

account for such significantly different results. NYNEX and US West also used the cost models first and then a historical cost methodology, but neither of them experienced the dramatic increases in regional data base investment that Bell Atlantic did.<sup>190</sup> Additionally, Bell Atlantic does not explain why its initial five-year projection of costs failed to account for the additional \$4.4 million dollar investment in regional data bases made less than one year after the filing of that initial projection of costs.

102. Therefore, we conclude that Bell Atlantic failed to meet its burden of showing that its regional data base costs are reasonable and were incurred specifically for the provision of 800 data base basic service. We recognize, however, that Bell Atlantic has incurred some regional data base costs and find it reasonable for Bell Atlantic to claim exogenous treatment for the average of the amount of regional data base costs that other BOCs have claimed.<sup>191</sup>

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<sup>190</sup> NYNEX, for example, originally used the CCSCIS model to develop exogenous costs for regional data base investment and its results differ significantly from Bell Atlantic's. NYNEX, in its direct case, showed total regional data base investment of \$7.5 million. In its supplemental filing, NYNEX reduced its total regional data base investment to approximately \$5.8 million, a reduction of 23 percent. Almost \$4.7 million of that amount is allocated to interstate 800 data base service. See NYNEX Correction to Direct Case, dated November 15, 1993, Attachment at 2 and NYNEX Supplement to Direct Case, Workpaper EXG 1-1. Further, US West used a different cost model, the Switching Cost Model (SCM), to calculate initially regional data base investment of \$3,489,771. US West's final regional data base investment, calculated without its cost model, is \$5.3 million; \$4.8 million of that is allocated to interstate 800 data base service. US West Supplement to Direct Case at 18.

<sup>191</sup> Bell Atlantic's allowance of \$525,923 for exogenous treatment of regional data base costs is based on an average of comparable costs for Southwestern, NYNEX, US West and Pacific. It should be noted that BellSouth, which has two pairs of regional data bases dedicated to providing 800 data base service, shows only \$270,071 in interstate costs for regional data bases (\$830,546 in total regional data base costs, less \$560,474 in costs of receiving updates from the central data base equals \$270,071). Ex parte from W.W. Jordan, Director, Federal Regulatory, BellSouth to William Caton, Acting Secretary, FCC (October 13, 1993).

f. Exogenous Treatment for Costs of Signalling Links Between the Regional Transfer Points and the Regional Data Bases (RSTP/SCP) and Between the Regional Data Bases and the Central Data Base (SCP/SMS)

Exogenous Treatment for Costs of Signalling Links Between the Regional Transfer Points and the Regional Data Bases (RSTP/SCP)

(\$ 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	\$263	S	\$87	\$68	\$19
BS	\$31	D	\$31	\$0	\$31
NYNEX	\$34	S	\$12	\$0	\$12
PACIFIC	\$0	D	\$0	\$0	\$0
SWB	\$0	D	\$0	\$0	\$0
US WEST	\$64	R	\$21	\$0	\$21
GTE	\$0	D	\$0	\$0	\$0
SNET	\$4	D	\$1	\$0	\$1
UNITED	\$977	E	\$380	\$380	\$0
TOTAL	\$1,372		\$531	\$448	\$83

Exogenous Treatment for Costs of Signalling Links Between the Regional Data Bases and the Central Data Base (SCP/SMS)

(\$ 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	\$292	S	\$96	\$0	\$96

BS	\$20	D	\$20	\$0	\$20
NYNEX	\$0	S	\$0	\$0	\$0
PACIFIC	\$0	D	\$0	\$0	\$0
SWB	\$0	D	\$0	\$0	\$0
US WEST	\$179	R	\$58	\$0	\$58
GTE	\$63	D	\$23	\$0	\$23
SNET	\$69	D	\$17	\$0	\$17
UNITED	\$0	E	\$0	\$0	\$0
TOTAL	\$623		\$214	\$0	\$214

(1) LEC Pleadings

103. A signalling transmission link is a circuit used to interconnect the LECs' regional data bases to their regional transfer points for purposes of sending 800 data base queries back and forth. Bell Atlantic, NYNEX and US West seek exogenous treatment for the costs of operating these links. Bell Atlantic and United also seek exogenous treatment for the costs of the ports on which the links are terminated at their regional transfer points.

104. Some LECs include a pro rata share of their total transfer point costs in their claims for exogenous treatment for these signalling links. All of the annual cost claims discussed in this paragraph have been adjusted to reflect only the interstate portion of the LECs' exogenous cost claims. Specifically, Bell Atlantic claims \$86,733 in annual exogenous costs for the link between the transfer point and the regional data base; \$19,210 of this amount is for data lines<sup>192</sup> and \$67,523 is for the ports on the regional transfer point used to terminate these links.<sup>193</sup> United's claim for \$380,238 in annual exogenous costs for the link between the transfer point and the regional data base is comprised entirely of the port costs for the regional transfer point.<sup>194</sup> United states that its regional transfer points currently are used to provide 800 data base access and LIDB services and will provide calling name delivery service in the

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<sup>192</sup> Bell Atlantic Supplemental Direct Case at Workpaper 1, p.3.

<sup>193</sup> *Id.* at Workpaper 1, p.1.

<sup>194</sup> United Direct Case, Exhibit A at 1-2 In their direct cases, LECs show costs for each category by Part 32 account. United only shows costs in the digital switching accounts. Because United shows transfer point costs only related to digital switching, we must assume that the entire amount it claims is for transfer point investment in ports and does not include any costs for the data links.

future. In addition, United states that United - Southeast also uses the regional transfer points to provide SS7 signalling for Feature Group D traffic.<sup>195</sup> Bell Atlantic's justification for including costs for regional transfer points is that the capacity of that equipment had to be large enough to handle 800 data base traffic.<sup>196</sup> It states that 30 percent of the ports of the regional transfer points are occupied by links that connect the regional transfer points either to the regional data base or to local transfer points, although those links are not dedicated to 800 data base but are shared between 800 data base and other services. Bell Atlantic claims only that "a sizeable portion" of the regional transfer point is associated with 800 data base service.<sup>197</sup>

105. GTE, SNET, US West and United also seek exogenous treatment for the costs of the signalling link between the regional data base and the central data base. These signalling links are used to transmit updated 800 data base customer information to the LECs' regional data bases and do not support any other service. The LECs' regional data bases are updated normally once every 24 hours. All of the LECs' exogenous cost claims for the links between the regional data base and the central data base are for the costs of the links themselves and include no data base port costs.

