

to recover those costs through a general overhead factor.<sup>99</sup> United defends its request for exogenous treatment of overhead costs on the ground that it would not have had to incur the costs but for the provision of 800 data base service.<sup>100</sup> Bell Atlantic states that by failing to include overheads, other products and services will be subsidizing the cost of providing 800 data base services.<sup>101</sup> SNET argues its overhead costs were necessary to implement 800 data base services.<sup>102</sup>

51. The majority of price cap LECs currently do not seek exogenous treatment for overhead costs. The LECs do include, as part of their direct costs, administration, maintenance and land and building costs,<sup>103</sup> which they claim are attributable to this service. NYNEX argues that these administrative and other costs are actually direct costs, not overheads, and thus properly are included in the calculation of exogenous costs.<sup>104</sup> Pacific defends its exogenous cost claims for land and buildings on the basis that "any investment made in the network has an impact on the overall requirements for land and buildings."<sup>105</sup> Pacific states that the Commission traditionally has allowed Pacific and other carriers to

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<sup>99</sup> Bell Atlantic Direct Case, Appendix B at 3-4 (travel, liaison, training, testing and presentations); United Direct Case at 11-12 (land, buildings and general administration); SNET Direct Case at 7-8 (maintenance support, plant non-specific expense, customer operations and General Support Facility costs).

<sup>100</sup> United Reply at 10.

<sup>101</sup> Bell Atlantic maintains that, even though 800 data base query service was classified as a restructure, it should have been classified as a new service. As such, says Bell Atlantic, it should be allowed to include reasonable overheads in its 800 data base query rate. Bell Atlantic Reply, Appendix A at 9.

<sup>102</sup> SNET Direct Case at 8.

<sup>103</sup> Overhead costs are costs that are not attributable to a specific service. Overheads include costs shared by all services, such as marketing and customer services. Direct costs are calculated based on specific investment or expenses incurred for a specific service. For example, general overhead would include a central office, while a specific overhead would include only the portion of a central office required to house the equipment used to provide, *e.g.*, 800 data base service.

<sup>104</sup> NYNEX Reply at 11 (NYNEX states that the administrative factor used in developing the 800 data base costs includes customer operations costs for operator services, local business office revenue accounting - other and marketing).

<sup>105</sup> Pacific Reply at 11.

recover costs for land and buildings associated with an investment.<sup>106</sup> BellSouth defends its inclusion of exogenous costs for land and buildings by saying that these costs are incremental to the addition of regional data bases.<sup>107</sup>

### (3) Oppositions

52. The commenters generally oppose granting exogenous cost treatment for overhead expenses.<sup>108</sup> AT&T argues that the LECs mistakenly assume that since new investment is required to provide 800 data base service, overheads must increase. AT&T claims that, without evidence of an actual direct relationship between increased total expenses and the provision of 800 data base service, exogenous treatment for overheads is unwarranted.<sup>109</sup> AT&T believes that Bell Atlantic and United incurred one-time expenses during the initial implementation period and that these LECs have already recovered these overhead costs during 1992 and early 1993 because both LECs' earnings exceeded the authorized rate of return.<sup>110</sup> AT&T further argues that even if LECs show they incurred actual increased costs during the 800 data base implementation period they should not be entitled to an exogenous adjustment for one-time costs unless it is allowed for only one year.

53. MCI argues that adding incremental investment in the LEC SS7 networks actually should produce cost savings for many services and, therefore, should not be a candidate for exogenous treatment. MCI further mentions that, although Bell Atlantic and United both claim that overhead costs increased incrementally, neither company documents the amount of costs that will be saved because of the increased efficiency that SS7 makes possible or how this amount would compare to the alleged increases in overheads for the service.<sup>111</sup> Sprint argues that Bell Atlantic does not even attempt to make the showing required by the Commission's *Designation Order*. Sprint argues that the costs Bell Atlantic claims for employees to attend industry forums, training and courses were either routinely incurred by companies in the industry or were related to meeting the Commission's 800 data

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<sup>106</sup> *Id.*; see also BellSouth Reply, Exhibit 1 at 3.

<sup>107</sup> BellSouth Reply, Exhibit 1 at 3.

<sup>108</sup> First Financial Opposition at 5; Compuserve Opposition at 5; Ad Hoc Opposition at 9; AT&T Opposition at ii.

<sup>109</sup> AT&T Opposition at 12.

<sup>110</sup> *Id.* at 13.

<sup>111</sup> MCI Opposition at 33.

base access time standards,<sup>112</sup> for which the Commission specifically has denied exogenous treatment.<sup>113</sup>

54. The commenters also complain that some LECs seek to recover administrative costs that are, in reality, disguised overheads. MCI states that most companies have included administrative costs as a component of their direct costs and argues that these costs should be denied exogenous treatment.<sup>114</sup> Sprint claims that while Ameritech and NYNEX state that they no longer seek exogenous treatment for overheads, they still included overhead amounts in their responses to information requests.<sup>115</sup>

#### (4) Discussion

55. Two different types of overhead cost recovery are at issue here. First, Bell Atlantic, SNET and United seek to apply a general overhead factor to their 800 data base direct costs and to treat the resulting product as an exogenous cost. Although they list specific types of costs that this overhead factor is intended to recover -- for example, travel and training costs -- the overhead factor does not necessarily bear a direct relationship to the actual costs incurred. As discussed above at paragraph 48, the price cap LECs are allowed exogenous treatment for reasonable costs incurred specifically to implement basic 800 data base query service. Thus, Bell Atlantic, SNET and United could have asked the Commission for permission to recover the costs at issue here by itemizing those costs and showing that they met this standard. They chose not to do so, instead seeking to recover them through a general overhead factor, with no justification that these costs met the standard established for exogenous treatment.

56. In its *Suspension Order*, the Bureau denied exogenous treatment for overhead costs because the LECs had not made a showing that those costs are attributable specifically to the implementation or operation of basic 800 data base query service. The Order further stated that, under price caps, the carriers already are recovering their pre-existing overhead costs in their normal rates; allowing them also to recover overhead costs through an exogenous adjustment could permit revenue recovery exceeding those costs, unless they had experienced an actual increase in overhead costs specifically attributable to the

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<sup>112</sup> See note 92, *supra*.

<sup>113</sup> Sprint Opposition at 11; MCI Opposition at 33; Ad Hoc Opposition at 10.

<sup>114</sup> MCI Opposition at 34-35 (saying that Bell Atlantic, NYNEX, Pacific, Southwestern, US West, SNET and United claim overheads in this manner).

<sup>115</sup> Sprint Opposition at 11, *citing* Ameritech Direct Case Attachment I at 4 and NYNEX Direct Case at 9 n.17.

implementation or operation of the basic data base 800 service.<sup>116</sup> We agree with the Bureau's denial of exogenous cost treatment for overheads and its rationale for that denial.

