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FEDERAL COMMUNICATIONS COMMISSION
WASHINGTON, D.C. 20554

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: 800 Database Hardware Support Procurement

Dear Ladies and Gentlemen:¹

Several of you have raised concerns about the recent procurement process to select a hardware vendor for the 800 Service Management System (800 database), and about the participation of Southwestern Bell Telephone Company (Southwestern Bell) as a bidder in that process. Although issues related to the implementation of the 800 database have largely been the responsibility of the industry -- subject to the parameters set forth in our orders in Docket 86-10 -- many of you have asked that the Commission initiate an investigation of the 800 database procurement process. We take seriously the allegations that have been made about potential conflicts of interest, and we have actively monitored the progress of the procurement. This letter summarizes our review of the allegations and the procurement process to select a hardware vendor, and our reasons for concluding that FCC intervention in the procurement process at this time is not warranted.

As you know, the 800 database was developed by Bellcore, a wholly-owned subsidiary of the seven Regional Bell Operating Companies (BOCs), and was implemented under conditions established by the FCC in our orders in Docket 86-10. Bellcore has established a subsidiary corporation, Database Service Management, Inc. (DSMI) to handle certain support functions for the database, and has contracted out the operation of the 800 Number Administration and Service Center (NASC) to Lockheed IMS. In addition, the BOC Service Management Team (BOC SMT), consisting of one representative from each BOC, was established to manage certain responsibilities under the BOCs' joint 800 SMS tariff. Southwestern Bell currently operates the SMS/800 data center, and, under contract, provides, operates, and maintains the physical hardware of the 800 database. Bellcore recently initiated an open bidding process for the hardware supply contract currently held by Southwestern Bell, and hired an outside consultant, Nolan Norton & Company, Inc. (NNC) to manage the procurement, with the final decision being made by the BOC SMT. We have been informed that, at its April 20, 1995 meeting, the BOC SMT reviewed the bids of the finalists chosen by NNC, and selected Southwestern Bell to continue as the operator of the SMS/800 data center.

¹ A list of parties to whom this letter has been sent is attached as an Appendix.

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Several parties have argued that the participation of Southwestern Bell -- or any BOC -- as a bidder in this procurement constitutes a conflict of interest, because Southwestern Bell is also represented on the BOC SMT and is a part owner of Bellcore. In addition, questions have been raised about the possible abuse of proprietary information by the hardware supplier, and about the competitive implications of permitting the BOCs or Bellcore to continue to perform certain functions with respect to the 800 database. Such concerns are serious and legitimate, and the Commission is committed to ensuring that the 800 database is operated in a procompetitive, nondiscriminatory manner. Upon review of the allegations about the current procurement process, however, the Common Carrier Bureau does not believe that any direct intervention by the FCC is warranted at this time.

In 1989, the Commission reviewed the BOC proposal for the 800 database, and issued the 800 Order governing the implementation of the database system.² At that time, IXCs and others complained that it was inappropriate for Bellcore, as subsidiary of the BOCs, to administer the 800 database. The BOCs stated in response that they would select, by competitive bidding, an independent third party to perform administrative functions for the database system. The Commission concluded that the BOCs had adequately responded to the concerns raised, and Lockheed IMS was subsequently selected as the administrator of the NASC. As in 1989, parties to the current dispute over the hardware support procurement have not alleged specific acts of discrimination by the BOCs or Bellcore in connection with the 800 database, and the FCC complaint process remains available to address such conduct if it exists.

We do not find sufficient evidence to justify a requirement that the hardware vendor be a neutral third party. Bellcore has outlined in its letters the limited scope of the hardware supplier's functions, and the procedures to prevent Southwestern Bell, as operator of the SMS/800 data center, from obtaining proprietary information as a result of its position. In contrast to the NASC, which has direct contact with 800 database users and must often access the proprietary customer data contained in the 800 database records, the hardware supplier does not have access to detailed customer information. Access to the 800 database is provided under tariff, which provides a mechanism for the Commission to ensure that the rates charged to non-BOCs in connection with the 800 database are not unreasonably inflated as a consequence of abuse of the hardware supply contract. Under these conditions, given the fact that the NASC is operated by a neutral third party, we do not believe that it is improper for one of the BOCs to operate the SMS/800 data center.

The most serious charge leveled against the procurement process involves the possible conflict of interest created when a BOC is both a bidder for the contract and a member of the selection committee. After Commission staff raised questions about this aspect of the bidding process, however, the BOC SMT agreed that any BOC selected as a finalist for the

² Provision of Access for 800 Service, Report and Order, 4 FCC Rcd 2824, 2835, paras. 89-90 (1989).

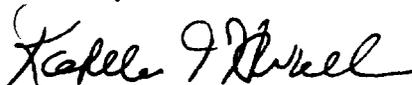
hardware contract would not participate in the final selection. As a result of this decision, Southwestern Bell played no role in the final review of bids and selection of the winning bidder. Moreover, the procurement was managed by an independent third-party consulting firm, Southwestern Bell implemented an internal "wall of insulation" to prevent improper contacts between employees, and the members of the BOC SMT did not receive any information on the bidders until NNC had narrowed the field to three finalists. Under these circumstances, we are satisfied that the process established for the hardware procurement was not sufficiently flawed to necessitate intervention by the Commission.

Several parties have claimed that the 800 database will be used as a model for local number portability. According to this argument, the BOCs or Bellcore may seek to leverage their experience with 800 portability in order to manipulate the architecture of a future local number portability database for their own competitive advantage. Given the fact that true local number portability has not yet been implemented in any jurisdiction, and our satisfaction that the current administrative structure for the 800 database is reasonable, we do not believe that the risks to local number portability are so great as to require FCC intervention. We acknowledge, however, that the experience with 800 portability may offer lessons and models for the implementation of an analogous system at the local level. Local number portability is an important building block for effective local exchange competition, and we are preparing to initiate a proceeding to investigate the many significant questions raised by number portability. We intend to consider issues of administration and ownership of local number portability database in that proceeding, and we encourage parties to raise their specific concerns in that forum.

None of the other more specific allegations made against the 800 database hardware procurement process rises to a level justifying FCC intervention. Parties have had an opportunity to raise concerns about the operational structure of the 800 database by filing comments in the proceeding leading to the 800 Order and elsewhere, and have either not done so or have not convinced the Commission that the present structure is unreasonable.

We recognize that the development of competition in telecommunications services, and in particular the possibility of BOC entry into the interexchange market, make questions such as those raised about the 800 database hardware procurement increasingly salient. We shall continue to monitor the administration of the 800 database system, and will consider seriously any specific allegations in the future of anticompetitive conduct by Bellcore, Southwestern Bell, or the other BOCs in connection with the 800 database.

Sincerely,



Kathleen M.H. Wallman
Chief, Common Carrier Bureau

Appendix

This letter has been distributed to the following parties, all of whom authored letters either to the Commission or to each other about the 800 database procurement:

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