

Link Brown
Director-
Federal Regulatory

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SBC Communications Inc.
1401 I Street, N.W.
Suite 1100
Washington, D.C. 20005
Phone 202 326-8890



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April 25, 1997

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Ex Parte

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

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APR 25 1997

Federal Communications Commission
Office of Secretary

Re: Local Telephone Number Portability, CC Docket No. 95-116

Dear Mr. Caton:

In accordance with Commission rules, please be advised that yesterday Gary Fleming, Frank Meeks, Alan Beckstead, Nancy Wolf, Mike Sandy and the undersigned, representing SBC Communications Inc. ("SBC"), met with Patrick Donovan, Lloyd Collier, Neil Fried, Lenworth Smith and Christopher Barnekov of the Common Carrier Bureau to discuss issues associated with the above-referenced docket.

Specifically, the discussion focused on local number portability cost recovery mechanisms, proportionality of costs among various industry members and a detailed analysis of SBC's costs to implement long-term number portability. Attached are documents used in the presentation.

Please do not hesitate to contact me at (202) 326-8890 if you have any questions.

Sincerely,

Link Brown

cc: Mr. Donovan
Mr. Collier
Mr. Fried
Mr. Smith
Dr. Barnekov

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Proportionality of Costs
Deployment Planning

Incumbent LEC

- Embedded network
- Results in large incremental costs to introduce Number Portability to existing structure
- Little leverage to negotiate favorable costs for LRN software
- Must convert all offices requested by qualified carriers *
- Ultimately must modify entire embedded network at request of other carriers
- Minimal control over cost of first ported line

CLEC

- Little or no embedded network
- Can add state of the art equipment, at their discretion - results in minimal required incremental costs to introduce Number Portability
- Significant negotiating leverage with suppliers for more favorable costs for LRN software
- Can purchase LNP network capabilities from ILECs at per unit rates, forgoing significant network upgrades to translate/port calls*
- High level of discretion over how and when number portability elements are deployed
- Significant flexibility in cost of first ported line

Proportionality of Costs
CLEC Cost Alternatives

TABLE 1: CLEC ALTERNATIVES

Alternative	ALT 1	ALT 2	ALT 3	ALT 4
Method Used	100% Resale (and/or unbundled network elements)	Resale & Facility with unbundling for LNP database	Resale & Facility with own ISCP	100% facility based
Type 1 Costs	NONE	NONE	NPAC	NPAC
Type 2 Costs	NONE	<ul style="list-style-type: none"> • LRN Switch Software • LNP queries 	<ul style="list-style-type: none"> • LRN Switch Software • LSMS • ISCP (SBC LNP database) 	<ul style="list-style-type: none"> • LRN Switch Software • LSMS • ISCP (SBC LNP database)
Type 3 Costs	NONE	<ul style="list-style-type: none"> • Switch • LNP Signaling Network 	<ul style="list-style-type: none"> • Switch • LNP Signaling Network 	<ul style="list-style-type: none"> • Switch • LNP Signaling Network

NPAC = Number Portability Administrative Center
LSMS = Local Service Management System

Proportionality of Costs
Houston Example

Incumbent LEC

- SWBT Houston access lines: 2.7 Million
- SWBT's embedded switches in the Houston MSA: 76+
- LRN software total cost for those switches: \$3.4 Million
- Cost per access line: \$1.26 to \$1.57 **

CLEC

- A sample CLEC's Houston access lines: 122 Thousand *
- Assume 1 switch deployed in Houston MSA
- LRN software total cost: \$50K to \$100K (depending on switch type)
- Cost per access line: \$.41 to \$.82

* Assume that the top 4 CLECs in Houston comprise 90% of all CLECs in Houston, and (as AT&T has speculated) all CLECs will ultimately acquire 20% of the market share of customers (SWBT's current customer base). Then, one of these "major" CLECs would assume their access lines in Houston to grow to approximately 122,000 (90% x 20%, divided by 4, times SWBT's access lines of 2,700,000).

** \$1.26 assumes SWBT's access line levels remain near current level of 2.7 Million, \$1.57 cost estimate is based on assumption that access lines will be reduced proportionately to the CLEC's increase in access lines (20%).

