Alliance for Telecommunications
Industry Solutions

Problem Solvers to the
Telecommunications Industry

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COMMITTEES

June 1, 1995

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

Re: CC Docket No. 92-237 and IAD File Nos. 94-102 and 94-104
Ex-Parte Presentation May 23, 1995, by the Cellular Telecommunications Industry Association (CTIA)

Dear Mr. Caton:

The "Draft Proposal: Creation of the U.S. Numbering Association" presented by CTIA has two errors of substance about the Alliance for Telecommunications Industry Solutions (ATIS). I believe it is necessary to correct these errors in order to create an accurate record, and I request that this correspondence be filed as an ex parte in the above-referenced proceeding.

First, CTIA's proposal refers to "the LEC-governed" and "LEC controlled" ATIS (footnote 3, page 2). The fact is that our 27-member Board of Directors is made up of non-LECs and carriers with substantial non-LEC interests. The Board includes representatives from AT&T, Sprint, MCI, WilTel, Frontier Corporation, MFS Communications and Teleport Communications Group, all non-LECs. Moreover, a majority of our Board members have substantial wireless operations in their companies, and they vigorously represent those interests in Board discussions. Finally, the real "output" of ATIS occurs in its sponsored committees, such as the Industry Numbering Committee. The consensus-based standards and operational guidelines developed in our sponsored committees are in no way directed or influenced by our Board. They are developed by an even broader-based participant pool, where cellular and wireless companies are quite active. Thus, the suggestion that there is LEC governance or LEC control is not substantiated nor is it real.

Second, CTIA maintains it has made "requests" to ATIS to "broaden its scope." ATIS has yet to receive such a request. It should be noted, however, that we are constantly seeking new members from all industry segments. Last year, for instance, ATIS staff members and the chairman of the ATIS Board's Liaison

Committee met with officers of CTIA for the express purpose of explaining the goals of ATIS (which are to promote industry problem-solving), to invite wireless company membership in ATIS, and to encourage wireless companies to seek election to our Board of Directors. As a followup, and with CTIA's encouragement, I subsequently authored an article in CTIA's *Wireless Forum* magazine urging wireless companies to participate in ATIS forums, particularly our Industry Numbering Committee, which, among other important activities, is developing consensus recommendations for PCS number portability.

In this regard, ATIS's efforts to expand its membership will continue, and we welcome the continued interest and participation of the cellular industry in our activities.

Sincerely,

George L. Edwards

cc: Ruth Milkman
Karen Brinkman
John Nakahata
Pam Bell

All numbering assignments would be done through computerized database. [illegible] uniform assignment criteria adopted by the Board of Directors.

Staffing requirements would take into account travel expectations to participate in national (INC) and international (ITU) numbering forums.

4. Funding

Funding for the USNA would be provided by the users of the numbering resources: WSPs, LECs, IXCs, CAPs, and others. With additional research, a budget would be developed to account for projected staffing, overhead, expenses, and revenue. Initial funding would be provided through assessments to carriers, based on their numbering resources in use. Regular funding for operating revenue would be derived from assignment fees.

A. Initial funding for development and creation of the USNA would be provided by the current numbering resource users and would be based on the formula below.[4] Since the majority of work to be performed would be administering NPA and NXX codes, initial funding of the USNA would be based on the number of NXXs currently in use.[5] For smaller carriers that share an NXX, the formula could be adjusted.

Initial Carrier Funding of the USNA

USNA Budget	÷	Total Number of All Carriers NXXs	X	Funding Carrier Number of NXXs

B. Regular funding of the USNA would be based upon a rate structure to be developed, and based upon a fee per number assignment. NPA and NXX code assignment fees would be the primary income for USNA. A complete fee schedule would be developed for all assignments (see list below).

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[3] Two groups under the LEC-governed Alliance for Telecommunications Industry Solutions (ATIS) have developed numbering proposals. The Industry Numbering Committee (INC) has developed NPA Relief Planning Guidelines, and the Industry Carriers Compatibility Forum has developed NXX Assignment Guidelines. Pending review, these documents could be useful in developing USNA guidelines. ATIS' governance remains LEC controlled, despite requests from CTIA to broaden its scope. WSPs have participated in drafting the current numbering guideline documents.

[4] This initial carrier funding mechanism is similar to the CTIA funding mechanism for Fraud Assessment and Health & Safety Assessments, based on member spectrum and pops.