## (2) Oppositions

106. Ad Hoc, First Financial and Compuserve criticize exogenous treatment of the costs of the signalling link between the transfer point and the regional data base on two grounds. First, they assert that some of these links are now used to provide other services, such as LIDB. Second, they argue that the allocations fail to account for the future use of these links for other services.<sup>198</sup> Therefore, they conclude that these costs were not incurred exclusively to provide 800 data base services and are not entitled to exogenous treatment under the Commission's *Rate Structure Order*. MCI states that only United claims to have deployed transfer points solely for the purpose of implementing 800 data base service, while other LECs allocate a portion of the costs for transfer points already deployed for use by many services.

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<sup>195</sup> *Id.* at 13-16 and Exhibit C United shows that it apportions the costs for its regional transfer points among services using the regional transfer point based upon total regional transfer point transactions, including Feature Group D trunk signalling. Much of the normal long distance traffic to IXC's is processed over Feature Group D connections between LECs and IXC's.

<sup>196</sup> Bell Atlantic Supplemental Direct Case , Appendix A at 1.

<sup>197</sup> *Id.* at 3.

<sup>198</sup> Ad Hoc Opposition at 9; Compuserve Opposition at 5; First Financial Opposition at 5

(SS7) represents a new network infrastructure that will not only support a number of new interstate and state services, but will also increase the efficiency with which LECs provide existing services, basic and non-basic. As such, (SS7) represents a general network upgrade, the core costs of which should be borne by all network users. Accordingly, we will treat as the costs of providing data base access service only those that are incurred specifically for the implementation and operation of the data base system, and we direct the LECs to establish rates for data base access based only on these specific costs. The costs of (SS7) components that will be used to support other services should be apportioned in accordance with existing rules for other network services.<sup>201</sup>

110. Unlike the regional data bases and other facilities for which we have allowed the LECs to claim exogenous costs, the facilities comprising regional transfer points are essential to the provision of "existing services," such as intrastate and interstate toll services, that the communications network carried long before the advent of data base services.<sup>202</sup> They are part of the "core SS7" costs that the LECs are recovering in the rates charged to all network users. The *Rate Structure Order* did not specifically anticipate that transfer point port costs would receive exogenous treatment, but did allow the LECs to show that costs other than those identified in that order were incurred specifically for 800 data base query service and are not core SS7 costs. We conclude that neither Bell Atlantic nor United have met their burden of showing that transfer point port costs meet this test because they have failed to show that these costs were incurred specifically to provide 800 data base basic query service and are not core SS7 costs. Therefore, we deny exogenous cost treatment for Bell Atlantic's and United's regional transfer point port costs.

g. Exogenous Treatment for Local Signal Transfer Point/Regional Signal Transfer Point Signalling Link 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

<sup>201</sup> *800 Report and Order*, 4 FCC Rcd at 2832.

<sup>202</sup> See GTE Supplemental Direct Case, Worksheet 1. In a calculation to determine its rates, but not its exogenous costs, GTE considered the total traffic generated by seven different services, including interstate long distance, intrastate toll calls and 800 data base. It determined that data base 800 accounted for 10.6 percent of usage. It then allocated its transfer point investment to 800 data base, for the purpose of calculating rates, based on that percentage. See also Bell Atlantic Direct Case, Appendix B at 5.

MCI argues that transfer point costs are clearly a necessary component of SS7 deployment, not a specific cost for 800 data base service.<sup>199</sup>

### (3) Discussion

107. The Commission anticipated that it would grant exogenous treatment for the costs of the signalling link between the regional data base and the central data base, as well as for the signalling link between the transfer points and the regional data bases.<sup>200</sup> Since the signalling link between the regional and central data bases carries only 800 data base traffic, we conclude that these are reasonable costs specifically incurred to provide 800 data base service. Therefore, we will allow exogenous treatment of these costs, as itemized in the chart above, for the signalling links between the regional data bases and the central data base.

108. We also conclude that the LECs' links between the transfer points and the regional data bases are used to provide 800 data base, LIDB and other data base services. At this time, most of the traffic over these links, measured on a per query basis, is for 800 data base service. The links between the transfer point and the regional data base are not used to carry any messages related to the routing of normal message telephone traffic, such as calls terminated over Feature Group D facilities, and are not core SS7 costs. We believe that the fact that these links are shared among several data base services should not totally disqualify them for exogenous treatment. Like the jointly used regional data bases, sharing of the signalling links between the transfer point and the regional data base generally permits more efficient network design and may result in lower total costs for the carriers. This in turn can lead to lower overall prices for their customers. These links will be a continuing expense and the adjustments to the LECs' indexes will be permanent. The allocation of costs is a one-time event and we do not intend to revisit the issue of whether the costs should be reallocated as the mix of traffic on these links change as new data base services are added. The costs for which we have allowed exogenous treatment are modest. In addition, requiring the LECs to rejustify their link costs on a periodic basis would be contrary to our price cap rules. We find, within the meaning of the *Rate Structure Order*, that the costs for the data links themselves and SNET's costs for technician labor were specifically incurred to provide 800 data base query service and are not unreasonable. The Commission therefore will allow exogenous treatment for these costs, as itemized in the chart above.

109. Bell Atlantic and United seek exogenous treatment for the costs of ports on their regional transfer points. They argue that they are entitled to such treatment because the LECs use those ports to provide 800 data base service, along with other services. When the Commission previously considered whether the costs of the SS7 network should be recovered in the 800 data base rates, it stated:

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<sup>199</sup> MCI Opposition at 14.

<sup>200</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

BA	\$1,130	S	\$373	\$373	\$0
BS	\$43	D	\$43	\$43	\$0
NYNEX	\$72	S	\$26	\$26	\$0
PACIFIC	\$0	D	\$0	\$0	\$0
SWB	\$0	D	\$0	\$0	\$0
US WEST	\$0	R	\$0	\$0	\$0
GTE	\$0	D	\$0	\$0	\$0
SNET	\$0	D	\$0	\$0	\$0
UNITED	\$288	E	\$112	\$112	\$0
TOTAL	\$1,533		\$554	\$554	\$0

(1) LEC Pleadings

111. The signalling links between local transfer point and regional transfer points are circuits used to interconnect local transfer points and regional transfer points. These links can carry 800 data base queries, LIDB service queries and network signalling traffic for services such as Feature Group D. Some LECs claim exogenous treatment for the costs of these links.<sup>203</sup> Bell Atlantic argues that it either had to install new links or augment existing links between its local transfer points and the regional transfer points to implement 800 data base service. According to Bell Atlantic,<sup>204</sup> exogenous treatment of the costs of these links is justified because they are a necessary part of the 800 data base network.<sup>205</sup> Bell Atlantic states that 95 percent of the traffic on those links is 800 data base service traffic.<sup>206</sup> BellSouth seeks

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<sup>203</sup> The LECs that claim link expense are: Bell Atlantic Supplement to Direct Case, Workpaper 12, p.1; BellSouth Reply at Exhibit 1, p.1; NYNEX Direct Case, Attachment A at 3, and United Direct Case at 16 and Study Area Worksheets at A-2.

