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Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
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Re: Docket No. 950737-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Metro Access
Transmission Services, Inc. in the above referenced docket
are the original and 15 copies of MCI's post-hearing brief.

Copies have been furnished to parties of record as
indicated on the attached service list.

Very truly yours,

Richard D. Melson

Richard D. Melson

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation into)
temporary local telephone number) Docket No. 950737-TP
portability solution to)
implement competition in local) Filed: November 6, 1995
exchange telephone markets)
_____)

MCI METRO ACCESS TRANSMISSION SERVICES, INC'S
POST-HEARING BRIEF

MCI Metro Access Transmission Services, Inc. (MCImetro) hereby submits its Post-Hearing Brief in the above-captioned docket.

EXECUTIVE SUMMARY

Number portability, or the ability of a customer to retain his or her telephone number at the same location when changing local exchange service providers, is an essential prerequisite to the development of a competitive local exchange telecommunications market. (Price T 254; Devine T 17, 25-56; Engleman T 208)

The Legislature recognized the importance of number portability in Section 364.16(4). That section requires the Commission to establish a temporary number portability mechanism no later than January 1, 1996, in the event the parties are unable to successfully negotiate the price, terms and conditions of a such a mechanism. It also requires that the prices and rates for number portability shall not be below cost.

The parties have entered into a stipulation, approved by the Commission, which resolved the non-price issues related to

temporary local number portability. Under that stipulation, the parties agreed that Remote Call Forwarding (RCF) should be implemented as one of the methods for providing temporary service provider number portability. RCF has serious technical disadvantages which make it inappropriate for a long-term number portability solution and which limit its usefulness as an interim mechanism. (Price T 243; Engleman T 210-12) In general, these disadvantages stem from the fact that RCF requires the local exchange company to remain in the calling path for every call to a customer who uses a "ported" number. (Price T 247; see Devine T 28)

It is impossible to overcome these technical disadvantages until a permanent data base number portability solution is designed and implemented. The Commission should therefore put the development of a permanent mechanism high on its list of priorities as it continues to oversee the transition to a competitive local telecommunications market.

In the interim, the price for RCF should be set in a way that does not compound the effect of the technical disadvantages, and that does not give the LECs additional incentives to frustrate or delay the development of a permanent number portability solution. (Price T 253-54) This goal can be accomplished by pricing RCF equal to the incremental direct cost of providing RCF for number portability purposes, and excluding from the price any contribution to the LECs' joint and common costs. (Price T 253-54) If the price did include such

contribution, it would create an economic barrier to entry in addition to the technical barriers that result from the RCF arrangement itself. (Engleman T 218-20, 230) Including contribution in the price would also increase the incentives for the LECs to delay the implementation of a permanent number portability mechanism. (Price T 254)

MCImetro agrees that if every service provided by a firm were priced at its incremental cost, then the joint and common costs of the firm would not be recovered. However, the issue of how much, if any, a particular service should contribute to joint and common costs is a pricing decision. In the situation presented in this case, where the LECs' joint and common costs are being fully recovered today from their existing menu of services (Price T 259), where Commission must establish a price for a bottleneck monopoly input that is essential to the success of the competitors' service (Price T 254), where the service to be priced is an inferior service that will be provided only temporarily until a satisfactory long-term solution can be found (Price T 247-48), and where the Commission is under a legislative mandate to promote the development of competition, good public policy permits and requires the cost for RCF to be set at its incremental cost.

While the LECs' cost studies in this case were flawed, it appears that a non-recurring charge of \$10 per order processed (regardless of the number of telephone numbers covered by the order), coupled with a recurring charge of \$1.00 per ported

number per month, would be sufficient to cover the LECs' incremental costs and would minimize the economic barriers to competitive entry. (Engleman T 215, 218-21, 230)

ISSUE BY ISSUE ANALYSIS

Issue 3. What are the advantages and disadvantages of each solution identified in Issue 2?

MCImetro: The primary advantage of RCF as a temporary mechanism is that it is fairly simple for the LECs to implement. The disadvantages are numerous and are summarized on Exhibit 7. Most of these deficiencies arise from the fact that the LEC will remain in the call processing path of every call to the ported customer.

The primary advantage of remote call forwarding as a temporary number portability mechanism is that it is fairly simple for the LECs to implement. This is important in light of the legislative mandate to have an interim mechanism in place by January 1, 1996.

RCF has numerous deficiencies which will put ALECs using RCF at a competitive disadvantage and which make it totally unsuitable for use on anything other than an interim basis. (Price T 243, 247-48) Most of these deficiencies stem from the fact that the incumbent LEC remains in the call processing path for every call to an ALEC customer. (Price T 247; see Devine T 28)

These deficiencies include:

- inefficient use of scarce numbering resources, since two directory numbers are required for each ported

number;

- the ALEC cannot offer its customers the same services that are available from a LEC, since some CLASS features are not available with RCF;
- customer confusion resulting from the fact that the number displayed in a caller ID or E911 environment will be different than the published number that the customer chose to retain when he or she changed service providers;
- additional call set-up time will be required for calls to ported numbers; and
- increased likelihood of blocking on calls to ALEC customers due to limitations in the number of RCF calls that a LEC switch can handle at a given time.