[5] For a simpler initial funding alternative, each USNA Board member company, or the association they represent, would pay a flat fee for the privilege of sitting on the Board.

APPENDIX F

United States Telephone Association

1401 H Street, N.W., Suite 600
Washington, D.C. 20005-2136
(202) 326-7300
(202) 326-7333 FAX

M E M O R A N D U M

DATE: April 6, 1994

TO: LEC/CLC Members

FROM: for Paul R. Hart PRH

SUBJECT: Meeting May 4, 1994 at USTA

I will host a meeting of the Local Exchange Carrier members of CLC at USTA on May 4th from 1:00 pm to 5:00 pm. USTA is located at 1401 H Street, N.W. Suite 600, Washington, D.C.

The purpose of the meeting is to review the agenda of the May 5th meeting in order to acquaint exchange carriers with positions on the issues to be discussed.

I offered to host this meeting as a USTA activity. I am serving as CLC chair and will conduct the meeting on May 5th. If you have any questions, I can be reached at (202) 326-7291.

c: Operations & Engineering Committee
National Services Advisory Committee
Numbering Planning Subcommittee
Technical Disciplines Staff

STATE OF VIRGINIA)
) ss
COUNTY OF FAIRFAX)

AFFIDAVIT OF DAVID P. JORDAN

David P. Jordan, being duly sworn, deposes and states as follows:

1. I am employed by MCI Telecommunications Corporation (MCI) as an Advisory Engineer in Technical Security, Network Systems Engineering, responsible for coordinating MCI's fraud prevention activities with other telecommunications organizations and MCI's customers. My office address is 1650 Tysons Blvd., McLean VA 22102. For the past ten years, I have provided strategic technical advice to numerous departments within MCI. These consultations include design specifications for network access security, product integrity, and fraud prevention methodology for MCI, its marketing "Alliance Partners" and subsidiaries.

2. I serve as liaison to the telecommunications industry regarding technical toll fraud related issues. For the past several years I have represented MCI's anti-fraud policy at the International Telecommunications Union (ITU), the Alliance for Telecommunications Industry Solutions' (ATIS') committee T1M1 (Internetwork Operations, Administration, Maintenance, and Provisioning), the Network Operations Forum (NOF), and industry organizations such as the Interexchange Carrier Industry

Committee (ICIC), the Toll Fraud Prevention Committee (TFPC), the Cellular Telecommunications Industry Association (CTIA), and at this Commission and various state utility commissions. I am one of the original founders of the Interexchange Carrier Industry Committee's Toll Fraud Subcommittee and have been co-chairman of that subcommittee since its creation in 1992. I was the interexchange carrier (IXC) co-chair of the TFPC at its quarterly meeting in July, 1995. I have written anti-fraud articles that have been published in the US and in over 150 countries, in three languages.

3. I am submitting this Affidavit in connection with this Commission's proceedings in CC Docket No. 95-20, Computer III Further Remand Proceedings: Bell Operating Company Provision of Enhanced Services. In this affidavit, I will address that portion of the Reply Comments of Pacific Bell and Nevada Bell (Pacific Bell) that responds to the discussion in the Affidavit of Peter P. Guggina, attached as Exhibit B to MCI's Comments in CC Docket No. 95-20, as to the respective roles of RBOCs (Regional Bell Operating Companies) and IXCs in the prevention of telecommunications fraud, and the relative responsibilities of RBOCs and IXCs in accepting the cost burdens associated with that fraud. (See Pacific Bell Reply Comments at 54-60.) As explained below, Pacific Bell, in responding to the Guggina Affidavit, misrepresents the facts as to its actual accomplishments in fraud prevention.

I.

RBOCs Have Not Effectively Addressed the Fraud Implications of Their Products.

4. The major focus of this affidavit is the local exchange carriers' (LECs') poor performance in fraud prevention and the implications of such failure for the effectiveness of industry technical fora generally in establishing standards in the public interest. Pacific Bell's self-congratulatory comments notwithstanding, LECs -- including, but not limited to, RBOCs -- typically do not effectively address the fraud implications of their products. When, as is typical, the costs of fraud associated with particular RBOC products fall upon long distance carriers, RBOCs have in the past made only marginal attempts -- if any at all -- to effectively prevent the fraudulent use of those RBOC products.

