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MCI

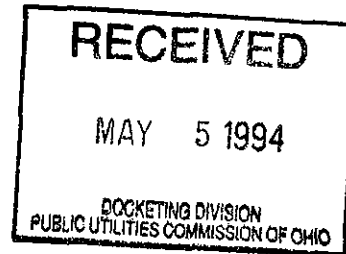
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Douglas W. Trabaris
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VIA FEDERAL EXPRESS

May 4, 1994



Mrs. Daisy Crockron
Chief, Docketing Department
PUBLIC UTILITIES COMMISSION OF OHIO
180 E. Broad Street, 10th Floor
Columbus, OH 43266-0573

RE: Case Nos. 93-487-TP-ALT & 93-576-TP-CSS

Dear Mrs. Crockron:

Enclosed please find the original and thirteen (13) copies of the Testimony of Don A. Laub and Dennis L. Ricca on behalf of MCI Telecommunications Corporation in the above-referenced case.

We would appreciate acknowledgement of receipt of this document. An additional copy along with a self-addressed stamped envelope is enclosed. Would you please date stamp the copy and return it to MCI.

If you have any questions, please contact me.

Sincerely,

A handwritten signature in cursive script that reads "Doug Trabaris".

Douglas W. Trabaris
Senior Attorney

Enclosure

cc: Service List

In the Matter of the Application
of the Ohio Bell Telephone Company
for approval of an alternative
form of regulation.

In the Matter of the Complaint of
the Office of the Consumers'
Counsel,

Complainant,

v.

Ohio Bell Telephone Company

Respondent,

Relative to the Alleged Unjust and
Unreasonable Rates and Charges.

Case No. 93-487-TP-ALT

Case No. 93-576-TP-CSS

RECEIVED

MAY 5 1993

TO: ALL PARTIES OF RECORD

PLEASE TAKE NOTICE that we have this day mailed to the Chief of Docketing, Department of the Public Utilities Commission of Ohio, 180 E. Broad Street, 10th Floor, Columbus, Ohio, 43266, the attached Testimony of Don A. Laub and Dennis L. Ricca on behalf of MCI Telecommunications Corporation which is served upon you on May 4, 1994.


Douglas W. Trabaris
Senior Attorney

I hereby certify that a copy of the foregoing Testimony of Don A. Laub and Dennis L. Ricca on behalf of MCI Telecommunications Corporation has been duly served upon the parties listed on the attached service list by U.S. Mail, First Class, postage prepaid, this 4th day of May, 1994.


Douglas W. Trabaris
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BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application
of the Ohio Bell Telephone Company
for approval of an alternative form of
regulation.

)
)
) Case No. 93-487-TP-ALT
)
)

In the matter of the Complaint of
the Office of Consumers' Counsel,

Complainant,

v.

)
)
) Case No. 93-576-TP-CSS
)
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Ohio Bell Telephone Company

Respondent,

Relative to the Alleged Unjust and
Unreasonable Rates and Charges

TESTIMONY OF

DON A. LAUB ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION

May 4, 1994

1 **Q. Please state your name, title, and business address.**

2 **A. My name is Don A. Laub. I am a Manager in the State**
3 **Regulatory and Governmental Affairs Department of MCI**
4 **Telecommunications Corporation (MCI). My address is 1801**
5 **Pennsylvania Avenue, NW, Washington, DC, 20006.**

6
7 **Q. Please describe your qualifications.**

8
9 **A. I was the principal of a consulting firm, Laub and Associates,**
10 **from October 1992 through September 1993. The firm provided**
11 **testimony and analysis in telecommunications policy. I**
12 **started the firm after having been employed by the Public**
13 **Utility Commission of Texas from February 1984 until October**
14 **1992. The last position I held at the Texas PUC was Assistant**
15 **Director for Economic and Policy Analysis in the Commission's**
16 **Telephone Utility Analysis Division. My section was**
17 **responsible for analyses of market power and entry, pricing,**
18 **cost analysis, and incentive regulation. Additionally, the**
19 **section was primarily responsible for the direction of the**
20 **PUC's telecommunications policy as codified by the**
21 **Commission's Substantive Rules.**

22
23 **I received a Bachelor of Arts in Economics from the University**
24 **of Oklahoma in 1980. I completed the course requirements for**
25 **a Master of Arts in Economics from the University of Texas at**
26 **Austin in May 1984.**

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1 **Q. What is the purpose of your testimony?**

2
3 **A. I will respond to Ohio Bell Telephone Company/Ameritech of**
4 **Ohio's ("Ameritech") alternative regulation proposal and to**
5 **the Public Utilities Commission of Ohio ("Commission") Staff**
6 **Report relating to the proposal. More specifically, I will**
7 **present MCI's view of the alternative regulation and the**
8 **policies that should accompany the adoption of an alternative**
9 **regulation plan. Additionally, I will recommend that the**
10 **Commission adopt certain policies regardless of the type of**
11 **regulation to which Ameritech is subject.**

12
13 **ALTERNATIVE REGULATION AND POLICY OBJECTIVES**

14
15 **Q. How should the regulators of telecommunications markets**
16 **approach proposals for alternatives to traditional regulation?**

17
18 **A. Regulators should determine exactly what policy goals would be**
19 **achieved by virtue of the adoption of alternative forms of**
20 **regulation. Certainly, the policy goal of traditional**
21 **regulation is well-known: achieving universal service by the**
22 **application of fair rates that yield a reasonable return on**
23 **the company's investment.**

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1 The goals of non-traditional forms of regulation have not been
2 so clearly articulated. In this proceeding, Ameritech has
3 justified its proposal in the context of three desirable
4 characteristics: a regulatory environment that is "better"
5 than the states with which Ohio competes for jobs; a
6 regulatory environment that is "flexible" in that it can
7 accommodate anticipated, but somehow unforeseeable, change;
8 and a regulatory environment that relies on incentives rather
9 than administration.

10
11 These may or may not be desirable policy objectives. While I
12 will not discuss their merits, Ameritech's desiderata fail to
13 get to the point of the its request: Ameritech has proposed
14 that the Commission surrender its jurisdiction over the rate
15 of return that it earns; additionally, Ameritech argues that
16 the threat of competition, real or imagined, should yield
17 pricing flexibility for those services. In return, Ameritech
18 promises that it will increase the rates of its monopoly
19 services only by as much as the rate of inflation less some
20 estimate of the extent to which it's productivity has exceeded
21 that of the general economy.

22
23 In its evaluation of the proposed plan, the Commission should
24 determine what it believes to be appropriate public policy

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1 responses--not only to the changes in the telecommunications
2 industry, but to the nature of the relief that Ameritech is
3 seeking.