(Exhibit 7; Price T 247-48; Kolb T 54; Devine T 28; Engleman T 210-12)

These and other deficiencies will place ALECs at a competitive disadvantage in attempting to attract customers who desire to retain their existing telephone number. In fact, one could expect that the "superior quality" available from the incumbent LEC will be used as a marketing tool in the new competitive marketplace. (Price T 279-80)

Because RCF -- or any other non-data base approach to local number portability -- suffers from numerous problems, the Commission should become proactive in requiring industry members to design and implement a long-term number portability solution

without delay. As discussed in Issue 5, the proper pricing of RCF as an interim mechanism can avoid creating additional incentives for the incumbent LECs, who have nothing to gain from a true number portability solution, to frustrate or delay the implementation of a permanent mechanism.

Issue 4. What costs are associated with providing each solution identified in Issue 2?

MCImetro: The types of incremental direct costs fall into two categories, recurring and nonrecurring. The LEC cost studies, while flawed, suggest that the recurring costs of RCF are less than \$1.00 per ported number per month.

In attempting to determine the economic cost of providing RCF, one must examine the total service long-run incremental cost (TSLRIC) of providing RCF for number portability purposes. Under TSLRIC, only incremental costs directly attributable to the decision to offer the service being examined are considered. Shared costs that exist with or without the service are not properly included. (Price T 274)

There are two categories of costs associated with RCF. The first are the non-recurring costs associated with service order entry and with any incremental right-to-use fees associated solely with the offering of RCF as an interim number portability mechanism. The second are the recurring costs associated with the recovery of investment in the incremental equipment (e.g. line cards) used to provide RCF and with any incremental transport that may be required.

Each of the LECs presented information on these categories

of costs. Sprint/United/Centel presented information that purported to be prepared on a TSLRIC basis. It is important to note that the costs developed by Sprint on a TSLRIC basis were substantially below the costs it developed on an "average" basis. (See Confidential Exhibit 15) For example, Mr. Poag testified that the recurring monthly cost for RCF and one path was \$1.03 on an average basis. (Poag T 173) Yet he also testified that Time Warner's proposal to charge \$1.00 for RCF and two paths was above the cost of the service on a TSLRIC basis. (Poag T 175) That is because the "average" cost includes some contribution toward shared costs that are not appropriately included in a TSLRIC analysis. (See Poag T 175; Price T 274)

Southern Bell's cost study for RCF was not a TSLRIC analysis. For example, its recurring cost estimate of \$1.11 per month (Kolb T 57) included shared costs for land, buildings, and electricity, despite the fact that these costs are not caused by the decision to offer RCF for number portability purposes. (Kolb T 69-70, 87-88, 126) That estimate also included a 16% return on equity, which is well above the company's authorized rate of return. (Kolb T 91-92, 95) The study of costs for additional paths also allocated costs for switching equipment despite the fact there was no showing that RCF for number portability purposes would affect the amount of switching capacity required. (See Price T 265-67)

The nonrecurring cost estimate of \$24.84 (Kolb T 57) was similarly flawed. That estimate consisted of two components,

service order entry costs of \$18.49 and "right to use" fees which account for most of the balance. (Kolb T 123-24)

Southern Bell did not do a separate study of the service order entry costs associated with processing an order for RCF. Instead, it used a prior cost study of service order processing for business services as a surrogate for these costs. This is inappropriate, since a business order entry typically involves numerous services, not a single service such as RCF. (See Kolb T 66) In doing its study, Bell ignored the \$9 cost for residential service order entry, although a residential order typically involves fewer services than a business order and would therefore be more representative of the single-purpose order for RCF. (See Kolb T 124) The study also ignored the fact that order processing from ALECs is likely to be on a mechanized basis, in which case costs would be lower than those used in the analysis. (Kolb T 107-08)

The right-to-use fees included in the nonrecurring charge also appear to be overstated. The bulk of these charges relate to right-to-use fees for the 5ESS switches, in which a single license fee is paid on a per-line basis for a bundle of services. (Kolb T 74-75) Since each ALEC customer who obtains a ported number from Southern Bell will previously have been a Bell customer, in most cases this license fee will already have been recovered through rates the customer paid for vertical services while he was still a Bell customer. (See Kolb 77-80, 88)

GTEFL's cost study showed a monthly recurring cost of \$1.11

for the first line and \$0.50 for additional lines. (Menard T 142-43) The additional line cost is suspect, since it includes the same amount for "usage/transport" as does the first line, despite the fact that in the call waiting situation, the use of the second path would typically be much less than the use of the first path. (Ex. 13 at 6; Engleman, T 220)

In a case where the LECs have the burden of proving the level of costs that must be recovered in developing a price for RCF, their use of flawed cost studies should be taken into account in evaluating their claims that particular price levels do or do not recover their costs.

