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May 24, 1996

EX PARTE

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: CC Docket No. 95-116, Number Portability

Yesterday, Jerry Abercrombie and David Kaufman of Pacific Bell conferred by telephone with Susan McMaster of the Policy and Planning Division of the Common Carrier Bureau regarding interim number portability, specifically the provisions of the attached CPUC order. Please associate this material with the above referenced proceeding.

We are submitting two copies of this notice in accordance with Section 1.1206(a)(1) of the Commission's Rules.

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,

Alan Ciamporcero

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APR 12 1996

Decision 96-04-052 April 10, 1996

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Order Instituting Rulemaking on the Commission's Own Motion Into Competition for Local Exchange Service.	R.95-04-043 (Filed April 26, 1995)
Order Instituting Investigation on the Commission's Own Motion into Competition for Local Exchange Service.	I.95-04-044 (Filed April 26, 1995)

(See Appendix A for appearances.)

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INTERIM OPINION
ON LOCAL NUMBER PORTABILITY

I. Introduction

In our initial rules for local exchange service competition applicable to the service territories of Pacific Bell (Pacific) and General Telephone California, Inc. (GTEC), we adopted the policy that service-provider number portability should be accomplished.[1] With the advent of competition for local exchange service, we recognized the importance of assuring that consumers could retain use of their existing telephone numbers when changing providers of local telephone service. Service-provider number portability provides competitive local carriers (CLCs) with the ability to offer prospective retail customers the opportunity to retain the use of their existing telephone numbers. In the absence of service-provider number portability, customers of the LEC would have to forfeit their existing telephone numbers as a condition of switching to a new local provider. This impediment would be an unacceptable constraint on the development of a competitive market.

By this decision, we implement this policy by ordering Pacific and GTEC to file tariffs for the wholesale provision of "interim number portability" (INP) consistent with the prices, terms, and other conditions we adopt today. Further, we order CLCs to offer INP service to the incumbent LECs, Pacific and GTEC, as well as to other CLCs, under reciprocal terms and conditions at equivalent rates to those adopted for the incumbent LECs.

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1 Initial Local Competition Rules Decision (D.) 95-07-054 (Initial Rules), Appendix A, p. 1, in the Competition Rulemaking (R.) 95-04-043) and Investigation (I.) 95-04-044).

We stated in our Initial Rules adopted in D.95-07-054 that INP should be provided by Remote Call Forwarding (RCF),[2] Direct Inward Dialing (DID),[3] or equivalent means. Further, we required CLCs to arrange for transport facilities to the central office where portability is sought, and to reciprocate by offering portability to the incumbent LECs. However, there are technical limitations involved in reliance on these interim measures. For example, neither the RCF nor the DID INP solutions allow calls to be routed directly to the newly specified carrier's network without first being delivered to the incumbent carrier's serving central office.[4] Nevertheless, these interim measures are necessary

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2 Remote Call Forwarding allows a customer to have a local telephone number in a distant location. Every time someone calls that number, that call is forwarded to the RCF customer in the distant location. Remote call forwarding is similar to call forwarding on a residential line, except that the RCF customer has no phone, no office and no physical presence in that location.

3 "A DID (Direct Inward Dial) trunk is a trunk from the Central office which passes the last two to four digits of the Listed Directory Number into the PBX, thus allowing the PBX to switch the call to and thus ring the correct extension" without the use of an attendant (Newton's Telecom Dictionary). Existing DID retail service is limited to PBX services. For purposes of providing INP, Pacific and GTEC will use the DID switch functionality to provide INP to any CLC customer regardless of the type of terminal equipment used on the customers' premises.

4 Under the North American Numbering Plan, each local telephone number has 7 digits, NXX-XXXX. The NXX portion of the number identifies the serving central office within an area code, and the XXXX is the individual customer's unique address. A specific NXX code cannot currently be shared by more than one carrier. All assigned and active NXXs are published in the Local Exchange Routing Guide. All carriers, including local exchange carriers

(Footnote continues on next page)

until a permanent technical solution to service provider number portability is found.[5]

The wholesale rates for INP we adopt today are based on direct embedded costs (DEC), and shall remain in effect until changed as a result of improved cost-study inputs based upon total-service long-run incremental costs (TSLRIC). Cost studies based on TSLRIC are being developed in our concurrent rulemaking and investigation into Open Access and Network Architecture Development (OANAD), R.93-04-003 and I.93-04-002.