4
5 Ameritech has predicated its proposal on the rapid
6 technological and institutional changes that are occurring in
7 the telecommunications industry. These changes are
8 inextricably linked: carrying more digits faster and adding
9 value to the customer lead to the enhanced prospect of
10 competition.

11
12 While technological progress has hastened the development of
13 an increasingly competitive interexchange interLATA market,
14 technological progress was not sufficient to yield effective
15 intraLATA competition. The robust competition in interLATA
16 markets owes its existence to the very active roles taken by
17 the Federal and State governments. Government action will be
18 even more essential for effective local competition as the
19 local monopoly bottleneck still exists. As such, the
20 Commission should aim its policy toward eliminating
21 Ameritech's ability and incentive to leverage its monopoly
22 control of the bottleneck into competitive markets. As long
23 as Ameritech retains the ability to leverage its control of
24 essential facilities, it's monopoly ratepayers and it's

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potential competitors will be harmed.

Q. Would you describe some of the principles associated with eliminating Ameritech's ability to use its bottleneck facilities in an anti-competitive manner?

A. These principles include the following:

1) the competitors of Ameritech should be able to provide services that allow their customers to use the same dialing patterns in the use of the service as it's own customers use for that service¹;

2) Ameritech's network should be unbundled into the most granular components that could be useful to a customer and feasibly tariffed, so as to enable the Commission

A) to identify more readily the cost of the network components and of the services they are used to provide,

B) to determine which of these components are subject to effective competition and which are not, and

¹See the testimony of MCI witness Dennis Ricca for his application of this principle to intraLATA toll. It should be noted, however, that dialing parity is essential to ensuring that effective competition exists in the market for any service.

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1 C) to ensure that the prices for monopoly
2 components do not subsidize the provision of
3 competitive components, and to ensure that the
4 monopoly components are not priced in a
5 discriminatory manner;

6 3) the prices of Ameritech's services should recover the
7 rates charged to its competitors for the use of essential
8 facilities in the competitors' provision of the service;

9 4) effective interconnection arrangements must be
10 available at any technically feasible interface;

11 5) prohibitions of resale or sharing of Ameritech's
12 services and facilities must be eliminated;

13 6) customers can subscribe to the services of their
14 preferred local carrier without changing telephone
15 numbers;

16 7) competitive local carrier switches are integrated
17 seamlessly and transparently into the incumbent local
18 exchange carrier's network routing;

19 8) state law prohibits exclusivity of franchises,
20 requires the setting of equitable franchise fees, and
21 mandates non-discriminatory access to all structures,
22 conduits, and rights-of-way for all local carriers; and

23 9) universal service is protected in a manner consistent
24 with incentives for efficient behavior and in a manner

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1 that is competitively neutral with respect to the
2 assessment, collection, and distribution of necessary
3 subsidies.

4 MCI believes that the adoption and rigorous implementation of
5 these principles are necessary for the creation of effective
6 local and intraLATA competition.

7
8 **Q. Does MCI argue that the adoption of all of these principles is**
9 **necessary for the adoption of any alternative regulation**
10 **program?**

11
12 **A. MCI believes that local exchange carriers should receive as**
13 **much regulatory relief as is appropriate in the context of the**
14 **principles listed above. These principles are absolutely**
15 **necessary for effective local competition; to the extent that**
16 **Ameritech does not conform with these principles, there is**
17 **less justification for regulatory relief. However, MCI**
18 **strenuously opposes any alternative regulation proposal that**
19 **does not include:**

20 intraLATA dialing parity between Ameritech and its
21 potential competitors that desire such parity;
22 extensive unbundling of monopoly network functions in
23 conjunction with the application of a rigorous cost
24 determination standard; and

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1 appropriate imputation standards.

2 Our opposition extends to competitive classification of
3 services or the provision of volume or term discounts in the
4 absence of appropriate costing and imputation requirements.
5 Without the determination of costs at the level of the network
6 functions, or without rigorous imputation standards, the
7 relaxation of regulatory restraints could allow Ameritech to
8 leverage market power into more competitive markets.

9 **UNBUNDLING**

10
11 **Q. Why is unbundling essential to the public's interest in a more**
12 **competitive environment for the local exchange?**

13
14 **A. Bundling is a strategy by which a monopolist can leverage its**
15 **market power into services that would otherwise be**
16 **competitive. As a result, the monopolist's customers cannot**
17 **escape the effects of the market power, i.e., prices in excess**
18 **of competitive levels, regardless of the presence of**
19 **ostensible competitors. The monopolist simply ties the**
20 **customer's purchase of essential facilities or services to**
21 **those that are non-essential.**

22
23 For instance, a local exchange carrier ("LEC") that bundled
24 the components of its network that are used to provide access

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1 would be in a position to require an interexchange carrier
2 ("IXC") to purchase local transport regardless of whether
3 there are alternatives to LEC transport.
4

5 Q. In describing unbundling earlier, you recommended that
6 Ameritech's network be unbundled into the smallest level of
7 network components that may be feasibly tariffed and offered
8 as a service. How does that serve to reduce Ameritech's
9 ability to use its bottleneck facilities to its competitive
10 advantage?
11

12 A. Generally, as I noted earlier, unbundling allows a ready
13 determination that prices for network components are neither
14 discriminatory nor serving as a source or recipient of
15 subsidy. Once the components are identified, the cost of
16 providing each of the components can be determined. Having
17 determined the cost of each component, the Commission may
18 establish non-discriminatory prices for each monopoly
19 component. Moreover, the unbundling of the network allows the
20 Commission to determine more readily that competitive services
21 are not being subsidized.
22

23 Q. How should the Commission approach the issue of costing the
24 components?

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1

2 A. Actually, the Commission's current rules call for the
3 application of a long run service incremental cost (LRSIC)
4 test. The Commission's rules define LRSIC as "...the cost for
5 a new or existing product that is equal to the per unit cost
6 of increasing the volume of production from zero to a
7 specified level, while holding all other product and service
8 volumes constant..." We advocate the use of a very similar
9 test. MCI proposes that the LRSIC be calculated for each
10 basic network function assuming the function is provided using
11 the least-cost technology available for the provision of the
12 function being analyzed; additionally, the cost should be
13 determined as that which occurs as a result of increasing the
14 volume of production from zero to the entire quantity of the
15 component or service provided.

16

17

18 Q. How would that assist the Commission in the detection of
19 cross-subsidy?

20

21 A. Once the cost of each network function is determined, the
22 provision of the function is not subsidized if its price
23 exceeds its incremental cost. When Ameritech offers a bundled
24 set of functions as a service, the service is not subsidized

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1 when its price recovers the incremental cost of each of the
2 functions plus any service-specific cost, e.g., advertising
3 for a centrex service.²

4
5 **Q. How does unbundling assist the Commission in establishing non-**
6 **discriminatory rates?**

7
8 **A. Since our proposed costing methodology would determine the**
9 cost of the network component rather than the cost of the
10 service, Commission could ensure that any user of a monopoly
11 component, including the monopolist, pay the same rate for the
12 use of that component as any other customer. By approaching
13 the pricing from this perspective, Commission could guarantee
14 that pricing was non-discriminatory with respect to customers
15 and with respect to different uses of the same network
16 components.