57. The Bureau, however, did give price cap LECs the opportunity to show in their direct cases that they had overhead costs directly attributable to 800 data base service, and that these costs increased as a result of implementing that service. None of the three LECs that claim exogenous treatment of overheads made this showing. These LECs did not differentiate these claimed 800 data base costs from those associated with their other normal corporate activities or activities involving accelerated deployment of SS7 technology to meet the Commission's access time standards. As a result, these LECs have failed to show that their claimed costs were specifically attributable to 800 data base query service. Nor have they made any showing that their overhead costs have increased because of that service. Therefore, we will uphold the Bureau's disallowance of the claims of Bell Atlantic, United and SNET for recovery of overhead costs associated with providing 800 data base basic query service.

58. The second cost recovery issue is whether the administrative and other costs claimed by most LECs are actually overhead, rather than direct, costs and therefore not entitled to exogenous treatment. In past ratemaking proceedings, the Commission has allowed carriers to include a portion of their administrative and other costs as direct costs, under the assumption that a portion of these costs specifically support a particular service.<sup>117</sup> We believe that this approach is also reasonable in this case. We further believe that the administrative and other costs the LECs have claimed as direct costs in this proceeding are associated with their investments that were incurred specifically to implement 800 data base service. We conclude that these costs are reasonable and that they increased as a result of 800 data base service. Therefore, we will allow exogenous treatment of the administrative and other costs claimed by the price cap LECs.

59. Finally, we find that while Ameritech and NYNEX included overhead amounts in their response to the Bureau's request for data,<sup>118</sup> the companies did not include overheads in developing their exogenous cost amounts and do not attempt to recover those costs through exogenous cost adjustments in the filings now before us. They merely populated their information request submission with the amount of overheads they would claim if we decided

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<sup>116</sup> See *Suspension Order*, 8 FCC Rcd at 3244; see also *Designation Order*, 8 FCC Rcd at 5135.

<sup>117</sup> Direct costs normally consist of both capital costs and other costs. Capital costs include such items as depreciation, return on investment and taxes on the returns. Other costs include maintenance, administration and land and buildings. These costs are allowed because they directly support the service. The costs not directly attributable to a given service are recovered through general overhead factors.

<sup>118</sup> *Designation Order*, 8 FCC Rcd 5138-39, Appendix A.

to allow it, but they are not including a claim for overhead in their exogenous cost calculations. We need not, therefore, take any action on this issue.

c. Jurisdictional Allocations of 800 Data Base Costs<sup>119</sup>

(\$ in 000's)

COMPANY	CLAIMED IS COSTS	CODE	DISALLOWED IS COSTS	ADJUSTED IS COSTS
AMRTCH	N/A	N/A	N/A	N/A
BA	\$7,820	S	\$4,838	\$2,982
BS	\$1,349	D	0	\$1,349
NYNEX	\$2,060	S	\$1,572	\$489
PACIFIC	\$7,229	D	\$4,764	\$2,465
SWB	\$3,651	D	\$787	\$2,864
US WEST	\$4,327	R	\$3,183	\$1,144
GTE	\$8,641	D	\$6,372	\$2,268
SNET	\$750	D	\$517	\$233
UNITED	\$4,438	E	\$3,085	\$1,353
TOTAL	\$40,265		\$25,118	\$15,147

(1) Background

(a) LEC Allocation Methods

60. The LECs used various methods of allocating 800 data base costs to the interstate jurisdiction for the purpose of determining the amount of exogenous costs. In order to understand the issues raised by these methods, it is necessary to describe the methods in more detail. All the LECs' methods have a first step in common: historical and projected costs are averaged over a several-year period in order to obtain an annual cost amount. For

<sup>119</sup> The column captioned "code" in each chart shows the source of the cost support for a particular company for a category of equipment or expense summarized in that chart. The codes are: "D" for the direct cases filed in September of 1993; "S" for the supplemental direct cases filed in March of 1994; "R" for the replies filed in May of 1994; and "E" for *ex parte* communications filed in the docket. The abbreviation "IS" in the chart captions stands for "interstate."

simplicity of discussion, this cost amount will be termed "estimated annual cost" or "estimated annual 800 data base cost." The estimated annual costs represent total company, *i.e.*, unseparated, costs for 800 data base service and are meant to be a representative annual estimate of the 800 data base costs incurred by the LEC.

61. There are four basic methods of interstate allocation employed by the LECs. In Method I, estimated annual query demand ("estimated annual demand") is determined by averaging the number of data base queries over the same time period as the estimated annual cost. Estimated annual demand includes both intrastate and interstate demand. Next, a unit cost is determined by dividing the estimated annual cost by the estimated annual demand. Finally, the unit cost is multiplied by the LECs' estimates of interstate annual demand. The result is the interstate portion of the estimated annual cost, which is the exogenous cost claimed by the LEC. The LECs that use Method I, or a method substantially similar to Method I, are Ameritech, Bell Atlantic and United.

62. Method II also begins with calculating estimated annual cost and estimated annual demand. Applying this method, estimated demand is disaggregated into intrastate and interstate portions, based on whether the 800 query is an intrastate or interstate query, and the interstate portion is represented as a percentage of the whole ("percentage of interstate demand"). Next, estimated annual cost is multiplied by percentage of interstate demand. The result is the claimed interstate portion of the estimated annual cost, which is the exogenous cost claimed by the LEC. Under this method, the allocation of estimated annual costs to the interstate jurisdiction is said to reflect "relative use" of the service by the interstate jurisdiction, because the costs are allocated based on interstate demand relative to total demand. Although Method I and Method II differ, both achieve the same numerical result. The LECs that use Method II, or methods substantially similar to Method II, are NYNEX, Pacific, US West and GTE.

63. Method III directly assigns costs. Applying this method, estimates of annual 800 data base service costs are assigned entirely to the interstate jurisdiction because 800 data base service was required to be offered in the interstate jurisdiction by the Commission. This method assumes that, had the LECs not been required to offer interstate 800 data base service by the Commission, zero costs would have been incurred. The result of this method is that the entire estimated annual cost is the exogenous cost claimed by the LEC. The only LEC that used Method III is SNET.

64. Method IV uses interstate allocation factors based on Part 36 of the rules (separations factors). Part 36 describes how separations factors are calculated, based on historical usage data, and how these factors are applied to historical, or "booked," costs to allocate such costs to the interstate jurisdiction. These costs are used ultimately in calculating each LEC's interstate rate of return, among other things. It is important to emphasize that, under Part 36, the costs to which the separations factors are applied actually have been incurred by the LEC and have been entered on the books of the company. In other words, costs subject to Part 36 separations procedures are "booked" or historical costs,

in contrast to projected costs or estimated costs. Method IV uses separations factors but applies them to estimated annual 800 data base service costs instead of merely historical costs. The LECs that use Method IV, or methods substantially similar to Method IV, are BellSouth and Southwestern.<sup>120</sup>

65. The costs resulting from Method IV are likely to differ from Methods I through III. The separations factors are based on relative interstate usage of all categories of equipment; these factors, therefore, are likely to be much lower than interstate allocation factors based on relative usage of 800 data base query service or 100 percent interstate assignment.<sup>121</sup>

(b) Interstate Allocation of 800 Data Base Costs Historically

66. In 1987, the Commission allowed the LECs to apply Part 36 separations methodology applicable to equal access costs to allocate the costs of the NXX form of 800 access service, which was an interim method of allowing more than one IXC to provide 800 service until the 800 data base system could be deployed.<sup>122</sup> This allowed the LECs to allocate the costs of providing 800 NXX access between the interstate and intrastate jurisdictions based on the relative volumes of 800 service traffic to those jurisdictions. The Commission, however, expressly limited this decision to 800 NXX access service. The Commission concluded that the separations treatment for 800 data base service was not relevant to that proceeding. This was because the estimated costs of the service were relatively modest,<sup>123</sup> and, as the LECs expected to replace the 800 NXX access service within two years, the service was temporary.<sup>124</sup>

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<sup>120</sup> Southwestern, however, allocates its central data base costs based on Method II.

