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DIRECT TESTIMONY OF DON PRICE

ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION AND  
MCImetro ACCESS TRANSMISSION SERVICES, INC.  
(MCI/GTEFL ARBITRATION DOCKET)

August 26, 1996

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Don Price, and my business address is 701 Brazos, Suite 600, Austin, Texas, 78701.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am employed by MCI Telecommunications Corporation in the Southern Region as Senior Regional Manager -- Competition Policy.

Q. HAVE YOU PREVIOUSLY TESTIFIED?

A. Yes, I have testified in proceedings before regulatory commissions in a number of states. Provided as Exhibit \_\_\_ (DGP-1) to this testimony is a document listing the cases in which I have testified. Also included as part of the document is a summary of my academic and professional qualifications.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of this testimony is to: 1) briefly describe the history of the negotiations between MCI and GTE Corporation (GTE); 2) describe

1 and make recommendations on several key wholesale service pricing  
2 and provisioning policy issues that must be resolved in the context of  
3 arbitrations under Section 252 of the Telecommunications Act of  
4 1996; and 3) describe the ancillary arrangements that will be required  
5 to eliminate barriers to competition and identify the relevant rules  
6 ordered by the FCC in its rulemaking implementing the local  
7 competition provisions of the Telecommunications Act of 1996.

8  
9 **NEGOTIATIONS**

10 Q. PLEASE SUMMARIZE THE HISTORY OF MCI'S NEGOTIATIONS WITH  
11 GTE.

12 A. By letter dated April 3, 1996, a copy of which was attached as  
13 Exhibit 1 to MCI's Petition for Arbitration in this docket, MCI formally  
14 requested negotiations with GTE and all of its operating companies  
15 pursuant to Section 252 of the Act.

16 The first negotiating meeting pursuant to Section 252 of the  
17 Act was held on May 14, 1996. Prior to that meeting, MCI furnished  
18 GTE a copy of Version 3.2 of a document entitled "MCI Requirements  
19 for Intercarrier Agreements" which set forth in detail MCI's  
20 requirements for interconnection and access, unbundling, resale,  
21 ancillary services and associated arrangements pursuant to the Act  
22 (the "Term Sheet"). The Term Sheet, as subsequently revised on  
23 June 7, 1996 (Version 4.0), served as the focal point of the  
24 negotiations.

25 MCI and GTE held additional meetings and conference calls in

1           June, July and August. The parties reached an early impasse on  
2           pricing issues, but continued to discuss a number of other issues.  
3           While it appears that the parties may have reached agreement in  
4           principle on a number of the items requested in the Term Sheet, the  
5           parties have not yet agreed to specific contractual language on any  
6           issue. MCI has therefore submitted all issues for arbitration.

7  
8           Q.    HAS MCI PREPARED A DOCUMENT WHICH SHOWS ITS REQUESTS  
9           TO GTE AND GTE'S RESPONSE TO THOSE REQUESTS?

10          A.    Yes. For purposes of this proceeding, MCI prepared an Annotated  
11          Term Sheet, in which MCI has indicated its understanding of GTE's  
12          response to each item requested in MCI's Term Sheet. I am  
13          sponsoring this document, a copy of which was attached as Exhibit 2  
14          to MCI's arbitration petition in this docket. Some of these term sheet  
15          items are covered in my testimony, others are dealt with in the  
16          testimony of other MCI witnesses.

17

18                                   **WHOLESALE SERVICES: PRICING AND PROVISIONING**

19           **Wholesale Services: Overview**

20          Q.    HOW IS THIS PORTION OF YOUR TESTIMONY ORGANIZED?

21          A.    First, I summarize the pertinent federal legislative and regulatory  
22          requirements. Second, I discuss the necessary conditions of an  
23          effective resale policy. Third, I describe the avoided cost model  
24          employed herein. Finally, I present my conclusions. Attached as  
25          Exhibit \_\_\_ (DGP-2) is a White Paper I co-authored which describes

1 MCI's position on these issues in a report format.

2

3 Q. WOULD YOU SUMMARIZE YOUR KEY CONCLUSIONS REGARDING  
4 THE PRICING AND PROVISIONING OF WHOLESAL SERVICES?

5 A. Yes. The key conclusions are:

- 6 ● An effective local resale market is essential to development of full  
7 facilities based local competition.
- 8 ● In addition to promoting facilities based competition, resale of  
9 local services provides independent benefits to consumers  
10 through retail competition.
- 11 ● In order to capture all of these benefits, all local  
12 telecommunications services must be made available for resale at  
13 discounts that fully reflect avoidable costs.
- 14 ● Wholesale services must not be provisioned in ways that  
15 discourage entry by resellers or unreasonably raise their costs.
- 16 ● An avoided cost study must reflect the jurisdictional allocation of  
17 expenses.
- 18 ● The appropriate resale discounts should be set on a state specific  
19 basis where the data allow, and at the Regional Company level  
20 otherwise.
- 21 ● The discounts range from approximately 19 to 27 percent at the  
22 Regional Company level.

23

24 **Wholesale Services: Legislative and Regulatory Requirements**

25 Q. WHAT ARE THE LEGISLATIVE AND REGULATORY REQUIREMENTS

1           REGARDING RESALE AND WHOLESALE PRICING BY GTEFL?

2       A.    The Telecommunications Act of 1996 ("1996 Act") is designed to bring  
3            competition to local telecommunications markets.  The 1996 Act  
4            recognizes that simply removing legal barriers to entry is insufficient to  
5            allow competition to evolve.  A number of procompetitive steps are  
6            necessary and explicitly required by the 1996 Act.  For example, every  
7            incumbent local exchange carrier ("ILEC") is required to provide  
8            requesting telecommunications carriers: (1) interconnection to its  
9            network; (2) access to its unbundled network elements; (3) physical  
10           collocation for interconnection or access to unbundled elements, and (4)  
11           retail telecommunications services for resale at wholesale prices (rates).  
12           Economic barriers to entry into local telephone markets will be reduced  
13           substantially with an effective resale policy.  In other words, resale of all  
14           retail telecommunications services at wholesale rates is necessary to  
15           the development of local competition.

16                    The 1996 Act imposes a duty upon ILECs to offer certain services  
17            for resale at wholesale rates.  Specifically, Section 251(c)(4) requires  
18            ILECs:

- 19                    (A)   to offer for resale at wholesale rates any tele-  
20                    communications service that the carrier provides at  
21                    retail to subscribers who are not telecommunications  
22                    carriers; and
- 23                    (B)   not to prohibit, and not to impose unreasonable or  
24                    discriminatory conditions or limitations on, the resale  
25                    of such telecommunications services, except that a

1 state commission may, consistent with regulations  
2 prescribed by the Commission under this section,  
3 prohibit a reseller that obtains at wholesale rates a  
4 telecommunications service that is available at retail  
5 only to a category of subscribers from offering such  
6 service to a different category of subscribers.

7 Further, The 1996 Act also provides guidance on the determination of  
8 wholesale prices for telecommunications services. Section 252(d)(3)  
9 states that:

10 For the purposes of Section 251(c)(4), a state commission  
11 shall determine wholesale rates on the basis of retail rates  
12 charged to subscribers for the telecommunications service  
13 requested, excluding the portion thereof attributable to any  
14 marketing, billing, collection, and other costs that will be  
15 avoided by the local exchange carrier.

16 These statutory requirements are clear and concise. As described  
17 below, they are not only consistent with, they are essential to, the  
18 development of local competition.

19  
20 Q. WHAT STEPS HAS THE FCC TAKEN TO IMPLEMENT THESE  
21 STATUTORY PROVISIONS?

22 A. The Federal Communications Commission ("FCC") recently released its  
23 First Report and Order in CC Docket No. 96-98, In the Matter of  
24 Implementation of the Local Competition Provisions of the  
25 Telecommunications Act of 1996, issued August 8, 1996 ("251 Order").

1           The 251 Order addresses the need for resale competition stating that:  
2           Resale will be an important entry strategy for many new  
3           entrants, especially in the short term when they are  
4           building their own facilities. Further, in some areas and for  
5           some new entrants, we expect that the resale option will  
6           remain an important entry strategy over the longer term.  
7           Resale will also be an important entry strategy for small  
8           businesses that may lack capital to compete in the local  
9           exchange market by purchasing unbundled elements or by  
10          building their own networks. In light of the strategic  
11          importance of resale to the development of competition, we  
12          conclude that it is especially important to promulgate  
13          national rules for use by state commissions in setting  
14          wholesale rates. (251 Order, Para. 907).

15          The Order establishes “. . . a minimum set of criteria for avoided cost  
16          studies used to determine wholesale discount rates.” (para. 909)  
17          Sections 605-617 of part 51 of the FCC Rules set forth the FCC’s  
18          methodology. These Rules are included as Appendix II to the attached  
19          White Paper, Exhibit \_\_\_\_ (DGP-2). Beyond the minimum criteria, the  
20          FCC allows states “. . . broad latitude in selecting costing methodologies  
21          that comport with their own ratemaking practices for retail services.”  
22          (para. 910) States are allowed to select interim “default” rates from  
23          within a range prescribed by the FCC if an avoided cost study such as  
24          the one presented here is not available. (See FCC Rules Section  
25          51.611.)

1           The methodology described here follows the approach suggested  
2           by the FCC. However, it is appropriate to account for the jurisdictional  
3           nature of some of the expenses that are avoided when ILECs no longer  
4           perform the retail function. The necessary adjustments are described  
5           below. These adjustments are consistent with state rate making  
6           practices and therefore comply with the express desire of the FCC to  
7           provide latitude to states.

8

9           **Wholesale Services: Necessary Conditions for Effective Resale**

10          Q.     PLEASE DESCRIBE THE NECESSARY CONDITIONS FOR  
11                 EFFECTIVE RESALE.

12          A.     There are several conditions necessary for an effective local resale  
13                 market. In general, the price of wholesale services must be reasonably  
14                 related to the cost of providing the service and the wholesale services  
15                 must be offered on reasonable terms and conditions. The specific  
16                 conditions necessary for effective resale are: 1) wholesale rates must  
17                 not include incumbent LEC retailing costs; 2) all retail services must be  
18                 offered at a discount; 3) service quality and adequate wholesale-reseller  
19                 interfaces must be maintained; and 4) service branding must be  
20                 provided for the retailers' services.

21

22          Q.     YOU STATED THAT WHOLESALERATES CHARGED BY GTEFL  
23                 MUST NOT INCLUDE RETAILING COSTS. PLEASE EXPLAIN.

24          A.     If ILECs are allowed to charge excessive wholesale service prices,  
25                 competition will be thwarted. In any market, resellers or retailers require



1 a margin between the retail price and the wholesale price sufficient to  
2 allow recovery of their expenses, including a reasonable profit. The  
3 FCC points out that:

4 There has been considerable debate on the record in this  
5 proceeding and before the state commissions on whether  
6 section 252(d)(3) embodies an "avoided" cost standard or  
7 an "avoidable" cost standard. We find that "the portion [of  
8 the retail rate] . . . attributable to costs that will be avoided"  
9 includes all of the costs that the LEC incurs in maintaining  
10 a retail, as opposed to a wholesale, business. In other  
11 words, the avoided costs are those that an incumbent LEC  
12 would no longer incur if it were to cease retail operations  
13 and instead provide all of its services through resellers.  
14 Thus, we reject the arguments of incumbent LECs and  
15 others who maintain that the LEC must actually experience  
16 a reduction in its operating expenses for a cost to be  
17 considered "avoided" for purposes of section 252(d)(3).  
18 We do not believe that Congress intended to allow  
19 incumbent LECs to sustain artificially high wholesale prices  
20 by declining to reduce their expenditures to the degree that  
21 certain costs are readily avoidable. We therefore interpret  
22 the 1996 Act as requiring states to make an objective  
23 assessment of what costs are reasonably avoidable when  
24 a LEC sells its services wholesale. We note that Colorado,  
25 Georgia, Illinois, New York, and Ohio commissions have all

1                   interpreted the 1996 Act in this manner. (251 Order, Para.  
2                   911).

3                   If avoided costs are estimated correctly, and then subtracted from retail  
4                   prices, efficient resellers should be able to succeed in the retail market.

5

6           Q.    YOU ALSO STATED THAT ALL RETAIL SERVICES MUST BE  
7           OFFERED AT A DISCOUNT. PLEASE EXPLAIN.

8           A.    All of the telecommunications services offered to end-users must be  
9           made available to resellers at a wholesale discount. (Retail competitors  
10           may wish to resell services such as Voice Mail and Inside Wire. These  
11           services would likely be made available at avoided cost if the wholesale  
12           market were competitive.) This includes Centrex, optional plans,  
13           grandfathered services, promotions and contract services. (All contract  
14           services must be available for resale. This includes government and  
15           state agency contracts as well as any "umbrella" contract that allows  
16           other entities to participate and obtain the benefits of a master contract.)  
17           All ILEC retail services are at least partial substitutes for one another.  
18           (The FCC Rules permit states to restrict "cross-class" selling. See  
19           Section 51.613(a)(1).) Therefore, absent this requirement, ILECs will be  
20           able to discriminate against resellers by making offers to customers that  
21           their retail competitors are unable to match.

22                   Ancillary services must also be made available for resale. This  
23           includes custom calling services, CLASS features, and all Centrex  
24           features. While some of these features may not be regulated,  
25           depending on the state jurisdiction or the jurisdictional nature of the

1 service, they are all telecommunications services. If some features are  
2 not discounted, the ILECs' reseller competitors effectively will be denied  
3 the opportunity to market to a significant group of customers because  
4 the lack of a discount on these features will reduce reseller margins to  
5 inadequate levels.

6 Several state Commissions have already addressed the need for  
7 identifying services available for resale and the need for unrestricted  
8 resale. Several of these decisions are described in the FCC's 251  
9 Order. (See paras. 898-906.)