While we approve the use of DEC-based rates for INP for an interim period, we also authorize the establishment of memorandum accounts as described in detail below to track the revenues collected from billings of INP rates adopted in this decision. We will permit a true-up of past billings once valid TSLRIC-based rates are adopted.

(Footnote continued from previous page)

and interexchange carriers, use this guide to route calls to customers. Each customer number is tied to one central office switch, and all calls made to that customer number must be routed to that central office switch.

5 Initial Rules, slip opinion at pp. 35-36. The California Local Number Portability Task Force is preparing a report which will provide a comparative analysis of various solutions for long-term LNP, provide a comparative assessment of the relevant solutions' implementation costs, describe the criteria used to evaluate the LNP solutions considered, recommend a solution, and recommend whether a trial of the recommended solution is necessary or whether other implementation method should be considered. The report is due January 31, 1996.

II. Procedural Background

By issuance of D.94-12-053, we formally adopted a procedural plan to open all telecommunications markets within California to competition by January 1, 1997. As part of that plan, we instituted R.95-04-043/I.95-04-044 on April 26, 1995 in which interim rules were proposed for local exchange competition within the service territories of Pacific and GTEC. The proposed rules included provisions for INP.

In July 1995, we issued D.95-07-054 which set forth our initial rules for the competitive provision of local exchange service within the territories of Pacific and GTEC. As prescribed by D.95-07-054, entry into the local exchange service market for facilities-based CLCs was authorized to begin January 1, 1996 and for CLC resellers of local exchange service by March 1, 1996. As part of those rules, we established a schedule calling for evidentiary hearings on the rates, terms and conditions for INP.

By ruling dated August 18, 1995, the assigned administrative law judge (ALJ) adopted a procedural schedule instituting three phases for the instant proceeding. The ALJ's schedule called for INP issues to be divided between Phase I and Phase II of the proceeding. In Phase I, initial rates for INP service would be adopted based on DEC, and become effective by January 1, 1996. As prescribed by D.95-07-054, the INP service was to be priced initially equal to DEC, with a memorandum account to track INP billings so that a true up of billed amounts could be made once finalized rates were established. As part of Phase II, we would consider the broader question of the proper pricing methodology for INP and revise the rates accordingly. Further, parties were to address the relevance of DID as an alternative to RCF for providing INP, and the need to develop separate rates for the DID solution. Per the ALJ's schedule, a Commission decision on Phase II issues was scheduled for vote during late February 1996.

Pacific and GTEC filed proposed INP tariffs on September 18, 1995. Phase I written comments filed on October 2, 1995 included parties' remarks regarding the reasonableness of terms and conditions, other than rates, contained in the proposed INP tariffs of Pacific and GTEC.

Testimony on INP rate issues was served by Pacific, GTEC, the Commission's Division of Ratepayer Advocates (DRA), MCI Telecommunications Corp. (MCI), and Citizens Utilities on Phase I issues on October 2 and on Phase II issues on October 9. The California Telecommunications Coalition (Coalition) filed a single brief in support of MCI's position. The members of the Coalition joining in the brief included AT&T Communications of California, Inc.; California Association of Long Distance Telephone Companies; California Cable Television Association (CCTA); California Payphone Association; Teleport Communications Group (TCG); Time Warner AxS of California, L.P.; and Toward Utility Rate Normalization (TURN). CCTA, ICG Access Services, Inc. (ICG), and TCG did not file their own Phase I testimony, but did file letters expressing their support for the testimony submitted by MCI. Separate briefs were filed by ICG and Metropolitan Fiber Systems (MFS).