17
18 **Q. Would Ameritech have to tariff all of its unbundled network**
19 **components?**

20 ²This analysis assumes that there are no costs that are
21 associated with the provision of a group of related network
22 functions. In other words, there may be costs associated with the
23 provision of two separate functions that would not be included in
24 the incremental cost of either function. In that instance, the
25 pricing of these services would be subsidy-free if the revenues
26 from the sale of both functions exceed the sum of incremental costs
27 by at least the amount of the "shared" cost. Commission's rules
28 recognize this problem by requiring its "joint cost" test.

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1 A. Ameritech would tariff its monopoly (i.e., basic) components.
2 While Ameritech would be required to demonstrate that the
3 prices for its competitive offerings recovered their
4 incremental cost, there is no need to offer those components
5 on an unbundled basis. Again, however, where those services
6 include bundled monopoly components, the monopoly components
7 must be available on an unbundled basis. Additionally, the
8 calculation of the incremental cost for the competitive
9 offering must include the tariffed rates for those monopoly
10 components.

11
12 Q. The Commission Staff recommended the unbundling of Ameritech's
13 local exchange services. Is your recommendation consistent
14 with Staff's?

15
16 A. The Commission Staff recognizes that unbundling is necessary
17 to ensure that customers may purchase only those functions
18 that are necessary. MCI vigorously supports the Commission
19 staff recommendation.

20
21 MCI, however, advocates a more extensive unbundling of the
22 Ameritech's network functions. Moreover, the unbundling
23 should be accompanied by the determination of the costs
24 associated with the provision of each granular network

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1 function. Beyond the determination of cost for each network
2 function, MCI's view of cost is conceptually similar to that
3 expressed by Ameritech witness Currie with respect to shared
4 cost. However, MCI's view is not limited to costs shared by
5 services; rather, LECs incur costs that are shared by groups
6 of functions as well as by groups of services.

7
8 Estimating these costs from the bottom up allows the
9 Commission to establish a rigorous test for the detection of
10 cross-subsidy and price discrimination, it also allows the
11 Commission to determine the magnitude of Ameritech's
12 inefficiencies and overvalued plant.

13
14 **IMPUTATION**

15
16 **Q. Section XII (A) (4) of the Commission's Rules establishes a**
17 **price floor for new services or for services for which the**
18 **company requests classification as other than Cell 1. How is**
19 **the price floor defined?**

20
21 **A. Generally, the floor is defined as LRSIC. However, there are**
22 **exceptions to a LRSIC floor. When a LEC uses a "wholesale"**
23 **service as an input to the provision of a "retail" service,**
24 **the price floor for the "retail" service includes an**

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1 adjustment to LRSIC to reflect the tariffed rates of the
2 "wholesale" service. Essentially, this adjustment prevents
3 Ameritech's from pricing competitive services at or below the
4 cost it imposes on its competitors for the use of its
5 essential facilities. Of course, if Ameritech is not subject
6 to a rigorous pricing standard, pricing below "wholesale" as
7 described above would deter the entry of potential competitors
8 and hasten the exit of the companies that might currently
9 compete with Ameritech.

10
11 **Q. Ameritech witness Currie has discussed imputation. Have you**
12 **evaluated his position?**

13
14 **A.** Yes. While I do not disagree with much of his discussion, I
15 disagree rather strenuously with his conclusion. Dr. Currie's
16 discussion centers on the (assumed) presence of economies of
17 integration. Given the assumption, then imputation would
18 account for the cost difference associated with the provision
19 of functions as an intermediate service as opposed to the
20 provision of the functions as a final product.

21
22 Essentially, Ameritech is asking the Commission to buy, sight
23 unseen, the assumption that there are economies of
24 integration. The assumption cannot be tested without the

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1 adoption and application of a rigorous unbundling requirement.
2 For example, if an Ameritech competitor must purchase sets of
3 bundled functions to provide service, Ameritech is capable of
4 eluding the proper price floor test. If, for example, an IXC
5 is forced to pay access charges that include two assessments
6 for transport, the IXC will face access costs that are greater
7 than those used to calculate Ameritech's toll price floor.
8 Ameritech argues that this reflects the presence of economies
9 of integration; rather, it reflects Ameritech's ability to
10 impose non-economic costs upon its competitors.

11
12 **Q. Are you implying that imputation should ignore economies of**
13 **integration?**

14
15 **A.** The solution to the incorporation of real economies of
16 integration is to ensure that the tariffed rate for each of
17 the network functions that are essential to Ameritech's
18 competitors is imputed into Ameritech's rate for the "final"
19 service. All other things equal, a monopoly network function
20 does not cost more to provide to a competitor than it costs to
21 provide for Ameritech's "downstream" use. However, Ameritech
22 could be expected to exhibit relative efficiencies in the
23 provision of those functions that may be subject to some
24 competition. If so, Ameritech should enjoy the benefits of

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1 its efficiency. Ameritech, however, should not enjoy
2 competitive advantage on the basis of assumed efficiencies,
3 nor on its ability to leverage its market power into
4 downstream markets through bundling network functions.

5
6 Additionally, the calculation of the price floor should be
7 performed as if Ameritech were purchasing those essential
8 functions under the same terms and conditions as they are made
9 available to any competitor.

10
11 Therefore, The Commission should require Ameritech to recover
12 the rates that it imposes on interexchange carriers for every
13 minute of interexchange traffic it carries--including measured
14 Extended Area Service and optional calling plans--plus any
15 costs associated specifically with the service or the discount
16 plans.

17
18 **INTERCONNECTION**

19 **Q. What is the intent of directing Ameritech to allow its**
20 **competitors to interconnect with Ameritech facilities?**

21
22 **A. In conjunction with unbundling Ameritech's network functions,**
23 **interconnection drives toward eliminating the physical**
24 **bottleneck as a source of market power. Together with**

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1 unbundling, a customer or competitor can determine exactly
2 those functions that may be purchased more economically from
3 the company and those which may be provided more efficiently
4 by another source.

5
6 To date, the Federal Communications Commission ("FCC") and
7 many state commissions have ordered interconnection to create
8 the opportunity for meaningful competition in transport.
9 However, there will be no realistic prospect for effective
10 local competition until LECs are required to broaden
11 interconnection beyond local transport or cellular
12 interconnection. The promise of truly open local network
13 architectures will not come to pass if the idea of open
14 networks is embodied by the tariffs that the LECs filed
15 pursuant to the FCC's Open Network Architecture orders.