<sup>204</sup> Bell Atlantic Reply at 5.

<sup>205</sup> Bell Atlantic Direct Case at Appendix B, p.4; *accord* NYNEX Direct Case, Attachment A at 4 (stating that the links between the local and regional transfer points are part of the required path between the transfer points and the regional data bases and are used primarily to support data base services).

<sup>206</sup> Bell Atlantic Reply at Appendix A, p.2.

exogenous treatment of the costs incurred when it added signalling links between the local and regional transfer points to handle the additional traffic generated by 800 data base queries.<sup>207</sup>

112. United defends its request for exogenous treatment of these links on the grounds that its study areas are not contiguous and it does not have an internally-owned, official network linking its transfer points that can be used for 800 data base queries as other LECs do.<sup>208</sup>

113. In addition to the cost of the circuits used to carry the links between the local and regional transfer points, some LECs claim a pro rata portion of the local and regional transfer point ports on which these links terminate. Seventy-four percent of the total costs that Bell Atlantic claims in this category are for transfer point port costs.<sup>209</sup> Bell Atlantic acknowledges that only 3.5 percent of the total links terminating at the local transfer point are used to provide basic 800 query service.<sup>210</sup> As we stated previously, United asserts that its regional transfer point is jointly used to provide four types of services, including 800 data base service. United states that it allocated its regional transfer point costs among those services based on weighted relative use.<sup>211</sup> United also argues that it claims costs only for "ports" on the transfer point and not the costs of the entire transfer point itself. United states that these ports are the physical interfaces between the local transfer points and the regional transfer point.<sup>212</sup>

## (2) Oppositions

114. MCI contends that Bell Atlantic, NYNEX and United include excessive claims for exogenous treatment of costs associated with the signalling links between the local and regional transfer points. MCI notes that Pacific, Southwestern, GTE and SNET do not seek exogenous cost treatment for these links, treating them instead as general network upgrades. In addition, says MCI, Ameritech, BellSouth and US West included only minimal exogenous costs for these links.<sup>213</sup> MCI believes BellSouth has included reasonable costs for the links between its

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<sup>207</sup> BellSouth Reply, Exhibit 1 at 1.

<sup>208</sup> United Reply at 6.

<sup>209</sup> Bell Atlantic Supplemental Direct Case, Workpaper 1 at 1-2.

<sup>210</sup> *Id.*, Attachment A at 2.

<sup>211</sup> United Direct Case at 14 and Exhibit C.

<sup>212</sup> *Id.* at 14-15.

<sup>213</sup> MCI Opposition at 17 and Appendix I, Schedule A; *but see* NYNEX Supplemental Direct Case, WS Exg 1-1 (NYNEX reduced its exogenous cost claims for these links from \$965,986 to \$72,292 per year).

local and regional transfer points because it proved those links were used exclusively to provide 800 data base service.<sup>214</sup>

(3) Discussion

115. We will not allow exogenous treatment for the signalling links between the local and regional transfer points. These links are not among the facilities listed in the *Rate Structure Order* as likely to qualify for exogenous cost treatment. The burden is on the LECs claiming exogenous treatment to demonstrate that their costs for these links were incurred specifically to implement and update 800 data base service. The LECs did not meet their burdens of proof on this issue. The costs for links between the local and regional transfer points are core SS7 costs used to provide many services, such as interstate long distance call setup, intrastate toll call setup, LIDB, and such local services as call forwarding and call waiting.<sup>215</sup> As such, they do not warrant exogenous cost treatment and the requests for such treatment are denied as indicated in the chart above.

116. Bell Atlantic and United are claiming transfer point port costs associated with the links between the local and regional transfer points. Like the transfer point costs discussed in paragraphs 109 and 110, costs associated with the ports on these transfer points are also "core SS7" costs that the LECs are recovering from all network users. We conclude that neither Bell Atlantic nor United have met their burden of showing that transfer point port costs were incurred specifically for 800 data base query service and are not core SS7 costs. Therefore, we deny exogenous cost treatment for Bell Atlantic's and United's ports on their regional and local transfer points.

h. Exogenous Treatment for Service Origination Point (SSP) 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	\$90	S	\$19	\$0	\$19
BS	\$425	D	\$425	\$0	\$425
NYNEX	\$0	S	\$0	\$0	\$0
PACIFIC	\$796	D	\$293	\$0	\$293

<sup>214</sup> MCI Opposition at 19.

<sup>215</sup> GTE Supplemental Direct Case, Worksheet 1.

SWB	\$1,403	D	\$1,403	\$0	\$1,403
US WEST	\$2,516	R	\$703	\$0	\$703
GTE	\$2,582	D	\$841	\$0	\$841
SNET	\$0	D	\$0	\$0	\$0
UNITED	\$571	E	\$205	\$0	\$205
TOTAL	\$8,382		\$3,888	\$0	\$3,888

(1) LEC Pleadings

117. As shown in the chart above, most of the price cap LECs seek exogenous treatment for the costs associated with the service switching point or SSP (hereinafter "service origination point") that originates the query from the end office or tandem switch. They claim exogenous treatment for service origination point software development costs, including software right-to-use fees,<sup>216</sup> and translation costs.<sup>217</sup> Translation costs are incurred to reprogram end office switches to perform three-digit screening. Under the NXX method of routing, the end office switches had to screen the first six digits ("800-NXX") to identify 800 calls and route them to the appropriate IXC. Under the 800 data base system, the switches only need to screen the first three digits to determine that a call is to an 800 number and route it accordingly.