Evidentiary hearings, designated as Phase I, were held during the week of October 16, 1995, to determine the appropriate DEC-based charges for INP. During these evidentiary hearings, GTEC filed a motion to strike Phase I testimony of MCI and DRA witnesses on the grounds that the testimony should be heard in Phase II. The disputed testimony addressed the conceptual rationale for determining INP rates, a Phase II issue, as opposed to the limited issue of the correct value for DEC, a Phase I issue. As a way to resolve the motion, MCI requested that the Phase I and II hearing issues related to INP pricing be consolidated and addressed in a single Commission decision. MCI believed that it was more appropriate for the Commission to address these issues together

even though it would result in issuance of a decision on INP issues after January 1, 1996.

Parties acceded to MCI's request. Accordingly, the ALJ adjusted the Phase II hearing schedule to consider Phase II INP issues as a first priority. The ALJ also established a schedule that called for Phase I and II INP issues to be briefed simultaneously and decided in a single decision. Accordingly, concurrent briefs on Phase I and II INP pricing issues were filed on December 4, 1995.

III. Technical Means for Providing Interim Number Portability

A. Parties' Positions

Parties presented varying views on the technical means by which tariffed INP service should be offered. In addition to RCF and DID, two additional technical means based on DID technology were presented in this proceeding: flex-DID, and route indexing.

1. Remote Call Forwarding (RCF)

An RCF-based approach is Pacific's preferred means of providing INP because it employs an existing technology. Pacific's proposed wholesale RCF service, which we shall term CLC-RCF, uses the same end-office feature capability as retail RCF, but Pacific packages it into a service offering to support carriers' requirements to "port" numbers, i.e., to transfer a subscriber's phone number from the LEC to a CLC. Pacific calls the new service "Directory Number Call Forwarding" to distinguish it from its current retail RCF offering. Pacific intends that its INP service only be offered to CLCs with authority to provide local exchange service. Pacific's CLC-RCF service allows customers to move or port their phone numbers from the LEC to a CLC's local exchange service as long as the end user remains at the same location or within the serving area of the original LEC switch. For Centrex numbers that do not conform to DID number block criteria, Pacific

states that its CLC-RCF could be used for INP. CLC-RCF could also be used for number portability if only some of the Centrex numbers needed to be ported (e.g., pilot numbers).

Pacific prefers the RCF method for providing INP because it can be employed to port telephone numbers of various types of local services, including residence, business, Centrex, DID, and customer-owned pay telephones. A second advantage of CLC-RCF cited by Pacific is that separate trunks are not needed for terminating ported calls to a carrier because the same interconnection trunks needed to terminate calls to a carrier can be used for porting calls. Finally, the ported number can be forwarded to any carrier number since the two numbers do not have to match in any way, as is the case with DID.

Pacific states that CLC-RCF could be available on January 1, 1996, because the technology and routing capabilities for such service are already deployed in Pacific's network. Since the new carrier provides dial tone to the retail customer, any originating call features and functions are unaffected by the porting of the number for terminating calls.

However, Pacific acknowledges that there are limitations for those customers who would choose to keep their telephone numbers through the CLC-RCF interim technical solution related to the use of features that rely on calling-party-number (CPN) identification such as call return, call screening, selective call acceptance, call trace, and Caller ID. This is because the switch that originates the call to the new carrier's switch will insert into the switch's signalling message the ported number as the calling number and the customer's new carrier's assigned-number as the called number. The true number of the calling party is thus not available at the new carrier's switch. Pacific states that its customers will also experience a lack of CPN-dependant feature activation because the new carrier's switch will most likely insert

the CLC-assigned number for CPN rather than the ported number.[6] Pacific considers certain limitations unavoidable and asserts they will exist with INP solutions that use RCF technology. However, Pacific believes that the benefits of CLC-RCF outweigh its shortcomings.

GTEC also proposes an RCF-based service called "Service Provider Number Portability" (SPNP) as its preferred means of providing INP.