16
17 **Q. How would you proceed with interconnection?**

18
19 **A.** As a start, The Commission should direct Ameritech to file
20 interconnection tariffs for switched and dedicated access that
21 mirror those for interstate traffic. Additionally, the
22 Commission should investigate a broader opening of the local
23 network in a proceeding akin to the FCC's ONA investigation.
24 However, The Commission should look beyond interconnection at

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1 physical interfaces. In the context of the FCC's ONA
2 proceedings, several LECs, including Ameritech, offered a more
3 advanced concept of open networks. The concepts that these
4 LECs proposed has come to be known as the Advanced
5 Intelligent Network, or AIN. The proposals raised the issue
6 of the extent of the LEC bottleneck. While the physical
7 bottleneck has been the primary target of pro-competitive
8 policies, AIN has raised the issue of the presence of a
9 "logical" bottleneck. Rather than limit the examination to
10 interconnection at physical interfaces in the LEC network, the
11 investigation should also extend to interconnection at logical
12 network interfaces.

13
14 **THE ELIMINATION OF RESALE RESTRICTIONS**

15
16 **Q. What is the policy basis for eliminating resale restrictions?**

17
18 **A.** The ability to resell a service eliminates the potential for
19 price discrimination among customers of the service. When one
20 views a service as the bundling of various network functions,
21 clearly many of the services that Ameritech offers are based
22 upon pricing identical uses of network functions in a
23 discriminatory manner.
24

TESTIMONY OF DON A. LAUB
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1 Q. Commission Staff proposes the amendment of Ameritech's current
2 restrictions on the resale of centrex service. Have you
3 evaluated the staff proposal?

4 A. Yes. MCI fully supports Staff's recommendations with respect
5 to resale and sharing of centrex.
6

7 Q. Staff has also recommended the unbundling of local loops for
8 the purposes of allowing resale. Have you evaluated this
9 proposal?

10 A. As I noted above, MCI supports the unbundling of local loops
11 so as to accommodate the potential for local competition.
12 Staff's recommendation represents a significant move toward
13 the possibility of effective local competition. However,
14 Staff's recommendation that residential loops should be made
15 available for resale at business line rates would slow some of
16 that progress.
17

18 MCI argues that, since Ameritech asserts that rates for
19 residential loops recover cost in Access Area B, there is no
20 significant policy basis for setting a higher price for these
21 loops when they are available for resale. To the extent that
22 universal service concerns constitute the basis for the
23 proposed rates, I will address these concerns in the context
24 of MCI's universal service policy initiative.

TESTIMONY OF DON A. LAUB
MCI EXHIBIT 2.0

1 **LOCAL COMPETITION**

2
3 **Q. Staff has proposed a number of initiatives designed to**
4 **correspond to the nature of the relief Ameritech has**
5 **requested. Have you analyzed Staff's proposals?**

6
7 **A. Yes. Besides the unbundling of local loop, Staff has**
8 **recommended that the Commission investigate the possibility of**
9 **administering the assignment of telephone numbers, or NXXs,**
10 **through an entity independent of Ameritech or its potential**
11 **competitors; that Ameritech engage in trials to determine the**
12 **demand for number portability; and that Ameritech propose**
13 **tariffs to establish compensation rates for terminating an**
14 **alternative carrier's local traffic.**

15
16 Staff has clearly identified several issues that are critical
17 to the potential of effective local competition. These issues
18 should be fully explored before Ameritech obtains the extent
19 of the relief that it has requested in this proceeding. MCI
20 proposes the opening of a proceeding directed precisely toward
21 the development of an evidentiary record sufficient to allow
22 The Commission to determine the policy response to the
23 potential development of local competition. Certainly, The
24 Staff accurately identified several of the barriers to local

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1 competition. The local competition docket should eliminate
2 those barriers.

3
4 **MCI'S UNIVERSAL SERVICE POLICY INITIATIVE**

5
6 **Q. Please describe MCI's universal service policy initiative.**

7
8 **A.** MCI proposes an approach to ensuring universal service that is
9 consistent with the potential for local competition and with
10 the efficiency objectives cited by Ameritech. MCI's proposal
11 incorporates much of the preceding analysis to ensure that
12 local exchange carriers, incumbent providers and potential
13 entrants, are provided the incentive to be as efficient as
14 possible while ensuring that traditional universal service
15 policy objectives are attained.

16
17 The key elements to the MCI proposal include issues discussed
18 above: unbundling, the application of the appropriate LRSIC
19 standard and the application of an appropriate imputation
20 requirement. Together, these proposals constitute MCI's
21 Building Blocks proposal, which is integral to our alternative
22 view of universal service policy.

TESTIMONY OF DON A. LAUB
MCI EXHIBIT 2.0

1 Q. How does MCI's approach to universal service differ from
2 current policy?

3 A. Historically, LECs price some services substantially above
4 incremental cost. Ostensibly, the additional revenues make up
5 the difference for services that do not recover their cost--
6 i.e., basic local service. However, it is not at all clear
7 that the excess revenues are used merely to support local
8 rates. As Ameritech has admitted in this proceeding, local
9 rates for businesses exceed cost, and the rates for many
10 residential subscribers are compensatory as well. Moreover,
11 LEC profits and cash flows have been substantial. In fact
12 part of the cash flow is attributable to the LECs' overvalued
13 plant.

14
15 Since the subsidy is internal, the magnitude of the subsidy
16 that is actually used to keep local rates down is
17 extraordinarily difficult to quantify. Additionally, since
18 the amount of the subsidy required to provide universal
19 service is unknown, it is impossible to separate the LECs'
20 actual subsidy to basic service from the LECs collection of
21 monopoly profits. Finally, the LECs do not pay any of the
22 subsidy. The "bill" is presented to its monopoly ratepayers
23 and to the LECs' potential competitors (in the form of access
24 charges).

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1 MCI advocates the application of six principles in moving
2 toward a universal service policy that is consistent with
3 enhancing potential local competition:

- 4 1) The service(s) targeted to receive subsidy must be
5 clearly identified;
- 6 2) The amount of the desired subsidy must be determined;
- 7 3) The funding for the subsidy must be generated in a
8 competitively neutral way;
- 9 4) The funding for the subsidy must be distributed in a
10 provider-neutral way;
- 11 5) The measures described earlier in my testimony--
12 unbundling and strong anti-discrimination measures--must
13 be adopted; and
- 14 6) No area will lose telephone service.

15
16 MCI proposes that the service to be targeted for subsidy
17 include dial tone, local usage, touch-tone, 911 service, White
18 Pages listing, access to directory and operator assistance,
19 and single-party service.

20
21 The application of Building Blocks will enable regulators to
22 determine the magnitude of the subsidy actually required to
23 provide these services at this rate. It will also enable the
24 regulator to determine the degree of the LEC's inefficiency.

