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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

January 16, 1998

Ms. Magalie R. Salas
Secretary
Federal Communications Commission
Washington, DC 20554

Re: **Ex Parte - CC Docket No. 95-116 - Local Number Portability**

Dear Ms. Salas:

This is to advise that Duane Johnson, Al Evans and Jeff Olson of GTE Network Services and I met yesterday with Thomas Power, Paul Gallant and Jim Casserly to discuss cost recovery for implementation of local number portability. A copy of the discussion paper is attached.

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

Sincerely,

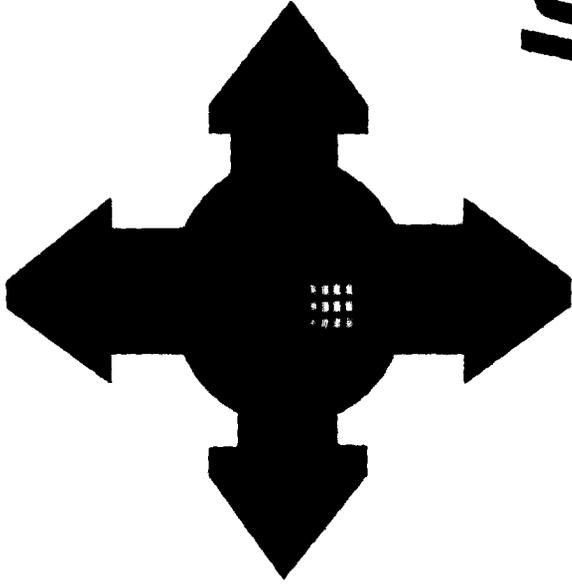
F. G. Maxson
Director - Regulatory Affairs

Attachment

C: Thomas Power 814
Jim Casserly
Paul Gallant
Kyle Dixon
Kevin Martin
ITS

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Local Number Portability

Cost Recovery

GTE Corporation
January 15, 1998

▼ ***FCC must address LNP Cost Recovery***

- ◆ Section 251(e)(2) of the Act states, "The cost of establishing telecommunications numbering administration arrangements and number portability *shall be borne by all telecommunications carriers on a competitively neutral basis* as determined by the Commission."
- ◆ Even though states may be involved in the cost recovery process, the FCC is responsible for designing a competitively neutral process.

▼ **GTE Position**

- ◆ FCC must address LNP Cost Recovery
 - Guidelines/criteria

- ◆ Cost Recovery must be competitively neutral
 - Effect in the marketplace
 - Impact on Competitors

- ◆ All direct costs eligible for recovery
 - “But for” office upgrades/OSS modifications
 - Waivers permitted absent recovery