2. Direct Inward Dialing (DID)

Pacific does not oppose the use of its current DID service by new carriers at currently tariffed rates as an INP option. If a Pacific customer subscribes to DID, Pacific states that that customer's DID number could be ported to a specified carrier. For Centrex customers, however, the DID process could only be used for those Centrex numbers that conform to the DID number block criteria.[7]

Pacific sees two major problems in using DID for INP. The first problem is that a dedicated trunk group from the Pacific switch to a new carrier's switch is required to effectuate DID-based INP. The interconnection facility between Pacific and a new carrier cannot carry the DID service, Pacific contends, because DID uses a different form of signalling from interconnection trunks. The use of dedicated DID trunks between Pacific's switches and CLC switches would not be economic if only a few numbers are

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6 Pacific believes some problems with CPN-dependent feature activation can be avoided for its customers if the CLCs program their switches to replace the calling party's number with the ported number.

7 For GTEC, the number block criterion is 20 numbers, and for Pacific, 100 numbers.

ported. These DID trunks, according to Pacific, would be required over and above the interconnection trunks needed for normal traffic terminating to a carrier because they use a different form of signalling.

The second problem cited by Pacific is that DID requires the last four digits of the telephone number being ported to be translated to the same last four digits in the CLC switch. This either limits the number of times DID could be used or requires the CLC to have more prefixes. Pacific asserts, therefore, that DID-based means for providing INP are enormously wasteful of number resources.

Like Pacific, GTEC offers its currently tariffed DID service as an alternative to CLC-RCF service as a means for providing INP.

MCI recommends that Pacific and GTEC be required to offer DID capabilities as an INP option. MCI believes that restricting the method for providing INP needlessly limits customer choice in a way that is incompatible with the premise of local competition. MCI asserts that a DID-based option is both technically superior and less expensive than INP routing using RCF capabilities. According to MCI, DID-based INP is technically superior to CLC-RCF since DID capabilities allow use of certain custom calling features that cannot be enabled when using RCF. As noted above, Pacific acknowledges this drawback of CLC-RCF service.[8] MCI also asserts that DID capabilities eliminate the number-exhaust problems inherent in the use of RCF. Again, Pacific disagrees, arguing that

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8 Both MCI and Pacific acknowledge that certain custom calling features cannot be activated when using either an RCF-based or DID-based means of providing INP. MCI asserts that the list of features which cannot be activated when using a DID-based technology is shorter.

a DID-based solution would require a number translation as described above, a fact that exacerbates rather than mitigates number exhaust.

DRA recommends that the incumbent LECs and new carriers not be required to use DID for INP. DRA recognizes that DID capabilities may be important for services which are not portable by RCF, but that the feasibility and applicability of DID to provide INP, and other alternative technologies, should be explored further.

3. Flex-DID

MCI defines flex-DID as the availability of direct inward dialing numbers on a one-at-a-time basis rather than in blocks of 20 or 100 numbers. MCI's assessment of the advantages of DID-based means for providing INP apply equally to flex-DID. Further, MCI notes that Ameritech, Bell Atlantic, and NYNEX all offer INP using flex-DID.

Pacific believes that flex-DID is not a practical alternative since it currently has no such product and does not intend to offer one.[9] Further, the disadvantages applicable to DID apply equally to flex-DID. Even if Pacific were to develop flex-DID, Pacific expects little demand for the product since in other jurisdictions where flex-DID is offered, meaningful demand for the service has not materialized. However, Pacific is willing to examine developing flex-DID if it is assured recovery of all costs incurred to develop the product.

GTEC also regards flex-DID as impractical, stating that its administrative costs would be enormous. GTEC agrees that

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9 Pacific currently offers DID only in blocks of 100.

using DID to provide INP would lead to more rapid number exhaustion.

4. **Route Indexing**

MCI proposes that Pacific develop and offer a variant of DID, referred to as a "route indexing" option.[10] Route Indexing (RI) is described by Pacific's witness Shelton as a technical functionality of Pacific's DID service.[11] MCI described route indexing as a service which consists of memory and route indexing software only. It is distinguished from flex-DID by the fact that flex-DID also requires dedicated trunk cards or dedicated interoffice facilities. Pacific concurred in this description.[12] MCI argues for the use of RI costs as the appropriate basis for the DEC of DID.