**TESTIMONY OF DON A. LAUB
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1 **Q. How would MCI's proposal provide incentives to provide the**
2 **service in an efficient manner?**

3
4 **A. First, the amount of the required subsidy is identified before**
5 **any carrier receives the subsidy. For example, if Ameritech**
6 **demonstrates that it costs \$25 per month to provide basic**
7 **service, and its revenue is \$18 per month, it would receive \$7**
8 **per month in subsidy. Any carrier providing the same basic**
9 **service in the exchange would be eligible for the \$7 subsidy.**
10 **The most efficient provider would be able to reflect its**
11 **relative cost efficiencies in the rates charged to the end**
12 **user.**

13
14 To achieve these objectives, the subsidy must be collected in
15 a manner that does not discriminate among providers of
16 telecommunications services. MCI proposes that each provider--
17 -incumbent LECs and new entrants, interexchange carriers,
18 competitive access providers, etc.--should contribute a
19 percentage of its revenues earned from switching and
20 transmission, netting out any payments made to other carriers.

21
22 **Q. How would MCI approach carrier of last resort questions?**

23
24 **A. MCI proposes that existing providers may want to abandon areas**

**TESTIMONY OF DON A. LAUB
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1 that they serve. Should this occur, the exchange could be
2 auctioned. Carriers would "bid" the level of subsidy per line
3 at which they would be willing to serve all customers in the
4 exchange. The winner of the auction would be the carrier with
5 the lowest amount of subsidy required.

6
7 **Q. Does MCI's proposal extend to "advanced" services?**

8 **A.** Yes. MCI believes that if services that are more "advanced"
9 than basic service are to be subsidized, a similar approach is
10 warranted. The Commission should determine exactly what kind
11 of digital connectivity is desired on a ubiquitous basis. As
12 with MCI's basic service proposal, the amount of the subsidy
13 should be determined based on the incremental cost of the
14 advanced services. MCI advocates that the pool from which the
15 subsidy is drawn should be substantially larger, and should
16 include information service providers, computer manufacturers,
17 and software providers as well as telecommunications
18 providers.

19
20 **Q. Please summarize your testimony.**

21
22 **A.** MCI believes that Ameritech should not receive the regulatory
23 relief it has requested without the application of rigorous
24 costing standards applied to an unbundled network. Prices for

**TESTIMONY OF DON A. LAUB
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1 any service that is arguably competitive, including any
2 switched minute of interexchange traffic, should recover the
3 price that is charged to Ameritech's competitors for the use
4 of essential facilities, in addition to costs that are
5 incurred as a result of the provision of the service.

6
7 In addition, MCI commends the Staff for its recommendations
8 relating to the elimination of the barriers to effective local
9 competition. The Commission should examine a broad range of
10 issues in its consideration of the policy steps that are
11 necessary to creating an environment in which effective local
12 competition can exist. Finally, in the context of creating
13 that environment, MCI urges the examination of our universal
14 service policy proposals.

15
16 **Q. Does this conclude your testimony.**

17
18 **A. Yes, it does.**
19

BEFORE

THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application	)	
of the Ohio Bell Telephone Company	)	Case No. 93-487-TP-ALT
for approval of an alternative form of	)	
regulation.	)	
	)	
In the matter of the Complaint of	)	
the Office of Consumers' Counsel,	)	
	)	
Complainant,	)	
	)	
v.	)	Case No. 93-576-TP-CSS
	)	
Ohio Bell Telephone Company	)	
	)	
Respondent,	)	
	)	
Relative to the Alleged Unjust and	)	
Unreasonable Rates and Charges	)	

TESTIMONY OF

DENNIS L. RICCA ON BEHALF OF

MCI TELECOMMUNICATIONS CORPORATION

BEFORE
THE PUBLIC UTILITIES COMMISSION OF OHIO

In the Matter of the Application
of the Ohio Bell Telephone Company
for approval of an alternative form of
regulation.

In the matter of the Complaint of
the Office of Consumers' Counsel,

Complainant,

v.

Ohio Bell Telephone Company

Respondent,

Relative to the Alleged Unjust and
Unreasonable Rates and Charges

Case No. 93-487-TP-ALT

Case No. 93-576-TP-CSS

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MAY 5 1994

BOOKETING DIVISION
PUBLIC UTILITIES COMMISSION OF OHIO

TESTIMONY OF DENNIS L. RICCA ON BEHALF OF
MCI TELECOMMUNICATIONS CORPORATION
MCI EXHIBIT NO. 1.0

I. WITNESS INTRODUCTION

1 Q. PLEASE STATE YOUR NAME, BY WHOM YOU ARE EMPLOYED, YOUR BUSINESS
2 ADDRESS AND YOUR POSITION.

3 A. My name is Dennis L. Ricca. I am employed by MCI
4 Telecommunications Corporation ("MCI"). My business address
5 is 205 N. Michigan Ave, Suite 3700, Chicago, Illinois 60601.
6 I am a Senior Manager for Regulatory and Legislative Affairs
7 for the Central Region of MCI.

8 Q. WILL YOU BRIEFLY STATE YOUR EDUCATIONAL BACKGROUND?

9 A. I received a Masters of Science Degree in Mathematics from the
10 University of Northern Iowa in 1979 and a Bachelor of Science

1 Degree from Western Illinois University in 1972.

2 Q. PLEASE STATE YOUR PREVIOUS WORK EXPERIENCE IN THE AREA OF
3 TELECOMMUNICATIONS.

4 A. I began working for Telecom*USA (then known as Teleconnect
5 Company, and later as Teleconnect Long Distance Services and
6 Systems Company) in August, 1983, as a Technical Training
7 Coordinator. My responsibilities included developing a
8 curriculum for and training new Customer Service
9 Representatives and their technical support staff.
10 Additionally, I was responsible for coordinating technical
11 training programs for switch technicians, switch database
12 personnel, and traffic engineers. I also coordinated
13 management training seminars for the operations and
14 engineering departments. By October of 1983, I spent almost
15 one-half of my time analyzing the initial access tariffs filed
16 with the FCC. In December of 1984, I began working full time
17 as a Regulatory Analyst. In August of 1986 I was promoted to
18 Manager of Regulatory Affairs, and in August of 1988 I was
19 promoted to Director of Regulatory Affairs for Telecom*USA.
20 In August, 1990 the purchase of Telecom*USA by MCI
21 Communications was completed. I was transferred to my present
22 position in October, 1990.

23 Q. WHAT ARE YOUR PRESENT RESPONSIBILITIES?

1 A. My major responsibilities are:

- 2 o Analysis of decisions issued by governmental regulatory
- 3 agencies to determine their effect on MCI.
- 4 o Analysis of filings and proposed tariffs to determine
- 5 their effect on MCI.
- 6 o Preparation and submission of various documents to be
- 7 transmitted to government agencies in the ten-state MCI
- 8 Central Region in response to government inquiries,
- 9 proposals and the tariff filings of other carriers.
- 10 o Advising key MCI personnel on public policy and
- 11 regulatory policy decisions.

