to offer such a discount to attract customers, and Pacific offers no evidence that its competitors will be able to finance this discount because they (the competitors) have lower costs than does Pacific. A 12% discount may seem minor to a carrier earning a

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[2] Long Distance Market Share, First Quarter 1995, Industry Analysis Division, released July 21, 1995, Tables 4 and 5. If LEC toll revenues are included, Sprint's market share is an estimated 8.2% (*id.,* Table 5).

[3] Common Carrier Competition, Industry Analysis Division, released May 31, 1995, p. 6.

[4] "For example, large businesses tended to want a higher discount (more than 10%) before they would evaluate an offer to switch..." (Pacific Survey, p. 22).

15.29% rate of return;[5] however, margins in competitive markets such as the interexchange business are much narrower.[6]

The phrasing of the questions in Pacific's survey may also have affected the survey results. For example, Pacific's survey "was designed to replicate the likely [sales] 'pitch' as much as possible," *i.e.*, it emphasized the competitive benefits of switching to another service provider and minimized the importance of the existing number and the possible need to change that number.[7] By downplaying the absence of number portability, Pacific's survey likely found a greater willingness to switch among its respondents. Had Pacific phrased its questions in such a way as to emphasize that customers might have to change their telephone numbers (*e.g.*, how likely are you to switch to another local service provider if you had to change your telephone number?), Pacific's results might have more closely resembled those generated by the MCI and MFS surveys.

In any event, Pacific's use of precise numbers to support its claim that number portability is a relatively unimportant factor is quite misleading. Unlike MCI and MFS, which reported the percentage of their respondents who were very or somewhat unlikely to switch if they had to change their numbers, Pacific

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[5] According to its Form 492 dated May 8, 1995, Pacific Bell earned 15.29% on its interstate services for calendar year 1994.

[6] For example, Sprint Communications had a 8.89% operating margin in 1994.

[7] Pacific Survey, p. 22; see also p. 11 (respondents asked about their willingness to switch if their telephone number "remains the same").

computed weighted averages of survey responses "to more closely estimate the actual demand under any specific scenario."[8] It is not clear what the results of Pacific's survey would have been had they been presented in a manner similar to that used by MCI and MFS. It is also unclear what results would have been generated had Pacific used different conversion factors.

Pacific's survey results may also be skewed by the inclusion of some apparently anomalous results. For example, its research addendum indicates that some customers are more likely to switch to another local service provider at a 15% discount than at a 25% discount. Although Pacific does not indicate how often these responses were obtained, their inclusion may well have affected the overall conclusions.

It also appears that Pacific's survey model is treats all factors independently; thus, Pacific concludes that there would be an approximate 10% increase in the percentage of customers likely to switch to another local service provider at all discount levels. Although it is a more complicated task to combine the various factors rather than to treat them as independent variables, such an approach might well generate different results, especially in regards to the discount level.

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[8] Pacific Survey, p. 16. For example, Pacific applied some apparently arbitrary "conversion factors" "to account for some tendencies frequently found in market research studies that lead to an inflated estimation of demand. Some of these tendencies include overstatement by respondents (who are more likely to agree to switch during the survey process than in reality), inertia in actually switching services and lower levels of awareness of competitive offerings (since all respondents were educated about the potential competition)" (*id.*).

Finally, Sprint would note that Pacific surveyed only its own business customers (in California), while both MCI and MFS surveyed business customers across the country (*i.e.,* customers who received local service from LECs other than Pacific Bell). No matter what the survey results are, the Commission should be cautious about deciding whether to mandate service provider number portability solely on the basis of a region- and carrier-specific survey such as Pacific's.

CERTIFICATE OF SERVICE

I, Joan A. Hesler, hereby certify that on this 12th day of September, 1995 a true copy of the foregoing "COMMENTS" filed by SPRINT CORPORATION were Hand Delivered to upon each of the parties listed below.

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