<sup>121</sup> For example, the highest exogenous costs are associated with regional data bases. The LECs using Methods I through III allocate between 67 percent and 100 percent of the regional data base costs to the interstate jurisdiction, whereas, under Method IV, only between 11 percent and 50 percent of the regional data base costs are allocated to the interstate jurisdiction.

<sup>122</sup> Interim 800 Exchange Access Tariffs, 2 FCC Rcd 5905, 5908-9 (1987) (*800 Interim Access Order*). Before 1987, LECs had only provided 800 access services to AT&T. NXX access was considered to be a temporary or interim method of allowing all IXCs to provide 800 service until 800 data base service was available. See also Section 36.191 of the Commission's rules, 47 C.F.R. § 36.191.

<sup>123</sup> *800 Report and Order*, 4 FCC Rcd at 2833 (finding that the unseparated revenue requirement for 800 data base access will be less than \$100 million per year for the seven BOCs combined).

<sup>124</sup> *800 Interim Access Order*, 2 FCC Rcd at 5908-9.

67. Subsequently, the Commission considered the proper separations treatment for the costs of 800 data base access service. The Commission concluded that SS7 represents "a general network upgrade that will be used for a wide variety of both intrastate and interstate services."<sup>125</sup> The Commission said that current separations rules are designed to provide the proper separations treatment of the costs of such network facilities and upgrades. The Commission concluded that, in light of the relatively small size of the revenue requirement for 800 data base service and of the efforts of the Commission and the Federal - State Joint Board to keep the separations rules simple, it was unnecessary to develop special separations treatment of 800 data base service; existing separations rules will govern the allocation of the costs for 800 data base service.<sup>126</sup>

(c) Interstate Allocation of Costs Under Price Caps

68. Under price cap regulation, LECs have calculated exogenous costs by applying separations factors to projected or estimated costs. For example, as recently as the 1994 annual access tariff filing, Ameritech and Bell Atlantic used Part 36 allocation factors derived from data contained in the ARMIS data base to calculate costs included in other categories, such as excess deferred taxes (EDT),<sup>127</sup> for which they sought exogenous treatment. In its 1994 annual access filing, US West also used Part 36 allocation factors to calculate the amount of costs associated with EDT, investment tax credit (ITC) and other post employment benefits (OPEB) that should receive interstate exogenous cost treatment.<sup>128</sup> In earlier annual access filings, LECs also have used Part 36 allocations factors to calculate exogenous costs for categories such as changes or alterations to their subscriber plant factor and the dial equipment minutes factor, inside wire amortization and reserve deficiency amortizations.

69. Method IV is, essentially, the same method that LECs have used to project interstate costs in rate-of-return filings and in previous price cap filings. Applied to 800 data base service, Method IV starts with estimated annual 800 data base service costs. The LECs categorize these costs into the appropriate separations category, for example, the Part 36 tandem switching cost category, or the Part 36 local switching cost category. Next, the LEC selects the appropriate Part 36 separations factor, for example, the separations factor for either tandem switching or local switching, and applies it to the estimated annual cost. The

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<sup>125</sup> *800 Report and Order*, 4 FCC Rcd at 2833 and n.154; *aff'd*, *800 Reconsideration and Second Supplemental NPRM*, 6 FCC Rcd at 5429.

<sup>126</sup> *Id.*

<sup>127</sup> See Ameritech Transmittal No. 787 at Exhibit 2, p. 1-2 and Bell Atlantic Transmittal No. 644 at Exhibit 2, pp. 4-8.

<sup>128</sup> US West Transmittal No. 472.

result is the interstate portion of the estimated annual cost, which is the exogenous cost claimed by the LEC.

(2) LEC Pleadings

70. As noted earlier, different LECs have used different allocation methods to determine the amount of the interstate portion of 800 data base costs for which they seek exogenous treatment. Only BellSouth and Southwestern used Part 36 of the Commission's Rules,<sup>129</sup> to allocate these costs between the state and interstate jurisdictions.<sup>130</sup> The remaining LECs either allocate exogenous costs based on relative 800 data base query demand for interstate and intrastate services<sup>131</sup> or assign them directly to the interstate jurisdiction.<sup>132</sup> These LECs generally argue that applying the Part 36 separations rules to determine the amount of interstate costs eligible for exogenous cost treatment would underallocate the costs of providing 800 data base service to the interstate jurisdiction.<sup>133</sup> They further argue that the allocation methodologies they used are necessary to allow them to recover their true economic costs of providing the service and to ensure that the costs are allocated to the cost causer.

71. Pacific states that it used a unit costing methodology that remains constant throughout, whatever interstate allocation percentage is used. Pacific argues that allocating

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<sup>129</sup> 47 U.S.C. Part 36.

<sup>130</sup> BellSouth Reply at 6.

<sup>131</sup> See Bell Atlantic Supplemental Direct Case, Attachment A at Workpaper 5 (allocating 82 percent of exogenous costs to interstate); NYNEX Supplemental Direct Case at WS Exg 1-1 (allocating 83.7 percent of exogenous costs to interstate); Southwestern Direct Case at 16, 19 and Exhibit B at 4 (allocating non-investment-related expenses according to relative usage, with 72 percent of central data base expense allocated to interstate); Pacific Bell Revised Direct Case at I-1 (allocating 49 percent of exogenous costs to interstate); US West Reply at 18 (allocating 84.9 percent of exogenous costs to interstate); GTE Supplemental Direct Case, Attachment at 1 (allocating 66.75 percent of exogenous costs to interstate).

<sup>132</sup> See Ameritech Direct Case at 12 (stating that allocation based on the relative number of queries results in close to a 100 percent allocation of exogenous costs to interstate); SNET Reply at 6-7 (stating that it assigns all regional data base costs to the interstate jurisdiction); US West Reply at 11-15 (stating that it directly assigns costs for service origination point software, central data base access, data links between the central data base and the regional data bases and billing system modifications, and allocates costs for the regional data base and the links that connect the regional transfer point to the regional data base); United Direct Case at 24 (stating that it does not use Part 36 to jurisdictionally separate costs).

<sup>133</sup> GTE Reply at 9; NYNEX Reply at 9; SNET Reply at 8; United Reply at 7-8.