10 The FCC's Rules also require promotions to be offered at a  
11 discount in certain circumstances. (See Section 51.613(a)(2).) Granting  
12 exceptions to the requirement that all services be made available at  
13 wholesale discounts may lead to abuse. States should be alert to this  
14 possibility and be prepared to take corrective action against ILECs that  
15 abuse the exceptions.

16  
17 Q. SHOULD GTEFL BE ALLOWED TO IMPOSE ANY RESTRICTIONS ON  
18 THE RESALE OF SERVICES.

19 A. No, with extremely limited exceptions. The only exceptions that should  
20 be permitted are 1) resale of flat rate residential service could be limited  
21 to residential customers, 2) resale of grandfathered services could be  
22 limited to customers who took the grandfathered service from GTEFL,  
23 and 3) resale of Lifeline and LinkUp could be limited to qualifying low  
24 income customers. Any other use or user restrictions, or other  
25 limitations, would impede MCI's ability to compete through service

1 resale.

2

3 Q. YOU STATED THAT THE THIRD ISSUE IS THAT SERVICE QUALITY  
4 AND ADEQUATE WHOLESALE-RESELLER INTERFACES MUST BE  
5 MAINTAINED. WHAT IS THE IMPORTANCE OF THIS ISSUE?

6 A. The FCC has ruled that ILECs must provide resale services to  
7 competitors under the same terms and conditions it enjoys itself. It is  
8 crucial to a successful resale plan that interfaces between the ILEC's  
9 operations support systems and resellers' systems are adequate to  
10 allow the reseller to provide service to its customers efficiently. The  
11 Commission must also ensure that ILECs offer resellers the same  
12 quality service they provide to themselves and their own retail  
13 customers. To accomplish this, ILECs must implement systems and  
14 procedures that permit the ordering and use of wholesale services under  
15 the same timetables available to the ILEC. These systems must  
16 include:

- 17 • Pre-Service Ordering Capabilities. On-line access to all  
18 information needed to verify availability of services and features,  
19 scheduling of service installation, and number assignment.
- 20 • On-Line, automated order processing. Capability of transmitting  
21 customer orders to the switch office and provide the reseller with  
22 notice of confirmation and completion of its order. Competitively-  
23 neutral long distance and local presubscribed carrier  
24 administration processes must be implemented.
- 25 • Exchange of billing data and exchange of customer account data

1                    on a timely basis. This must be done on a confidential basis.

2                    ● On-Line Monitoring. Monitor the network, isolate trouble spots,  
3                    perform network tests, and schedule reports.

4                    ● Service quality reports. Documenting service quality ILECs  
5                    provide themselves compared to the service they provide to  
6                    others.

7                    All of these requirements are consistent with the FCC's finding that " . . .  
8                    service made available for resale be at least equal in quality to that  
9                    provided by the incumbent LEC to itself or to any subsidiary, affiliate, or  
10                    any other party . . . " (251 Order, Para. 970).

11

12                    Q.    ANOTHER IMPORTANT CONDITION OF RESALE COMPETITION  
13                    THAT YOU MENTIONED WAS BRANDING. WHAT DO YOU MEAN BY  
14                    BRANDING AND WHY IS IT IMPORTANT?

15                    A.    Resellers require carrier-specific branding for all customer contacts.  
16                    Customers naturally expect services to be provisioned, serviced and  
17                    maintained by their carrier of choice, regardless of whether the service  
18                    is actually provided by another carrier through a resale arrangement.  
19                    Customer confusion will be significantly diminished if the customer does  
20                    not perceive that resold services are actually provided by another  
21                    carrier.

22                    Customers would experience concern, confusion and  
23                    dissatisfaction when placing a bill inquiry, a directory assistance call, or  
24                    an operator service call to their provider of choice if they are greeted  
25                    with the name of their old telephone company. Customers may even

1 conclude that they have been "slammed." State Commissions must  
2 ensure that resale of all ILEC retail services occurs with the least  
3 amount of customer confusion possible. Branding will minimize  
4 customer confusion with respect to resold ILEC services.

5 In a resale environment, differentiation of the underlying product  
6 is virtually impossible. Competitors must rely upon other factors to win  
7 customer loyalty. Superior customer service, simplified billing, and  
8 innovative pricing will provide the only opportunities to differentiate  
9 products from the underlying network provider. Without the ability to  
10 brand all resold LEC services, reseller efforts to provide superior  
11 customer services are diluted. Brand dilution makes the investment in  
12 these new service or billing innovations more difficult to justify.

13 A uniform branding standard will also reduce customer confusion  
14 as the industry moves into an unbundled environment. For example, as  
15 competitors develop their own operator services capabilities, the change  
16 in the provider of this service will be transparent to the customer.

17 In sum, when the end user selects a local reseller it is important  
18 that they can clearly identify their service provider and its brand.  
19 Without a clear brand image the customer could face uncertainty when  
20 using directory or operator services. Such clarity can only be achieved  
21 by: (1) making reasonably available to local service resellers the ability  
22 to brand their service at all points of customer-contact; and (2) barring  
23 the incumbent LEC from unreasonably interfering with such branding.  
24 As the FCC points out, "this brand identification is critical to reseller  
25 attempts to compete with incumbent LECs and will minimize customer

1           confusion.” (251 Order, Para. 971)

2

3           **Wholesale Services: Setting Wholesale Rates**

4           Q.     WHAT GUIDANCE IS PROVIDED BY THE RECENTLY ADOPTED FCC  
5                 RULES REGARDING THE ESTABLISHMENT OF APPROPRIATE  
6                 WHOLESALE PRICES?

7           A.     The FCC’s Order establishes minimum criteria for the avoided cost  
8                 methodology based broadly on the MCI study. Essentially, the costs in  
9                 certain FCC Part 32 Uniform System of Accounts (“USOA”) accounts are  
10                identified as directly avoided while costs in other accounts are treated  
11                as indirectly avoided. The avoided indirect costs are calculated by  
12                determining the ratio of directly avoided costs to total costs and then  
13                applying that proportion to the accounts containing indirectly avoided  
14                costs.

15

16          Q.     WHAT ARE THE “DIRECTLY AVOIDED COSTS?”

17          A.     The following specific accounts from the Uniform System of Accounts  
18                 (“USOA”) are directly avoided (see Code of Federal Regulations, Title  
19                 47, Telecommunication, Part 32):

- 20           ■     Account 6611: Product management
- 21           ■     Account 6612: Sales
- 22           ■     Account 6613: Product advertising
- 23           ■     Account 6621: Call completion services
- 24           ■     Account 6622: Number services
- 25           ■     Account 6623: Customer services

1 Q. YOU HAVE DISCUSSED "DIRECTLY AVOIDED COSTS." WHAT ARE  
2 THE "INDIRECT AVOIDED COSTS?"

3 A. Within the USOA there are a number of expense accounts that are  
4 either common costs or general overhead. By definition, overhead costs  
5 support all other functions, including those that are avoided, such as  
6 marketing. For example, the Human Resources department incurs  
7 expenditures in the staffing of the marketing department. As marketing  
8 expenses are avoided, so are the expenses incurred in supporting  
9 marketing. Therefore, the portion of these expense items equal to the  
10 proportion of direct avoided costs to total expense is excluded as an  
11 avoided cost. Consistent with the FCC's paragraph 918, account 5301  
12 rather than 6790 is used to calculate the avoided uncollectible revenues.

13 The following USOA accounts include common costs or general  
14 overhead which support marketing and customer service operations:

- 15 ■ 6120 - General Support
- 16 ■ 6711 - Executive
- 17 ■ 6712 - Planning
- 18 ■ 6721 - Accounting and finance
- 19 ■ 6723 - Human resources
- 20 ■ 6724 - Information management
- 21 ■ 6725 - Legal
- 22 ■ 6726 - Procurement
- 23 ■ 6728 - Other general and administrative, and
- 24 ■ 5301 - Uncollectibles

25 Expenses in these accounts are, at least, partially avoidable.



1 Q. ARE THERE YET OTHER COSTS TO BE CONSIDERED?

2 A. Yes. While the ILECs will avoid substantial costs when they provide  
3 wholesale services, they will incur a small amount of incremental  
4 expenses to service the accounts of the resellers. However, these costs  
5 will be quite small. The ILECs already are set-up to perform the  
6 wholesaling function because they provide wholesale-like functions to  
7 interexchange carriers ("IXCs") and Enhanced Service Providers  
8 ("ESPs"). The incremental cost of providing these services to resellers  
9 of wholesale local exchange service should be minimal. The FCC  
10 addresses this issue by treating only 90 percent of the costs in certain  
11 of the directly avoided categories as avoided for purposes of setting  
12 default discounts. Specifically, the FCC determined that 90 percent of  
13 accounts 6610, and 6623 would be avoided, while 100 percent of  
14 accounts 6621 and 6622 would be avoided.

15 The FCC approach is very conservative. For example, Account  
16 6623 (Customer Services) records the cost of setting up and billing end  
17 user accounts. The purchaser of wholesale services will be providing  
18 this service to its own end users. Any cost of billing the purchaser of  
19 wholesale services, who will be billed for many end user lines, will be  
20 minuscule in comparison with the cost of billing each of those individual  
21 lines separately. Billing retail customers requires setting up accounts  
22 and billing individual customers. Wholesale customers, on the other  
23 hand, will be fewer in number, and are more acquainted with billing  
24 processes, thus enabling them to be served at much lower cost.

25 Although there may be some minor Customer Services costs incurred by

1 ILECs to provide wholesale services, those costs are so small that they  
2 could reasonably be completely excluded as avoided costs.  
3 Nevertheless, MCI has followed the approach used by the FCC for  
4 calculating default discounts and retained a portion of the expenses in  
5 these accounts in the wholesale rate.

6

7 Q. WHAT OTHER FACTORS MUST BE TAKEN INTO ACCOUNT IN  
8 ARRIVING AT THE APPROPRIATE WHOLESALe PRICES?

9 A. The FCC approach divides total avoided costs by total expenses on a  
10 "subject to separations" basis. That is, both interstate and intrastate  
11 costs were included. MCI's original model used this approach.  
12 However, this study uses the original MCI model, as modified by the  
13 FCC, using ARMIS 43-04 data on state operations, rather than the  
14 Subject to Separations data in the original study.

15 The services to be resold are largely intrastate. The FCC has  
16 specifically concluded that even though access charges will not be  
17 moved to economic cost until after a transition period, interstate access  
18 services will not be subject to the wholesale discount. (paras. 873-874)  
19 Therefore, it is necessary for consistency to calculate the appropriate  
20 wholesale discount by dividing total avoided ARMIS intrastate costs by  
21 the total intrastate expenses for services that will be resold. Absent this  
22 modification, both the numerator and the denominator of the discount  
23 calculation will include expenses allocated to services that will not be  
24 resold. The necessary revision can be done with the aid of ARMIS  
25 Report 43-04, which breaks down the relevant costs on a jurisdictional

1 basis. (Note: Most of the interstate costs in the "directly avoided"  
2 ARMIS accounts will be avoided by ILECs selling local services at  
3 wholesale. That some of these costs appear in interstate accounts is an  
4 artifact of the separations process. Therefore, it would be appropriate to  
5 add interstate expenses in these accounts to the numerator of the  
6 discount calculation. This study does not take this step in recognition of  
7 the fact that complex jurisdictional issues are raised thereby. MCI will  
8 modify its wholesale discount studies if the FCC rules on this issue. )

9

10 Q. TAKING ALL OF THE ABOVE INTO ACCOUNT, WHAT ARE THE  
11 RESULTS OF YOUR ANALYSIS?

12 A. Having identified the accounts that can be fully or partially associated  
13 with retailing functions that the ILEC will not perform, the next step is to  
14 quantify the actual savings and produce a percentage discount. The  
15 results on a holding company basis are shown in the white paper  
16 attached as Exhibit \_\_\_\_ (DGP-2).

17

18 Q. WHAT ARE THE RESULTS FOR GTE - FLORIDA?

19 A. The GTE - Florida result is 17.26%, and is set forth with the other major  
20 GTE states in Exhibit \_\_\_\_ (DGP-3).

21

22 Q. HOW SHOULD THE COMMISSION REQUIRE THAT THESE  
23 DISCOUNTS BE APPLIED TO SERVICES RESOLD BY MCI?

24 A. Discounts should be developed and applied on a uniform basis to  
25 promote consistency and simplify the process. The wholesale discount

1 as calculated in this study for each ILEC should be applied to each of  
2 the telecommunications services offered at wholesale rates. The  
3 published information ARMIS Report 43-04 data provide a sufficient  
4 basis for an aggregate discount across all services. These data are  
5 broadly consistent across ILECs and are reported in a format that is  
6 familiar. Service by service data are much harder to come by. Even if  
7 more detailed information were publicly available on a product-by-  
8 product basis, the consistency of the information would be questionable  
9 due to the numerous allocations and assumptions the ILEC would have  
10 to make to develop the product-specific information. While the FCC  
11 Rules do not rule out service-specific discounts, requiring the ILEC to  
12 provide such detailed information on a product-by-product basis would  
13 be an administrative burden for the ILECs and the responsible federal  
14 and state regulatory agencies. Moreover, the result would be highly  
15 debatable product by product discount levels.

16 The discount should also apply to each rate element. Any other  
17 basis provides opportunities for abuse. For example, applying the  
18 discount on revenue per minute for a service may penalize resellers  
19 whose sales by rate element are weighted differently than those of the  
20 ILEC or other resellers.

21

22 **Wholesale Services: Summary**

23 Q. WOULD YOU PLEASE SUMMARIZE THIS SECTION OF YOUR  
24 TESTIMONY?

25 A. Yes. Wholesale discounts are essential to the development of local

1 competition. Adequate wholesale discounts will provide immediate  
2 consumer benefits by allowing retail competition to begin in advance of  
3 full facilities based competition. The methodology described here for  
4 developing these discounts is analytically correct and easy to  
5 administer.