12 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION?

13 A. Yes. In Case No. 88-452-TP-COI, the Commission's
14 investigation into COCOTS and their provision of DA service,
15 I provided comments and reply comments. In Case No. 89-563-
16 TP-COI, the Commission's Investigation into the Regulation of
17 IXCs, I co-authored MCI's reply comments submitted to the
18 Commission in 1993. I appeared before the Commission in July
19 of 1993 to present a brief overview of the competitiveness of
20 the interexchange market and the differences between local
21 exchange carriers ("LECs") who also provide interexchange
22 service and non-LEC interexchange carriers (IXCs).

23 Q. HAVE YOU PREVIOUSLY APPEARED BEFORE ANY OTHER COMMISSIONS?

1 A. Yes. I have provided as MCI Exhibit 1.1 to this testimony a
2 complete list of testimonies and formal comments submitted to
3 various state public utility commissions.

4 II. PURPOSE

5 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

6 A. The purpose of my testimony is to reply to the testimony of
7 Mr. Richard A. Brown and Dr. Robert G. Harris on behalf of
8 Ohio Bell Telephone Company (hereafter referred to as Ohio
9 Bell, OBT or Ameritech Ohio) and to provide a view of the
10 competitiveness of the local and intraLATA toll market from
11 the perspective of an IXC. I will show that the plan proposed
12 by Ohio Bell for the flexible regulation of its intraLATA toll
13 and local service: (1) is not in the public interest; (2) is
14 inconsistent with the protection of consumers and in ensuring
15 that the rates they pay are minimized; (3) provides for no
16 increase in competition and therefore does not encourage
17 innovation not promote diversity and options in the supply of
18 telecommunications services; (4) that continuation of the
19 status quo as it relates to intraLATA dialing procedures
20 renders the access provided by OBT unfairly discriminatory;
21 (5) that it does not foster development of prudent investment
22 by telecommunications firms in the infrastructure of the
23 state; (6) that ratepayers will not benefit from the plan; (7)
24 that the quality and availability of telecommunications

1 services will be degraded, and; (8) that the plan to continue
2 the status quo with respect to dialing parity will unduly or
3 unreasonably prejudice or disadvantage MCI and other
4 telecommunications interexchange carriers.

5 To remedy these plan deficiencies I will show that any
6 proposal for streamlined regulation of intraLATA toll cannot
7 be approved unless and until this Commission orders the
8 implementation of intraLATA equal access (dialing parity)
9 consistent with this testimony and also consistent with the
10 general recommendation in the PUCO Staff Report of
11 Investigation ("Staff Report") at pages 77-79.

12 In support of the above statements, I will show that it is
13 technically and economically feasible to implement full 2-PIC
14 equal access within 12 months of the effective date of a
15 Commission order in this docket for all end offices in the
16 state that currently provided interLATA equal access. I will
17 show that each of the deficiencies I have outlined above are
18 addressed by adoption of this change to OBT's proposal.

19 III. DISCUSSION.

20 A. The OBT Plan Fails To Meet Public Interest Standards.

21 1. Background and Definitions.

22 Q. WOULD YOU BRIEFLY GIVE SOME BACKGROUND AND DEFINITIONS THAT

1 YOU WILL BE USING THROUGHOUT YOUR TESTIMONY?

2 A. Yes. I will start with a brief discussion of LATAs and define
3 other terms as I proceed with a brief look at the events
4 leading to this docket. LATA stands for Local Access and
5 Transport Area. The term came into existence at the break- up
6 of the Bell System into AT&T and the Regional Bell Operating
7 Companies ("BOCs") effective in 1984. This was the result of
8 a Consent Decree voluntarily entered into between the U. S.
9 Department of Justice and AT&T, and the BOCs and as
10 subsequently modified by the presiding District Court Judge,
11 Harold Greene. The decree is also referred to as the
12 Modification of Final Judgment, or MFJ. LATAs were initially
13 set around Standard Metropolitan Statistical Areas in such a
14 way as to insure that IXCs would be attracted to serve all
15 LATAs by virtue of the number of customers in each. The terms
16 of that decree also proscribed the BOCs from, inter alia,
17 providing telecommunications services that crossed LATA
18 boundaries (interLATA services). It is my opinion that the
19 court left the issue of intraLATA competition (competition
20 within the boundaries of the LATA) to the states.

21 Q. HOW MANY LATAs ARE THERE IN OHIO?

22 A. Eleven, but only eight are considered Ohio-based LATAs -the
23 Akron, Cincinnati, Cleveland, Columbus, Dayton, Mansfield
24 Toledo and Youngstown LATAs are the major LATAs in the state.

1 Several exchanges near the borders of the state are in the
2 Auburn/Huntington, Indiana LATA, the Richmond, Indiana LATA
3 and the Detroit, Michigan LATA. For purposes of illustration,
4 a call from Columbus (Columbus LATA) to Steubenville (Columbus
5 LATA) would be an intraLATA call. A call from Columbus
6 (Columbus LATA) to Marysville, (Mansfield LATA) would be an
7 interLATA call.

8 Q. HOW IS THE GENESIS OF LATAs RELEVANT TO THIS DOCKET?

9 A. Because of the size of the LATAs and the fact that Ohio Bell
10 strips off and carries all 0+, 1+ten-digit and seven-digit
11 dialed intraLATA calls originating in its territory, the
12 people of Ohio have been denied the benefits of competition
13 for a large percentage of their intrastate calls. I show
14 below that this lack of competition has negative implications
15 for consumers in the state. Given that many examples such as
16 the one above exist in which an intraLATA call travels a
17 greater distance than an interLATA call, consumers sometimes
18 find themselves confused about who their "long distance"
19 carrier really is. More important to this docket, the fact
20 that some LECs deny this type of access to MCI and other IXCs
21 creates unfair discrimination, unreasonable prejudice and
22 undue disadvantage against MCI and the other IXCs, granting an
23 unfair and unearned advantage to the LEC providing the
24 intraLATA toll service. This discrimination against other

IXCs denies any of the benefits that only competition provides to the consumers of intraLATA toll service in Ohio. Moreover, contrary to the testimonies of Mr. Brown and Dr. Harris, OBT is not entitled to any lessening of regulation oversight until such time as more competition is permitted to develop. As presently constituted, Ohio Bell's application does absolutely nothing to open its protected monopoly intraLATA market to effective competition. Unless and until effective competition is allowed, Ohio Bell's application is per se unacceptable and should be denied in full.