118. The LECs generally contend that, while service origination point hardware can be used to provide other services, special software packages had to be added to each service origination point before it could be used to route 800 data base traffic. Further, the LECs contend that this service origination point software can be used only to provide 800 data base service.<sup>218</sup> For example, GTE maintains that it has incurred approximately \$11.6 million in right-to-use fees for service origination point software that can only be used to provide 800 data base service.<sup>219</sup>

119. Finally, Bell Atlantic argues that it should be granted exogenous treatment for translation costs, because the change from six-digit to three-digit screening in the end office

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<sup>216</sup> US West Direct Case at 3; BellSouth Direct Case at Exhibit 3 (claiming \$424,730 in exogenous costs); Pacific Direct Case at 10 (claiming \$1.542 million in 800 service origination point software costs); GTE Direct Case at 8, 15 (claiming right-to-use fees and software purchase costs for end office and tandem switch software); United Reply at 9 (only claiming exogenous treatment for the costs of service origination point software that had to be added to certain switches already equipped with service origination point functionality).

<sup>217</sup> Bell Atlantic Reply, Appendix A at 3.

<sup>218</sup> GTE Reply at 5; Southwestern Reply at 3 (noting that while additional uses for service origination point software are possible, as a practical matter, 800 number portability is the only function for 800 service origination point software. It states that it is using its current service origination point capability solely to provide 800 data base service); US West Reply at 11, n. 27 (saying that the cost to modify 800 data base software to provide other services is so prohibitive as to make the use of this software very unlikely).

<sup>219</sup> GTE Supplemental Direct Case, Worksheet 6A; *see also* Pacific Reply at 7.

switches was not done for any service other than 800 data base. According to the LECs, no other service benefits from this switch reprogramming.<sup>220</sup>

## (2) Oppositions

120. Many commenters oppose granting exogenous treatment for service origination point software costs.<sup>221</sup> The commenters generally argue that service origination point software could support other services and therefore does not constitute a cost incurred specifically to provide 800 data base service.<sup>222</sup> MCI, for example, argues that GTE's service origination point software expenditures may be useful for other services. In addition, says MCI, United's explanation for its service origination point software costs is inadequate.

## (3) Discussion

121. Service origination point costs were not one of the categories that the Commission listed in its *Rate Structure Order* as qualifying for exogenous treatment.<sup>223</sup> As with all claims for exogenous treatment, the burden is on the LECs to demonstrate that their service origination point costs are incurred specifically for the implementation of 800 data base service. We find that the LECs have met their burden with respect to their claims for exogenous treatment for service origination point software, including right-to-use fees. The LECs have demonstrated that service origination point software was purchased for the sole purpose of enabling the service origination point to route 800 service calls. None of the commenters has refuted this by identifying any other service that this service origination point software is being used to provide. Since the software is not used to provide other services and does not play a part in the routing of general message traffic, the costs of these software packages are not "core SS7" costs. Moreover, the amount of these software costs appear to be reasonable. Therefore, we conclude that exogenous treatment is justified for the costs of this software.

122. Bell Atlantic also has met its burden of demonstrating that the costs for converting its end office switches from six-digit to three-digit screening were reasonable, and were incurred specifically to provide 800 data base service and are not "core SS7" costs. The commenters' contentions that these translations will be useful for other services are, in the

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<sup>220</sup> See Bell Atlantic Reply, Appendix A at 3.

<sup>221</sup> MCI Opposition at 9 (opposing the requests of Ameritech, BellSouth, Pacific, GTE, Southwestern, United and US West for exogenous treatment for service origination point related investments or expenses); National Data Opposition at 9.

<sup>222</sup> MCI Opposition at 12; First Financial Opposition at 5.

<sup>223</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

absence of more specific information, speculative and thus not persuasive. Therefore, we will allow exogenous treatment for these costs.

i. Exogenous Treatment of Tandem Switch 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	0	S	0	0	0
BS	0	D	0	0	0
NYNEX	0	S	0	0	0
PACIFIC	\$3,369	D	\$1,315	\$1,315	\$0
SWB	0	D	0	0	0
US WEST	0	R	0	0	0
GTE	0	D	0	0	0
SNET	0	D	0	0	0
UNITED	0	D	0	0	0
TOTAL	\$3,369	\$0	\$1,315	\$1,315	\$0

(1) LEC Pleadings

123. Only Pacific currently seeks<sup>224</sup> exogenous treatment for the costs of upgrading tandem switches to add increased capacity at the tandem and to add service origination point capability at the tandem. Pacific claims that these upgrades were only completed to meet the 800 data base access time standards for 1993, as required by the *800 Reconsideration and*

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<sup>224</sup> In its direct case, US West claimed exogenous treatment for \$12.2 million in interstate 800 tandem investment. US West Direct Case, Appendix A at 4. In its supplemental direct case, US West reduced its claim to \$7.3 million in interstate tandem investment. US West Supplemental Direct Case at Attachment A. US West later eliminated its claim for tandem investment, saying that its previous pleadings were misleading because it only sought exogenous treatment for service origination point software installed in its tandem switches. US West Reply at 8-9, n. 16.

*Second Supplemental NPRM.*<sup>225</sup> Pacific states that the Commission granted it a waiver of the 1993 access time standards and allowed it to route 800 traffic to its tandems on an interim basis in order to provide service origination point processing there rather than in its end offices.<sup>226</sup> Pacific says that it had to spend money to increase tandem capacity in order to meet the 1993 access time standards, knowing that it would have to redeploy later the service origination point function to end offices in order to meet the 1995 access time standards, which could potentially result in "stranded investment." Pacific states that it had to make redundant investment in its tandem switches, solely to comply with the 1993 access time standards, and therefore should be granted exogenous treatment for these costs.<sup>227</sup>

## (2) Oppositions

124. The commenters oppose Pacific's request for exogenous treatment for its tandem switch costs.<sup>228</sup> AT&T notes that Pacific relies on a justification -- the need to meet the Commission's access time standards -- that the Commission has explicitly rejected as a reason for granting exogenous treatment.<sup>229</sup> MCI states that Pacific, at its discretion, incurred those costs in lieu of accelerating SS7 deployment at the end office level. According to MCI, these costs clearly were incurred instead of SS7 general network upgrade costs, that the Commission specifically has excluded from exogenous treatment.<sup>230</sup>

## (3) Discussion

125. Essentially, Pacific's argument for exogenous treatment of tandem switch costs is that those costs were incurred solely to meet the Commission's 1993 access time standards on an interim basis, and that those costs are not recoverable through other services. The costs of increasing tandem capacity differ from the other requests for exogenous treatment of costs

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<sup>225</sup> *800 Reconsideration and Second Supplemental NPRM*, 6 FCC Rcd at 5425. See note 92, *supra*, for an explanation of the access time standards.

