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January 30, 1998

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Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, DC 20554

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OFFICE OF THE SECRETARY

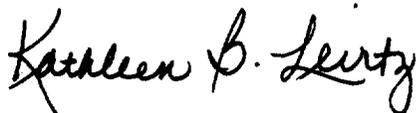
Re: CC Docket No. 95-116

Dear Ms. Salas:

Today I met with Paul Gallant, legal advisor to Commissioner Gloria Tristani, to present BellSouth's position on issues related to the recovery of costs incurred to implement local number portability. The attached document formed the basis for that presentation.

Two copies of this notice are filed in accordance with Section 1.1206(a) of the Commission's rules. Please associate this notification with the proceeding identified above.

Sincerely,



Kathleen B. Levitz
Vice President - Federal Regulatory
Attachment:

cc: Paul Gallant

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**Cost Recovery for
Local Number Portability**

BellSouth

FCC's Role in LNP Cost Recovery

- **The Commission has an unambiguous Congressional mandate to ensure that the costs of LNP are borne by all carriers on a competitively neutral basis.**
 - *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.” (Section 251(e)(2) of 1996 Act).*
- **The Commission may clearly prescribe federal number portability cost recovery guidelines to states to the extent they do not intrude upon a state's intrastate rate making authority.**
 - *Section 251(e)(2) provides authority for Commission to adopt guidelines applicable to all local number portability costs.*
 - *Iowa Utilities Board states that no provision of the Act unambiguously requires state rates to comply with FCC prescribed requirements.*

FCC's Principles of Competitive Neutrality

- Any cost recovery mechanism “should not have a disparate effect on the ability of competing service providers to earn normal returns on their investment.” (CC Docket 95-116, First Report & Order, Para 135)
- A “competitively neutral” cost recovery mechanism should not give one service provider an appreciable, incremental cost advantage over another service provider, when competing for specific subscriber.” (CC Docket 95-116, First Report & Order, Para 132).

A cost recovery solution is not competitively neutral unless Type I and Type II LNP costs are equitably shared and all carriers have the same flexibility to recover costs.

- “The Commission should strive to ensure market-neutral decisions between *carriers operating in the same markets.*” (AT&T in CC Docket No. 97-213, 12/12/97)
- “Costs also may fall disproportionately on certain companies--wireline and wireless--and affect their competitive decision.” (AT&T in CC Docket No. 97-213, 12/12/97)

Long Term Number Portability Facts & Principles

- LNP is a new call processing paradigm which results in a new architecture for call completion that requires:
 - Capacity requirements (e.g. switch processors, SS7 links, LNP SCPs)
 - Intelligence to complete call (e.g. switch software, AIN software development)
 - Ability to exchange data between networks (e.g. Number Portability Administration Centers (NPACs), SMS, provisioning & repair gateway)
 - Fundamental changes to existing administrative/support systems (e.g. Billing, provisioning, ordering and maintenance)

- Costs of installing & administering regional databases / NPACs (Type I) plus each carrier's direct costs (Type II) are the total costs to implement LNP.
 - LNP requires both Type I & Type II costs to be successful;
 - Bulk of costs associated with number portability are ILEC's Type II costs;
 - There is no reason to distinguish Type I costs and Type II costs for cost recovery purposes;

- "N-1" carriers are responsible for ensuring that databases are queried, as necessary.
(para 73, Second Report & Order in CC Docket 95-116)

BellSouth's Initial LNP Cost Recovery Position

- ***Initially***, BellSouth supported SBC's original cost recovery proposal for LNP:
 - Allocation of costs based on "elemental access lines" (EAL)
 - National fund based on mandatory, temporary, uniform "EAL" surcharge
- ***Alternatively***, BellSouth supports a cost recovery mechanism similar to FCC's recommended structure for Universal Service.
 - Type I & Type II costs reported to a national administrator and amortized over a 3-5 year period;
 - The nationwide costs for LNP split into two components: an interstate portion and an intrastate portion--similar to Universal Service;

BellSouth's Alternative LNP Cost Recovery Position

- Type I & Type II costs reported to a national administrator and amortized over a 3-5 year period;
- The nationwide costs for LNP split into two components: an interstate portion and an intrastate portion--similar to Universal Service;
- Carriers funding to the interstate costs based on their percentage of nationwide interstate revenues.
- Carriers funding to the intrastate costs based on their percentage of nationwide intrastate retail revenues.
- Interstate assessment would be given exogenous treatment and recovered through charges to carriers in the interstate jurisdiction.
- The intrastate portion of costs would be recovered from the state jurisdiction;
- After the amortization period has expired, any LNP charges would be eliminated.
- Carriers will be allowed to assess other carriers a per query charge for default queries.

FCC Guidelines to States on LNP Cost Recovery

- FCC should clearly define “competitively neutral” and indicate that all telecommunications carriers should participate in LNP cost recovery.
- FCC should clearly specify which costs are eligible to be included as Type I & Type II costs.
- States should be given adequate latitude to develop the precise cost recovery mechanisms for carriers under their jurisdiction;
 - Cost recovery for CMRS carriers should remain at interstate level;
- FCC should specify that intrastate LNP costs qualify for exogenous treatment.

FCC Guidelines to States on LNP Cost Recovery (Cont):

- FCC should specify that for states with Phase I & Phase II MSAs (*For example, in BellSouth's region: Florida & Georgia*), a cost recovery mechanism should be in place by 6/30/98.
 - Remaining states should have cost recovery mechanism in place prior to the start date of the quarter when state's initial MSA is scheduled for LNP.
- FCC should clearly specify that LNP cost recovery should be viewed as temporary and fully recoverable over a 3-5 year time period.

Summary

- Cost recovery solution must be competitively neutral;
 - Each carrier bearing its own costs is not competitively neutral;
- Cost recovery solution must include Type I & Type II costs;
- National fund based on mandatory, temporary, uniform “EAL” surcharge is competitively neutral;
- Cost recovery based on Universal Service Model is also competitively neutral:
 - FCC must give guidelines to states for cost recovery of intrastate portion.