2. IntraLATA Equal Access: Some Preliminary Definitions.

Q. WOULD YOU PLEASE DESCRIBE WHAT YOU MEAN BY EQUAL ACCESS?

A. In the interLATA market, when an end office is converted to equal access, customers are provided an opportunity to presubscribe to an IXC for their interLATA toll traffic. Customers are notified of the availability of equal access in their particular area through the mailing of ballots. The first ballot is mailed at least 90 days prior to the availability of equal access. A letter and brochure explaining equal access and allocation, and an addressed return envelope, are included with the ballot. The ballot lists the names and telephone numbers of the IXCs participating in the balloting process for that end office.

1 If no response is received by return of the first ballot or by
2 a notification from an IXC that has been directly contacted by
3 an end user, a second ballot is mailed to the customer
4 approximately 45 days prior to the equal access conversion.
5 While similar to the first ballot, the second ballot contains
6 the name of the IXC to whom the end user will be allocated if
7 no indication of their choice has been received by the LEC.

8 Whether by choice or by allocation, customers are assigned to
9 an IXC to carry their 1+ interLATA toll traffic.
10 (Additionally, their 1+ directory assistance calls to other
11 area codes, their 0+ interLATA toll calls, their 00- calls,
12 their 1+700 calls and their international calls are also
13 routed to the IXC chosen on the ballot). A consumer assigned
14 to one IXC can still use the services of a second IXC by
15 dialing five additional digits at the beginning of the
16 dialing. These digits take the form of 10XXX, where XXX is a
17 unique three digit code assigned to a carrier. 10XXX can also
18 be used to access an IXC for intraLATA calling. The IXCs have
19 dialing parity among themselves in that all IXCs that
20 participate in the equal access process can provide interLATA
21 toll calling on a 1+ basis. There is no similar process
22 whereby customers may select a carrier other than their LEC to
23 carry their intraLATA toll traffic on a 1+ basis in Ameritech-
24 Ohio's service territory.

1 Q. WHAT TYPES OF CALLS WOULD BE GIVEN DIALING PARITY UNDER MCI'S
2 PROPOSAL FOR INTRALATA EQUAL ACCESS?

3 A. Types of calls that would receive dialing parity under
4 intraLATA equal access are 1+¹ intraLATA toll calls, 0+
5 intraLATA toll calls, and directory assistance calls using
6 (1)-555-1212 (intra area code). Calls that would remain de
7 facto LEC monopoly calls would be intraexchange calls,
8 operator-assisted intraexchange calls, 411, 911, 0- and flat-
9 rated EAS calls. All of these call routing responsibilities
10 are consistent with the North American Numbering Plan,
11 administered by Bellcore under the direction of the BOCs and
12 the Federal Communications Commission.

13 Q. WHAT ABOUT MEASURED EAS CALLS?

14 A. It is MCI's position that where measured EAS is implemented
15 between exchanges between which there is no true community of
16 interest, these exchanges must be subject to presubscription
17 as I defined it above. Moreover, Ameritech should be
18 required to show that the rates for its measured EAS service
19 pass a valid imputation test as discussed in the testimony of

20 ¹By 1995 the provision of intraLATA toll calls within the same
21 area code will be required to be on either a seven digit or 1+ten
22 digit basis (1+area code+telephone number) according to the North
23 american Numbering Plan. MCI has taken the position across the
24 United States that seven digit calls be reserved for calls inside
25 the basic local calling area and 1 + ten digit calls be required
26 outside the basic local calling area.

1 MCI witness Don Laub (MCI Exhibit 2.0). Where the rates of
2 the measured EAS service flunk an imputation test, MCI
3 recommends that carrier access rates be lowered to a point
4 that allows the measured EAS rates to pass the imputation
5 test. It is MCI's position that, going forward, intraLATA
6 equal access, not below-access and predatorily-priced measured
7 EAS, is the way to accomplish lower rates and increased
8 customer choice for residential and business consumers.

9 3. The Importance of Dialing Parity.

10 Q. WHY IS IT THAT YOU BELIEVE DIALING PARITY IS SO IMPORTANT TO
11 A COMPETITIVE MARKET?

12 A. Although limited competition is currently allowed in the
13 intraLATA market, that competition is not fair and open
14 competition. In that market and from locations served by Ohio
15 Bell, all competitors are equal....except that one is more
16 equal than the others. I refer, of course, to Ohio Bell,
17 which strips every toll call dialed on 1+ or 0+ intraLATA
18 basis, regardless of the customer's desire that this type of
19 call be handled by another carrier.

20 On an interLATA basis, most market observers agree that true
21 competition started when equal access (of the type and nature
22 previously given only to AT&T) was made available to the other
23 common carriers (OCCs). Prior to the advent of equal access,

1 the only form of access available to the OCCs required the
2 dialing by the customer of anywhere from 11 to 16 extra digits
3 with a tone producing telephone for every call. (This method
4 will be referred to hereafter as the non-equal access method.)
5 All 1+ and 0+ calls were routed to AT&T or the LEC.

6 So severe was the discrimination caused by the non-equal
7 access method that the FCC and this Commission set a 55
8 percent differential for this type of access when equal access
9 was not available at an end office. This differential allowed
10 IXC's to offer toll rates that were anywhere from 20 to 30
11 percent below those of the dominant interLATA carrier, AT&T.
12 Even with this type of cost savings available to consumers,
13 the OCCs were only able to gain approximately 10 percent of
14 the interLATA market. When most equal access first became
15 available (from mid 1985 until the end of 1986), the OCC
16 market share quickly climbed to approximately 20 percent and
17 has increased slowly since 1986 to its current approximate 35
18 percent level.

19 In my experience with Telecom*USA during equal access
20 conversions, Telecom*USA customer numbers in an exchange rose
21 anywhere from 20 percent to 130 percent as a result of the
22 equal access balloting. The wide variations were believed to
23 be related to the market penetration already achieved by

1 Telecom*USA prior to equal access. Thus, the experience
2 gained in the interLATA market strongly suggests that the
3 availability of equal access dialing parity is the sine qua
4 non of an open and fair competitive telecommunications toll
5 marketplace.

6 In my opinion, the importance of dialing parity was recognized
7 by Judge Greene and the U.S. Department of Justice when those
8 parties arrived at the Consent Decree with AT&T which, inter
9 alia, required interLATA equal access be provided by the BOCs
10 once the divestiture of the BOCs by AT&T was accomplished. I
11 believe it was recognized again by Judge Greene and the U.S.
12 Department of Justice in arriving at the GTE consent decree
13 which required the GTE Operating Companies (GTOCs) to provide
14 equal access in order that GTE might purchase Sprint from
15 Southern Pacific Railroad. In my opinion, it was recognized
16 by the FCC in its various orders outlining the provision of
17 equal access by all carriers, not just the BOCs and GTOCs. It
18 should also be recognized by this Commission as it decides on
19 the proper public interest standard that must be met by Ohio
20 Bell before OBT is granted any rate flexibility for its toll
21 services.