<sup>226</sup> Pacific Reply at 3, *citing* Provision of Access for 800 Service, 7 FCC Rcd 5042 (1992). *But see* Provision of Access for 800 Service, Order, 7 FCC Rcd 5035 (1992) (granting waiver of access time standards to BellSouth); Order, 7 FCC Rcd 5039 (1992) (granting waiver of access time standards to GTE); Order, 7 FCC Rcd 5046 (1992) (granting waiver of access time standards to United); Order, 7 FCC Rcd 5050 (1992) (granting waiver of access time standards to US West).

<sup>227</sup> Pacific Reply at 5.

<sup>228</sup> Sprint Opposition at 9-10.

<sup>229</sup> AT&T Opposition at 14-15; *see also* Sprint Opposition at 10.

<sup>230</sup> MCI Opposition at 8-9.

because these costs are for the switch hardware and software that are capable of actually carrying traffic, whether it is 800 message traffic or interstate or intrastate toll traffic. These tandem costs are not part of either the SS7 signalling network or the system of data bases that provides 800 data base query service. Pacific is attempting to obtain exogenous treatment for general network costs on the theory that they would not have been incurred but for the requirement to provide 800 data base query service. These costs do not meet the *Rate Structure Order* standard for granting exogenous treatment only to costs incurred specifically to implement basic 800 data base service because the the Commission has expressly stated that the costs of meeting the access time standards are not eligible for exogenous treatment.<sup>231</sup> The Commission's earlier grant of Pacific's waiver request to permit it to route traffic to its tandems does not alter our conclusion. That waiver did not place Pacific in a unique situation: the Commission granted four other LECs similar waivers on the same day and none of them are claiming exogenous treatment for tandem switch costs. Finally, we do not find Pacific's claims that its investment in increased tandem capacity could be "stranded" and therefore unrecoverable to be persuasive since those facilities can be used to provide a wide variety of services.

j. Exogenous Treatment for 800 Service Central Data Base (SMS) 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	\$758	S	\$226	\$0	\$226
BS	\$560	D	\$560	\$0	\$560
NYNEX	\$665	S	\$167	\$0	\$167
PACIFIC	\$1,042	D	\$384	\$0	\$384
SWB	\$1,154	D	\$367	\$0	\$367
US WEST	\$270	R	\$75	\$0	\$75
GTE	\$1,083	D	\$352	\$0	\$352
SNET	\$426	D	\$90	\$0	\$90
UNITED	\$129	E	\$46	\$0	\$46

<sup>231</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

TOTAL	\$6,087		\$2,267	\$0	\$2,267
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(1) Background

126. As discussed above, the centralized data base contains customer records and routing instructions for virtually all 800 numbers in the United States. The central data base is connected by the links between the central data base and the regional data bases, which contain routing information for the 800 traffic that originates in the local service area covered by the regional data base. The central data base updates each regional data base on a periodic basis. The regional data base operators purchase this update service under contracts with the central data base owner.

(2) LEC Direct and Supplemental Cases

127. The LECs that own regional data bases generally seek exogenous treatment for the central data base costs they incur when the central data base downloads information to the regional data base.<sup>232</sup> NYNEX states that Bellcore established standard contract rates for the services provided by the central data base operator.<sup>233</sup> The BOCs state that their contracts for the provision of central data base service to LECs that own regional data bases are identical and all include the same rate schedule.<sup>234</sup>

(3) Oppositions

128. MCI states that the BOCs', as the joint operator of the central data base, charge the regional data base operators more than is required to cover the costs of the central data base. MCI performed an analysis<sup>235</sup> that compared the central data base's projected revenue from the regional data base operators with the amounts that the regional data base operators expected to pay to the central data base operator. MCI calculates that the regional data base

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<sup>232</sup> NYNEX Direct Case, Attachment A at 2; Southwestern Direct Case at 15; SNET Direct Case at 18; United Direct Case at 16.

<sup>233</sup> NYNEX Direct Case at Attachment A, p. 2.

<sup>234</sup> BOC Direct Case at 26.

<sup>235</sup> MCI Opposition at 37-40.

operators claim they will pay \$4.3 million<sup>236</sup> more per year in central data base expenses than the central data base expects to receive.

129. Because the central data base operator projected a five-year revenue requirement and the regional operators report costs only for one year, MCI had to make several assumptions in order to be able to make a direct comparison. First, using a discount factor of eleven percent, MCI estimates that the present annualized value of the central data base revenues is \$6.7 million, given that the five-year revenue requirement for services provided to regional data base operators is \$40.4 million. Next, MCI claims that the regional data base operators are seeking exogenous treatment for approximately \$8.2 million per year for interstate central data base service.<sup>237</sup> MCI then estimates that the regional data base operators incur an additional \$2.3 million per year in central data base costs, in connection with their provision of intrastate 800 data base services. Finally, MCI adds the \$8.2 million and \$2.3 million costs together to calculate a total annual exogenous cost claim of \$10.5 million for central data base services.

#### (4) LEC Replies

130. In their joint reply, the BOCs state that MCI's analysis is flawed, in part because MCI erroneously assumes that the costs allocated to the regional data base operators in the central data base tariff cost allocation process should be equal to or less than the sum of the exogenous costs submitted individually by each of the operators in their direct cases. The BOCs argue that separate processes are used to estimate the two numbers and, therefore, it is reasonable and realistic to expect that the two figures cannot be reconciled.<sup>238</sup> The BOCs explain that to estimate the unregulated cost of providing the central data base service to regional data base operators, Database Services Management, Inc. (DSMI)<sup>239</sup> performed a fifty-six month forecast based on aggregated data. On the other hand, say the BOCs, individual

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<sup>236</sup> MCI apparently makes a calculation error. The \$10.5 million per year that MCI estimates the BOCs, GTE and United pay in central data base fees for interstate and intrastate regional data base operator's fees, minus their calculation of \$6.7 million per year in revenue to the central data base for regional data base operator fees, equals \$3.8 million, not \$4.3 million as claimed by MCI. See MCI Opposition at 38-39.

<sup>237</sup> MCI's \$8.2 million figure appears to be based on the LECs' direct cases and does not reflect adjustments that some LECs made in their later filings.

<sup>238</sup> BOC Joint Reply at 8-10.

<sup>239</sup> DSMI is a corporation that performs numerous services related to the central data base on behalf of the BOCs, including subcontractor oversight, collections, responses to customer inquiries, coordination of system planning, training and creation of user documentation. BOC Direct Case at 29-30.

regional data base operators based estimates of their own costs on their own forecasts, perhaps using different time periods than DSMI used.<sup>240</sup>

131. Southwestern disputes MCI's claim that the regional data base operators overestimate their exogenous costs by approximately \$4.3 million annually. Southwestern asserts that MCI made a mathematical error and that MCI's argument is based on "myriad unstated assumptions and estimates."<sup>241</sup> Southwestern argues that it provided sufficient data to show clearly that its exogenous cost claim is accurate. Southwestern states that MCI misinterpreted Southwestern's central data base cost estimates because Southwestern provided only the interstate portion of its central data base costs, which represents 72 percent of its total costs for use of the central data base.