800 data base service exogenous costs based on relative demand results in the cost causer paying the correct price regardless of the jurisdiction of the call associated with a data base query. Pacific argues that the Part 36 separations rules only allocate approximately 25 percent of 800 data base exogenous costs to the interstate jurisdiction, whereas the actual amount of interstate data base queries is 49 percent of total queries. Pacific maintains that using Part 36 would result in lower rates because separations allocators based on Part 36 rules are based on broad categories of cost rather than on specific usage.<sup>134</sup>

72. Bell Atlantic states that 80 percent of the demand for 800 data base service is interstate and a reduction in exogenous costs because of separations factors, coupled with existing price cap sharing<sup>135</sup> obligations, would result in a "double give back" -- once for the impact 800 data base service has on sharing and twice to comply with separations rules that, in this instance, do not reasonably reflect the true nature of the service.<sup>136</sup>

73. US West argues that the purpose of this proceeding is to identify the increased costs of providing 800 data base service so that an adjustment can be made to the traffic sensitive basket PCI, and that using generalized formulas contained in Part 36 frustrates this purpose. US West maintains that the purpose of Part 36 -- to allocate the costs of existing services to reflect changes in telephone company investment and expenses -- is inconsistent with this goal and that, therefore, it would be inappropriate to apply Part 36 to the separation of costs in this investigation.<sup>137</sup>

74. US West claims finally that the Commission ordered LECs to provide 800 data base service and cannot now prevent LECs from recovering the increased costs they incurred to provide this service.<sup>138</sup> US West argues that if the Commission denied the LECs' claims for exogenous treatment for the costs of providing 800 data base service, this denial would constitute a "taking" in violation of the Fifth Amendment to the United States Constitution.<sup>139</sup> It provides, however, no specific information about the extent to which disallowances of

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<sup>134</sup> Pacific Reply at 9.

<sup>135</sup> Currently, under the sharing mechanism established under price cap regulation, LEC earnings that are in excess of a specified return must be shared with, or returned to ratepayers through adjustments that lower LEC price cap indices. Policy and Rules Concerning Rates for Dominant Carriers, CC Docket 87-313, 5 FCC Rcd 6786 at 6788 (1990) (*LEC Price Cap Order*) modified on recon. 6 FCC Rcd 2637 (1991) (*LEC Price Cap Reconsideration Order*).

<sup>136</sup> Bell Atlantic Reply, Appendix A at 7-8.

<sup>137</sup> US West Reply at 15-17.

<sup>138</sup> US West Reply at 7.

<sup>139</sup> *Id.* at 6; citing U.S. CONST. Amend. V.

exogenous costs would affect US West's ability to earn an appropriate return or attract capital.

### (3) Oppositions

75. The commenters uniformly criticize the methodology of the LECs that did not use Part 36 to identify the costs for which the LECs sought exogenous treatment. The commenters argue that this methodology resulted in excessive claims for exogenous costs.<sup>140</sup> For example, MCI claims that United was entitled to allocate only \$456,620 of the costs for the signalling links between the transfer points and the regional data base to interstate 800 data base service based on the Commission's rules for allocating local switching equipment between the interstate and intrastate jurisdictions.<sup>141</sup> MCI claims, however, that United's allocation method resulted in \$2,674,797 in costs being claimed as exogenous.<sup>142</sup> MCI further states that BellSouth, NYNEX, US West and Southwestern directly assigned the cost of regional data bases, the cost of periodic updates to the regional data base from the central data base, and the costs of signalling links. MCI argues that direct assignment is reasonable only if the investment will be used solely for 800 data base service, which is not always the case for some investment for which LECs seek exogenous treatment.<sup>143</sup> National Data adds that although Southwestern allocated its 800 data base related investment according to the Part 36 separations rules, it allocated its central data base expenses on a relative use basis and not according to Part 36 requirements.<sup>144</sup>

### (4) Discussion

#### (a) Standard for Calculating Exogenous Costs

76. We believe that all LECs should use the separations procedures described in Part 36 of the rules to determine the amount of annual 800 data base costs for which they seek

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<sup>140</sup> Sprint Opposition at 6; Ad Hoc Opposition at 10 (stating that Ameritech, Bell Atlantic, NYNEX and Pacific each assigned exogenous costs to jurisdictions by "relative use").

<sup>141</sup> 47 C.F.R. § 36.125.

<sup>142</sup> MCI Opposition at 27-28. The United costs that MCI quotes were later modified by United when it reduced its claims for exogenous costs from \$6.6 million to \$4.4 million. Therefore, the United costs cited by MCI do not correspond to the revised exogenous cost claims that are contained in this Order. *See ex parte* letter from Warren D. Hannah, Director, Federal Regulatory Relations, United and Central Telephone Companies, to William F. Caton, Acting Secretary, FCC (August 24, 1994).

<sup>143</sup> MCI Opposition at 18-19.

<sup>144</sup> National Data Opposition at 14.

exogenous cost treatment in their interstate filings, *i.e.*, Method IV. There are three reasons for our decision. First, we have already prescribed these procedures for allocating booked 800 data base costs. Setting exogenous costs equal to the amount of interstate 800 data base costs calculated by applying Method IV should permit full recovery of any 800 data base costs that have been, or will be, incurred and allocated to the interstate jurisdiction under our separations procedures because such costs will equal the exogenous costs allowed under this method. Of course, this assumes that both the LEC's estimate for 800 data base annual cost and the LEC's estimate of the separations factor are accurate.

77. Second, determining interstate costs based on methods that the LECs chose other than Method IV, will likely result in exogenous costs different from the amount determined using separations factors. Relative use calculations may lead to double recovery of 800 data base costs. Costs not allocated to the interstate jurisdiction under Part 36 are eligible for recovery in the intrastate jurisdiction. Thus, if the LECs' claimed exogenous 800 data base costs are greater than the amount that would be allocated under Part 36, the LEC could recover some costs twice: first, in the interstate jurisdiction when the costs are used to adjust interstate PCIs, and thereafter, actual rates; and, second, when 800 costs actually are allocated to the intrastate jurisdiction in the separations process. Because such methods could lead to over-recovery of exogenous costs, we find that methods other than use of Part 36 separation factors are unacceptable.

78. Third, as described above, the LECs have routinely used Method IV in calculating interstate costs for the purpose of determining exogenous costs in their annual access tariff filings. Therefore, their use of Method IV to determine exogenous costs for 800 data base service is consistent with their use of this method in their access filings.

79. The LECs offer two similar but distinguishable criticisms of the use of separations factors. The first criticism deals with the impact that separations factors would have on the PCI for the traffic sensitive basket. The LECs claim that Part 36 separations factors will not assign the "true economic cost" of 800 data base service to the interstate jurisdiction, and therefore will prevent the LECs from adjusting their PCI and SBI limits sufficiently to recover fully the cost of 800 data base service through the rates for services included in their traffic sensitive basket. The LECs' second criticism concerns the impact that application of the Part 36 separations factors would have on rates for 800 data base basic query services. The LECs claim that use of the separations factors prescribed in Part 36 would prevent the LECs from setting prices for 800 data base basic query service that would recover all of the economic costs associated with the service. The LECs contend that this would prevent them from setting rates high enough to recover their economic costs from the cost-causer. We believe that both of these criticisms are invalid.