6

7

## **ANCILLARY ARRANGEMENTS AND SERVICES REQUIREMENTS**

8

### **Ancillary Arrangements: Overview**

9

Q. PLEASE EXPLAIN THE IMPLICATIONS OF THE 1996 ACT AND THE  
10 RECENT FCC'S ORDER AND RULES.

10

11

A. The 1996 Act promotes competition by directly removing, or mandating  
12 that the FCC and state Commissions remove, significant impediments to  
13 efficient entry by imposing requirements such as access to unbundled  
14 network elements, interconnection, and resale of retail services. The  
15 1996 Act also removes either directly or through the federal and state  
16 Commissions certain operational barriers to competition, by mandating  
17 local number portability, dialing parity, and nondiscriminatory access to  
18 rights of way. Eliminating these barriers by devising ancillary  
19 arrangements and service requirements is essential if competition is to  
20 develop in the local exchange market. These operational arrangements  
21 will give new entrants the opportunity to provide to their customers high  
22 quality, robust local exchange services. Absent these ancillary  
23 arrangements, MCI will always be placed in the position of providing  
24 inferior local exchange services and those services, regardless of their  
25 prices, will likely never be competitive with those of the incumbent local

25

1 exchange carriers ("ILECs").

2 The purpose of this portion of my testimony is to describe the  
3 ancillary arrangements and service requirements that will be required to  
4 eliminate barriers to competition, to identify the relevant rules ordered by  
5 the FCC in its rulemaking implementing the local competition provisions  
6 of the 1996 Act, and to identify the actions that the state Commissions  
7 must take to fully eliminate these barriers. The detailed interfaces and  
8 performance standards needed for these ancillary arrangements will be  
9 presented in testimony provided by another MCI witness.

10

11 Q. WHAT ARE THE KEY ANCILLARY ARRANGEMENTS ON WHICH  
12 YOUR TESTIMONY FOCUSES?

13 A. My testimony focuses on seven specific ancillary arrangements and  
14 services:

- 15 1. local number portability;
- 16 2. dialing parity;
- 17 3. directory assistance and operator services;
- 18 4. directory listing arrangements (both white and yellow pages);
- 19 5. access to 911 and E911 facilities and platforms;
- 20 6. access to poles, ducts, conduit, and rights-of-way; and
- 21 7. a bona fide request process for new unbundled network  
22 elements.

23

#### 24 **Ancillary Arrangements: Local Number Portability**

25 Q. WHAT IS THE SIGNIFICANCE OF LOCAL NUMBER PORTABILITY?

1       A.     Both Congress and the FCC have recognized that service provider  
2             portability -- the ability of end users to retain their telephone numbers  
3             when changing service providers -- is necessary to give customers  
4             flexibility in the quality, price, and variety of telecommunications services  
5             they can choose to purchase.  Conversely, it has been shown that the  
6             lack of local number portability ("LNP") would likely deter entry by  
7             competitive carriers into local markets because of the value customers  
8             place on retaining their telephone numbers.  Therefore, pursuant to  
9             Section 251(b)(2) of the 1996 Act and rules recently established by the  
10            FCC in its Telephone Number Portability order, In the Matter of  
11            Telephone Number Portability, CC Docket No. 95-116, First Report and  
12            Order and Further Notice of Proposed Rulemaking, July 2, 1996, ("LNP  
13            Order"), all local exchange carriers ("LECs") are required to provide  
14            permanent LNP according to specific implementation guidelines.

15                     In addition, until the implementation of permanent LNP, §52.7 of  
16                     the FCC's rules requires each incumbent LEC to provide interim local  
17                     number portability ("ILNP") measures through remote call forwarding  
18                     ("RCF"), direct inward dialing ("DID"), or other comparable  
19                     arrangements, with as little impairment of functioning, quality, reliability  
20                     and convenience as possible.

21  
22       Q.     WHAT ARE THE IMPLICATIONS OF LONG TERM (OR TRUE)  
23             NUMBER PORTABILITY TO THESE ARBITRATION PROCEEDINGS?

24       A.     Because of actions taken by this Commission, the industry is moving in  
25             a direction that should provide number portability to Florida customers in

1           accordance with the FCC's implementation schedule. For additional  
2           information on the responsibilities that states have under the FCC's LNP  
3           Order, please refer to Exhibit \_\_\_\_ (DGP-4).

4  
5           **Q.    WHAT ARE THE IMPLICATIONS OF INTERIM NUMBER PORTABILITY  
6           TO THESE ARBITRATION PROCEEDINGS?**

7           **A.    The Commission must adopt a cost recovery mechanism for interim LNP  
8           measures that is "competitively neutral" and is consistent with basic  
9           criteria established in the LNP Order, i.e., it must not give one service  
10          provider an appreciable incremental cost advantage over another  
11          service provider, and it should not have a disparate effect on the ability  
12          of competing providers to earn normal returns on their investment.**

13                    The Commission must approve terminating access arrangements  
14                    in the interim LNP context, such that terminating access charges paid by  
15                    IXCs on calls forwarded as a result of RCF or other comparable number  
16                    portability measures are shared between the forwarding and terminating  
17                    carriers.

18                    The Commission must order the incumbent LEC to accept certain  
19                    billing arrangements necessitated by use of RCF and DID for number  
20                    portability purposes.

21

22           **Q.    WHAT RELIEF IS MCI SEEKING FROM THIS COMMISSION  
23           REGARDING INTERIM PORTABILITY?**

24           **A.    MCI requests that this Commission take the following steps with regard  
25           to cost recovery and implementation of interim LNP measures:**



1           (1)    The Commission should mandate that each carrier must pay for  
2                    its own costs of currently available number portability measures.  
3                    This is the simplest and most direct mechanism for ILNP cost  
4                    recovery that meets the FCC's competitively neutral cost recovery  
5                    criteria.

6                    This mechanism does not require special reporting  
7                    between carriers of revenues, minutes of use, number of  
8                    customer telephone numbers, etc. This is especially important  
9                    because ILNP measures will soon be replaced by permanent  
10                   LNP. Development and monitoring of the accounting and  
11                   reporting systems necessary to implement another, more  
12                   complicated, competitively neutral cost recovery mechanism  
13                   would be extremely inefficient given the short time frame it will be  
14                   in place. A second-best cost recovery option, which also is fairly  
15                   simple and straight-forward and meets the FCC's criteria is to  
16                   allocate ILNP costs based on a carrier's number of active  
17                   telephone numbers (or lines) relative to the total number of active  
18                   telephone numbers (or lines) in a service area.

19           (2)    The Commission should direct the incumbent LEC to adopt meet-  
20                   point billing arrangements for access charges paid by IXCs  
21                   terminating calls directed to MCI via LEC-provided RCF or DID.  
22                   The appropriate split of access charges is: (i) the forwarding LEC  
23                   charging the IXC for transport from the IXC point of presence to  
24                   the end office where the RCF/DID is provided; and (ii) the  
25                   terminating LEC charging the IXC for the terminating LEC's

1 terminating switching function and common line. Any additional  
2 intermediate switching and transport costs incurred by the  
3 forwarding LEC should be recovered as part of the competitively  
4 neutral cost allocation mechanism. In addition, if MCI is unable  
5 to identify the particular IXC carrying a call subject to forwarding,  
6 the LEC should provide MCI with the necessary information to  
7 permit MCI to issue a bill to the IXC. This may include sharing  
8 Percentage Interstate/Intrastate Usage data.

9 (3) The Commission must direct the incumbent LEC, when it is the  
10 recipient provider, to accept MCI's billing to the incumbent  
11 provider for charges resulting from third number and collect calls  
12 being billed to the new entrant's directory numbers, per the  
13 customer's direction. If this does not occur, MCI will have to  
14 indicate in its line databases that collect or third-number billing  
15 are not accepted for this number. When RCF or DID is used to  
16 forward calls to an MCI customer, the donor provider must agree  
17 to maintain the Line Information Database record for that number  
18 to reflect appropriate conditions as reported to it by MCI.

19

20 **Ancillary Arrangements: Dialing Parity**

21 Q. WHAT IS THE SIGNIFICANCE OF "DIALING PARITY" IN  
22 ESTABLISHING APPROPRIATE COMPETITIVE CONDITIONS?

23 A. The 1996 Act, in Section 251(b)(3), imposes on all LECs:

24 The duty to provide dialing parity to competing providers of  
25 telephone exchange service and telephone toll service, and

1 the duty to permit all such providers to have  
2 nondiscriminatory access to telephone numbers, operator  
3 services, directory assistance, and directory listing, with no  
4 unreasonable dialing delays.

5 Dialing parity achieved through presubscription allows customers to  
6 preselect any provider of telephone exchange service or telephone toll  
7 service without having to dial extra digits to route a call to that carrier's  
8 network. In the Implementation of the Local Competition Provisions of  
9 the Telecommunications 1996 Act of 1996, CC Docket No. 96-98,  
10 Second Report and Order and Memorandum Opinion and Order, August  
11 8, 1996 ("Second Order"), the FCC concluded at paragraph 4

12 ...that section 251(b)(3) requires LECs to provide dialing  
13 parity to providers of telephone exchange or toll service  
14 with respect to all telecommunications services that require  
15 dialing to route a call...

16 Thus, customers must be able to access directory and operator services  
17 and complete local and toll calls using the same dialing string,  
18 regardless of the selected local or toll provider.

19

20 Q. PLEASE EXPLAIN THE IMPLICATIONS OF THESE OBLIGATIONS ON  
21 BOTH "TOLL" AND "LOCAL" DIALING PARITY.

22 A. The FCC adopted broad guidelines and minimum standards to  
23 implement toll dialing parity, including the requirements that LECs use  
24 the "full 2-PIC" method (though states have the flexibility to impose  
25 additional requirements), that dialing parity be defined by LATA

1 boundaries (though states may redefine dialing parity based on state  
2 boundaries if determined to be in the public interest), and that LECs file  
3 dialing parity implementation plans that must be approved by state  
4 Commissions. LECs, including BOCs, must implement dialing parity by  
5 February 8, 1999, and provide dialing parity throughout a state  
6 coincident with their provision of in-region, interLATA or in-region,  
7 interstate toll service.

8 For local dialing parity, the FCC requires (para. 9 of the Second  
9 Order):

10 ...a LEC to permit telephone exchange service customers,  
11 within a defined local calling area, to dial the same number  
12 of digits to make a local telephone call, notwithstanding the  
13 identity of the customer's or the called party's local  
14 telephone service provider.

15 The FCC declined to prescribe national guidelines for LECs to  
16 accomplish local dialing parity, consumer education and carrier selection  
17 (para. 80 of the Second Order).

18

19 **Q. HOW ARE THE IMPLEMENTATION COSTS ASSOCIATED WITH**  
20 **DIALING PARITY TO BE RECOVERED?**

21 **A. The FCC addressed recovery of dialing parity implementation costs at**  
22 **para. 92 of the Second Order:**

23 We conclude that, in order to ensure that dialing parity is  
24 implemented in a pro-competitive manner, national rules  
25 are needed for the recovery of dialing parity

1 implementation costs. We further conclude that these  
2 costs should be recovered in the same manner as the  
3 costs of interim number portability...

4 That is, cost recovery for local and toll dialing parity (including  
5 intraLATA equal access when it is implemented) must be limited to  
6 incremental costs, and recovered from all providers in the area served  
7 by a LEC, including that LEC, using a competitively-neutral allocator  
8 established by the state. (Paragraphs 94 - 95 of the Second Order)

9 The FCC's requirement for nondiscriminatory access requires  
10 ILECs to allow competing providers access that is at least equal in  
11 quality to that the LEC provides itself. Thus, call set-up and call  
12 processing times for MCI should be equivalent to that for the ILEC and  
13 any dialing delays must be no longer than those experienced by the  
14 ILEC's customers for processing calls on the ILEC network for identical  
15 calls or call types.

16

17 Q. WHAT ARE THE ISSUES PERTAINING TO DIALING PARITY TO BE  
18 RESOLVED IN THIS PROCEEDING?

19 A. MCI requests that the Commission ensure that only costs incremental  
20 and directly related to dialing parity are recovered by allowing dialing  
21 parity implementation costs to be subject to investigation and review.

22

23 **Ancillary Arrangements: Directory Assistance and Operator Services**

24 Q. YOU MENTIONED DIRECTORY ASSISTANCE AND OPERATOR  
25 SERVICES AT THE OUTSET OF YOUR TESTIMONY AS ONE OF THE

1           ANCILLARY SERVICES THAT IS CRITICAL. WHAT IS THE  
2           COMPETITIVE SIGNIFICANCE OF THESE SERVICES?

3       A.    Access to directory assistance and operator services ("DA/OS") is an  
4           essential component of basic telephone service. New entrants such as  
5           MCI must be able to provide DA/OS services that are comparable in  
6           quality to those provided by ILECs. Customers must be able to reach  
7           MCI's DA/OS using the same dialing string as the ILEC and with no  
8           unreasonable dialing delays, as described in the dialing parity section  
9           above.

10

11       Q.    WHAT IS REQUIRED BY THE TELECOMMUNICATIONS ACT AND  
12           THE FCC'S RULES?

13       A.    Section 251(b)(3) of the 1996 Act requires LECs to permit:

14                   . . . nondiscriminatory access to telephone numbers, operator  
15                   services, directory assistance, and directory listing. . . .

16

17           The FCC recently concluded in its Second Order (at paragraph 101) that

18                   the term "nondiscriminatory access" means that a  
19                   LEC that provides telephone numbers, operator  
20                   services, directory assistance, and/or directory  
21                   listings ("providing LEC") must permit competing  
22                   providers to have access to those services that is at  
23                   least equal in quality to the access that the LEC  
24                   provides to itself.

25           The FCC also concluded, in the First Report and Order in CC Docket

1 Nos. 96-98 and 95-185 ("First Order" or "the Order"), at paragraph 534:

2 We further conclude that, if a carrier requests an incumbent LEC  
3 to unbundle the facilities and functionalities providing operator  
4 services and directory assistance as separate network elements,  
5 the incumbent LEC must provide the competing provider with  
6 nondiscriminatory access to such facilities and functionalities at  
7 any technically feasible point.