Pacific believes that RI could possibly work over the trunks established to carry local traffic. However, Pacific asserts that route indexing as a means of providing INP requires the creation, use and maintenance of "steering digits" by the carrier forwarding the call, and the development of "pseudo codes" by the new carrier. The steering digits would identify the CLC to which the calls should be forwarded. The costs of providing this service are unknown, Pacific continues, and it is unclear how much time and resources would be required to develop it.[13] Pacific, though reluctant, is willing to examine route indexing as another alternative means for providing INP.[14]

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10 Rt. 534.

11 3 RT 412, 9-14 and 413, 2-5.

12 4 RT 457, lines 9-22.

13 Pacific Brief, pp. 11-13.

14 Tr. 4, p. 525, lines 16-19.

B. Discussion

We share Pacific's and GTEC's concerns about the economic feasibility of flex DID and route indexing as means of providing INP. Likewise, the uncertainties regarding the cost to implement route indexing as an INP functionality as discussed above makes it premature to establish tariffed rates for this service at the present time. Once the details of implementation and uncertainties regarding associated costs can be resolved, however, we believe that route indexing has potential promise as a DID variant.

While there are no technical reasons why the LECs could not offer flex-DID, we conclude that it would not be economically cost effective to offer the service given the lack of proven market demand at this time. Because the DID provisioning process is completely manual, the nonrecurring charge for a single service would be quite high. Also, each single DID number would require at least one trunk.[15]

Pacific has indicated that it is planning to implement a 20-number block DID service, but is not planning a flex-DID service.[16] We shall direct Pacific to implement the 20-number block service no later than four months from the effective date of this order. While we will not require the LECs at this time to offer flex-DID, we shall direct the LECs to gather further information regarding the market demand for flex-DID and the cost-effectiveness of flex-DID as market demand grows over time. We also direct the LECs to continue to work toward the implementation of the route indexing functionality and the quantification of its associated costs. We shall review the LECs' progress toward

15 RT 409.

16 RT 409.

developing these alternative DID functionalities and consider a timetable for their subsequent adoption as INP offerings as part of Phase III of this proceeding.

In the interest of timely implementation of INP, it is important that we adopt an economically feasible approach. We agree with MCI that carriers should be allowed to choose between RCF- and DID-based INP services. Therefore, Pacific and GTEC are required to make available INP employing RCF and DID as tariffed Category I services to certificated CLCs. Pacific and GTEC are not required to make available at this time INP employing route indexing and flex DID.

IV. Overview of Parties' INP Pricing Proposals

Parties disagree concerning the appropriate basis for pricing INP services. At the broadest level, the disagreement centers on whether INP services should be priced at DEC or LRIC. Parties also disagree on whether a contribution to common costs should be included in the price in addition to recovery of direct costs.

We also heard debate on whether the costs the incumbent LECs argue should be recovered are valid components of DEC. Among the recurring costs GTEC seeks to recover are usage-based costs. Their appropriateness was also challenged.

In this section, we will review parties' pricing proposals and address whether DEC is an appropriate measure upon which to rely for the pricing of INP. In the subsequent section, we will address the reasonableness of parties' estimates of DEC for the provision of wholesale INP.

A. Pacific

Pacific proposes INP rates based on DEC. Pacific relied on the DEC identification model used in the IRD proceeding, and used 1994 actual retail RCF cost data for developing the CLC-RCF

DEC. Pacific recommends that its proposed DEC-based prices for CLC-RCF services remain in place pending the completion of the OANAD proceeding. At that time, Pacific recommends that the DEC-based prices for CLC-RCF services, be replaced by a longer-term price floor based on the TSLRIC methodology.[17]

Pacific asserts that it is economically unsound to ignore the need for prices to contribute to a portion of the shared and common costs of doing business. Pacific argues that if a business sets its prices at long run incremental cost it will not recover all of its costs, and therefore fail. Some markup for efficient firm-wide costs and shared costs should be included in the price for a service or product. Pacific therefore concludes that the long-term price for INP should be set to cover long-run incremental cost plus an appropriate contribution to shared and common costs.