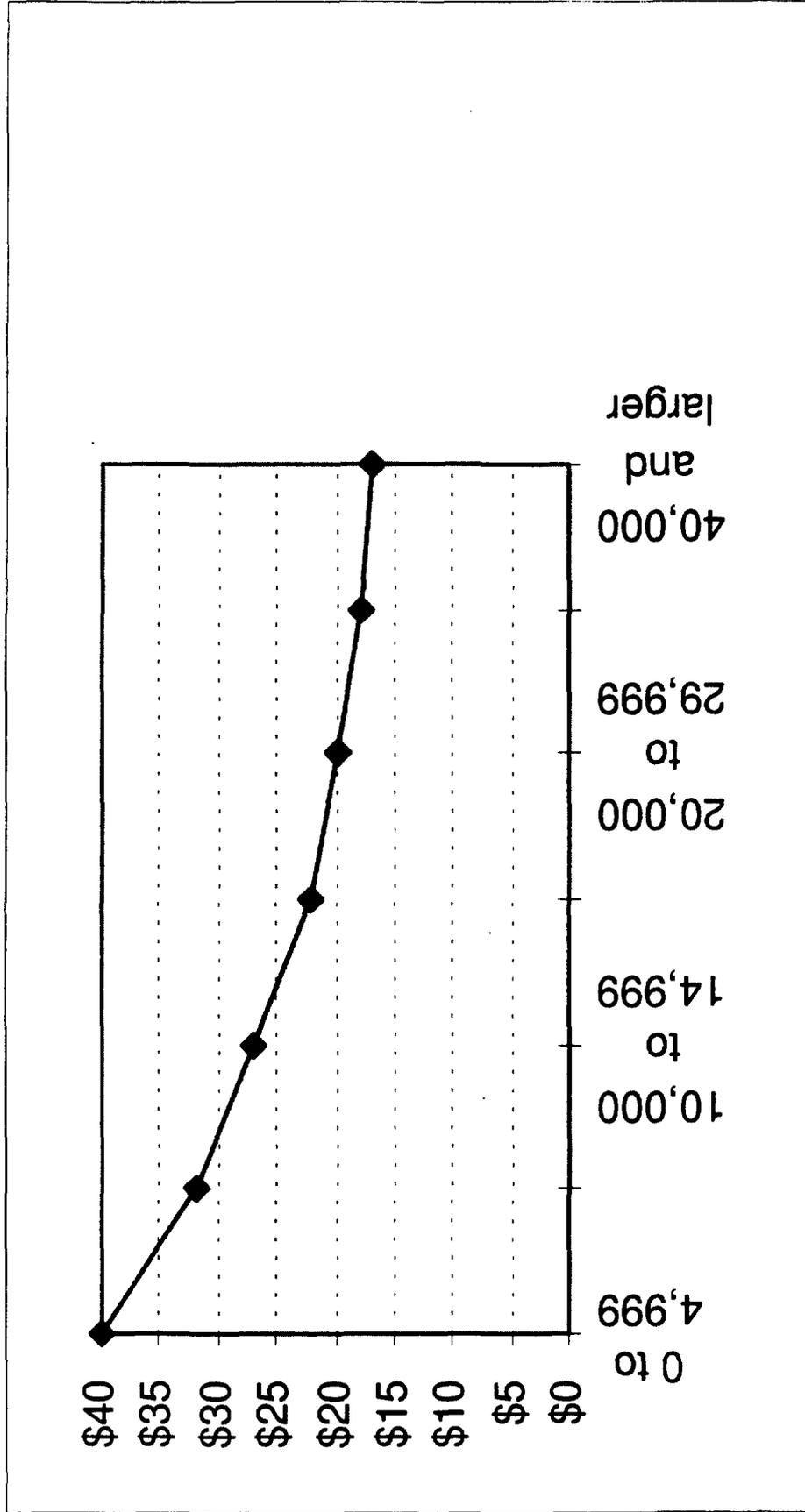
- ◆ Recover your “own costs” is unfair/not neutral
 - “Own costs” reflect historical circumstances, not efficiency
 - Pooling would “neutralize” inequities

▼ *What are GTE's Type 2 LNP costs?*

Host/Remote Clusters Grouped by Line Size	Number of Clusters in Top 100 MSAs	Average Cost per Line*
0 to 4,999	60	\$40
5,000 to 9,999	75	\$32
10,000 to 14,999	74	\$27
15,000 to 19,999	49	\$22
20,000 to 29,999	91	\$20
30,000 to 39,999	52	\$18
40,000 and larger	54	\$17
Total and Weighted Avg.	455	\$23

*Data updated 1/13/98

▼ Type 2 Cost per Line



▼ ***Comparison of GTE to others***

- ◆ GTE has lower density in initial LNP conversions than the average RBOC within the top 100 MSAs:

	<u>COs/Clusters*</u>	<u>Lngs/Cluster</u>	<u>MSAs</u>
GTE	455	17,700	58
RBOC	499	25,000	14

- ◆ GTE has higher Type 2 switching costs per line**:

GTE - \$23 RBOC - \$16 CLEC - ??

*Represents CO clusters for GTE and RBOC reported switches

**Assumes similar pricing from switch vendors for all parties and allocation of SS-7 cost to converted lines, updated 1/13/98

▼ ***Cost recovery must be competitively neutral***

- ◆ “Competitively neutral” must be judged by its effect in the marketplace and on competitors.
- ◆ LNP cost recovery must not affect consumers’ decisions to either remain with their current service provider or select a new provider.
- ◆ LNP should encourage competition, but it must not advantage one competitor over another.
- ◆ Requiring carriers to recover their own Category 1 and 2 LNP costs without any levelization mechanism will violate above three principles.

▼ ***Direct costs must be recovered***

- ◆ All costs directly associated with the implementation of LNP must be recoverable.
 - Office upgrades, that would not be required "but for" LNP, must be considered a direct cost of number portability.
 - Costs of modifying Operations Support Systems to provide LNP must be recovered in a competitively neutral manner.

- ◆ Offices must be eligible for waivers from the LNP requirement if FCC rules do not result in cost recovery.

▼ ***“Recover your own costs” Is unfair***

- ◆ It will be more expensive for ILECs to establish LNP in their networks than for new competitors.
 - Costs are driven by the number of switches and the number of subscriber lines per switch.
 - Historical exchange structures leave incumbents with virtually no control over this driver.
 - Rural service areas tend to have fewer lines per switch, resulting in higher LNP implementation costs per subscriber.
- ◆ Costs of implementing LNP vary greatly among ILECs, with RBOCs having lower cost per line than others.
- ◆ Unequal LNP costs borne by competitors will not result in competitive neutrality.