8 In addition to a general obligation to provide unbundled access to  
9 DA/OS facilities and functionalities, the FCC went further in paragraph  
10 536 to include additional obligations:

11 We therefore find that incumbent LECs must unbundle the  
12 facilities and functionalities providing operator services and  
13 directory assistance from resold services and other unbundled  
14 network elements to the extent technically feasible. As discussed  
15 above in our section on unbundled switching, we require  
16 incumbent LECs, to the extent technically feasible, to provide  
17 customized routing, which would include such routing to a  
18 competitors operator services or directory assistance platform.

19 Each of these sections highlights the ILEC's obligation to offer these  
20 services as unbundled network elements on a nondiscriminatory basis.  
21 As additional direction, the FCC in paragraph 218 of its Order provided  
22 the following definition of "nondiscriminatory" to be used in interpreting  
23 sections of the 1996 Act and its own Order:

24 Therefore, we reject for purposes of Section 251, our historical  
25 interpretation of "nondiscriminatory" which we interpreted to mean

1 a comparison between what the incumbent LEC provided other  
2 parties in a regulated monopoly environment. We believe that the  
3 term "nondiscriminatory" as used throughout section 251 applies  
4 to the terms and conditions an incumbent LEC imposes on third  
5 parties as well as on itself.

6 Taken together, the 1996 Act and the FCC provide support for MCI to  
7 have the option of reselling the GTEFL's DA/OS platform, as well as the  
8 option to purchase unbundled elements, including: DA database and  
9 sub-databases, data resident within a database for the purpose of  
10 populating an MCI database, and the DA platform including systems and  
11 operators. In addition, GTEFL must provide access at any technically  
12 feasible point and at nondiscriminatory terms and conditions at least  
13 equal in quality to the access that it provides to itself.

14 The FCC specifically addressed the requirements and technical  
15 feasibility of obtaining nondiscriminatory access to DA databases as  
16 separate unbundled elements:

17 In particular, the directory assistance database must be  
18 unbundled for access by requesting carriers. Such access must  
19 include both entry of the requesting carrier's customer information  
20 into the database, and the ability to read such a database, so as  
21 to enable requesting carriers to provide operator services and  
22 directory assistance concerning incumbent LEC customer  
23 information...We find that the arrangement ordered by the  
24 California Commission concerning the shared use of such a  
25 database by Pacific Bell and GTE is one possible method of



1 providing such access. (Footnotes omitted.) (Paragraph 538)

2

3 The DA database should be sent to MCI by the ILEC electronically. The  
4 FCC concluded that any exchange of data currently between any  
5 incumbent LECs demonstrates technical feasibility (para. 554):

6 Finally, in accordance with our interpretation of the term  
7 'technically feasible,' we conclude that, if a particular method of  
8 interconnection is currently employed between two networks, or  
9 has been used successfully in the past, a rebuttable presumption  
10 is created that such a method is technically feasible for  
11 substantially similar network architectures. Moreover, because the  
12 obligation of incumbent LECs to provide interconnection of access  
13 to unbundled elements by any technically feasible means arises  
14 from sections 251(c)(3), we conclude that incumbent LECs bear  
15 the burden of demonstrating the technical infeasibility of a  
16 particular method of interconnection or access at any individual  
17 point.

18 Section 252(d)(1) of the 1996 Act states that prices of unbundled  
19 network elements must be based on cost. The Order adopted a pricing  
20 method based on forward-looking costs (para. 620). In purchasing  
21 DA/OS unbundled elements, DA data should cost no more than the  
22 ILEC's cost of delivery to MCI, with no systems or storage costs  
23 included.

24

25 Q. ARE THERE OTHER ISSUES PERTAINING TO DIRECTORY

1 ASSISTANCE AND OPERATOR SERVICES OF WHICH THIS  
2 COMMISSION SHOULD BE AWARE?

3 A. Yes. It is important that DA/OS services be properly "branded." MCI  
4 customers that obtain MCI's DA/OS services via GTEFL's DA platform  
5 should be provided services in conjunction with MCI's brand name.  
6 Paragraph 971 of the FCC Order specifically directs incumbent LECs to  
7 provide branding as part of their wholesale DA/OS offering to other  
8 carriers:

9 Brand identification is critical to reseller attempts to compete with  
10 incumbent LECs and will minimize customer confusion....We  
11 therefore conclude that where operator, call completion, or  
12 directory assistance service is part of the service or service  
13 package an incumbent LEC offers for resale, failure by an  
14 incumbent LEC to comply with reseller branding requests  
15 presumptively constitutes an unreasonable restriction on resale.

16  
17 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY ASSISTANCE  
18 AND OPERATOR SERVICES TO BE RESOLVED IN THIS  
19 PROCEEDING?

20 A. There are three issues that must be resolved. They are:  
21 (1) Customers should be able to retrieve directory information for all  
22 subscribers either through the ILEC's database or an MCI  
23 database, regardless of their local exchange provider, with the  
24 exception of unlisted telephone numbers or other information a  
25 LEC's customer has specifically asked the LEC not to make

1 available. Because all customers benefit from DA services that  
2 are complete and accurate, there should be no charge for ILEC  
3 storage of MCI customer information in the DA database.

4 (2) The Commission should require that MCI's local exchange  
5 customers' information be included in an ILEC's DA database and  
6 accessed through the ILEC's DA platform. Also, MCI should be  
7 permitted to obtain an ILEC's DA information for the purpose of  
8 populating an MCI DA database.

9 (3) Proprietary or sensitive information should be identified in the  
10 database of another provider by the specific information's "owner"  
11 for purposes of limiting access for reasons other than directory  
12 assistance, and/or, licensing arrangements which would allow  
13 greater flexibility in the use of the data with proper compensation  
14 to the owner of the data.

15 The specific arrangements related to operational implementation for  
16 DA/OS are covered in the testimony of another MCI witness.

17

18 **Ancillary Arrangements: Directory Listings**

19 Q. TURNING TO THE FOURTH OF THE ANCILLARY SERVICES THAT  
20 YOU LISTED ABOVE, WHAT PRINCIPLES REGARDING THE  
21 PROVISION OF DIRECTORY LISTINGS ARE CONTAINED IN THE  
22 TELECOMMUNICATIONS ACT AND THE FCC'S ORDER AND RULES?

23 A. Section 251(b)(3) of the 1996 Act imposes on all telecommunications  
24 carriers:

25 The duty...to permit all such [telephone exchange service and

1 telephone toll service] providers to have nondiscriminatory access  
2 to...operator services, directory assistance, and directory listing,  
3 with no unreasonable dialing delays.

4 At paragraphs 141 and 142 of the Order, the FCC stated:

5 We conclude that section 251(b)(3) requires LECs to share  
6 subscriber listing information with their competitors, in "readily  
7 accessible" tape or electronic formats, and that such data be  
8 provided in a timely fashion upon request... Under the general  
9 definition of "nondiscriminatory access," competing providers  
10 must be able to obtain at least the same quality of access to  
11 these services that a LEC itself enjoys. Merely offering directory  
12 assistance and directory listing services for resale or purchase  
13 would not, in and of itself, satisfy this requirement, if the LEC, for  
14 example, only permits a "degraded" level of access to directory  
15 assistance and directory listings. (Footnote omitted.)

16

17 Q. WHAT ARE THE COMPETITIVE IMPLICATIONS OF THESE  
18 PASSAGES?

19 A. First, a single, complete white pages directory listing all subscribers in a  
20 geographic area, regardless of their local service provider, is in the  
21 public interest. A unified directory is of equal value to the customers of  
22 all carriers, since customers will not know the local carrier of the party  
23 for whom they are seeking information. In addition, it would be  
24 frustrating and inefficient to cull through multiple carrier-specific  
25 directories. Nor would it be efficient for each local exchange carrier to

1 publish its own white pages directory.

2 Second, the listing information used for white pages serves as the  
3 basis for the simple listings (referred to as the "Service Required  
4 Listings") in Yellow Pages. In most situations, it would not be efficient  
5 for each local service provider to publish its own yellow pages directory.  
6 It is traditional for the ILEC to provide each business customer a Service  
7 Required Listing under the appropriate classified heading in its yellow  
8 pages directory, even if the business does not purchase a display ad, or  
9 even a bold-faced listing. CLEC business customers must be afforded  
10 similar treatment with respect to Service Required Listings in the ILEC's  
11 yellow pages directory at no charge. If CLEC business customers were  
12 treated differently from ILEC customers, the ILEC could use its position  
13 as the sole provider of a yellow pages directory to place the CLECs at a  
14 competitive disadvantage in the business market.

15 The specific arrangements related to operational implementation  
16 for directory listings are covered in the testimony of another MCI  
17 witness.

18

19 Q. WHAT ARE THE ISSUES PERTAINING TO DIRECTORY LISTINGS TO  
20 BE RESOLVED IN THIS PROCEEDING?

21 A. There are four such issues. They are:

22 (1) The Commission should require that all relevant CLEC subscriber  
23 information should be incorporated in (or, in the case of "non-  
24 published" numbers, excluded from) the white pages directory  
25 listings at no charge to the CLEC since all customers benefit from

- 1 a unified directory. Data should be passed from the CLEC to the  
2 ILEC using the directory assistance process.
- 3 (2) The Commission should require that if an ILEC provides pertinent  
4 business information in the Customer Guide (information) pages  
5 of its white pages directory (e.g., rates, calling areas, sales,  
6 service, repair and billing information, etc.), the same information  
7 also must be provided for the CLEC at no charge.
- 8 (3) The CLEC customer data provided to the ILEC is valuable since it  
9 can be used for leads for Yellow Pages advertising. In exchange  
10 for that data, the ILEC should provide a published white pages  
11 directory for each CLEC subscriber at no charge. The ILEC  
12 should deliver the white pages directories to CLEC subscribers as  
13 well as to its own subscribers, with the total element long run  
14 incremental costs of that distribution assigned to all local  
15 exchange carriers on a pro rata basis. Since a "sweep" of all  
16 dwellings is less costly than leaving directories only with  
17 subscribers, if the ILEC were to refuse to perform the distribution,  
18 it would be artificially imposing costs on the CLECs. A CLEC can  
19 negotiate with the ILEC for an alternative arrangement -- for  
20 example, delivery of the directories to the CLEC rather than to  
21 subscribers, if the CLEC wishes to place its own cover on the  
22 directories.
- 23 (4) CLEC business customers must be treated the same way as  
24 ILEC business customers with respect to free Service Required  
25 Listings in the ILEC's yellow pages directory.

1       **Ancillary Arrangements: 911 and E911 Platforms**

2       Q.     YOU MENTIONED THE NEED FOR MCI TO HAVE ACCESS TO 911  
3             AND E911 ABOVE. WHAT ARE THE PUBLIC POLICY REASONS  
4             UNDERLYING THAT CLAIM?

5       A.     There is no question that the public safety requires that 911 service be  
6             provided at the highest possible level of quality. To achieve such  
7             quality, MCI and the ILEC must ensure the seamless interconnection of  
8             their networks for the delivery of 911 services. Such interconnection  
9             impacts both carriers' networks and their operations support systems.

10

11      Q.     WHAT ARE THE NETWORK REQUIREMENTS OF  
12             INTERCONNECTION FOR 911/E911?

13      A.     Seamless interfaces are required to support 911 service between the  
14             incumbent's and MCI's networks. One crucial network requirement is a  
15             dedicated trunk group for routing 911 calls from, for example, MCI's  
16             switch to the incumbent's selective router. An additional interface  
17             requirement is that the incumbent provide selective routing of E-911  
18             calls received from MCI's switch.

19             The incumbent is obligated to provide such trunking and routing,  
20             upon request by MCI, pursuant to the 1996 Act. The ILEC must  
21             establish terms and conditions that permit 911 calls placed by MCI's  
22             customers to reach the Public Safety Answering Point ("PSAP") in a  
23             manner equal to 911 calls originated on the ILEC's network.

24             To ensure that such interconnection is of high quality, MCI also  
25             requires that the ILEC provide industry-standard signaling on the trunks

1 used to interconnect with the 911 tandem. Signaling is how information  
2 on call processing is passed between various network elements to  
3 permit calls to be established and disconnected. The ILEC must adhere  
4 to industry signaling standards in support of 911 calls. This is consistent  
5 with the ILEC's duty under Section 251(c)(2)(C) to provide  
6 interconnection that is at least equal in quality to that which it provides  
7 to itself.

8 The ILEC must also provide MCI with reference and routing data  
9 to assist in the configuration of the interconnected dedicated 911 trunks  
10 and to ensure that 911 calls are correctly routed.

11 The ILEC must afford to MCI's 911 trunks the same level of  
12 priority service restoration that it affords its own 911 trunks. The ILEC  
13 also should notify MCI at least 48 hours prior to any scheduled outages  
14 that would affect 911 service, and communicate immediately with MCI in  
15 the case of an unscheduled outage. If the ILEC does not provide equal  
16 restoration priority to MCI, and if outage notices are not provided, MCI  
17 will not have interconnection that is "at least comparable" to the access  
18 the ILEC provides to itself.

19

20 Q. WHAT ARE THE NECESSARY DATABASE ARRANGEMENTS TO  
21 SUPPORT THE INTERCONNECTION OF NETWORKS FOR 911 AND  
22 E911?

23 A. A new entrant must have access to the databases necessary to input  
24 and maintain customer address and phone numbers in the proper  
25 format. For example, the Automatic Location Identification ("ALI") is a



1 proprietary database managed by the incumbent, but should be treated  
2 as the property of any participating new entrant. Further, it is essential  
3 that information be exchanged on network testing and outages to permit  
4 all network providers to respond to such event appropriately.

5 Another requirement for successful 911 integration will be the  
6 ability to maintain accurate and up-to-date information. A key element  
7 of a large database, such as the one that permits PSAP operators to  
8 link a customer's phone number with the street address, is the need for  
9 consistent and uniform data. In large metropolitan areas with  
10 thousands of street names, for example, it is imperative that street  
11 names be referenced consistently. If Oak Ave. and Oak St. denote two  
12 different streets in the same city, a lack of consistency in listings in the  
13 database could hamper the response of emergency crews.