80. The criticism that the true economic cost of 800 data base service will not be recovered reflects a misunderstanding of the jurisdictional separations process. The separations process is designed to reasonably allocate broad categories of costs ("separations categories") between the intrastate and interstate jurisdictions, by the use of relatively simple,

easily derivable and auditable separations factors. For example, 800 data base costs, such as the regional data bases, comprise relatively small portions of major separations categories such as Central Office Equipment (COE) Category 2 (tandem switching) or COE Category 3 (local switching). General allocations factors based on the use of the equipment -- relative interstate minutes of use of the switch -- are applied to these major separations categories. Use of Part 36 does not guarantee that when the separations factor is applied to each component of a separations category, the resulting allocation of the component to the interstate jurisdiction will be economically correct for a particular service, since Part 36 is designed to allocate broader categories of costs. The costs of 800 data base service are components of separations categories -- tandem switching and local switching -- for which the Commission has adopted separations rules designed to ensure that the costs in the category as a whole are reasonably allocated between federal and state jurisdictions.<sup>145</sup> To the extent that the LECs believe that the separations process does not allocate the true economic costs of switching functions, including 800 data base costs, to the interstate jurisdiction, the LECs should seek relief in a proceeding addressing Part 36 of the rules.

81. The LECs' second argument against using separations factors -- that as a result of not allocating the true economic costs of 800 data base service to the interstate jurisdiction, they are prevented from setting rates for 800 data base service that recover all of the costs -- is incorrect. In the *Rate Structure Order*<sup>146</sup> the Commission chose a strict standard for evaluating whether costs associated with 800 data base service should receive exogenous treatment. The order concluded that it is appropriate to allow LECs to treat as exogenous the reasonable costs that they have incurred specifically for the implementation and operation of the 800 data base basic query service required by Commission orders. The BOCs have proposed rates that would recover all of the costs they claim as exogenous. Nothing in that order, or in the Commission's rules, however, requires that price cap carriers set rates for 800 data base service based solely on the level of exogenous costs. The LECs are not required to set rates that precisely recover their exogenous costs. If, for example, the revenue recovered prior to the restructure was below the SBI upper limit, LECs have the flexibility in the restructure to set rates that produce revenue levels above their pre-restructure revenues and their exogenous costs. Under Part 36, 800 data base costs are allocated between the intrastate and interstate jurisdictions and the costs allocated to each jurisdiction are eligible for full recovery in that jurisdiction. To the extent that exogenous

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<sup>145</sup> For example, in adopting current procedures for categorizing and allocating COE - Category 3, the Commission found that the current procedures, based on relative dial equipment minutes, represent a careful balance of the goals of the Federal-State Joint Board in CC Docket No. 80-286 by reflecting cost causation principles, simplifying the separations process and reducing administrative burdens for carriers. See MTS and WATS Market Structure, CC Dockets 78-72, 80-286 and 86-297, Amendment of Part 67 (new Part 36) of the Commission's Rules and Establishment of a Federal-State Joint Board, 3 FCC Rcd at 5518, 5525 (1988).

<sup>146</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

treatment is denied because costs are "core SS7," the Commission has determined that it would be more appropriate for LECs to recover those costs from all network users.<sup>147</sup>

82. In the *LEC Price Cap Orders*, the Commission recognized that traditional cost allocation methods may not be the best basis on which to set rates for interstate services,<sup>148</sup> and granted carriers considerable flexibility in setting rates. In keeping with that philosophy, the Commission established standards for evaluating the reasonableness of price changes when a LEC restructures its available services.<sup>149</sup> These standards require that rates be nondiscriminatory, that they be revenue neutral -- *i.e.*, recover revenue within the bounds allowed by the price cap rules.<sup>150</sup> Within these constraints, LECs have considerable flexibility in setting prices for the restructured service. Given that the restructure rules apply to the setting of 800 basic service rates, the LECs are free to set rates for 800 data base basic query rates that recover their economic costs within the constraints described above. Thus, the LECs are incorrect in assuming that Method IV will prevent them from setting "correct" rates for 800 data base service.

(b) US West's "Taking" Argument

83. US West's assertion that the Constitution requires that it be allowed to recover through interstate service tariffs costs not assigned to the interstate jurisdiction is incorrect. The Commission actions in this Order do not constitute a constitute a "permanent physical

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<sup>147</sup> *800 Report and Order*, 4 FCC Rcd at 2832.

<sup>148</sup> *LEC Price Cap Order*, 5 FCC Rcd 6786; *LEC Price Cap Reconsideration Order*, 6 FCC Rcd 2637.

<sup>149</sup> Restructured services involve the rearrangement of existing services. LECs can restructure a service by changing its rate structure or provisioning, by changing a term or condition, or by adding language. When a service has been restructured, the previous version of the service no longer exists. *LEC Price Cap Order*, 5 FCC Rcd at 6825-6826. In the *800 Rate Structure Order* the Commission decided that 800 data base service was a restructure of the preexisting 800 access service. The Commission determined that basic 800 data base query service would not add to the range of services already offered and would replace the previous version of the service (NXX 800 access service) with a better version of the same service. *800 Rate Structure Order*, 8 FCC Rcd at 911.

<sup>150</sup> To alert the Commission to possible predatory pricing, the price cap rules establish a lower limit for each service category. LECs have considerable pricing flexibility but are required to provide additional cost support if they propose to price services within a service category in such a manner that the SBI falls below the limit.

occupation authorized by government."<sup>151</sup> Because the Commission's partial disallowance of US West's exogenous cost claims is a ratemaking issue, the constitutionality of such a Commission action should be analyzed under the line of cases that define the limits that the Fifth Amendment's "takings" clause imposes on the Commission's ratemaking power. In *Duquesne Light*, the Court stated that "(a)ll that is protected against, in a constitutional sense, is that the rates fixed by the Commission be higher than a confiscatory level"<sup>152</sup> and indicated that the Court had to consider the interests of both consumers and investors in evaluating the rate decision.<sup>153</sup> In *Duquesne Light*, the Court noted that the carrier had not argued that the slightly reduced rates jeopardize the financial integrity of the companies by leaving them insufficient operating capital, by impeding their ability to raise future capital or by demonstrating that those rates were inadequate to compensate equity holders for the risk associated with their investments.<sup>154</sup> In *Illinois Bell*, Ameritech challenged, as confiscatory in violation of the Fifth Amendment, the Commission's establishment of a range within which a reasonable rate of return must fall. In affirming the Commission order, the court stated that the carrier "bears the heavy burden of making a convincing showing that (the FCC's policy) is unjust and unreasonable in its consequences."<sup>155</sup> These cases typically looked at the impact of the Commission action on the entire company, not on whether Commission action relating to a specific service prevented the carrier from recovering its costs for that service.<sup>156</sup> In the present case, the Commission's actions in partially denying exogenous treatment for some LEC costs of providing basic 800 data base service do not violate the "takings" clause of the Fifth Amendment. Although the Commission action denies some LECs the right to adjust

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<sup>151</sup> See *Federal Communications Commission v. Florida Power Corporation*, 480 U.S. 245, 251, 107 S. Ct. 1107, 1111 (1987) (Commission regulation of pole attachment rates does not constitute a physical possession of utility company property); *Bell Atlantic Telephone Companies v. FCC*, No. 92-1619 (D.C. Cir., June 10, 1994) (Commission's physical collocation requirement may constitute a taking).