▼ ***Pooling will eliminate inequities***

- ◆ Similar to the Universal Service Fund, an LNP cost pool can accomplish the Telecom Act's objectives.
- ◆ Necessary controls can be developed that encourage efficiency and result in a competitively neutral effect in the marketplace.
 - A nationwide pool will result in a uniform cost recovery per line.
 - All telecommunications providers would be pool members and would recover their LNP costs.
 - State commissions can monitor estimated and actual costs of implementation for carriers under their jurisdiction.

Whitney Hatch
Vice President
Regulatory Affairs



GTE Service Corporation

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January 6, 1998

Mr. A. Richard Metzger Jr.
Chief, Common Carrier Bureau
Federal Communications Commission
1919 M Street, NW
Washington, DC 20554

RE: CC Docket No. 95-116 - Local Number Portability

Dear Mr. Metzger:

During our meeting with you on December 11, 1997 regarding CC Docket No. 95-116, Local Number Portability (LNP), you posed a number of questions and asked that certain cost information be clarified. The following letter and its attachments respond to your questions.

1. National versus Regional Pooling

National pooling would be the most competitively neutral approach in recovering LNP costs. Such a national pool would smooth the asymmetrical burden of LNP implementation among all carriers. However, properly-structured regional pools also could provide competitive neutrality.

LNP is deployed where new entrants wish to use their own switching equipment to serve a geographic area. The scope of these areas tend to be defined by the economic trade-offs between switching and transport costs. If pooling regions are sufficiently large and have logically-defined borders, on the basis of customer locations and not switch locations, a state or regional pool could be competitively neutral. Defining pool participation on the basis of logical customer distributions could also accommodate instances where a metropolitan area crosses a state line. For instance corresponding pooling regions to the regional LNP Limited Liability Corporations (LLCs) would significantly ameliorate cross-border LNP issues.

2. Different Pooling Arrangements for Category 1 and Category 2 Costs

Category 1 costs are related to the establishment and operation of regional LNP data bases. Limited Liability Corporations have been created to contract for these services from third-party vendors. Typically these costs are the responsibility of the LLC members and other data base users. Some LLCs are

struggling with the best way to raise funds among their members and service users in an equitable manner. If their funding methods are competitively neutral, Category 1 costs would not need to be included in a separate pooling arrangement subject to more direct FCC oversight. Given the issues already before the LLCs, the FCC need do no more than specify the criteria by which Category 1 cost recovery mechanisms would be considered to be competitively neutral. Carriers and state commissions must establish the means by which these costs will be recovered from consumers.

Category 2 costs vary significantly among carriers due to carrier network configurations, equipment and geographical dispersion. These cost differences among carriers reflect historical circumstance, not differences in operating efficiencies. For local exchange companies many of these costs are driven by the attributes of the central offices in which competitors request LNP deployment. As a result, some pooling of Category 2 costs is needed to achieve a competitively neutral outcome. In that there is not another method for recovery in place, the FCC must establish the method by which the statutory mandate can be achieved.

3. Jurisdictional Responsibility

The FCC has the authority and responsibility to devise a competitively neutral LNP cost recovery program, even though state commissions may be involved in the administration of that program for state jurisdictional costs. In the case of LNP, the Telecommunications Act of 1996 assigned the responsibility for achieving cost recovery in a competitively neutral manner to the FCC. The Act did not specify how cost recovery should be accomplished, and it did not restrict the FCC from being substantively prescriptive in defining the process.

4. Size of Pools and Impact on Rates

GTE was unable to estimate the size of a national pool because most of the costs would be incurred by others, and their data are not available to GTE. In addition, the speed and degree to which costs are incurred in the future is difficult to predict inasmuch as they will be driven by competitors' entry decisions.

Attached are updated cost estimates for GTE's implementation of LNP. The 1997 - 1998 Summary has been updated to reflect additional Category 2 costs for SS-7 and Testing not contained in the data provided in GTE's December 11, 1997 *ex parte* presentation. Because of the degree of uncertainty about where competitors will request LNP after 1998, the cost estimates in 1998 and thereafter have not been broken down by state. While the attached estimates do not represent all of the Category 2 costs which GTE anticipates will be required, the vast majority are

Mr. A. Richard Metzger Jr.
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included. As GTE continues to refine its LNP plans some changes in the cost estimates are likely.