Issue 5. How should the costs identified in Issue 4 be recovered?

*****MCImetro:** These costs should be recovered through a nonrecurring service order charge and a recurring monthly charge for each ported number associated with a directory listing. These charges should equal the incremental direct cost and should not include any contribution toward joint and common costs.***

The LECs' costs should be recovered through charges equal to the incremental direct cost of providing RCF for local number portability purposes. Those charges should not include any contribution toward joint and common costs. (Price T 253-54; Guedel T 295-96; Devine T 43)

There are several reasons that such a pricing approach is good public policy in this case:

First, one of the Commission's responsibilities under the new telecommunications statute is to take steps to promote the

development of local exchange competition. Given customers' strong preference for retaining their existing telephone number, local number portability is an essential element of the ALECs ability to compete in the local marketplace. (Devine T 20-23) As discussed in Issue 3, RCF has a number of technical deficiencies which make it a poor vehicle for providing local number portability and which give the LECs an inherent competitive advantage. In that situation, the Commission should ensure that its pricing decision does not do anything to increase the LECs' competitive position. Because local number portability is a benefit to all customers, not just customers of the ALECs (see Kolb T 81-82), the best public policy would be either for each company to recover its own costs from its own customers or to spread the costs of RCF among all customers of both the LECs and ALECs. (Price T 250-52; Devine T 31-34) However, the legislature has restricted the Commission's policy choices by requiring that the price for a temporary local number portability mechanism must cover the LECs' costs. Thus the next best solution is to establish a price which covers those costs, and no more. This minimizes the barriers to entry and appropriately balances the statutory mandate for cost recovery against the mandate to encourage local competition. (See Price T 253-54; Guedel T 287, 295-96)

Second, RCF is a bottleneck monopoly input that is required for ALECs to provide a competitive local telecommunications service. (Price T 254, 259, 268, 276-77; see Devine T 17, 43) If

this service is priced above its cost, then ALECs and their retail customers will have to support not only 100% of the ALECs' shared costs, but also a portion of their competitors' shared costs. (Price T 259, 271) Since those shared costs are being recovered today through the LECs' existing rates, there is no need to create additional revenue in the form of a new ALEC contribution to those shared costs. (Price T 259) While placing some of those shared costs on the ALECs would in theory enable the LECs to reduce the prices of other services, there is no mechanism in the new price-regulation environment for the Commission to ensure that any such reductions take place. Thus a LEC would be free to leave all prices at their current levels, and earn excess profits, or to target reductions to competitive services and maintain artificially high prices on monopoly services. Allowing a LEC to shift its shared costs to its competitors also shields the LEC from the competitive pressures that it would otherwise face to reduce prices toward cost and to increase its efficiency. In this situation, the best public policy is to encourage competition by keeping the price of competitive entry as low as possible, and letting the resulting competitive marketplace put pressure on the LECs to increase their efficiency and reduce their retail prices. (See Price T 269-70; Guedel T 301-03)

Third, the LECs have little incentive to design and implement a permanent local number portability solution, since such a solution will place their competitors on a more level

playing field. To the extent that RCF is a "profitable" service for the LECs to provide, their incentive to frustrate or delay a long-term solution is increased. (Price T 254)

The LECs have argued that RCF should not be priced at TSLRIC because every firm must recover its shared costs and a firm cannot sustain itself if it is required to price all its services at TSLRIC. (E.g. Poag T 167-70) However, the issue in this case is not the policy for pricing all LEC services. The issue is limited to the appropriate price for a new bottleneck monopoly service which is designed to be short-lived and which is being introduced into an environment where the LECs' shared costs are being fully recovered from existing services. For the reasons discussed above, pricing at TSLRIC is fully appropriate in this unique situation.

While the LEC cost studies do not definitively establish the TSLRIC cost of providing RCF, it appears that the LECs' costs could be recovered through a nonrecurring service order charge of \$10.00 per order and a recurring monthly charge of \$1.00 per ported number, with either no charge or a charge of \$0.50 or less for additional paths. (Engleman T 221; Price T 283) The record shows that prices at this level would be consistent with the development of competition, while the higher charges recommended by GTEFL and Southern Bell would in fact be anti-competitive. (Engleman T 215, 218-21, 230)

Issue 8. Should the docket be closed?

MCImetro: No. This docket should remain open to resolve any implementation issues, to resolve any issues regarding the use of alternative interim portability mechanisms, and to develop a long-term solution for true service provider local number portability.

Based on experience in other states, the Commission can reasonably anticipate that there may be implementation issues that need to be resolved surrounding the interim number portability mechanism. (Devine T 39)

In addition, the Commission could best promote the development of local competition by becoming proactive in efforts to encourage the industry to design and implement a long-term database solution to number portability. (Engleman T 223)

It is appropriate to leave this docket open for both purposes.

RESPECTFULLY SUBMITTED this 6th day of November, 1995.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following by U.S. Mail this 6th day of November, 1995,

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