14 ILECs possess or control a number of systems that are used to  
15 screen and edit data for inclusion in the 911 ALI database. In order to  
16 achieve consistency in street addresses, customers' data are edited  
17 against a database referred to as the master street address guide  
18 ("MSAG"). New entrants should be permitted access to the MSAG, any  
19 mechanized systems used in the editing process, and any other systems  
20 and processes used in populating the 911 ALI database.

21 Access to these databases must be available on conditions that  
22 are comparable to the ILEC's access. Because the ILEC has electronic  
23 interfaces to such systems, providing anything less to MCI would violate  
24 the statutory requirement that interconnection be provided at quality  
25 levels "at least equal" to that the incumbent provides to itself. In its

1 recent Order, the FCC has interpreted the 1996 Act to give MCI the right  
2 to access such operations support systems on a nondiscriminatory  
3 basis. (Order at Paras. 516 - 528)

4

5 Q. WHAT ARE THE ISSUES PERTAINING TO 911 SERVICE TO BE  
6 RESOLVED IN THIS PROCEEDING?

7 A. There are three such issues, and they are:

8 (1) ILECs should provide the appropriate trunking, signalling and  
9 routing of 911 and E911 calls from MCI switches.

10 (2) ILECs should be required to provide MCI's 911 trunks the same  
11 level of priority service restoration that it affords its own 911  
12 trunks. ILECs should be required to provide at least 48 hours  
13 notice of any scheduled outages that would affect 911 service,  
14 and immediate notice of any unscheduled outage.

15 (3) MCI should be allowed access to the MSAG, any mechanized  
16 systems used in the editing process, and any other systems and  
17 processes used in populating the 911 ALI database.

18

19 **Ancillary Arrangements: Rights-of-Way**

20 Q. WHAT OBLIGATIONS ARE IMPOSED BY THE 1996 ACT REGARDING  
21 ACCESS TO RIGHTS-OF-WAY BY GTEGL?

22 A. The 1996 Act imposes on carriers (at section 251(b)(4)):

23 The duty to afford access to the poles, ducts, conduits, and  
24 rights-of-way of such carrier to competing providers of  
25 telecommunications services on rates, terms and

1 conditions that are consistent with section 224.

2 MCI believes that "poles, ducts, conduits and rights-of-way" refers to all  
3 the physical facilities and legal rights needed for access to pathways  
4 across public and private property to reach customers. These include  
5 poles, pole attachments, ducts, conduits, entrance facilities, equipment  
6 rooms, remote terminals, cable vaults, telephone closets, rights of way,  
7 or any other inputs needed to create pathways to complete telephone  
8 local exchange and toll traffic. These pathways may run over, under, or  
9 across or through streets, traverse private property, or enter multi-unit  
10 buildings.

11

12 Q. HOW DO THE RECENT FCC RULES IMPACT GTEFL'S OBLIGATION  
13 TO PROVIDE ACCESS TO RIGHTS-OF-WAY AND OTHER  
14 PATHWAYS?

15 A. To ensure that ILECs do not use their access to rights of way to  
16 discriminate against new entrants, the FCC established general rules  
17 (para. 1151 - 1157), stating (para. 1122):

18 in furtherance of our original mandate to institute an expeditious  
19 procedure for determining just and reasonable pole attachment  
20 rates with a minimum of administrative costs and consistent with  
21 fair and efficient regulation, we adopt herein a program for  
22 nondiscriminatory access to poles, ducts, conduits and rights-of-  
23 way. (Footnote omitted.)

24 Significant steps to reduce barriers to entry were achieved by  
25 addressing: requests for access and the requirement to expand

1 capacity; cost recovery associated with expanded capacity; and the  
2 rates at which capacity is made available. Noting that utilities may  
3 expand capacity for their own needs, and that the principle of  
4 nondiscrimination applies to physical facilities as well as to rights of way,  
5 the FCC stated (para. 1162 of the Order) that a lack of capacity on a  
6 particular facility does not automatically entitle a utility to deny a request  
7 for access. Further, since modification costs will be borne only by the  
8 parties directly benefiting from the modification, harm to the utility and  
9 its ratepayers is avoided. The FCC chose not to prescribe the  
10 circumstances under which a utility must replace or expand an existing  
11 facility and when it is reasonable for a utility to deny a request for  
12 access, however, the FCC required (para. 1163) "...utilities to take all  
13 reasonable steps to accommodate requests for access..."

14 The FCC required (para 1209) that absent a private agreement  
15 establishing notification procedures, written notification of a modification  
16 must be provided to parties holding attachments on the facility to be  
17 modified at least 60 days prior to the commencement of the physical  
18 modification. This provision provides at least some notice so that  
19 entrants have the chance to evaluate the impact and opportunities  
20 presented by the proposed modifications.

21 Where there are costs associated with freeing capacity (e.g., by  
22 reconfiguring placement of cables on poles to allow for more cables),  
23 the FCC requires (para 1213) modification costs be paid only by entities  
24 for whose benefit the modifications are made, with multiple parties  
25 paying proportionate shares based on the ratio of new space occupied

1 by each party to the total amount of new space occupied by all parties  
2 joining in the modification.

3

4 Q. WHAT TERMS AND CONDITIONS SHOULD THIS COMMISSION  
5 REQUIRE AS A RESULT OF THIS ARBITRATION PROCEEDING?

6 A. To ensure that CLECs are able to obtain nondiscriminatory access to  
7 poles, conduits and rights-of-way in a timely manner requires that ILECs  
8 provide certain information to new entrants. In addition, ILECs should  
9 not interfere with or attempt to delay the granting of permits for MCI's  
10 use of public rights-of-way or access to private premises from property  
11 owners.

12 (1) The Commission should require ILECs to provide information on  
13 the location and availability of access to poles, conduits and  
14 rights-of-way within 20 business days of MCI's request. An ILEC  
15 must not be permitted to provide information to itself or its  
16 affiliates sooner than it provides the information to other  
17 telecommunications carriers. For 90 days after a request, ILECs  
18 should be required to reserve poles, conduits and rights-of-way  
19 for MCI's use. MCI should be permitted six months to begin  
20 attachment or installation of its facilities to poles, conduits and  
21 rights-of-way or request ILECs to begin make ready or other  
22 construction activities.

23 (2) Compensation for shared use of ILEC-owned or -controlled poles,  
24 ducts, and conduit should be based on TELRIC.

25 Additional arrangements related to access to rights of way are covered

1 by the testimony of another MCI witness.

2

3 **Ancillary Arrangements: Bona Fide Request Process for Further**  
4 **Unbundling**

5 Q. WHAT IS THE NEED FOR A PROCESS BY WHICH MCI CAN  
6 REQUEST FURTHER UNBUNDLING OF THE GTEFL NETWORK?

7 A. The 1996 Act and the FCC Order recognized explicitly that in the future,  
8 requesting carriers are likely to seek further unbundling of ILEC network  
9 elements or the introduction of entirely new network elements. For  
10 example, the FCC Order stated at para. 246,

11 ...we have the authority to identify additional, or perhaps different  
12 unbundling requirements that would apply to incumbent LECs in  
13 the future.

14 Since MCI plans to maintain a technologically advanced network, it fully  
15 expects to be one of those requesting carriers, even as it continually  
16 expands its facilities-based network. To ensure that an efficient process  
17 exists for approving future unbundling requests, we propose that the  
18 Commission implement the following bona fide request process,  
19 consistent with the 1996 Act and the FCC Order, that places the burden  
20 on the ILEC to demonstrate that a request is not technically feasible.

21 When a carrier requests a new unbundled element from an ILEC,  
22 if the ILEC does not accept the request within ten days, the requesting  
23 carrier has ten days to file a petition with the Commission seeking its  
24 determination that the ILEC be required to provide the unbundled  
25 element. In its petition, the requesting carrier must provide an

1 explanation of why the failure of the ILEC to provide access to that  
2 element would decrease the quality, or increase the financial or  
3 administrative cost of a service the requesting carrier seeks to offer,  
4 compared with providing that service using other unbundled elements in  
5 the ILEC's network. The requesting carrier also may provide evidence  
6 that it is technically feasible for the ILEC to provide the unbundled  
7 element and that such provision would not negatively affect network  
8 reliability. The ILEC must respond within ten days of the petition being  
9 filed and demonstrate either that it is technically infeasible to provide the  
10 requested unbundled element, or that such provision would harm  
11 network reliability. The state Commission would then rule on the  
12 petition within 20 days of the ILEC response, and in no case more than  
13 30 days after the filing of the requesting carrier's petition. In reaching  
14 its determination, the burden of proof must lie with the ILEC.

15

16 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

17 A. Yes, it does

18

19

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## **ACADEMIC AND PROFESSIONAL QUALIFICATIONS OF DON PRICE**

### **Academic Background:**

My academic background is in the social sciences. I received my Bachelor of Arts degree in Sociology from the University of Texas at Arlington in May of 1977, and was awarded a Master of Arts degree in Sociology by the University of Texas at Arlington in December, 1978.

### **Professional Qualifications:**

From January, 1979 until October, 1983, I was employed by the Southwest telephone operating company of GTE where I held several positions of increasing responsibility in Economic Planning. In those positions I became acquainted with such local exchange telephone company functions as the workings and design of the local exchange network, the network planning process, the operation of a business office, and the design and operation of large billing systems.

From November 1983 until November 1986, I was employed by the Public Utility Commission of Texas. I provided analysis and expert testimony on a variety of rate design issues including setting of rates for switched and special access services, MTS, WATS, EAS, and local exchange services. In 1986 I was promoted to Manager of Rates and Tariffs, and was directly responsible for staff analyses of rate design and tariff issues in all telecommunications proceedings before the Texas Commission.



I have been with MCI for nearly ten years, all of which has been in the regulatory arena. In my present position, I have broad responsibilities in state regulatory and legislative proceedings throughout the Southwestern Bell and BellSouth service areas, focusing on the policy issues surrounding local competition in telecommunications markets.

I have presented testimony before a number of state commissions, including the Public Service Commission of Arkansas, the Florida Public Service Commission, the Georgia Public Service Commission, the Kansas Corporation Commission, the Public Service Commission of Kentucky, the Louisiana Public Service Commission, the Missouri Public Service Commission, the North Carolina Utilities Commission, the Corporation Commission of the State of Oklahoma, the Public Service Commission of South Carolina, the Public Service Commission of Tennessee, and the Public Utility Commission of Texas. A list of those proceedings in which I have furnished testimony is provided on the following pages.

**TESTIMONY PRESENTED BEFORE  
REGULATORY UTILITY COMMISSIONS**

Arkansas

Docket No. 91-051-U: IN RE IMPLEMENTATION OF TITLE IV OF THE AMERICANS WITH  
DISABILITIES ACT OF 1990

Docket No. 92-079-R: IN THE MATTER OF A PROCEEDING FOR THE DEVELOPMENT  
OF RULES AND POLICIES CONCERNING OPERATOR SERVICE PROVIDERS

Florida

Docket No. 941272-TL: IN RE: SOUTHERN BELL TELEPHONE AND TELEGRAPH  
COMPANY'S PETITION FOR APPROVAL OF NUMBERING PLAN AREA RELIEF FOR 305  
AREA CODE

Docket No. 950696-TP: IN RE: DETERMINATION OF FUNDING FOR UNIVERSAL SERVICE  
AND CARRIER OF LAST RESORT RESPONSIBILITIES.

Docket No. 950737-TP: IN RE: INVESTIGATION INTO TEMPORARY LOCAL TELEPHONE  
NUMBER PORTABILITY SOLUTION TO IMPLEMENT COMPETITION IN LOCAL  
EXCHANGE TELEPHONE MARKETS.

Docket No. 950984-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-  
DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR RESALE INVOLVING  
LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE COMPANIES  
PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Docket No. 950985-TP: IN RE: RESOLUTION OF PETITION(S) TO ESTABLISH NON-  
DISCRIMINATORY RATES, TERMS, AND CONDITIONS FOR INTERCONNECTION  
INVOLVING LOCAL EXCHANGE COMPANIES AND ALTERNATIVE LOCAL EXCHANGE  
COMPANIES PURSUANT TO SECTION 364.162, FLORIDA STATUTES.