5. RBOCs are not motivated to make the required efforts to prevent such fraud, simply because it is not the RBOCs themselves who bear the major costs of such fraud. As monopolists, the RBOCs can simply impose upon their customers the costs of fraud arising from the use of RBOC products, and thus are not as much concerned with even their own fraud losses as are those providers who have active competitors.[1] As a result, a major portion of the

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[1] As a result of the RBOCs' casual acceptance of fraud costs, their rates, including interstate access rates, were significantly higher under rate-of-return regulation than they otherwise would have been. Those inflated rates then became, with relatively minor adjustments, the "going in" rates under price cap regulation, leaving plenty of "head room" to allow for

telecommunications fraud losses that are experienced now are due to characteristics of LEC services and features. The RBOCs have had to be dragged into participation in the issue of product security by those entities that actually suffer the effects of fraud, primarily the IXCs. When the RBOCs do make efforts to control such fraud, those actions are often greatly delayed in comparison to how quickly prevention measures could be implemented.

6. The Pacific Bell comments do not address the shortcomings of the RBOCs' processes in the industry forums and in their own internal implementation of fraud prevention techniques. The RBOCs simply do not provide to interexchange carriers the information that IXCs need to prevent fraud that occurs because of the nature of RBOC products. In particular, Pacific Bell typically does not point out to its IXC customers the fraud potentials of its products; it does an inadequate job of providing to its IXC customers the call-related information needed for the IXCs to control that fraud potential; and it does not accept the liability for the fraud that does occur as a result of those two failures on its part.

7. In any other industry, when a product is recklessly provisioned and it causes damages to another company, the

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continued excessive fraud costs at no expense to RBOC shareholders but at great cost to ratepayers.

reckless service provider is held liable for such damages. In a competitive environment, such behavior is not tolerated or even considered. Only a monopoly would be comfortable with a business case scenario where it was presumed that company "A" (the victim) would carry the fraud losses on a product designed, built and operated by company "B". In the remainder of this affidavit, I will address the specifics of monopoly LECs' avoidance of both fraud prevention responsibility and liability for the costs of fraud.

II.

RBOCs Dominate the Relevant Standards Forums, Such As TFPC.

8. TFPC is an important forum for developing cross-industry standards for toll fraud prevention. Unfortunately, for the public users of telephone networks and for those entities that bear most of the fraud costs of RBOC products, the RBOCs dominate this forum. My own experience in the TFPC clearly supports the statements made in the Peter Guggina affidavit with respect to RBOC domination of the standards and forum processes. Given their common interests and their major influence in such forums, RBOCs clearly can delay or block any position that they oppose, whether the decision process is by vote or by "consensus." Even in a "consensus" process, the representatives of non-LEC entities can be, and often are, forced to agree to a result that is far less than optimal. This happens because the non-LECs are under so much more marketplace pressure to come up with solutions. They often

must choose between "consenting" to a recommendation that is far less than satisfactory, or achieving no progress at all on the issue. The pressure to consent to the RBOCs' and other LECs' unsatisfactory "solution" is greatly magnified by the competitive pressures the non-LECs face, compared to those faced by RBOCs and other LECs.

9. The LECs' failure to prevent fraud starts with the LEC (primarily RBOC) dominance of the standards process. The standards processes can be important in designing mechanisms to identify and address fraud problems. Even though the fraud-control responsibility and the financial liability should in the end rest on the provider of the product, the industry as a whole can use the standards process as a mechanism to fight fraud. For example: if the RBOCs had agreed long ago to the IXCs' proposals of a standard method for identifying and labelling forwarded calls, the IXCs would have been able much earlier to identify call-forwarding fraud as a major fraud mechanism. But the RBOCs apparently did not care about the related fraud, since the IXCs were bearing the cost anyway, so they were not motivated to adopt a standard that would have identified forwarded calls. Thus, the fraud has persisted much longer than it would have if the standards process had been more responsive to the IXCs' suggestions.

10. Pacific Bell's discussion of telecommunications fraud

prevention begins by labelling as "incredible" Peter Guggina's reference to Pacific Bell's misleading its customers and lack of good faith in the area of telecommunications fraud prevention.[2] Guggina's comments refer to Pacific Bell's offering of fraud-prone products, such as call forwarding, while failing to point out to its customers that there is significant fraud potential associated with such products. Guggina's basic point is that Pacific Bell and other RBOCs often agree on fraud-prevention recommendations in forums like TFPC, and then do not actually implement those recommendations within their networks.