Pacific proposes the following rates and charges based upon its estimates of DEC of CLC-RCF:

(1) a monthly recurring charge (MRC) of $3.25[18] per number associated with the RCF functionality (e.g., retaining the call forwarding information in Pacific's central office switch), based on DEC of $3.20; and the setup per attempt ($0.030)

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17 Pacific argues that incremental costs are relevant for setting price floors and as a starting point to determine the appropriate contribution amount to shared and common costs. They are not appropriate, Pacific continues, for setting actual prices for any service.

18 The $3.25/month would be per number ported. At the time the new carrier orders CLC-RCF service, it could choose to have up to 99 access paths assigned to the ported number with no additional CLC-RCF related charges by Pacific. If the new carrier later wants to change the number of simultaneous calls to the ported number, Pacific would impose a charge of $45.15 per number to make the change. (Tr., 5, pp. 691-92.)

to arrive at a total DEC of $3.23, rounded up to arrive at the recurring charge of $3.25;

(2) a nonrecurring charge (NRC) of $31.75 per number associated with ordering and provisioning the service. An alternative proposed NRC is offered of $75.50 for the first number and $10 for each additional ported number on the same order (based on DEC of $31.66 per number or $75.36 for the first number on each service order and $9.81 for each additional number on the same service order); and

(3) an NRC for providing number referral upon disconnect of $31.25 per number or $74.75 for the first number and $9.50 for each additional ported number on the same order (based on DEC $31.17 for each number or $74.53 for the first number and $9.49 for each additional number on the same service order).

Pacific proposes a separate option for pricing and recovering the NRC whereby such NRCs for CLC-RCF services would be recorded in a balancing account and recovered via a surcharge on all California end user customers. The amount recorded in the account would be either the actual accounting cost of installing CLC-RCF, or alternatively, the number of CLC-RCF service installations multiplied by the total service long run incremental cost of installing CLC-RCF as established in the OANAD proceeding.

Pacific does not include the DEC of holding time per minute of use in its charge. Pacific waives this usage charge because the service is interim, so long as the CLC does not charge Pacific terminating charges for the forwarded calls.

Pacific also submitted recommended charges, based on DEC for the DID approach to INP. Pacific proposes a MRC for DID of $45.00 per 100 number block and $50.00 per circuit termination with PBX trunk based on Pacific's existing retail DID tariffs. Pacific

also recommends relying on the existing tariff for the nonrecurring costs and their recovery.

B. GTEC

GTEC also based its CLC-RCF rate proposals on DEC cost estimates. GTEC relied upon the 1990 calculation of DEC for residential and business RCF that was submitted in the IRD proceeding. However, since GTEC subsequently made changes in the types of switches used in its network, it conducted further modelling to determine the functionally significant cost components of the RCF switch feature when offered through the new types of switches.

GTEC does not propose the adoption of any LRIC-based prices. In fact, GTEC asks the Commission to find its DEC-based price for CLC-RCF services reasonable for the duration of the interim period until permanent number portability is instituted.[19]

GTEC proposes the following rates and charges for its CLC-RCF service, all based upon its estimates of DEC:

(1) A MRC of $3.81 based on the functionally significant cost components for the RCF switch feature, composed of $3.28 for monthly line termination costs, $0.49 for processing, and $0.04 for memory.[20]

(2) monthly recurring usage charge (i.e., switching and transport), converted to a monthly flat rate of $2.70. In arriving at usage costs for CLC-RCF service, GTEC assumed 380 minutes of monthly use with an

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19 GTEC Phase I Brief, p. 39.