Please let me know if you or your staff have questions about this information.

Sincerely,

A handwritten signature in black ink, appearing to read "Whitney Hatch", with a long horizontal flourish extending to the right.

Whitney Hatch

c: Chris Barnekov
Neil Fried
Glenn Reynolds
FCC Secretary

GTE Local Number Portability Cost Summary

The following are GTE's best estimates of the costs of implementing Service Provider Number Portability. These estimates were developed for use internally to identify the strategic LNP budget for the 1997 - 2001 planning horizon. These estimates do not represent requirements that have been identified in the ICC Generic Requirements or Bellcore GR-2936-CORE as Optional or Future and enhancements not included in the initial releases of vendor LNP upgrades.

The estimates DO INCLUDE:

- All cost associated with third party, LNP Administrators (LNPA), and regional LNP SMSs, tentatively designated in paragraph 208 of the First Report and Order as Type 1 costs.
- The costs for GTE specific, number portability, Service Management System (SMS), Service Control Point (SCP), Signaling Transfer Point (STP), and SS7 link hardware and software, and number portability specific switch processor, memory hardware, and software tentatively designated in paragraph 208 of the First Report and Order as Type 2 costs.
- Costs associated with the development of the LNP Local SMS that is required to interface with the Regional LNPA SMSs.
- Costs associated with the development or enhancement of Local Number Portability Testing, Ordering, and Provisioning, systems and the cost of training personnel, testing, ordering, and provisioning Local Number Portability in GTE's network.
- These cost categories pass the "but for LNP" test for Type 2 classification. The Type 1 & 2 expenditures would not be incurred except for the provisioning of the network for Service Provider Portability.

These estimates DO NOT INCLUDE:

- Costs required for the development or provisioning of Location, or Service Portability
- Costs driven by any changes to the current proposed specifications and processes, or changes driven by wireless portability requirements.
- Type 3 cost, such as AIN, initial end-office SS7 software, and generic switch upgrades that could or would be driven by a future requirement other than LNP.
- Cost billed from other Local Carriers for providing default queries on behalf of Non-LRN equipped GTE switches which are not within a Portable MSA Area but complete calls to portable numbers. These cost have not been fully quantified.
- Cost for Operational Support Systems are subject to change or additional system requirements may be identified.

Local Number Portability Cost Summary Dollars in Thousands

Cost Type	1997 - Revised		1998		1999		2000		2001	
	Capital	Expense	Capital	Expense	Capital	Expense	Capital	Expense	Capital	Expense
#1 NPAC		500		5,000		5,000		5,000		5,000
#2 SS7 Components										
STPs	2,625	399	3099	1029	819	489	798	480	798	480
SCPs	19,131	6,831	1350	4215	608	2,761	4,923	4,059	4,316	4,191
#2 Switch Components										
LRN Switch Upgrades	17,578	18,659	19,455	54,034	11,051	28,957	7,908	12,275	7,830	12,133
#2 Local SMS	1,999	2,664	88	1,658	89	1,757	564	2,276	0	3,988
#2 Systems										
Network Planning Systems	\$845	\$750	\$426	\$4,765	\$658	\$530	\$391	\$541	\$681	\$546
IT Systems	1,106	2,009	0	7,636	0	0	0	0	0	0
#2 Testing, Provisioning & Ordering	1,707	1,661	658	32,380	124	13,155	201	15,787	232	18,593
Total LNP Program Costs	44,991	33,473	25,076	110,717	13,349	52,649	14,785	40,418	13,857	44,931

Descriptions

Cost identified as of 12/22/97 and are directly attributial to Local Service Provider Number Portability

#1 NPAC	Direct Expenses projected to be incurred due to the association with the Regional SMS systems. GTE has requirements in all Regions.
#2 SS7 Components	
STPs	Direct STP port cost associated with the additional New LNP SCP databases and increased SS7 network traffic due to LNP.
SCPs	Direct cost associated with the purchase and installation of SCP databases for LRN.
#2 Switch Components	
LRN Switch Upgrades	Direct cost for the license agreements for LRN software and identified switch memory and processor requirements due to LRN.
#2 Local SMS	Direct cost for the purchase and installation of the Local Support Management System to interface with the Regional NPAC SMS.
#2 Systems	Upgrades and modifications to existing Legacy and network support systems due to the Port-out scenerio of LNP.
#2 Testing, Provisioning & Ordering	Cost incurred for the deployment of LNP into the Network. Includes Testing of the Network, Training, procedure changes.