Georgia

Docket No. 5548-U: IN RE: INVESTIGATION INTO THE FINDING OF UNIVERSAL SERVICE

Docket Nos. 6537-U: IN THE MATTER OF: MCIMETRO PETITION TO ESTABLISH  
NONDISCRIMINATORY RATES, TERMS AND CONDITIONS FOR UNBUNDLING AND  
RESALE OF LOCAL LOOPS

Kansas

Docket No. 190,492-U: IN THE MATTER OF A GENERAL INVESTIGATION INTO COMPETITION WITHIN THE TELECOMMUNICATIONS INDUSTRY IN THE STATE OF KANSAS

Kentucky

Administrative Case No. 355: AN INQUIRY INTO LOCAL COMPETITION, UNIVERSAL SERVICE, AND THE NON-TRAFFIC SENSITIVE ACCESS RATE

Louisiana

Docket No. U-17957: IN RE: INVESTIGATION OF OPERATING PRACTICES OF ALTERNATIVE OPERATOR SERVICES PROVIDERS TO INCLUDE RATES AND CHARGES

Docket No. U-19806: IN RE: PETITION OF AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC., FOR REDUCED REGULATION OF INTRASTATE OPERATIONS

Docket No. U-20237: IN RE: OBJECTIONS TO THE FILING OF REDUCED WATS SAVER SERVICE RATES, INTRALATA, STATE OF LOUISIANA

Docket No. U-20710: IN RE: GENERIC HEARING TO CLARIFY THE PRICING/ IMPUTATION STANDARD SET FORTH IN COMMISSION ORDER NO. U-17949-N ON A PROSPECTIVE BASIS ONLY, AS THE STANDARD RELATES TO LEC COMPETITIVE TOLL OFFERINGS

Docket No. U-20883: IN RE: THE DEVELOPMENT OF RULES AND REGULATIONS APPLICABLE TO THE ENTRY AND OPERATIONS OF, AND THE PROVIDING OF SERVICES BY, COMPETITIVE AND ALTERNATE ACCESS PROVIDERS IN THE LOCAL, INTRASTATE AND/OR INTEREXCHANGE TELECOM-MUNICATIONS MARKET IN LOUISIANA. SUBDOCKET A: UNIVERSAL SERVICE

Missouri

Case No. TO-87-42: IN THE MATTER OF SOUTHWESTERN BELL TELEPHONE COMPANY FILING ACCESS SERVICES TARIFF REVISIONS AND WIDE AREA TELECOMMUNICATIONS SERVICE (WATS) TARIFF, INDEX, 6th REVISED SHEET, ORIGINAL SHEET 16.01

Case No. TO-95-289, et al: IN THE MATTER OF AN INVESTIGATION INTO THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 314 NUMBERING PLAN AREA

North Carolina

Docket No. P-100, SUB 119: IN THE MATTER OF: ASSIGNMENT OF N11 DIALING CODES

Oklahoma

Consolidated Dockets PUD NO. 000237: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED CHANGES AND ADDITIONS IN APPLICANTS' WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF; and  
PUD NO. 000254: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER APPROVING PROPOSED ADDITIONS AND CHANGES IN APPLICANTS' ACCESS SERVICE TARIFF AND WIDE AREA TELECOMMUNICATIONS SERVICE PLAN TARIFF

Consolidated Dockets PUD NO. 920001335: IN THE MATTER OF THE APPLICATION OF THE OKLAHOMA RURAL TELEPHONE COALITION, GTE SOUTHWEST, INC., ALLTEL OKLAHOMA, INC., AND OKLAHOMA ALLTEL, INC. FOR AN ORDER ADOPTING THE OKLAHOMA ALTERNATIVE SETTLEMENT PLAN; and  
PUD NO. 920001213: IN THE MATTER OF THE APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AN ORDER IMPLEMENTING TERMINATING ACCESS CHARGES IN LIEU OF INTRALATA TOLL AND SURCHARGE POOLS; and  
PUD NO. 940000051: IN RE: INQUIRY OF THE OKLAHOMA CORPORATION COMMISSION REGARDING WHETHER THE INTRALATA TOLL POOL AND SURCHARGE POOL SHOULD CONTINUE TO EXIST IN THE STATE OF OKLAHOMA

South Carolina

Docket No. 92-606-C: IN RE: GENERIC PROCEEDING TO REVIEW THE USE OF N11 SERVICE CODES

Tennessee

Docket No. 93-07799: IN RE: SHOW CAUSE PROCEEDING AGAINST CERTIFIED IXCS AND LECS TO PROVIDE TOLL FREE, COUNTY-WIDE CALLING

Docket No. 93-08793: IN RE: APPLICATION OF MCI METRO ACCESS TRANSMISSION SERVICES, INC. FOR AUTHORITY TO OFFER LOCAL EXCHANGE SERVICES WITHIN TENNESSEE

Docket No. 94-00184: INQUIRY FOR TELECOMMUNICATIONS RULE-MAKING REGARDING COMPETITION IN THE LOCAL EXCHANGE

Docket No. 95-02499: UNIVERSAL SERVICE PROCEEDING, PART 1 -- COST OF UNIVERSAL SERVICE AND CURRENT SOURCES OF UNIVERSAL SERVICE SUPPORT, AND PART 2 -- ALTERNATIVE UNIVERSAL SERVICE SUPPORT MECHANISMS

Texas

Docket 4992: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTHWEST FOR A RATE/TARIFF REVISION

Docket 5113: PETITION OF PUBLIC UTILITY COMMISSION FOR AN INQUIRY CONCERNING THE EFFECTS OF THE MODIFIED FINAL JUDGMENT AND THE ACCESS CHARGE ORDER UPON SW BELL AND THE INDEPENDENT TELEPHONE COMPANIES OF TEXAS (Phase II)

Docket 5610: APPLICATION OF GENERAL TELEPHONE COMPANY OF THE SOUTHWEST FOR A RATE INCREASE

Docket 5800: APPLICATION OF AT&T COMMUNICATIONS FOR AUTHORITY TO IMPLEMENT "REACH OUT TEXAS"

Docket 5898: APPLICATION OF SAN ANGELO FOR REMOVAL OF THE EXTENDED AREA SERVICE CHARGE FROM GENERAL TELEPHONE COMPANY OF THE SOUTHWEST'S RATES IN SAN ANGELO, TEXAS

Docket 5926: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO ESTABLISH FEATURE GROUP "E" (FGE) ACCESS SERVICE FOR RADIO AND CELLULAR COMMON CARRIERS

Docket 5954: INQUIRY OF THE PUBLIC UTILITY COMMISSION OF TEXAS INTO OFFERING EXTENDED AREA SERVICE IN THE CITY OF ROCKWALL

Docket 6095: APPLICATION OF AT&T COMMUNICATION FOR A RATE INCREASE

Docket 6200: PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES

Docket 6264: PETITION OF THE GENERAL COUNSEL FOR INITIATION OF AN EVIDENTIARY PROCEEDING TO ESTABLISH TELECOMMUNICATIONS SUBMARKETS

- Docket 6501: APPLICATION OF VALLEY VIEW TELEPHONE COMPANY FOR AN AMENDMENT TO CERTIFICATE OF CONVENIENCE AND NECESSITY
- Docket 6635: APPLICATION OF MUSTANG TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES
- Docket 6740: APPLICATION OF SOUTHWEST TEXAS TELEPHONE COMPANY FOR RATE INCREASE
- Docket 6935: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO INTRODUCE MICROLINK II - PACKET SWITCHING DIGITAL SERVICE
- Docket 8730: INQUIRY OF THE GENERAL COUNSEL INTO THE MEET-POINT BILLING PRACTICES OF GTE SOUTHWEST, INC.
- Docket 8218: INQUIRY OF THE GENERAL COUNSEL INTO THE WATS PRORATE CREDIT
- Docket 8585: INQUIRY OF THE GENERAL COUNSEL INTO THE REASONABLENESS OF THE RATES AND SERVICES OF SOUTHWESTERN BELL TELEPHONE COMPANY
- Docket 10127: APPLICATION OF SOUTHWESTERN BELL TELEPHONE COMPANY TO REVISE SECTION 2 OF ITS INTRASTATE ACCESS SERVICE TARIFF
- Docket 11441: PETITIONS OF INFODIAL, INC., AND OTHERS FOR ASSIGNMENT OF ABBREVIATED N11 DIALING CODES
- Docket 11840: JOINT PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY AND GTE SOUTHWEST, INC. TO PROVIDE EXTENDED AREA SERVICE TO CERTAIN COMMUNITIES IN THE LOWER RIO GRANDE VALLEY
- Docket 14447: PETITION OF MCI TELECOMMUNICATIONS CORPORATION FOR AN INVESTIGATION OF THE PRACTICES OF SOUTHWESTERN BELL TELEPHONE COMPANY REGARDING THE EXHAUSTION OF TELEPHONE NUMBERS IN THE 214 NUMBERING PLAN AREA AND REQUEST FOR A CEASE AND DESIST ORDER AGAINST SOUTHWESTERN BELL TELEPHONE COMPANY

## **WHOLESALE SERVICES: Pricing and Provisioning**

**MCI Telecommunications Corporation**

**August 21, 1996**

## WHOLESALE SERVICES: Pricing and Provisioning

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## WHOLESALE SERVICES: Pricing and Provisioning

This White Paper addresses several key wholesale service pricing and provisioning policy issues that must be resolved in the context of arbitrations under the Communications Act of 1996. The paper has been prepared jointly by the MCI policy expert witnesses listed in Appendix I. The major conclusions are as follows:

- An effective local resale market is essential to development of full facilities based local competition.
- In addition to promoting facilities based competition, resale of local services provides independent benefits to consumers through retail competition.
- In order to capture all of these benefits, all local telecommunications services must be made available for resale at discounts that fully reflect avoidable costs.
- Wholesale services must not be provisioned in ways that discourage entry by resellers or unreasonably raise their costs.
- An avoided cost study must reflect the jurisdictional allocation of expenses.
- The appropriate resale discounts should be set on a state specific basis where the data allow, and at the Regional Company level otherwise.
- The discounts range from approximately 19 to 27 percent at the Regional Company level.

Section I summarizes federal legislative and regulatory requirements. Section II discusses the necessary conditions of an effective resale policy. Section III describes the avoided cost model employed here. The conclusions are in Section IV.

### I. LEGISLATIVE AND REGULATORY REQUIREMENTS

The Telecommunications Act of 1996 ("1996 Act") is designed to bring competition to local telecommunications markets. The 1996 Act recognizes that simply

removing legal barriers to entry is insufficient to allow competition to evolve. A number of procompetitive steps are necessary and explicitly required by the 1996 Act. For example, every incumbent local exchange carrier ("ILEC") is required to provide requesting telecommunications carriers: (1) interconnection to its network; (2) access to its unbundled network elements; (3) physical collocation for interconnection or access to unbundled elements, and (4) retail telecommunications services for resale at wholesale prices (rates). Economic barriers to entry into local telephone markets will be reduced substantially with an effective resale policy. In other words, resale of all retail telecommunications services at wholesale rates is necessary to the development of local competition.

The 1996 Act imposes a duty upon ILECs to offer certain services for resale at wholesale rates. Specifically, Section 251(c)(4) requires ILECs:

- (A) to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers; and
- (B) not to prohibit, and not to impose unreasonable or discriminatory conditions or limitations on, the resale of such telecommunications services, except that a state commission may, consistent with regulations prescribed by the Commission under this section, prohibit a reseller that obtains at wholesale rates a telecommunications service that is available at retail only to a category of subscribers from offering such service to a different category of subscribers.

Further, The 1996 Act also provides guidance on the determination of wholesale prices for telecommunications services. Section 252(d)(3) states that:

For the purposes of Section 251(c)(4), a state commission shall determine

wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier.

These statutory requirements are clear and concise. As described below, they are not only consistent with, they are essential to, the development of local competition.

The Federal Communications Commission ("FCC") recently released its First Report and order in CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, issued August 8, 1996 ("251 Order"). The 251 Order addresses the need for resale competition stating that:

Resale will be an important entry strategy for many new entrants, especially in the short term when they are building their own facilities. Further, in some areas and for some new entrants, we expect that the resale option will remain an important entry strategy over the longer term. Resale will also be an important entry strategy for small businesses that may lack capital to compete in the local exchange market by purchasing unbundled elements or by building their own networks. In light of the strategic importance of resale to the development of competition, we conclude that it is especially important to promulgate national rules for use by state commissions in setting wholesale rates. (251 Order, Para. 907).

The Order establishes ". . . a minimum set of criteria for avoided cost studies used to determine wholesale discount rates." (para. 909) Sections 605-617 of part 51 of the FCC Rules set forth the FCC's methodology. These Rules are attached as Appendix II. Beyond the minimum criteria, the FCC allows states ". . . broad latitude in selecting costing methodologies that comport with their own ratemaking practices for retail services." (para. 910) States are allowed to select interim "default" rates from

within a range prescribed by the FCC if an avoided cost study such as the one presented here is not available. (See FCC Rules Section 51.611.)

The methodology described here follows the approach suggested by the FCC. However, it is appropriate to account for the jurisdictional nature of some of the expenses that are avoided when ILECs no longer perform the retail function. The necessary adjustments are described in Section III.D below. As discussed below, these adjustments are consistent with state rate making practices and therefore comply with the express desire of the FCC to provide latitude to states.

## II. NECESSARY CONDITIONS FOR EFFECTIVE RESALE

There are several conditions necessary for an effective local resale market. In general, the price of wholesale services must be reasonably related to the cost of providing the service and the wholesale services must be offered on reasonable terms and conditions. The specific conditions necessary for effective resale are discussed below.

### A. Wholesale Rates Must Not Include ILEC Retailing Costs

Retail competition will provide consumer benefits. If ILECs are allowed to charge excessive wholesale service prices, competition will be thwarted. In any market, resellers or retailers require a margin between the retail price and the wholesale price sufficient to allow recovery of their expenses, including a reasonable profit. The FCC points out that:

There has been considerable debate on the record in this proceeding and before the state commissions on whether section 252(d)(3) embodies an “avoided” cost standard or an “avoidable” cost standard. We find that “the portion [of the retail rate] . . . attributable to costs that will be avoided” includes all of the costs that the LEC incurs in maintaining a retail, as opposed to a wholesale, business. In other words, the avoided costs are those that an incumbent LEC would no longer incur if it were to cease retail operations and instead provide all of its services through resellers. Thus, we reject the arguments of incumbent LECs and others who maintain that the LEC must actually experience a reduction in its operating expenses for a cost to be considered “avoided” for purposes of section 252(d)(3). We do not believe that Congress intended to allow incumbent LECs to sustain artificially high wholesale prices by declining to reduce their expenditures to the degree that certain costs are readily avoidable. We therefore interpret the 1996 Act as requiring states to make an objective assessment of what costs are reasonably avoidable when a LEC sells its services wholesale. We note that Colorado, Georgia, Illinois, New York, and Ohio commissions have all interpreted the 1996 Act in this manner. (251 Order, Para. 911).

If avoided costs are estimated correctly, and then subtracted from retail prices, efficient resellers should be able to succeed in the retail market.

**B. All Retail Services Must Be Offered at a Discount**

All of the telecommunications services offered to end-users must be made available to resellers at a wholesale discount.<sup>1</sup> This includes Centrex, optional plans, grandfathered services, promotions and contract services.<sup>2</sup> All ILEC retail services are

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<sup>1</sup> Retail competitors may wish to resell services such as Voice Mail and Inside Wire. These services would likely be made available at avoided cost if the wholesale market were competitive.