11. Guggina's comments are entirely consistent with my own experience with RBOCs' actions with respect to fraud prevention -- neither aspect of Guggina's referenced comments are "incredible." Pacific Bell and the other RBOCs typically refuse to acknowledge the fraud potential of their products or to take responsibility for the harm caused by such fraud. When they are called upon to remedy such problems, they typically propose solutions that are disproportionately and unnecessarily burdensome to other segments of the industry but convenient for themselves and that are less effective than solutions that would impose burdens more equitably. Finally, if, despite RBOC obstructionism, industry fora such as the TFPC recommend effective, fair solutions to a problem such as fraud, the RBOCs delay the implementation of such recommendations. They often

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[2] Pacific Bell Reply Comments at 54.

defend such foot-dragging on bogus technical infeasibility grounds -- grounds that would have precluded any recommendation by the TFPC in the first place if there had been legitimate technical feasibility problems.

III.

RBOCs Favor Solutions That Are Most Convenient for Them, Even Though They May Not Solve the Fraud Problems of Those Bearing the Costs of Fraud

12. Pacific Bell's tariff filings adding Remote Access Call Forwarding to its Custom Calling Services[3] and wholesale call forwarding[4] are good examples of Pacific Bell's not pointing out or accepting responsibility for fraud associated with those products. When a Pacific Bell customer has the ability to order his/her phone calls to be forwarded to a different phone, without being physically present at his/her own telephone, there is an opportunity for someone other than the customer to illegitimately forward those calls. A fraud perpetrator can forward the calls in such a way as to impose costs -- which are never paid for -- on long distance carriers that carry the calls. In the case of wholesale call forwarding, the RBOC sells the call forwarding service on a wholesale basis to some entity, which in turn sells

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[3] Pacific Bell Cal. PUC Tariff No. A5, Section 5.4.3.B.1.g (Custom Calling Services), originally filed June 6, 1994, Advice Letter No. 17006 (Cal. PUC).

[4] Pacific Bell Cal. PUC Tariff No. A5, Section 5.4.7 (Custom Calling Services - Wholesale), originally filed March 7, 1995, Advice Letter No. 17326 (Cal. PUC).

a call-forwarding service to the ultimate user. In that case, the RBOC typically does not even know who the ultimate user is, so there would be no way for either the RBOC or the long distance carrier that carries calls to recognize the difference between a legitimately forwarded call and one for which the carrier will never get paid. Clearly, the LEC that creates such services -- not the long distance carrier that has no way of knowing that it is carrying illegitimate calls -- should accept the responsibility for the costs arising from the fraud occasioned thereby. Such a liability acceptance provision should have been included in the tariff, but was not.

13. Call forwarding is a good example of a product that illustrates how little energy the RBOCs, including Pacific Bell, are willing to exert when it comes to solving a fraud issue that generates revenue for the LECs at the expense of the IXCs. The RBOC-favored solution for their Call Forwarding product is the Signalling System 7 (SS7) detection concept. This solution requires all of the participating LECs to provide certain information -- including the fact that the call has been forwarded -- in the data carried by Signalling System 7. But not all the RBOCs actually provide the required data via their SS7 systems. More fundamentally, many smaller IXCs may not even have SS7 capability. This solution, preferred by the RBOCs, would leave the smaller IXCs greatly exposed, with the fraud flowing from the larger carriers, which have the capability, to the

smaller ones, which may not. MCI and other major IXCs were not enthusiastic about this recommendation because it did not solve the issue for the IXC industry as a whole. Even beyond the failure of this "solution" to address the whole problem, the point that the RBOCs continually miss is that the IXCs do not think it should be their responsibility to monitor fraud originating from LEC products, especially when there are more effective solutions that are much less burdensome. MCI and other IXCs should not be expected to spend development dollars to design and install a massive national fraud detection system based on SS7 to detect fraud from LEC products.