#### (5) Discussion

132. The Commission is not persuaded that the BOCs overrecover the costs of the central data base service that they provide to operators. MCI's analysis contains numerous assumptions that are unexplained or unsupported. In light of the different forecasting methodologies used by DSMI and by the LECs who own regional data bases, we do not find MCI's analysis persuasive. The BOCs charge identical rates to all LECs and their rates are set to recover the costs of providing the central data base service. We analyze the BOCs' justification for these costs in paragraphs 235-256. Moreover, these costs, clearly incurred specifically for the implementation of basic 800 data base service,<sup>242</sup> were not unreasonable. Because the central data base is used solely to provide 800 data base service and does not provide routing for message telephone traffic or support other services, it is clearly not a "core SS7" cost. Therefore, we will allow the regional data base operators to treat the costs associated with their central data base contracts as exogenous.

#### k. Exogenous Treatment of Repair Center Costs

##### (1) LEC Pleadings

133. Bell Atlantic seeks exogenous treatment for the annual costs of operating its 800 data base service repair center. According to Bell Atlantic, this repair center is necessary to provide customers with the same level of service under the 800 data base system that they had under the 800 NXX access system.<sup>243</sup> Bell Atlantic explains that trouble reports were handled easily and directly under the NXX system because repair personnel only had to consult a list

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<sup>240</sup> BOC Joint Reply at 9.

<sup>241</sup> Southwestern Reply at 11.

<sup>242</sup> *Rate Structure Order*, 8 FCC Rcd at 911.

<sup>243</sup> Bell Atlantic Direct Case at 4 and Appendix C.

that showed 800-NXX code assignments in order to associate a trouble report with a particular IXC. Now, says Bell Atlantic, repair center personnel require on-line access to the central data base to provide the same function.<sup>244</sup>

(2) Oppositions

134. MCI disputes that Bell Atlantic's repair center is necessary, noting that not one other LEC has one.<sup>245</sup> Sprint states that it is unclear what "specialized repair services this center provides; why existing facilities were inadequate; whether consolidation of repair functions actually resulted in cost savings; or whether the repair center also handles other 800 service-related functions (such as Bell Atlantic's Resporg duties)."<sup>246</sup> MCI and Sprint also object to Bell Atlantic's proposal to recover administrative costs for an 800 data base repair center, on the theory that it is a disguised attempt to recover overhead expenses.<sup>247</sup>

(3) Replies

135. Bell Atlantic says that its consolidated repair center handles 800 service trouble reports from all types of customers. According to Bell Atlantic, the center helps IXCs by allowing them to report trouble experienced anywhere in the Bell Atlantic region. Bell Atlantic maintains that the center assists LECs as well, by helping them identify the Resporg for an 800 number for which problems are occurring; Bell Atlantic says that eighty-three percent of the calls from 800 subscribers were requests for a referral to the appropriate Resporg.<sup>248</sup> Finally, Bell Atlantic notes that its repair center operates apart from its Resporg duties and asserts that it only claims exogenous treatment for the incremental increase in costs incurred to handle 800 data base rather than 800 NXX trouble reports.<sup>249</sup>

(4) Discussion

136. Every LEC has to perform the same customer service functions under the 800 data base access system that it did under the NXX access system. The fact that the technology has altered the nature of some of those tasks or that Bell Atlantic has chosen, under 800 data

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<sup>244</sup> *Id.*

<sup>245</sup> MCI Opposition at 36 and Appendix I, Schedule A.

<sup>246</sup> Sprint Opposition at 8-9; *see also* Ad Hoc Opposition, Appendix A at 24-26; AT&T Opposition at 12 n.22.

<sup>247</sup> MCI Opposition at 36.

<sup>248</sup> Bell Atlantic Reply, Appendix A at 12.

<sup>249</sup> *Id.*

base access, to consolidate those functions in a centralized facility does not justify granting exogenous treatment for these costs. Bell Atlantic has not met its burden of showing that any of these costs are reasonable and were specifically incurred for the provision of basic 800 data base service. The Commission will not allow exogenous treatment for the costs that Bell Atlantic incurs to operate its 800 data base repair center.

1. Exogenous Treatment for Billing System Modification 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	\$11	S	\$7	\$0	\$7
BS	\$0	D	\$0	\$0	\$0
NYNEX	\$0	S	\$0	\$0	\$0
PACIFIC	\$0	D	\$0	\$0	\$0
SWB	\$0	D	\$0	\$0	\$0
US WEST	\$60	R	\$35	\$0	\$35
GTE	\$79	D	\$59	\$0	\$59
SNET	\$126	D	\$63	\$0	\$63
UNITED	\$0	E	\$0	\$0	\$0
TOTAL	\$275		\$164	\$0	\$164

(1) LEC Pleadings

137. US West, SNET, Bell Atlantic and GTE claim exogenous treatment for the costs of altering their billing systems to bill and collect for 800 data base access service charges. These LECs contend that the conversion from the 800 NXX system to the 800 data base system required them to change their access billing systems to accommodate new billing formats and inputs.<sup>250</sup> For example, Bell Atlantic states that the costs it incurred for billing system modifications were to redesign those billing systems to enable them to receive information from the regional data bases. Bell Atlantic says that these changes were over-and-above routine billing system modifications that add new rate elements or change the way

<sup>250</sup> SNET Reply at 10; US West Reply at 9.

existing rates are charged.<sup>251</sup> GTE claims to have spent \$550,000 for computer disk drives and memory to enable it to produce bills from the central data base format, and to have divided this one-time cost by an expected usage life of five years in order to determine the annual exogenous amount.<sup>252</sup>

(2) Oppositions

138. MCI opposes the LECs' request for exogenous treatment of billing system modification costs. MCI argues that the cited billing system changes are routine upgrades; consequently, the costs of these changes should not be given exogenous treatment.<sup>253</sup>

(3) Discussion

139. The four LECs seeking exogenous treatment for billing system changes have made a sufficient showing that they had to add new technical capabilities to their systems in order to handle billing data for 800 data base traffic. We find that the expenses that these LECs incurred to modify their billing systems were incurred specifically to implement basic 800 data base service, and that the level of those expenses are reasonable. Therefore, we will allow exogenous cost treatment for these expenses.