20 Tr. 14, p. 2415, lines 3-5; and p. 2419, lines 14-27. The calculation of GTEC's DEC for SPNP usage cannot be found in its written testimony, only its testimony elicited under cross examination (Tr. 14, p. 2415, lines 6-8; and p. 2422, lines 1-9).

average 4.1 minute holding time,[21] and a DEC of $0.0129 for the first minute and $0.0053 for each additional minute.[22]

(3) a recurring usage charge for simultaneous call capability of $2.70; and

(4) a nonrecurring charge of $228.94[23] per order, up to 99 numbers, and $221.20 for each additional 99 numbers, where each service order applies to only one central office.[24] For example, if a CLC placed an order for 150 ported numbers that happen to be in 25 GTEC central offices, the nonrecurring charge would be 25 times $228.94.[25]

Although GTEC performed no LRIC study of its CLC-RCF service, GTEC's witness testified that the DEC of CLC-RCF service is higher than its LRIC.[26] GTEC states that it priced its CLC-RCF service at DEC in order to cover the LRIC of the service, and provide a level of contribution to common overheads. GTEC observes that the level of contribution above LRIC for most products and services is determined by market forces. CLC-RCF, however, is not an existing

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21 Tr. 14, p. 2475, lines 14-24.

22 GTEC's DEC for SPNP usage includes no costs for local switching and transport, only for toll switching and transport (Tr. 14, p. 2420, lines 8-24; p. 2422, lines 16-20; and p. 2438, lines 16-27).

23 Tr. 14, pp. 2456-57.

24 Tr. 14, p. 2457, lines 14-18.

25 Tr. 14, p. 2459, lines 11-16.

26 Tr. 14, p. 2402, lines 4-17.

service, so GTEC concludes that the measurable level of reasonable contribution that the market will bear is not ascertainable without extensive demand forecasts and analysis. The contribution which is contained in the proposed DEC-based prices for CLC-RCF service is, therefore, an appropriate estimate in GTEC's view.

GTEC's proposed tariff dated November 1, 1995, states that some applications may require the ability to terminate multiple simultaneous calls for a single CLC-RCF service number. In these instances, the charge of $2.70/month is applied for each simultaneous call capability. GTEC's witness testified that there are no feature costs for simultaneous call capability, and that the $2.70/month is the DEC of usage, i.e., switching and transport, for CLC-RCF service, the same $2.70/month of usage cost built into the CLC-RCF service MRC of $6.50.[27]

GTEC argues against the MCI proposal to cap the monthly recurring rate of CLC-RCF at $0.50. GTEC asserts that the number is devoid of any costing basis, and is an arbitrary figure that the Coalition and MCI advocate out of self interest.

GTEC also offers its currently tariffed DID service as an alternative to CLC-RCF for providing INP. It proposes to apply its current tariff to CLCs selecting DID, if the Commission requires DID be offered to CLCs. GTEC's DID can be ordered in 20-number blocks with a nonrecurring charge of $160.00 and a monthly recurring charge of $66.00.

C. DRA

DRA recommends DEC be used to set prices for INP services until TSLRIC costs are adopted in the OANAD proceeding. DRA defines DEC as those costs which are directly attributable to the provision of a specific service. These costs are identified

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27 Tr. 14, p. 2452, line 16, through p. 2453, line 15.

through historical book data, and include costs for labor and materials incurred to provide a given service. DEC is the costing standard used as the basis for establishing prices for several services, including basic exchange services, adopted in the Implementation Rate Design (IRD) D.94-09-065. DRA submits that because Pacific and GTEC currently provide retail RCF and because DEC reflect identifiable historical costs for a specific service, DEC is also an appropriate interim pricing standard for CLC-RCF.

DRA finds Pacific's proposed DEC-based rates to be reasonable and supports their adoption. The adoption TSLRIC-based prices for CLC-RCF service is pending in the OANAD proceeding, R.93-04-003. Moreover, Pacific has indicated that it has not conducted any TSLRIC studies for its CLC-RCF service but plans to do so as part of its January 1996 OANAD cost showing. Further, DRA finds that GTEC failed to provide support for its INP costs, and proposes that GTEC concur in the INP rates of Pacific.