<sup>2</sup> All contract services must be available for resale. This includes government and state agency contracts as well as any “umbrella” contract that allows other entities to participate and obtain the benefits of a master contract.

at least partial substitutes for one another.<sup>3</sup> Therefore, absent this requirement, ILECs will be able to discriminate against resellers by making offers to customers that their retail competitors are unable to match.

Ancillary services must also be made available for resale. This includes custom calling services, CLASS features, and all Centrex features.<sup>4</sup> While some of these features may not be regulated, depending on the state jurisdiction or the jurisdictional nature of the service, they are all telecommunications services. If some features are not discounted, the ILECs' reseller competitors effectively will be denied the opportunity to market to a significant group of customers because the lack of a discount on these features will reduce reseller margins to inadequate levels.

Several state Commissions have already addressed the need for identifying services available for resale and the need for unrestricted resale. Several of these decisions are described in the FCC's 251 Order. (See paras. 898-906.)

The FCC's Rules also require promotions to be offered at a discount in certain circumstances. (See Section 51.613(a)(2).) Granting exceptions to the requirement that all services be made available at wholesale discounts may lead to abuse. States should be alert to this possibility and be prepared to take corrective action against ILECs that abuse the exceptions.

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<sup>3</sup> The FCC Rules permit states to restrict "cross-class" selling. See Section 51.613(a)(1).

<sup>4</sup> These services are marketed by different names in different telephone company service areas.

C. **Service Quality and Adequate Wholesale-Reseller Interfaces Must be Maintained**

The FCC has ruled that ILECs must provide resale services to competitors under the same terms and conditions it enjoys itself. It is crucial to a successful resale plan that interfaces between the ILEC's operations support systems and resellers' systems are adequate to allow the reseller to provide service to its customers efficiently. The Commission must also ensure that ILECs offer resellers the same quality service they provide to themselves and their own retail customers. To accomplish this, ILECs must implement systems and procedures that permit the ordering and use of wholesale services under the same timetables available to the ILEC. These systems must include:

- **Pre-Service Ordering Capabilities.** On-line access to all information needed to verify availability of services and features, scheduling of service installation, and number assignment.
- **On-Line, automated order processing.** Capability of transmitting customer orders to the switch office and provide the reseller with notice of confirmation and completion of its order. Competitively-neutral long distance and local presubscribed carrier administration processes must be implemented.
- **Exchange of billing data and exchange of customer account data on a timely basis.** This must be done on a confidential basis.
- **On-Line Monitoring.** Monitor the network, isolate trouble spots, perform network tests, and schedule reports.
- **Service quality reports.** Documenting service quality ILECs provide themselves compared to the service they provide to others.

All of these requirements are consistent with the Commission's finding that "... service made available for resale be at least equal in quality to that provided by the incumbent

LEC to itself or to any subsidiary, affiliate, or any other party . . . ” (FCC Order, para. 970).

**D. Branding Is an Important Element of Resale Competition**

Resellers require carrier-specific branding for all customer contacts. Customers naturally expect services to be provisioned, serviced and maintained by their carrier of choice, regardless of whether the service is actually provided by another carrier through a resale arrangement. Customer confusion will be significantly diminished if the customer does not perceive that resold services are actually provided by another carrier.

Customers would experience concern, confusion and dissatisfaction when placing a bill inquiry, a directory assistance call, or an operator service call to their provider of choice if they are greeted with the name of their old telephone company. Customers may even conclude that they have been “slammed.” State Commissions must ensure that resale of all ILEC retail services occurs with the least amount of customer confusion possible. Branding will minimize customer confusion with respect to resold ILEC services.

In a resale environment, differentiation of the underlying product is virtually impossible. Competitors must rely upon other factors to win customer loyalty. Superior customer service, simplified billing, and innovative pricing will provide the only opportunities to differentiate products from the underlying network provider. Without the ability to brand all resold LEC services, reseller efforts to provide superior customer



services are diluted. Brand dilution makes the investment in these new service or billing innovations more difficult to justify.

A uniform branding standard will also reduce customer confusion as the industry moves into an unbundled environment. For example, as competitors develop their own operator services capabilities, the change in the provider of this service will be transparent to the customer.

In sum, when the end user selects a local reseller it is important that they can clearly identify their service provider and its brand. Without a clear brand image the customer could face uncertainty when using directory or operator services. Such clarity can only be achieved by: (1) making reasonably available to local service resellers the ability to brand their service at all points of customer-contact; and (2) barring the incumbent LEC from unreasonably interfering with such branding. As the FCC points out, "this brand identification is critical to reseller attempts to compete with incumbent LECs and will minimize customer confusion." (251 Order, para. 971)

### III. SETTING WHOLESALE RATES -- PRACTICE

The FCC's Order establishes minimum criteria for the avoided cost methodology based broadly on the MCI study. Essentially, the costs in certain FCC Part 32 Uniform System of Accounts ("USOA") accounts are identified as directly avoided while costs in other accounts are treated as indirectly avoided. The avoided indirect costs are

calculated by determining the ratio of directly avoided costs to total costs and then applying that proportion to the accounts containing indirectly avoided costs.

A. Directly Avoided Costs

The following specific accounts from the USOA are directly avoided (see Code of Federal Regulations, Title 47, Telecommunication, Part 32):

Account 6611: Product management - This account includes costs incurred in performing administrative activities related to marketing products and services. This includes competitive analysis, product and service identification and specification, test market planning, demand forecasting, product life cycle analysis, pricing analysis, and identification and establishment of distribution channels. This account is one of the ILECs' marketing costs, which are expressly listed as avoided by the 1996 Act. Product management is a function specifically tied to determining the market demand for retail sales, which the ILEC will offer in competition with the purchaser of wholesale services. Purchasers of wholesale service from the ILECs should not be required to subsidize the ILECs' costs of competing with them.

Account 6612: Sales - This account includes costs incurred in selling products and services. This includes determination of individual customer needs, development and presentation of customer proposals, sales order preparation and handling, and preparation of sales records. In contrast, carriers seeking to resell an ILEC service will simply order the service on a wholesale basis - no ILEC sales resources are required.

Account 6613: Product advertising - This account includes costs incurred in developing and implementing promotional strategies to stimulate the purchase of products and services, but excludes non-product-related advertising, such as corporate image, stock and bond issue and employment advertisement, which are included in the appropriate functional accounts. This is another of the Marketing expenses specifically excluded by the 1996 Act. As in the case of Sales and Product Management costs, Product Advertising is a function that is required to make retail sales, and is therefore avoided if the ILEC sells a wholesale service.

**Account 6621: Call completion services -** This account includes costs incurred in helping customers place and complete calls, except directory assistance. This includes handling and recording, intercept, quoting rates, time and charges; and all other activities involved in the manual handling of calls. These expenses are incurred to serve the retail customers of the ILEC. Competing ILECs will either provide this service themselves or contract for it separately with the ILEC or some other service provider. In either case, the costs recorded in this account should not be bundled into the wholesale rate.

**Account 6622: Number services -** This account includes costs incurred in providing customer number and classified listings. This includes preparing or purchasing, compiling, and disseminating those listings through directory assistance or other means. As with Account 6621, a purchaser of the ILECs' wholesale services will either purchase this separately from the ILEC or some other provider, or provide this service itself. In either case, the costs recorded in this account should not be bundled into the wholesale rate.

**Account 6623: Customer services -**

- (a) This account includes costs incurred in establishing and servicing customer accounts. This includes:
  - (1) Initiating customer service orders and records;
  - (2) Maintaining and billing customer accounts;
  - (3) Collecting and investigating customer accounts, including collecting revenues, reporting receipts, administering collection treatment, and handling contacts with customers regarding adjustments of bills;
  - (4) Collecting and reporting pay station receipts; and
  - (5) Instructing customers in the use of products and services.
  
- b) This account also includes amounts paid by interexchange carriers or other exchange carriers to another exchange carrier for billing and collection services.

**B. Indirectly Avoided Costs**

Within the USOA there are a number of expense accounts that are either common costs or general overhead. By definition, overhead costs support all other functions, including those that are avoided, such as marketing. For example, the Human Resources department incurs expenditures in the staffing of the marketing department. As marketing expenses are avoided, so are the expenses incurred in supporting marketing. Therefore, the portion of these expense items equal to the proportion of direct avoided costs to total expense is excluded as an avoided cost. Consistent with the FCC's paragraph 918, account 5301 rather than 6790 is used to calculate the avoided uncollectible revenues.

The following USOA accounts include common costs or general overhead which support marketing and customer service operations:

- 6120 - General Support
- 6711 - Executive
- 6712 - Planning
- 6721 - Accounting and finance
- 6723 - Human resources
- 6724 - Information management
- 6725 - Legal
- 6726 - Procurement
- 6728 - Other general and administrative, and
- 5301 - Uncollectibles

Expenses in these accounts are, at least, partially avoidable.

**C. Wholesaling Costs**

While the ILECs will avoid substantial costs when they provide wholesale services, they will incur a small amount of incremental expenses to service the

accounts of the resellers. However, these costs will be quite small. The ILECs already are set-up to perform the wholesaling function because they provide wholesale-like functions to interexchange carriers ("IXCs") and Enhanced Service Providers ("ESPs"). The incremental cost of providing these services to resellers of wholesale local exchange service should be minimal. The FCC addresses this issue by treating only 90 percent of the costs in certain of the directly avoided categories as avoided for purposes of setting default discounts. Specifically, the FCC determined that 90 percent of accounts 6610, and 6623 would be avoided, while 100 percent of accounts 6621 and 6622 would be avoided.

The FCC approach is very conservative. For example, Account 6623 (Customer Services) records the cost of setting up and billing end user accounts. The purchaser of wholesale services will be providing this service to its own end users. Any cost of billing the purchaser of wholesale services, who will be billed for many end user lines, will be minuscule in comparison with the cost of billing each of those individual lines separately. Billing retail customers requires setting up accounts and billing individual customers. Wholesale customers, on the other hand, will be fewer in number, and are more acquainted with billing processes, thus enabling them to be served at much lower cost. Although there may be some minor Customer Services costs incurred by ILECs to provide wholesale services, those costs are so small that they could reasonably be completely excluded as avoided costs. Nevertheless, MCI has followed the approach

used by the FCC for calculating default discounts and retained a portion of the expenses in these accounts in the wholesale rate.

D. Jurisdictional Issues

The FCC approach divides total avoided costs by total expenses on a “subject to separations” basis. That is, both interstate and intrastate costs were included. MCI’s original model used this approach. However, this study uses the original MCI model, as modified by the FCC, using ARMIS 43-04 data on state operations, rather than the Subject to Separations data in the original study.

The services to be resold are largely intrastate. The FCC has specifically concluded that even though access charges will not be moved to economic cost until after a transition period, interstate access services will not be subject to the wholesale discount. (paras. 873-874) Therefore, it is necessary for consistency to calculate the appropriate wholesale discount by dividing total avoided ARMIS intrastate costs by the total intrastate expenses for services that will be resold. Absent this modification, both the numerator and the denominator of the discount calculation will include expenses allocated to services that will not be resold. The necessary revision can be done with the aid of ARMIS Report 43-04, which breaks down the relevant costs on a jurisdictional basis.<sup>5</sup>

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<sup>5</sup> Most of the interstate costs in the “directly avoided” ARMIS accounts will be avoided by ILECs selling local services at wholesale. That some of these costs appear in interstate accounts is an artifact of the separations process. Therefore, it would be appropriate to add interstate expenses in these accounts to the numerator of

**E. Results**

Having identified the accounts that can be fully or partially associated with retailing functions that the ILEC will not perform, the next step is to quantify the actual savings and produce a percentage discount. The results on a holding company basis are shown below.<sup>6</sup>

Wholesale Pricing Discount Model								
Summary, 1991 - 1995, 1996 Estimate								
Year	Ameritech	Bell Atlantic	BellSouth	NYNEX	Pac Tel	South-western Bell	U S West	GTE*
1991	21.6%	18.4%	21.6%	20.3%	22.4%	21.1%	18.9%	19.0%
1992	23.1%	21.4%	22.2%	21.3%	24.5%	20.4%	20.9%	18.7%
1993	24.5%	22.3%	22.8%	21.9%	26.0%	22.5%	20.9%	19.1%
1994	25.3%	22.0%	22.8%	21.4%	26.1%	21.9%	20.7%	19.4%
1995	27.4%	22.0%	22.3%	22.9%	25.6%	21.6%	20.8%	19.3%
1996E	29.1%	23.1%	22.5%	23.6%	26.5%	21.7%	21.3%	19.3%

Appendix III shows the spreadsheet model that produces these discounts. The 1996 estimate is based on the trend over time.

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the discount calculation. This study does not take this step in recognition of the fact that complex jurisdictional issues are raised thereby. MCI will modify its wholesale discount studies if the FCC rules on this issue.

<sup>6</sup> GTE data are for California, Texas, Florida, and Washington only. There are data missing for one state for Bell Atlantic in 1991 and BellSouth and US West in 1992.

F. Application of Discounts

Discounts should be developed and applied on a uniform basis to promote consistency and simplify the process. The wholesale discount as calculated in this study for each ILEC should be applied to each of the telecommunications services offered at wholesale rates. The published information ARMIS Report 43-04 data provide a sufficient basis for an aggregate discount across all services. These data are broadly consistent across ILECs and are reported in a format that is familiar. Service by service data are much harder to come by. Even if more detailed information were publicly available on a product-by-product basis, the consistency of the information would be questionable due to the numerous allocations and assumptions the ILEC would have to make to develop the product-specific information. While the FCC Rules do not rule out service-specific discounts, requiring the ILEC to provide such detailed information on a product-by-product basis would be an administrative burden for the ILECs and the responsible federal and state regulatory agencies. Moreover, the result would be highly debatable product by product discount levels.