<sup>152</sup> *Duquesne Light Company, et. al. v. Barasch*, 488 U.S. 299, 308, 109 S. Ct. 609, 615 (1989), citing *FPC v. Texaco Inc.*, 417 U.S. 380, 391-392, 94 S. Ct. 2315, 2392.

<sup>153</sup> *Id.*, 488 U.S. at 306, 109 S. Ct. at 615.

<sup>154</sup> *Duquesne Light*, 488 U.S. at 312, 109 S. Ct. at 618.

<sup>155</sup> *Illinois Bell Telephone Company, et. al. v. Federal Communications Commission, et. al.* 988 F. 2d 1254, 1260 (D.C. Cir. 1993), citing *FPC v. Hope Natural Gas Co.*, 320 U.S. 591, 602, 64 S.Ct. 281, 288 (1944).

<sup>156</sup> See *Illinois Bell*, 988 F. 2d at 1261 (In rejecting the carrier's argument that Commission action would constitute a "taking" by reducing the value of its stock, the court noted that the order affected only the revenues from interstate access to local exchanges. The court stated that the carrier also earned revenues from other regulated telephone services, cellular phone operations and unregulated investments.)

their price cap indices for the full amount of exogenous costs that they claim, it does not deny the LECs the right to set prices that recover those costs. As explained above, under Part 36, 800 data base costs are allocated between the intrastate and interstate jurisdictions and the costs allocated to each jurisdiction are eligible for full recovery in that jurisdiction. Additionally, LECs had the opportunity to set their basic 800 data base query rates to recover costs when they initially restructured their traffic sensitive basket. Finally, even if the Commission's denial of exogenous treatment were to leave US West's with unrecovered basic 800 data base costs, US West has failed to show that the Commission's action will jeopardize its financial integrity, leave it insufficient operating capital or prevent it from compensating current investors or attracting future investors.

(c) Method of Calculating Exogenous Costs

84. In determining the portion of 800 data base service costs to be eligible for exogenous treatment, we relied on Part 36 allocation procedures because these are the actual procedures the LECs follow to allocate costs to the interstate jurisdiction. Under Part 36, the cost of equipment is assigned to separations categories. The costs within each equipment category are then either directly assigned to the intrastate or interstate jurisdictions or allocated between them based on the factors prescribed in Part 36. For instance, depending on whether the LEC classifies its 800 data base service costs as tandem switching or local switching, its 800 data base service costs are allocated to the interstate jurisdiction based on separations rules for COE Category 2 (tandem switching), or COE Category 3 (local switching), respectively.

85. We determined the applicable separations factors for each category of costs by relying on separations information contained in the 1993 Automated Reporting Information Management System (ARMIS) data base.<sup>157</sup> We find that the separations information contained in the 1993 ARMIS data base provides a reasonably accurate estimate of separations factors that should apply to estimated 800 data base costs because the data contained in the ARMIS data base are the same data used by the LECs in their jurisdictional separations calculations. We then calculated allowable exogenous costs in three steps, as follows. First, we adjusted the 800 data base costs to include interstate and intrastate costs. Next, we applied the appropriate separations factor from ARMIS to each LEC's adjusted, unseparated 800 data base costs. Finally, we adjusted exogenous 800 data base costs filed by the LECs to remove costs deemed ineligible for exogenous treatment.

86. The amount resulting from the calculation made above is the allowable exogenous cost for each LEC. The calculations and amounts are listed in Appendix C to this

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<sup>157</sup> ARMIS is a data base of telecommunications companies' accounts. It includes account data, such as investment, revenues and expenses, submitted regularly to the Commission by Tier 1 LECs (Tier 1 LECs have revenues exceeding \$100 million per year).

Order. The LECs must recalculate their PCIs to remove any of their costs that we have disallowed.

d. Adequacy of Ameritech's Cost Support

(1) LEC Pleadings

87. In its supplemental direct case, filed March 15, 1994, Ameritech states that the revised cost support demonstrates the validity of its original cost support, which was based on CCSCIS. The revised cost support provided by Ameritech contains a brief explanation that it: (1) identified total investments for the regional data bases, regional transfer points and data links between the regional transfer points and the regional data bases; (2) apportioned the investment between 800 data base and line information data base (LIDB) services; (3) calculated costs by applying annual charge factors to the resulting investment; and (4) determined unit cost by dividing the costs by forecasted demand.<sup>158</sup> The unit cost is displayed on Revised Exhibit 4 and amounts to approximately \$4.3 million.<sup>159</sup> Ameritech also includes in Exhibit 4, annual costs for transactions between the Number Administration and Service Center<sup>160</sup> and the central data base and Bellcore funding, which amount to approximately \$2 million.

(2) Discussion

88. Although Ameritech outlines the procedures followed in determining its exogenous costs, it fails to provide any supporting workpapers. In addition, Ameritech provides none of the calculations it states that it performed, nor any of the data used in those calculations. Also lacking in Ameritech's cost support are any investment amounts for the regional data base, the transfer point, or the data links between the regional transfer points and the regional data base identified in its cost support. Finally, Ameritech's revised cost support fails to address either service origination point costs, for which it claimed approximately \$3 million in its direct case, or tandem switch software costs, for which it claimed \$2.2 million in its reply to oppositions to its supplemental direct case.<sup>161</sup>

89. Ameritech claims that its revised cost support validates its CCSCIS-based direct case. It reasons that because the CCSCIS data are validated, the Commission now should

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<sup>158</sup> See Ameritech Supplemental Direct Case, Supplemental Description and Justification.

<sup>159</sup> See Ameritech Supplemental Direct Case, Revised Exhibit 4, 800 Call-Routing Query (Basic) Direct Unit Investment and Costs.

<sup>160</sup> The functions of the Number Administration Service Center are explained at paragraph 10 of this Order.

<sup>161</sup> Ameritech Reply at 4.

rely on information provided in its direct case. Ameritech fails to support its claims, however. Moreover, Ameritech's resubmitted cost support is defective because it fails to address either the service origination point costs, a major cost component, or its tandem switch software costs. Ameritech should have either disclosed its cost model on the public record or it should have provided specific categories of investments and costs for each exogenous cost category claimed. Ameritech should have also included sufficient data and calculations to show how it calculated the investments and the assumptions it used in apportioning facilities shared with other services, *e.g.*, shared regional data bases and data links, as many other price cap LECs did.<sup>162</sup>

90. We conclude that we cannot use the figures for exogenous costs that Ameritech claims. We believe, however, that Ameritech likely has incurred costs for data base 800 service that are commensurate with those claimed by the other BOCs. We are not including the costs of United, GTE or SNET in calculating this average because United and GTE each serve widely dispersed areas and have categories of costs, specifically right-to-use fees, that the BOCs do not incur. SNET is excluded because its smaller size and lower costs do not provide for accurate comparisons with Ameritech. For this reason, and in the absence of any other reliable information from Ameritech, we will allow Ameritech exogenous treatment of an amount equal to the average amount of 800 data base costs we allow the BOCs to treat as exogenous in this Order. This amount is \$1,302,998.

e. Exogenous Treatment for Regional Data Base (SCP) Costs

(\$ in 000's)

COMPANY	CLAIMED IS COSTS	CODE	ADJUSTED IS COSTS	DISALLOWED IS COSTS	EXOGENOUS COSTS ALLOWED
AMRTCH	N/A	N/A	N/A	N/A	N/A
BA	\$4,925	S	\$2,061	\$1,535	\$526
BS	\$270	D	\$270	\$0	\$270
NYNEX	\$1,289	S	\$284	\$0	\$284
PACIFIC	\$2,022	D	\$473	\$0	\$473
SWB	\$1,094	D	\$1,094	\$0	\$1,094

<sup>162</sup> The Ameritech Supplemental Direct Case contained an aggregated unit investment figure for investment required to support 800 data base service. It provided no detail for investment in individual components, such as for the regional data base or for data links. Ameritech also provided only an aggregated unit cost figure for the exogenous costs associated with the investment.