2. **Methodology for Exogenous Cost Adjustment**

a. Description of Issue

140. The *Designation Order* designated the issue of whether the price cap LECs used reasonable methods in calculating the price cap indices (PCIs) to restructure services within their traffic sensitive baskets and to include new exogenous costs.<sup>254</sup> The *Rate Structure Order* in CC Docket No. 86-10 classified the LECs' 800 data base basic query service as a restructure for purposes of the LEC price cap rules. This means that the total post-restructure revenue for that service cannot exceed the revenue that the LEC received for 800 access service before providing the service.<sup>255</sup> The *Rate Structure Order* created an exception to that requirement, however, by granting exogenous treatment to certain costs that the price cap

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<sup>251</sup> Bell Atlantic Reply, Appendix A at 3-4.

<sup>252</sup> GTE Reply at 11.

<sup>253</sup> MCI Opposition at 36.

<sup>254</sup> *Designation Order*, 8 FCC Rcd at 5133.

<sup>255</sup> *Rate Structure Order*, 8 FCC Rcd at 911. Provision of vertical features was classified as a new service, which meant that the LECs are entitled to adjust their indices to recover their economic costs of providing the service. *Id.*

LECs incurred to provide 800 data base service query service. That Order also required the LECs to create a new service category for 800 data base services within the traffic-sensitive basket.<sup>256</sup>

b. Background

141. Under price cap regulation, access services are divided among five "baskets."<sup>257</sup> A separate price cap is established for each basket. The PCI is the "cap" or ceiling above which a carrier's rates may not rise absent a strong showing that a rate increase is necessary to prevent the carrier from having to charge rates that are confiscatorily low. The PCI is designed to limit the aggregate price increases LECs may make for services in the corresponding basket. The PCI is adjusted each year according to the price cap formula, which includes an adjustment for inflation, as measured by the Gross Domestic Product Price Index and a productivity offset designed to account for the fact that LEC productivity on average has historically exceeded general productivity in the economy. The PCI may also be adjusted at any time in response to exogenous cost changes. The actual price index (API) is the aggregate revenue-weighted price index for each basket of services based upon prices actually charged by the LEC.<sup>258</sup> The API is compared with the PCI and price increases proposed by the LECs will not be presumed to be lawful if the increase would cause the API to exceed the PCI, absent a detailed cost justification.

142. When the PCI is increased, LECs have the flexibility to raise prices in the basket to raise the API to the same level as the PCI. The price cap plan also establishes service categories within price cap baskets to limit the LEC's pricing flexibility within the baskets. Each service category contains similar services. To limit the amount of pricing flexibility within each category, the Commission created service band indexes (SBIs), the limits for which are set at the beginning of each tariff year in the annual access tariff filing. When rates change, the SBI is adjusted to reflect the weighted aggregate revenues of all the rate elements for each service within the corresponding service category. The LECs are generally not permitted to raise or lower the aggregate revenues in each service category by more than a prescribed percentage above or below the SBI set at the outset of the tariff year. If a tariff filing proposes rates that would cause the SBI to move outside of these limits, those proposed rates will not be presumed to be lawful, absent a detailed cost justification.

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<sup>256</sup> *Id.* at 912.

<sup>257</sup> Section 61.42(d), 47 C.F.R. § 61.42(d), requires each price cap LEC to establish baskets for: (1) common line interstate access service; (2) traffic sensitive switched interstate access service; (3) interstate trunking services; (4) interstate interexchange service (if the LEC offers such service); and (5) interstate video dialtone service.

<sup>258</sup> *See* Section 61.46(a) of the Commission's Rules, 47 C.F.R. § 61.46(a).

structure to determine whether, in aggregate, the same revenues are produced before and after the restructure.<sup>260</sup>

146. A new service category can be created either through a restructure of the basket or as a new category. For a restructure of the basket, the service, with its associated revenue, is removed from the existing service category and included in the new service category. The existing SBI is adjusted to reflect the change in revenue and the new SBI is set at either the same level as the SBI for the existing service category or at 100 with its upper and lower limits. For a new service category, the SBI is initialized at 100 with its upper and lower limits and the API of the basket containing this category remaining unchanged. The basket revenues are adjusted to include the additional revenues and the relative weightings given to subsequent rate changes for categories within the basket.

147. As indicated above, in CC Docket No. 86-10, the Commission classified the 800 basic query service as a restructured service. The Commission found that the new data base 800 service was a complete replacement of the existing NXX-routed 800 access service. The *Rate Structure Order* also required the LECs to establish a new data base access service category in the existing switched access basket, which would include the 800 access service.<sup>261</sup> The LECs were also permitted to adjust the PCIs for their traffic-sensitive basket to claim, as exogenous, those costs that were reasonable and specifically incurred for the provision of basic 800 data base query service. The unique convergence of these two simultaneous requirements -- the restructure of 800 services and the permission to adjust PCIs for exogenous costs -- created a question as to the proper sequence for applying the price cap rules.

c. Proposed Restructuring Methods

148. The price cap LECs generally employed one of two methods for restructuring the traffic-sensitive basket to include the new data base service category and for calculating the exogenous change for 800 data base costs. The effect of the exogenous cost adjustment is to increase the traffic-sensitive basket PCI by the exogenous cost amount. As noted above, this triggers an increase in the SBI limits for all of the service categories within the basket. Some LECs performed the restructure first, while other LECs calculated the exogenous change first. The *Designation Order* described both methods used by the LECs -- Methods I and II -- and proposed an additional possible method -- Method III.

149. Bell Atlantic, BellSouth, Pacific and United used Method I, which works as follows. First, these LECs restructure their traffic sensitive baskets to establish a new category for 800 data base query service, then they perform the exogenous cost adjustment.

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<sup>260</sup> See *id.*, § 61.47(d).

<sup>261</sup> *Rate Structure Order*, 8 FCC Rcd at 911-12.

When the PCI for the basket is changed, the SBI limits are also changed in tandem by adding or subtracting the percentage change in the PCI to the SBI upper and lower limits.<sup>259</sup>

143. As noted above in paragraph 11, exogenous costs are those costs triggered by administrative, legislative or judicial action that are beyond the control of the carrier, affect cashflow and are not otherwise included in the price cap formula, such as through the inflation adjustment. The Commission permits LECs to adjust PCIs for exogenous costs to ensure that the price cap formula does not lead to unreasonably high or unreasonably low rates. Endogenous costs, on the other hand, are those that the carrier must recover through existing rates or rate changes within the price cap rules, without a special adjustment to its price cap index.