D. <u>Coalition</u>

The Coalition's pricing proposal, presented through testimony sponsored by MCI, is that INP serving arrangements should be priced at TSLRIC. MCI considers TSLRIC to be the best measure of economic cost. The Coalition argued in its brief that until the OANAD cost studies are completed, the incumbent LECs' LRIC results from the IRD proceeding represent the best available estimates of the economic cost of providing INP using CLC-RCF and DID capabilities. The Coalition asserts that prices for INP that are not based on TSLRIC will impair the effectiveness of competition the Commission seeks to introduce. As further justification, MCI notes that TSLRIC is the cost standard agreed to by the parties in the OANAD proceeding.

MCI's witness Cornell asserts that essential inputs, such as INP, should be priced at their direct economic cost, i.e., TSLRIC, with no contribution to common overheads. Such treatment would allow effective competition to emerge, Cornell continues,

which will drive the prices of retail services down to their social cost, and eliminate most of the incumbent LECs' ability to engage in anticompetitive pricing behavior. Based on Cornell's testimony, MCI's witness Murray concludes that CLC-RCF should be priced at TSLRIC with no contribution to overhead.

ICG also objects to including a contribution to overhead in the CLC-RCF DEC and resulting rates. It argues that Pacific's and GTEC's competitors should not have to contribute to the incumbent LECs' overheads.

MCI presents recommended prices associated with the two LECs' INP serving arrangements based on confidential LRIC data obtained from Pacific and GTEC, and submitted under seal by MCI.[28] These cost estimates were derived from the LRIC estimates Pacific and GTEC presented in the IRD proceeding. From this information, MCI proposes that CLC-RCF rates be limited to the LRIC for RCF functionality for Pacific and GTEC. MCI also proposes that LRIC be used for pricing the DID route indexing capability for Pacific and GTEC. MCI asserts that it properly excluded the cost of dedicated trunking facilities from the DID-based INP rates because this solution would only require memory and route indexing software. Since it applied GTEC's and Pacific's own studies, MCI contends the need for trunking facilities is the only disputed aspect of what constitutes LRIC-based RCF and DID costs. MCI recommends that the LECs' rates for INP be limited to only a monthly recurring charge for the RCF switch feature, and that there be no recurring charge

28 MCI states that the LRIC data it obtained does not conform completely to the TSLRIC costing principles adopted by the parties in the OANAD docket.

$0.0041 per number ported. MCI's recurring DEC figures for GTEC

for DID since MCI believes the recurring LRIC of DID to be negligible.[29]

In the event the Commission concludes that the cost of CLC-RCF is substantially higher than the rates proposed by MCI, a two-part mechanism should be established to recover INP costs under MCI's recommendation. The first part of the mechanism would be a $0.50 monthly charge on the new carriers for each customer electing number portability; effectively a $0.50 cap on the monthly recurring charge. The remainder of the recurring costs would be recovered through a surcharge on the incumbent LECs and new carriers. The surcharge would be in proportion to the number of lines served by each carrier, and each carrier would decide whether and how to recover the cost of the surcharge from its customers. MCI believes that a monthly charge of more than $0.50 would make it virtually impossible for new carriers to offer competitive rates for service comparable to that provided by the incumbent LECs.

MCI opposes using Pacific's and GTEC's DEC calculations for setting recurring rates for INP. Besides finding DEC to be an inferior method for setting rates, MCI believes the two LECs significantly overstated their recurring DEC for RCF and DID serving arrangements. MCI identifies Pacific's recurring DEC for the RCF switch feature to be at most $1.20/month; and the recurring DEC for Pacific's DID to be $0.41/month per 100 number block, or

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29 MCI provided under seal its calculation of the monthly recurring LRIC per 100-number block of DID, as well as the RCF switch feature for both Pacific and GTEC. MCI excludes from its calculation of recurring LRIC for DID the costs for DID trunk and circuit termination. MCI believes these costs are incurred by the LECs in providing physical interconnection arrangements and are thus not truly incremental to the provision of number portability. Moreover, MCI believes that the LECs are already compensated for these costs through mutual traffic exchange.