US WEST	\$1,239	R	\$252	\$0	\$252
GTE	\$4,834	D	\$993	\$0	\$993
SNET	\$125	D	\$62	\$0	\$62
UNITED	\$2,474	E	\$609	\$0	\$609
TOTAL	\$18,272		\$6,099	\$1,535	\$4,564

(1) LEC Pleadings

91. All of the price cap LECs claim exogenous treatment for regional data base costs,<sup>163</sup> either for regional data bases dedicated to 800 data base service,<sup>164</sup> for regional data bases also used to provide other services,<sup>165</sup> or for some regional data bases falling into both categories.<sup>166</sup> Bell Atlantic and BellSouth each state that they currently dedicate their regional data bases to 800 data base service and will not be using them to provide other services in the future.<sup>167</sup> NYNEX states, that while its regional data bases are currently dedicated to 800 data base service, the regional data base used by its New England Telephone operating company also eventually will be used to provide additional services.<sup>168</sup>

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<sup>163</sup> Regional data bases, links and transfer points are always deployed in pairs to provide redundancy and thereby increase reliability. Further, the LECs typically deploy two pairs of regional data bases to further increase the reliability of this component. With this architecture, if one component fails, its twin automatically replaces it so that the customer does not experience a service outage.

<sup>164</sup> BellSouth Supplemental Direct Case, Exhibit 3 at 3; NYNEX Direct Case, Attachment A at 4-5.

<sup>165</sup> Ameritech Direct Case, Attachment I at 6; SNET Direct Case at 20 (claiming exogenous treatment of \$500,000 for the incremental investment necessary to upgrade a shared regional data base to handle 800 data base service).

<sup>166</sup> Bell Atlantic Direct Case, Appendix B at 5; GTE Direct Case at 16; US West Direct Case at 7-8; US West Supplement to Direct Case at Appendix A-1; Pacific Direct Case at 17-18 (including only incremental software to handle 800 data base); United Direct Case at 27-28; Southwestern Direct Case at 8-9.

<sup>167</sup> Bell Atlantic Reply, Appendix A at 3; BellSouth Reply Exhibit 1 at 2 (no plans in the foreseeable future).

<sup>168</sup> NYNEX Direct Case, Attachment A at 4-5.

92. The LECs who seek exogenous treatment for the costs associated with regional data bases that contain both 800 data and data used for other services argue that the 800 data base occupies a certain amount of memory and uses a certain amount of processing power in the computers comprising the shared regional data bases that they would not have needed to purchase if they did not provide 800 data base service.<sup>169</sup> These LECs therefore argue that they should be allowed exogenous treatment for the 800 data base share of the costs of the shared regional data base.

93. United, GTE and Bell Atlantic claim exogenous treatment for higher regional data base costs than do other carriers. United and GTE explain that much of their regional data base costs are for "right-to-use"<sup>170</sup> software fees that they pay to Bellcore. United says that these right-to-use fees only relate to 800 data base service, make up 60 percent of its regional data base costs and are apparently not claimed as exogenous costs by the BOCs. It only shows a one-time payment of \$2.2 million<sup>171</sup> for regional data base right-to-use fees paid to Bellcore, however, United also states that it has a higher per unit cost than other carriers because it serves rural areas and has low demand quantities.<sup>172</sup> United filed an *ex parte* pleading in which it voluntarily reduced its claim for exogenous costs from \$6.6 million to \$4.4 million annually.<sup>173</sup> GTE shows a one-time payment of \$9.7 million for regional data base right-to-use fees. United argues that all of the LECs that were regional data base owners must have paid similar right-to-use fees but does not provide specific references to the cost support filed in this investigation.<sup>174</sup>

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<sup>169</sup> Bell Atlantic Reply at 5 and Appendix A at 3; Southwestern Reply at 4; US West Reply at 14.

<sup>170</sup> "Right-to-use" fees are charged by software developers, such as Bellcore, for the use of software required to support data base 800 service. Such fees are assessed for software needed to operate the service origination point and the regional data base.

<sup>171</sup> As discussed previously in paragraph 70, the LECs claimed exogenous treatment for their economic costs. We have concluded that the only LEC costs that are eligible for exogenous treatment under our price cap rules are the interstate portion of the LECs' economic costs. All costs referred to in this Order are the costs submitted by the LECs, unless they are labelled as "adjusted" costs, which means that Part 36 separations factors have been applied.

<sup>172</sup> United Reply at 7; *see also ex parte* letter from F. Gordon Maxson, Director-Regulatory Affairs, GTE, to William F. Caton, Acting Secretary, FCC (July 12, 1994) (GTE was billed for \$9.7 million in 800 data base service specific right-to-use fees by Bellcore).

<sup>173</sup> *Ex parte* letter from Warren D. Hannah, Director, Federal Regulatory Relations, United and Central Telephone Companies, to William F. Caton, Acting Secretary, FCC (Aug. 24, 1994).

<sup>174</sup> United Reply at 6, *citing* NYNEX Description and Justification at Exhibit 2-1.

94. Bell Atlantic's claim for exogenous treatment for its regional data base investment is different from those of other carriers. The amount of regional data base investment claimed by a LEC is a major factor in determining how large a regional data base-related exogenous adjustment it can make each year. In three successive filings within a six-month period, Bell Atlantic's claimed total regional data base investment for both interstate and intrastate services has dramatically increased, moving from \$8.2 million in its September 1993 direct case,<sup>175</sup> to \$15.8 million in its February 1994 filing<sup>176</sup> and then finally to \$18.7 million in its March 1994 supplemental direct case.<sup>177</sup> The \$8.2 million in regional data base investment in Bell Atlantic's direct case was calculated using the CCSCIS cost model, on which the Bureau did not permit Bell Atlantic to rely because it chose not to disclose the cost model on the record. In February 1994, Bell Atlantic submitted a response to a data request that showed \$15.8 million in regional data base investment. Its only explanation for the ninety percent increase in total investment between the September 1993 filing claiming \$8.2 million in total regional data base investment and the February 1994 filing claiming \$15.8 million is that "the interstate and intrastate investments derived through the separations process will not compare with investments derived by applying demand for 800 data base service."<sup>178</sup>

95. Finally, in its March 1994 supplemental direct case, Bell Atlantic asserts that in 1994 it is investing an additional \$4.4 million in regional data bases dedicated to 800 data base service.<sup>179</sup> Bell Atlantic does not, however, explain why this additional 1994 investment was not included in the original five-year projections filed in its September 1993 direct case. With that additional investment, Bell Atlantic claims \$18.7 million in total regional data base investment and, based on that investment, Bell Atlantic calculates exogenous costs for regional data bases of almost \$4.8 million per year.<sup>180</sup>

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<sup>175</sup> Bell Atlantic Direct Case, Workpaper B-2 (more than \$6.7 million was for interstate 800 data base service).