144. For an exogenous cost adjustment, the PCI for the basket is changed to reflect the change in aggregate revenues in the basket. Exogenous costs are spread across each service category within the basket when the SBI limits for each service category are adjusted in tandem with the PCI change. For example, if exogenous costs correspond to 5 percent of the revenues contained in the traffic sensitive basket, the PCI increases by 5 percent and the upper and lower limits of the categories within the traffic sensitive basket -- the switching, transport information, data base and billing name and address categories -- upper and lower limits also rise by 5 percent. If the API and the PCI were equal before the change, there will be a difference between the API and the PCI of 5 percent after the adjustment. If the LEC chooses, it can then increase its rates by 5 percent, thereby using the 5 percent of additional pricing flexibility in the basket created by the rising PCI. Since the SBI upper and lower limits move in tandem with the PCI, each service category within the basket gains 5 percent of additional "headroom."

145. The price cap rules distinguish between new and restructured services in the following manner. New services add to the range of options already available to customers. A new service may, but need not, involve a new technology or functional capability. As long as the pre-existing service is still offered, and the range of alternatives to customers is increased, the service is classified as new. Restructured services, on the other hand, involve the rearrangement of existing services. LECs can restructure services by: (1) changing existing methods of charging for or provisioning the service; (2) changing a term or condition of the service; or (3) adding, consolidating or eliminating rate elements for the service. When a service is restructured, the previous version of the service no longer exists. The price cap rules require that a restructure be revenue neutral. This means that the API and the SBIs associated with the service may require adjustment, and the rates for the service under the existing structure must be compared with the equivalent rates under the proposed

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<sup>259</sup> See *id.*, § 61.47(a).

The first step in the restructure is to set the 800 data base query rate at the level required to recover the exogenous costs. The second step is to reduce the rates for all the other service categories, in the traffic-sensitive basket (local switching, local transport and information) by the amount of revenue associated with the new 800 data base service category thereby maintaining revenue neutrality. The third step in the restructure should be to adjust the SBIs for each service category to reflect the rate reductions for the existing categories resulting from step 2. LECs did not perform this step, however, and therefore would require a waiver of Section 61.47 (a) of the Commission's rules<sup>262</sup> to use this methodology. The SBI for the new 800 data base query service category is set equal to the current API for the traffic-sensitive basket, with upper limits set at plus 5 percent and lower limits set at minus 10 percent.<sup>263</sup> The LECs then perform the exogenous cost adjustment. The first step in the exogenous cost adjustment is to increase the basket PCI to reflect the increase in revenues required to offset the exogenous costs. The second step is to increase the SBI upper and lower limits for all service categories, including the new 800 data base query category, to reflect the increased revenues allowed. The third step is to use the upward pricing flexibility afforded by the increase in the SBI upper limit to increase the rates for the original service categories back to their original levels. The fourth step is to increase the SBIs and the API to reflect the increase in revenues resulting from the increased rates. Under this method, the new API has the same relationship to the new PCI as initially existed between the API and PCI. For some of the service categories, there are minor changes in the relationships between the SBI and its upper and lower limits.

150. Ameritech, NYNEX, SNET, Southwestern and US West used Method II. Although there are minor differences in the exact method used by each carrier, Ameritech provides a good example of Method II. First, it adjusted the PCI from 94.41 to 95.61 to reflect the 1.27 percent change in revenues for the traffic sensitive basket due to adjustments for exogenous costs. Second, Ameritech adjusted the SBI upper and lower limits for each of the original service categories to reflect the 1.27 percent increase in the PCI.<sup>264</sup> Third, the 800 data base category SBI was "initialized" or started at a value of 100, with upper limits set at plus 5 percent and lower limits set at minus 10 percent. LECs that used this method increased the API for the traffic sensitive basket to reflect the additional revenue in the traffic-sensitive basket attributable to including the 800 data base revenue. For most companies that used this method, the increase in the API equals the increase in the PCI, or the amount of claimed exogenous costs from implementing the 800 data base access service.

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<sup>262</sup> 47 C.F.R. § 61.47(a).

<sup>263</sup> Price Cap Performance Review for Local Exchange Carriers, 10 FCC Rcd 8961, 9139 (1995).

<sup>264</sup> Because the SBIs are not adjusted after the service category limits increase, the existing SBIs for some LECs are below the new lower limits.

151. No carrier used Method III, the alternative method proposed in the *Designation Order*. Under Method III, the LEC would first adjust the PCI to reflect the change in exogenous costs. It would not adjust any existing rates, the existing SBIs or the SBI upper and lower limits. The 800 data base category would be initialized at a value of 100, and would include the full amount of the 800 data base exogenous costs. The LEC would then increase the API to reflect the increase in traffic-sensitive basket revenues due to the 800 data base revenues. The SBI upper and lower limits would be set at the API plus 5 percent and minus 10 percent.

152. The Bureau *Designation Order* concluded that the Commission's rules do not specifically address the proper sequence for completing the restructure and exogenous cost PCI adjustments when both the exogenous cost adjustment rules and the restructure rules are triggered simultaneously with the addition of a new service category. The *Designation Order* asked parties to comment on: (1) the effect of each of the three methods on pricing flexibility; (2) whether the method complies with the price cap rules; and (3) whether any of the three methods requires a price cap rule waiver.<sup>265</sup>

d. LEC Pleadings

153. In their direct cases, the LECs generally claim that the method they used was appropriate under the price cap rules. Some LECs, however, state that the Method III alternative suggested by the Bureau is a good one, but believe that this method would violate existing rules.<sup>266</sup> Ameritech states that Method III is appealing because it produces a result similar to Method I, with a smaller administrative burden than is produced by the other two methods. Ameritech says that it would probably use this method in the future if allowed.<sup>267</sup> NYNEX states that it believes Method III is the best method because the PCI would be adjusted, but the rates, indexes and SBI upper and lower limits for existing categories within the traffic-sensitive basket would not change, thereby preserving the existing degree of pricing flexibility for existing services in the traffic sensitive basket.<sup>268</sup> GTE recommends a

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<sup>265</sup> *Designation Order*, 8 FCC Rcd at 5134.

<sup>266</sup> See Section 61.47(e) of the rules, 47 C.F.R. § 61.47(e), which states that an adjustment is required to the SBI band limits when an adjustment is made to the PCI.

<sup>267</sup> Ameritech Direct Case at 7.

<sup>268</sup> NYNEX Direct Case at 7.