14. Pacific Bell suggests[5] that because the information identifying forwarded calls is available in the initial address message ("IAM") in the SS7 environment, MCI or other IXCs can upgrade their networks to deny call-forwarded calls if they choose. There are three significant problems with this suggestion. First, not all RBOCs actually provide the necessary information in the IAM. Second, as Pacific Bell casually points out in its own statement, making use of that information requires IXCs to "upgrade their networks" (at their own expense, obviously) to protect themselves against fraud that originates with an RBOC service. The RBOCs have unlocked the IXCs' barn doors, and Pacific Bell, at least, expects the IXCs to find all of the horses that escaped and pay for a way to relock them in

[5] Pacific Bell Reply Comments at 60.

the barns. And there is a third fundamental problem with this RBOC-favored SS7 "solution" to the call-forwarding fraud problem: RBOCs are rapidly moving from switch-based operation of services, such as call forwarding, to Advanced Intelligent Network (AIN)-based operations. AIN is an adjunct platform, outside of switches, in which the call forwarding feature will be implemented in the near future. Under present AIN architecture plans, the SS7 system will not have access to any indication that a particular call has been forwarded. Therefore, there will be no way for the SS7 systems to inform an IXC that a call has been forwarded. So the SS7 solution, with all of its current shortcomings, also has a limited lifetime of just a few years. Once AIN is implemented, another "solution" will have to be found.

15. In Pacific Bell's Reply Comments[6], it states that it has implemented an improved system to "early identify call forwarding fraud." However, the system it has actually implemented incorporates a delay of approximately two to four hours, or more. It has not implemented the SS7 system that it mentions, which could indeed be "near real time." The several-hour delay associated with the implemented system is far from adequate to prevent call forwarding fraud effectively. Pacific Bell has not, as it suggests, "saved the industry millions of dollars from call forwarding fraud."

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[6] Id. at 57.

16. Thus, Pacific Bell and the other RBOCs clearly have not thought out how to provision a fraud-resistant Call Forwarding product. They seem not ready to acknowledge this shortcoming, or perhaps simply choose to ignore the issue because they are in a position where they do not bear the consequences of their inadequately protected call forwarding products. It is not reasonable to draw a parallel, as Pacific Bell does,[7] between call forwarding fraud and IXCs' calling card fraud. There is a fundamental difference: IXCs pay the fraud costs associated with their card fraud, and therefore are motivated to prevent that fraud. But the RBOCs do not pay the fraud costs associated with call forwarding fraud. The IXCs pay twice -- once by carrying fraudulent calls, on which they earn no revenue, and again, in access charges paid to the RBOCs on the fraudulent calls.[8]

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[7] Id. at 59.

[8] Pacific Bell also comments about a recent "calling card fraud operation" in which an employee at MCI stole calling card numbers from an MCI database, and sold them for fraudulent usage. In raising this irrelevant point about insider fraud, Pacific Bell is attempting to divert the Commission's attention from the much more important issue of technical fraud prevention systems. Insider fraud could happen to any carrier and is a problem that must be addressed by that carrier. Internal fraud is irrelevant to the point that Pacific Bell refuses to take effective steps to prevent fraud by other than insiders, and it is non-insider fraud that accounts for the overwhelming bulk of the fraud costs borne by telecommunications carriers.

Moreover, Pacific Bell's comments are based on a newspaper article that is riddled with misinformation, including such basic facts as the amount involved: The Ivy Lay fraud was responsible for approximately $27M in losses, not the $50M quoted in the press article. The quotation from Pacific Bell also says that AT&T, Sprint, and other IXC calling card numbers were stolen. In fact, only MCI and LEC calling cards were involved, because MCI does not carry calls that are to be charged to calling cards

IV.

TFPC Recommendations Are Often Not Implemented by RBOCs

17. Despite the dominant influence of RBOCs in the TFPC process, TFPC occasionally does come up with useful recommendations for RBOC actions to prevent fraud, but those recommendations are then often ignored by the RBOCs, at least until other major pressures force them into action. Guggina's example of Call Forwarding is a good one and provides an example of how RBOCs often use "infeasibility" as an excuse for not implementing needed protections, in spite of the fact that those protection mechanisms are quite feasible. It has been almost three years since the call forwarding issue was brought to the TFPC. But Pacific Bell, according to its Reply Comments,[9] is still exploring and evaluating the technological and economic feasibility of two of the most important of the TFPC recommendations, which suggested reasonably simple and quite feasible upgrades to Pacific Bell's switching network: limit the number of call forwarding paths, and limit the number of times the call forwarding number can be changed. Pacific Bell had these recommendations early enough that they could have been implemented within a useful time frame. Bellcore listed numerous fraud prevention requirements in its original documentation in 1989. Oddly enough, those Bellcore requirements were provided to the TFPC study group by the MCI representative, not by any of the

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issued by other IXCs.