Cost Recovery for LNP

Background

- The Act requires that number portability costs be borne by all telecommunications carriers on a competitively neutral basis. The Commission established that the cost recovery mechanism must not:
 - Give one service provider an appreciable, incremental cost advantage over another service provider when competing for a specific subscriber
 - Have a disparate effect on the ability of competing service providers to earn normal returns on their investment

- The Commission recommended those costs be categorized by Type 1 (industry shared), Type 2 (carrier specific - directly related to number portability), and Type 3 (carrier specific - not directly related to number portability)

SBC Recommendation 1 - Allocation and Recovery Via EALs

- To be mandated by the FCC, 100% of Type 1 and Type 2 costs for all carriers would be pooled into a national "Cost Bucket" (fund)
- All carriers and the administrator would submit their appropriate costs into the fund
- The recovery of the pooled costs would be allocated to all carriers on the basis of Elemental Access Lines (EALs):
 - The total industry number of EALs includes the sum of: all local exchange access lines (for wireline and wireless), intraLATA toll presubscribed access lines, and interLATA toll presubscribed access lines
 - A carrier's EALs are determined by the services it provides on each access line: local exchange, intraLATA toll, and interLATA toll service
 - ILECs currently account for about two thirds of the described EALs; interexchange, CMRS, and paging providers account for about the other third¹

- A uniform, averaged, EAL charge would be developed by dividing the nationwide pooled costs by the nationwide number of EALs, over the study/recovery period, e.g., 60 months
- All carriers then would be required to recover allocated costs, from each customer, by explicitly levying the monthly charge for each EAL that they provide to each customer

¹ Generally, there will be 2 EALs associated with a CMRS telephone number, rather than the 3 associated with a landline, 2-PIC, telephone number: (1) a Local EAL, and (2) an interexchange or non-local EAL. Pagers have 1 EAL per customer line.

SBC Recommendation 2 - Each Carrier Recovers Its Own Costs

- Each carrier would be allowed to recover 100% of its own incremental Type 1 and Type 2 implementation costs, as well as the query charges it imputes to itself
- Recovery would be achieved through two federally ordered/allowed methods:
 - A Commission-established optional end user surcharge
 1. This end user charge would be determined by: 1) estimating/forecasting a carrier's imputed (internal) ongoing query costs and adding it to, 2) its internal total Type 1 and Type 2 implementation costs. That total is then divided by the carrier's total access lines, with recovery over a given period of time, e.g. 60 months.
 2. Each carrier would be allowed to levy that uniform charge on each of its access lines per month, as well as to resellers and purchasers of unbundled switching
 - A Commission-allowed per query charge for all ongoing and administrative costs, established with its users through either tariff for default queries or contract for pre-arrangements
 1. The per query charge would be levied for all usage of our database - and therefore SWBT would impute query charges to itself

Benefits of SBC Recommendation 2:

- It closely reflects the realities of a competitive environment
- This arrangement better ensures that carriers will deploy more efficiently
- It accommodates options for carriers that the Commission does not regulate, through the *optional* nature of the end user charge
- A 5-year recovery spreads the charge in order to minimize the monthly impact on end users
- The user charge would also apply to resale and unbundling reflecting the characteristic that all telecommunications carriers benefit and bear LNP costs
- Supports position of several IXCs
- Supports Congress' and the Commission's encouragement of facility-based competition since those carriers could 1) avoid placing the optional end user charge on their customers and 2) avoid query charges by performing their own database functionality
- Avoids the inequities of applying arbitrary allocation factors among carriers
- A federally mandated recovery mechanism avoids the complexity inherent in negotiating agreements within each state jurisdiction and comports with the Telecommunications Act's intent
- An end user charge ensures that we recover our costs from *all* of our customers - the Commission believes all end users benefit from number portability either directly through its capability, or indirectly through the resulting benefits of competition

- The revenues recovered from the EAL allocation would then flow into a pooled revenue fund from which each carrier would draw costs. Revenues would match costs, including administration, and each carrier would recover its appropriate LNP costs.

Benefits of SBC Recommendation 1:

- Fulfills the requirement of the Act for competitive neutrality - a uniform charge to all end users by all carriers will not give any carrier a competitive advantage over another when competing for a specific customer
- Fulfills the requirement of the Act that all costs be borne by all carriers - no carrier shall bear an unreasonable share of the costs, and all who benefit from number portability implementation pay for that benefit
- A federally mandated recovery mechanism avoids the complexity inherent in negotiating agreements within each state jurisdiction and separating costs
- An end user charge ensures that all who benefit will pay - the Commission believes all customers and carriers benefit from number portability either directly through its capability, or indirectly through the resulting benefits of competition
- An amortized (5-year) mandated, ubiquitous recovery allows all costs to be recovered from all customers, regardless of their carrier
- Requires explicit recovery so there are no implicit subsidies created
- Generally consistent with the positions of other LECs