The discount should also apply to each rate element. Any other basis provides opportunities for abuse. For example, applying the discount on revenue per minute for a service may penalize resellers whose sales by rate element are weighted differently than those of the ILEC or other resellers.



#### IV. CONCLUSION

Wholesale discounts are essential to the development of local competition. Adequate wholesale discounts will provide immediate consumer benefits by allowing retail competition to begin in advance of full facilities based competition. The methodology described here for developing these discounts is analytically correct and easy to administer.

Appendix I -- Sponsors

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## Appendix II -- Commission Resale Rules

### **§ 51.605 Additional obligations of incumbent local exchange carriers.**

(a) An incumbent LEC shall offer to any requesting telecommunications carrier any telecommunications service that the incumbent LEC offers on a retail basis to subscribers that are not telecommunications carriers for resale at wholesale rates that are at the election of the state commission--

(1) consistent with the avoided cost methodology described in §§ 51.607 and 51.609 of this part; or

(2) interim wholesale rates, pursuant to § 51.611 of this part,

(b) Except as provided in § 51.613 of this part, an incumbent LEC shall not impose restrictions on the resale by a requesting carrier of telecommunications services offered by the incumbent LEC.

### **§ 51.607 Wholesale pricing standard.**

(a) The wholesale rate that an incumbent LEC may charge for a telecommunications service provided for resale to other telecommunications carriers shall equal the incumbent LEC's existing retail rate for the telecommunications service, less avoided retail costs, as described in § 51.609 of this part.

(b) For purposes of this subpart, exchange access services, as defined in section 3 of the Act, shall not be considered to be telecommunications services that incumbent LECs must make available for resale at wholesale rates to requesting telecommunications carriers.

### **§ 51.609 Determination of avoided retail costs.**

(a) Except as provided in § 51.611 of this part, the amount of avoided retail costs shall be determined on the basis of a cost study that complies with the requirements of this section.

(b) Avoided retail costs shall be those costs that reasonably can be avoided when an incumbent LEC provides a telecommunications service for resale at wholesale rates to a requesting carrier.

(c) For incumbent LECs that are designated as Class A companies under § 32.11 of this chapter, except as provided in paragraph (d), avoided retail costs shall:

(1) include, as direct costs, the costs recorded in USOA accounts 6611 (product management), 6612 (sales), 6613 (product advertising), 6621 (call completion services), 6622 (number services), and 6623 (customer services) (§§ 32.6611, 32.6612, 32.6613, 32.6621, 32.6622, and 32.6623);

(2) include, as indirect costs, a portion of the costs recorded in USOA accounts 6121-6124 (general support expenses), 6612, 6711, 6721-6728 (corporate operations expenses), and 5301 (telecommunications uncollectibles) (§§ 32.6121-32.6124, 32.6612, 32.6711, 32.6721-32.6728, and 32.5301); and

(3) not include plant-specific expenses and plant non-specific expenses, other than general support expenses (§§ 32.6110-32.6116, 32.6210-32.6565).

(d) Costs included in accounts 6611-6613 and 6621-6623 described in paragraph (c) (§§ 32.6611-32.6613 and 32.6621-32.6623) may be included in wholesale rates only to the extent that the incumbent LEC proves to a state commission that specific costs in these accounts will be incurred and are not avoidable with respect to services sold at wholesale, or that specific costs in these accounts are not included in the retail prices of resold services. Costs included in accounts 6110-6116 and 6210-6565 described in paragraph (c) (§§ 32.6110-32.6116, 32.6210-32.6565) may be treated as avoided retail costs, and excluded from wholesale rates, only to the extent that a party proves to a state commission that specific costs in these accounts can reasonably be avoided when an incumbent LEC provides a telecommunications service for resale to a requesting carrier.

(e) For incumbent LECs that are designated as Class B companies under § 32.11 of this chapter and that record information in summary accounts instead of specific USOA accounts, the entire relevant summary accounts may be used in lieu of the specific USOA accounts listed in paragraphs (c) and (d).

#### **§ 51.611 Interim wholesale rates.**

(a) If a state commission cannot, based on the information available to it, establish a wholesale rate using the methodology prescribed in § 51.609 of this part, then the state commission may elect to establish an interim wholesale rate as described in paragraph (b) of this section.

(b) The state commission may establish interim wholesale rates that are at least 17 percent, and no more than 25 percent, below the incumbent LEC's existing retail rates, and shall articulate the basis for selecting a particular discount rate. The same discount percentage rate shall be used to establish interim wholesale rates for each telecommunications service.

(c) A state commission that establishes interim wholesale rates shall, within a reasonable period of time thereafter, establish wholesale rates on the basis of an avoided retail cost study that complies with § 51.609 of this part.

**§ 51.613 Restrictions on resale.**

(a) Notwithstanding § 51.605(b) of this part, the following types of restrictions on resale may be imposed:

(1) Cross-class selling. A state commission may permit an incumbent LEC to prohibit a requesting telecommunications carrier that purchases at wholesale rates for resale, telecommunications services that the incumbent LEC makes available only to residential customers or to a limited class of residential customers, from offering such services to classes of customers that are not eligible to subscribe to such services from the incumbent LEC.

(2) Short term promotions. An incumbent LEC shall apply the wholesale discount to the ordinary rate for a retail service rather than a special promotional rate only if:

- (A) such promotions involve rates that will be in effect for no more than 90 days; and
- (B) the incumbent LEC does not use such promotional offerings to evade the wholesale rate obligation, for example by making available a sequential series of 90-day promotional rates.

(b) With respect to any restrictions on resale not permitted under paragraph (a), an incumbent LEC may impose a restriction only if it proves to the state commission that the restriction is reasonable and nondiscriminatory.

(c) Branding. Where operator, call completion, or directory assistance service is part of the service or service package an incumbent LEC offers for resale, failure by an incumbent LEC to comply with reseller unbranding or rebranding requests shall constitute a restriction on resale.

(1) An incumbent LEC may impose such a restriction only if it proves to the state commission that the restriction is reasonable and nondiscriminatory, such as by proving to a state commission that the incumbent LEC lacks the capability to comply with unbranding or rebranding requests.

(2) For purposes of this subpart, unbranding or rebranding shall mean that operator, call completion, or directory assistance services are offered in such a

manner that an incumbent LEC's brand name or other identifying information is not identified to subscribers, or that such services are offered in such a manner that identifies to subscribers the requesting carrier's brand name or other identifying information.

**§ 51.615      Withdrawal of services.**

When an incumbent LEC makes a telecommunications service available only to a limited group of customers that have purchased such a service in the past, the incumbent LEC must also make such a service available at wholesale rates to requesting carriers to offer on a resale basis to the same limited group of customers that have purchased such a service in the past.

**§ 51.617      Assessment of end user common line charge on resellers.**

(a) Notwithstanding the provision in § 69.104(a) of this chapter that the end user common line charge be assessed upon end users, an incumbent LEC shall assess this charge, and the charge for changing the designated primary interexchange carrier, upon requesting carriers that purchase telephone exchange service for resale. The specific end user common line charge to be assessed will depend upon the identity of the end user served by the requesting carrier.

(b) When an incumbent LEC provides telephone exchange service to a requesting carrier at wholesale rates for resale, the incumbent LEC shall continue to assess the interstate access charges provided in part 69, other than the end user common line charge, upon interexchange carriers that use the incumbent LEC's facilities to provide interstate or international telecommunications services to the interexchange carriers' subscribers.

### Appendix III -- Spreadsheet Model

The simple spreadsheet model used to calculate the discounts is illustrated below. The example chosen is Bell Atlantic -- DC. The row number comes from the appropriate ARMIS Report. The 19.46 factor is the ratio between total directly avoided expenses and total expenses.

	ARMIS Row Number	USOA Account	Row Name	
1	4040	5301	Uncollectible36/69	5,663
2			% Avoided	19.46%
3			\$ Avoided	1,102
4	4050	Total Revenues	TotRevsUnc36/69	343,358
5	5000	6110	NetworkSupp36/69	138
6			% Avoided	0.00%
7			\$ Avoided	0
8	5010	6120	GeneralSupp36/69	27,915
9			% Avoided	19.46%
10			\$ Avoided	5,431
11	5026	6210+6220+6230	TotCOExp36/69	16,826
12			% Avoided	0.00%
13			\$ Avoided	0
14	5042	6310	TotOthIOT36/69	7,668
15			% Avoided	0.00%
16			\$ Avoided	0
17	5076	6410	TotC&WExp36/69	10,388
18			% Avoided	0.00%
19			\$ Avoided	0
20	6000	6510	OtherPP&E36/69	700
21			% Avoided	0.00%
22			\$ Avoided	0
23	6010	6530	NetworkOper36/69	29,098
24			% Avoided	0.00%
25			\$ Avoided	0
26	6012	6540	Access36/69	0
27			% Avoided	0.00%
28			\$ Avoided	0
29	6260	6560	TotDep/Amort36/69	77,493

	ARMIS Row Number	USOA Account	Row Name		
	30		% Avoided	0.00%	
	31		\$ Avoided	0	
	32	7000	6610	TotMkting36/69	16,227
	33		% Avoided	90.00%	
	34		\$ Avoided	14,604	
	35	7060	6621	TotTelOp36/69	10,700
	36		% Avoided	100.00%	
	37		\$ Avoided	10,700	
	38	7076	6622	TotPubDir36/69	2,057
	39		% Avoided	100.00%	
	40		\$ Avoided	2,057	
	41	7310	6623	TotOthCSvc36/69	28,832
	42		% Avoided	90.00%	
	43		\$ Avoided	25,949	
	44	7334	6710+6720	TotCorpOper36/69	40,305
	45		% Avoided	19.46%	
	46		\$ Avoided	7,842	
	a		Total State Revenues	343,358	
	b		Total Expenses	274,010	
	c		Total Avoided	67,684	
	d		% Direct Expenses Avoided	19.46%	
	e		<b>Wholesale Discount</b>	<b>24.70%</b>	



Exhibit \_\_\_\_\_ (DGP-3)  
Docket No. \_\_\_\_\_  
MCI/GTEFL Arbitration

**Wholesale Pricing Discount Model**  
**GTE, 1991 - 1995, 1996 Estimate**

<i>Year</i>	<i>GTE Total</i>	<i>California</i>	<i>Florida</i>	<i>Texas</i>	<i>Washington</i>
1991	19.01%	20.19%	19.50%	16.01%	16.19%
1992	18.71%	19.86%	17.39%	16.71%	19.14%
1993	19.09%	20.55%	17.33%	17.44%	18.40%
1994	19.42%	22.31%	18.04%	14.88%	16.96%
1995	19.25%	21.67%	17.68%	15.86%	16.63%
1996E	19.32%	22.06%	17.26%	15.82%	16.74%

## **REQUIREMENTS FOR LONG-TERM LOCAL NUMBER PORTABILITY**

### **Background**

Both Congress and the FCC have recognized that service provider portability -- the ability of end users to retain their telephone numbers when changing service providers -- is necessary to give customers flexibility in the quality, price, and variety of telecommunications services they can choose to purchase. Conversely, it has been shown that the lack of local number portability ("LNP") would likely deter entry by competitive carriers into local markets because of the value customers place on retaining their telephone numbers. Therefore, pursuant to Section 271(c)(2)(B)(xi) of the Act and rules recently established by the FCC in its Telephone Number Portability order, In the Matter of Telephone Number Portability, CC Docket No. 95-116, First Report and Order and Further Notice of Proposed Rulemaking, July 2, 1996, ("LNP Order"), all local exchange carriers ("LECs") are required to provide permanent LNP according to specific implementation guidelines.

In addition, until the implementation date established by the FCC, Section 271(c)(2)(B)(xi) of the Act requires each Bell Operating Company ("BOC") to provide interim local number portability ("ILNP") measures through remote call forwarding ("RCF"), direct inward dialing ("DID"), or other comparable arrangements, with as little impairment of functioning, quality, reliability and convenience as possible.

### Long Term Portability

#### 1. General Implementation Obligations

A state has the following responsibilities for ensuring the timely availability of a long-term LNP solution, i.e., one that does not impair quality, reliability, or convenience when switching from one carrier to another:

- (1) A state must adopt a number portability database architecture and implementation plan, consistent with the performance criteria established in the LNP Order.
- (2) A state must choose whether it will develop its own statewide number portability administration center ("NPAC") system (or participate in a regionally-deployed NPAC system), rather than participate in the regional NPAC database system to be designated by the North American Numbering Plan Council ("NANC").

#### 2. Arbitration Issues

MCI requests that the state Commission take the following steps with regard to implementation of a permanent LNP solution in the state:

- (1) If no number portability architecture has been selected by the Commission or carriers in the state, the Commission should immediately adopt the Location Routing Number ("LRN") solution as the only available number portability method which both meets all of the technical performance criteria set forth in the LNP Order, and can meet the mandated schedule.
- (2) The Commission should specifically conclude that portability methods such as Query on Release ("QOR"), which require carriers to rely on the networks of their competitors in order to route calls, are anticompetitive and contrary to the LNP Order, and should not be pursued by the incumbent LEC.
- (3) The Commission should direct the incumbent LEC, in cooperation with other carriers in the state, either to: (i) move forward with the formation of an

industry legal entity and preparation of a request for proposal ("RFP") to select a database administrator to develop a state-specific NPAC system for permanent LNP; or (ii) where possible, join with other states in the incumbent LEC's serving region in a regional NPAC vendor selection process.

Such state or regional efforts at this time will make it possible, but not necessary, for the state to "opt out" of the NANC-designated system at the appropriate time in the future (i.e., 60 days after the announcement of the NANC selections).

- (4) The Commission should direct the ILEC, in cooperation with other carriers participating in LNP in the state, to provide quarterly reports to the Commission identifying progress on specific implementation efforts, including: confirmation of necessary hardware/software order placement; vendor changes (if any) to availability dates; updates on formation of the industry contracting entity, RFP issuance, vendor selection, and contract negotiation; progress on operations support system issues; and participation in regularly-scheduled carrier LNP implementation meetings.