[9] Pacific Bell Reply Comments at 58.

RBOCs' representatives (who were apparently unaware of this basic product description provided by their contractor). The two recommendations that Pacific Bell says it is now considering[10] were part of the original issue statement that was sponsored by AT&T at the TFPC early in 1993.[11] The switch upgrades that would be required to implement these recommendations have been available for some time, and in fact have been implemented by other RBOCs. Pacific Bell, on the other hand, according to its Reply Comments,[12] is still investigating the "feasibility" of those available upgrades.

18. The IXCs have been forced to protest a number of RBOC products that incorporate call-forwarding-like features that are directly responsible for abuse of the IXC networks. The tariffing of these defective products took place during and after the closure of the Call Forwarding issue in the TFPC; so it is clear that the RBOCs were aware of the problem, through their TFPC participation. But that knowledge apparently did not provide enough motivation for the RBOCs to implement fraud-prevention mechanisms associated with their call-forwarding products.

19. This isn't just MCI's observation. Just last year, the staffs of both the Arizona Public Utility Commission and the New

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[10] Id.

[11] TFPC Issue #26, initiated February 18, 1993.

[12] Pacific Bell Reply Comments at 58.

Mexico State Corporation Commission recommended that US West make major modifications to its initial proposals to tariff a call forwarding service so as to minimize the potential for fraud, and that US West be required to credit IXCs for access charges associated with any fraud that might have been encountered due to the proposed product. The staffs' recommendations are attached hereto as Exhibit A.[13] In both cases, after the staffs made the recommendations, US West withdrew the tariffs. Many of the proposed modifications were taken directly from the TFPC recommendations, which were themselves based largely on recommendations from the RBOCs' primary technical advisory body -- Bellcore. The original Bellcore recommendation is attached hereto as Exhibit B.[14] As can be seen from a comparison of Exhibits A and B, the staff recommendations are sufficiently close to the original Bellcore recommendations -- the feasibility of which is supported by the fact that they came from Bellcore -- that it could hardly be argued that the staff recommendations were infeasible.

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[13] Memorandum to The Commission from Utilities Division of the Arizona Public Utilities Commission, Re U S West Communications, Inc. - Tariff Filing to Introduce New Custom Calling Features, Docket No. E-1051-94-298, (Arizona PUC April 20, 1995); Direct Testimony of Ken Solomon, Director of the Telecommunications Department of the New Mexico State Corporation Commission in In the Matter of an Application of US West Communications, Inc. to Amend its Exchange and Network Services Tariff to Introduce Remote Access Forwarding and Scheduled Forwarding, Docket No. 95-392-TC (NM Corp. Comm'n. filed Sept. 20, 1995), attached as Exhibit A.

[14] See TR-TSY-000217, Issue 2, November, 1988, entitled "CLASS Feature: Selective Call Forwarding," attached as Exhibit B, especially at 4, 11-13.

20. Another instance of an RBOC's attempt to implement forwarding services without serious consideration of fraud potential occurred recently in Iowa. US West filed a tariff for remote access call forwarding (RACF) and scheduled forwarding (SF). When the long distance carriers became aware of the tariff, the Iowa Utilities Board was very responsive and suspended US West's tariff filing, pending the outcome of the Board's investigation of the tariff. Ultimately, the dispute was settled, with US West agreeing to monitoring measures to facilitate fraud prevention.[15]

21. Incidentally, Pacific Bell is correct, in its Reply Comments, in pointing out that the Arizona filing by US West, as well as the call forwarding tariffs that Pacific Bell filed, were related to wholesale and remote-access features, not to the basic call forwarding service itself. But that does not change the fact that it was the fraud potential of those features that caused the Arizona and New Mexico staffs to suggest that US West should implement the processes recommended by TFPC. Those features, as Pacific Bell points out, are not themselves the basic cause of call forwarding fraud -- the basic service itself provides the fraud potential. But both the wholesale service and the remote access feature do give a fraud perpetrator more convenient access

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[15] Proposed Decision and Order Granting Joint Motion and Approving Settlement, In re: U S West Communications, Inc., Docket No. RPU-95-5 (TF-95-230)(Iowa Util. Bd. Feb. 23, 1996).

to the basic service that he or she wants to subvert.

V.