<sup>176</sup> Bell Atlantic Response to the Bureau's January 26, 1993 Data Request (Feb. 24, 1994) (saying that if it took its total regional data base investment of \$15.7 million and applied the Part 36 separations rules for central office equipment, category 2, only \$5.7 million would be allocated to interstate 800 data base service).

<sup>177</sup> Bell Atlantic Supplemental Direct Case, Workpaper 1 at pp. 2-3.

<sup>178</sup> Bell Atlantic Response to the Bureau's January 26, 1993 Data Request at 3 (Feb. 24, 1994).

<sup>179</sup> Bell Atlantic Supplemental Direct Case, Attachment A at 3.

<sup>180</sup> The gross figures discussed in this paragraph are Bell Atlantic's total investments in 800 regional data base equipment for the interstate and intrastate jurisdictions. The figures shown in the chart preceding this section are the annual exogenous costs that the LEC claims. These

## (2) Oppositions

96. Some commenters oppose exogenous treatment for regional data bases dedicated solely to 800 data base service. National Data and Ad Hoc argue that the LECs' exogenous treatment of these costs fails to exclude that portion of the data base's costs that will support future uses of the regional data base.<sup>181</sup> MCI argues that these regional data bases were generally already deployed to provide custom local area signalling services (CLASS),<sup>182</sup> intraLATA 800 data base service and other services, and therefore are clearly general investments not specifically deployed for 800 data base. Therefore, MCI argues that exogenous treatment for most of these regional data base costs should be denied. Instead, says MCI, these costs should be considered endogenous because they are part of an upgrade to the SS7 network.<sup>183</sup>

97. Most commenters argue that exogenous treatment should be denied totally for regional data bases that are used to provide 800 data base and other services. National Data identifies Ameritech, Bell Atlantic, BellSouth, Pacific, Southwestern, and US West as carriers that claimed exogenous costs for shared data bases. National Data notes that US West has claimed exogenous treatment for shared regional data bases, even when only twenty-five percent of their capacity was used to provide 800 data base service. Also, National Data argues that these regional data bases would have existed even if they had not been used to provide basic 800 data base service, and that therefore their costs cannot meet the Commission's requirement that they be incurred specifically to implement that service.<sup>184</sup> Ad Hoc criticizes the wholesale assignment of regional data base costs because some regional data bases now are used to provide services other than 800 data base, such as LIDB service.<sup>185</sup>

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annual exogenous costs were calculated by multiplying the total regional data base investment by an annual charge factor that also is calculated to capture the costs required to support that investment.

<sup>181</sup> Ad Hoc Opposition at 9; National Data Opposition at 11.

<sup>182</sup> CLASS services are offered by the LECs through intrastate tariffs and include enhanced routing and signalling services such as call forwarding and intrastate caller identification.

<sup>183</sup> MCI Opposition at 15.

<sup>184</sup> National Data Opposition at 12.

<sup>185</sup> Ad Hoc Opposition at 8-9.

(3) Discussion

98. We find that those investments in regional data bases dedicated solely to 800 data base service are not "core SS7" costs and are attributable directly to 800 data base service and we grant those LECs' requests for exogenous treatment. The Commission specifically stated in the *Rate Structure Order*, that it anticipated granting exogenous treatment for investment in regional data bases if the amounts claimed were reasonable and incurred specifically to provide 800 data base service.<sup>186</sup> We believe that the LECs have met the burden of showing that their investment in dedicated regional data bases was incurred specifically for the implementation of 800 data base service, and we find that these investments are reasonable. There is no basis in the present record to conclude that the provision of other services through these regional data bases would, in the future, reduce the portion of the regional data base used to provide basic 800 data base service. We are only allowing exogenous treatment for the facilities that are currently being used solely to provide basic 800 data base service. If LECs decide to provide additional services through these regional data bases in the future, we may reevaluate the continued inclusion of all of these regional data base investments in the LECs' PCI calculations.

99. With regard to the LECs' claims for exogenous treatment for regional data bases that are used to provide 800 data base service and other services, several of the commenters argue that we should deny such treatment because a LEC would have invested in those regional data bases even if it were not providing 800 data base service. While the position advanced by the commenters -- that all costs for regional data bases used to provide multiple services should be denied -- would be simple to apply, its application could create an

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<sup>186</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

incentive for the LECs to overinvest in regional data bases by encouraging them to dedicate regional data base pairs to 800 data base service. It is not in the public interest to encourage, even unintentionally, LECs to overinvest in dedicated regional data bases if they could satisfy demand for 800 data base service with a relatively smaller investment in multiple use regional data bases.<sup>187</sup> The approach advocated by the commenters actually would deter a LEC from maximizing network efficiencies through using regional data bases to provide a number of services. The *Rate Structure Order* allows exogenous treatment for the reasonable costs that the LECs specifically incur to provide 800 data base basic service.<sup>188</sup> In the present case, a the cost of the portion of a shared regional data base used to provide basic 800 data base service is both incurred specifically to provide basic 800 data base service and is reasonable, because it is, in most cases, more cost effective than a dedicated regional data base. Therefore, we will allow the LECs exogenous treatment for the portion of their investment in shared regional data bases used exclusively to provide 800 data base service.

100. United and GTE claim significantly higher exogenous costs for regional data bases than those of any of the other LECs except Bell Atlantic. Both United's and GTE's higher costs appear to arise largely because of "right-to-use" fees<sup>189</sup> for software for regional data bases and because of the less concentrated nature of their service areas. The BOCs, who are owners of the central data base, do not claim similar right-to-use fees in their cost support and have not claimed exogenous treatment for such fees. Therefore, we will allow exogenous treatment for the full amount of regional data base costs claimed by GTE and for the reduced amount currently requested by United.

101. Bell Atlantic, with one pair of dedicated regional data bases and one pair of shared regional data bases, has costs that are far higher than other LECs with comparable configurations. Because Bell Atlantic has both the highest total regional data base investment and has shown large increases in investment at successive stages of this investigation, the Tariff Division required Bell Atlantic to explain the large increase in its total regional data base investment that it now claims. The only explanation that Bell Atlantic offers is that the investment was developed through different methodologies and the investment calculated with the cost model thus cannot be reconciled with the investment based on historical costs. Bell Atlantic does not explain why its new cost estimation techniques, based on historical costs, would cause its estimated regional data base investment figure to increase so dramatically. We can discern nothing inherent in either the historical cost method Bell Atlantic used in its supplemental filing, or in a change from CCSCIS to a historical cost method, that would

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<sup>187</sup> Overinvestment could occur if LECs, in order to maximize exogenous treatment, purchased additional regional data bases to be dedicated solely to 800 data base service, notwithstanding that some of the capacity would remain unused.

<sup>188</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

<sup>189</sup> *See, supra*, note 170 and accompanying text.