RBOCs Have Been Inexcusably Slow To Provide Fraud Prevention Mechanisms, Even When Quick Implementation of Those Mechanisms Has Been Demonstrably Feasible.

22. The speed of implementation of fraud prevention techniques depends greatly on the motivation of the parties concerned. Technology is not the problem: As will be explained, the IXCs moved quickly and effectively, when they had control of the process; the LECs have moved extremely slowly, even when the fraud potentials were pointed out to them in advance of implementation of new systems.

23. After Judge Greene's order mandating premises owner selection for all "0+" interLATA payphone calls,[16] thereby allowing other IXCs to compete with AT&T in the provision of operator services, but prior to the implementation of the RBOCs' line information data base (LIDB), the IXCs were dependent upon independent data base service providers. During the initial entry into these new services, the IXCs experienced significant fraud related to the associated LEC products and billing options (e.g., operator assisted LEC calling card, collect and billed to third party calls). The IXCs worked with the database service providers to develop fraud detections systems and bad number screening databases. In the case of MCI, it designed and

[16] United States v. Western Electric Co., Inc., 698 F. Supp. 348 (D.D.C. 1988).

implemented its operator services system platform within 110 days of Judge Greene's order. In addition, MCI had the database service providers implement fraud monitoring and bad number screening database capabilities within 45 days of initial requests. Clearly, when appropriate incentives exist, such preventive measures can be implemented quickly and effectively, and RBOC claims of infeasibility of implementation are demonstrably incorrect.

24. But when LIDB was implemented, the ability to access the required data and perform the required database functions was removed from the IXCs and transferred to the LECs who controlled LIDB. The IXCs were seriously concerned about the fraud aspects of LIDB long before LIDB was actually implemented, in January 1991. Two years prior to the implementation of LIDB, MCI raised the fraud concern that LIDB would eliminate the valuable traffic monitoring capability that was then being provided by the database service providers. It is fair to say that the RBOCs moved at a snail's pace in addressing MCI's fraud risk concerns. It was not until 1994 that the fraud systems MCI requested were implemented by the majority of the RBOCs, nearly six years after the original request, with at least some RBOCs still in the process of provisioning the capability.

25. It is easy to compare performance based on incentives. It required 45 days days for independent database providers and

110 days for MCI to implement the required systems. But it required nearly six years for RBOCs to do so -- six years during which the RBOCs collected access, B&C (billing and collection) and LIDB fees for fraudulent traffic generated by their poorly implemented products. We are not aware of any technical reasons why the RBOCs could not have implemented the required fraud prevention systems in time periods comparable to the short times within which MCI and independent database providers implemented such systems. But even if there were some excuses for significant delays in implementing fraud-prevention features in LIDB, the RBOCs could have recognized the valid fraud concerns and asked the Commission for an extension of the cut-to-service date for LIDB. There were no legitimate reasons to rush into LIDB once the fraud risks were discovered. But the RBOCs' interest in gathering the new revenues from the LIDB query fees led them to ignore the fraud concerns, and move ahead with LIDB regardless of those concerns. In either case, it is clear that the RBOCs lacked the necessary incentives to address the fraud problems effectively.

VI.

Pacific Bell's Claims of Fraud Prevention Actions and Recognition Thereof Are Exaggerated and, in Some Cases, Entirely Incorrect.

26. It is true that MCI presented an award to Pacific Bell's MCI Account Team. However, that award was NOT for Pacific Bell's actions concerning fraud prevention, as Pacific Bell claims in its Reply Comments.[17] Rather, it was for efforts of that Account Team to arrange for Pacific Bell to provide facilities such as dark fiber and SONET rings to MCI. Pacific Bell's claim that MCI has commended it for its fraud prevention efforts is simply wrong.

27. For Pacific Bell to attempt to portray itself as a company that addresses fraud issues with due diligence[18] is a misrepresentation of the facts. Effective incentives for fraud prevention by RBOCs do not exist. If such incentives had existed, the Commission would not have needed to institute its proceeding on toll fraud, which addresses responsibilities for fraud prevention and liability in the telecommunications industry.[19] The fact has been and remains that for every fraud dollar that MCI writes off due to poorly implemented RBOC products, the RBOCs collect access, B&C and LIDB fees, thereby generating undeserved

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[17] Pacific Bell Reply Comments at 55.

[18] Id. at 58.

[19] Policies and Rules Concerning Toll Fraud, CC Docket No. 93-292.