22 Q. ARE THERE OTHERS WHO AGREE WITH YOU THAT LACK OF DIALING
23 PARITY IS A SIGNIFICANT OBSTACLE TO A COMPETITIVE INTRALATA

1 TOLL MARKET?

2 A. Yes. The lack of dialing parity and presubscription between
3 LECs and IXCs is a fundamental and substantial barrier to the
4 development of effective competition in the intraLATA market.
5 Additionally, a National Regulatory Research Institute (NRRI)
6 publication said the following regarding the lack of intraLATA
7 equal access.

8 The most significant barrier to successful
9 entry is the lack of equal access. The AT&T
10 divestiture required the installation of equal
11 access facilities for interstate toll access
12 services, but no such requirement exists for
13 intraLATA toll. The dial 1 access currently
14 routes all intraLATA toll calls to the
15 relevant local exchange company. Thus all
16 other companies receive unequal access. How
17 severe this barrier is depends on the
18 customer's perception of the inconvenience of
19 the unequal access. It is likely that unequal
20 access is a serious barrier to full
21 competition.² (Emphasis added.)

22 As noted above, access to the local network is controlled by
23 the LECs. This control gives the LECs monopoly power because
24 IXCs depend on this access to provide their services. On page
25 176 of the NRRI Addendum to the Staff Report of Investigation,
26 NRRI addresses this issue with specific direction to Ohio Bell
27 in this docket. Therein, it supports the same principle of
28 dialing parity advocated by MCI -- access should be provided
29 to competitors of OBT in a manner equivalent to that which OBT

30 ²Evaluating Competitiveness of Telecommunications Markets: A
31 Guide for Regulators, January 1988, The National Regulatory
32 Research Institute, at 133-134.

provides to itself.

The Staff Report in this docket makes clear the Commission Staff belief that lack of dialing parity is a barrier to entry which inhibits the development of effective competition. (Staff Report, p. 77.)

4. 10XXX Dialing is NOT Equal Access.

Q. IS 10XXX DIALING AN EFFECTIVE SUBSTITUTE FOR 1+ DIALING?

A. No. As the Minnesota Public Utilities Commission and the North Dakota Public Utilities Commission found, 10XXX is not equal access. (See pages 30 and 34 infra.) The additional digits required make this dialing pattern burdensome. As Judge Greene stated regarding the MFJ, "[i]t is precisely because five-digit access codes³ are inconvenient and difficult to remember that the equal access provisions of the decree mandate the universal use of the single digit."⁴

Some LECs have argued that speed dialers and auto-dialers overcome the disadvantage inherent in the use of the 10XXX

³The five digit 10XXX code that currently exists is scheduled to become a seven digit 101XXXX code in 1995. Thus, the discrimination caused by imposing this dialing procedure only on non-Ohio Bell IXC's will constitute an even greater barrier to effective competition than the 10XXX pattern does.

⁴Opinion of Judge Harold H. Greene, U.S. v. Western Electric, Civil Action No. 82-0192 (October 17, 1988), pp. 38-39.

code. Clearly, the inconvenience is not remedied without an expense and effort by customers -- and by IXCs who must educate the consumers as to the use of such a code -- and such access cannot be properly considered "equal" to the 1+ intraLATA access enjoyed solely by customers of the LECs. Indeed, the Minnesota Commission has required a 25 percent discount on access charges in conforming end offices in which intraLATA 1+ dialing parity and presubscription is not available. Such a discount provides an economic incentive for LECs to provide intraLATA equal access and reflects the inferior quality of 10XXX access.

Q. IS IT TRUE THAT THE 10XXX METHOD OF ACCESS PROVIDED OVER FEATURE GROUP D SERVICE IS LESS BURDENSOME THAN THE NON-EQUAL ACCESS METHOD YOU DESCRIBED ABOVE AS THE ONLY ACCESS AVAILABLE TO OCCs PRIOR TO EQUAL ACCESS?

A. In one way, it is not as burdensome. Only five extra digits are required instead of the 11 to 16 identified earlier. In another way, it is much more burdensome. The customer is required to know LATA boundaries and dial the 10XXX number of his/her presubscribed carrier only for the intraLATA calls. Few customers are willing to dial the extra digits and even fewer know what a LATA is, let alone where the boundary of that LATA runs. LATA boundaries do not coincide with state boundaries, area code boundaries nor county boundaries. At

1 least with the non-equal access method, as cumbersome as it
2 was, the dialing pattern remained the same for interLATA and
3 intraLATA calls.

4 5. Ohio Bell's Proposal For Flexible Regulation in the
5 IntraLATA Toll Market is Not in the Public Interest.

6 Q. MR. BROWN DISCUSSES BRIEFLY IN HIS DIRECT TESTIMONY THE FCC
7 CUSTOMER FIRST FILING OF AMERITECH. (OBT EXHIBIT 14.0) DOES
8 THE USAGE SUBSCRIPTION PORTION OF THE CUSTOMER FIRST PLAN
9 OBVIATE THE NEED FOR THE EQUAL ACCESS FOR WHICH YOU ARE
10 CALLING?

11 A. No, it does not. In fact, the extended 1-PIC proposed by
12 Ameritech in its filing is designed to allow the Ameritech
13 operating companies, including Ohio Bell, to leverage their
14 monopoly on local service to gain the same magnitude of market
15 share in the interLATA toll market that they have for local
16 service. This is especially true since the consumer would be
17 required under Ameritech's Customer First Plan to change
18 telephone numbers in order to change his/her local carrier.

19 Q. ARE THERE ANY OTHER PROBLEMS YOU SEE WITH THE AMERITECH
20 PRESUBSCRIPTION PLAN?

21 A. Yes. Ameritech, and hence Ohio Bell, would force any IXC
22 wishing to participate in the intraLATA presubscription market
23 to also obtain certification and sell local exchange service.

1 Q. HOW WOULD AN IXC BE FORCED INTO THE LOCAL SERVICE MARKET?

2 A. By providing a single PIC for local, intraLATA and interLATA
3 toll, the IXCs not currently engaged in the provision of local
4 service would be required to seek such certification prior to
5 entering the intraLATA presubscription market. Forced entry
6 into a market that a company may not wish to enter in order to
7 provide service in an unrelated market is the antithesis of a
8 competitive marketplace. That Ohio Bell even entertains such
9 notions demonstrates the lack of understanding the company has
10 for competition. This is not the move of a potential
11 competitor, but the move a certified monopolist.

12 Q. ARE YOU SAYING THAT THE PROPOSAL CONTAINED IN THE AMERITECH
13 CUSTOMER FIRST PLAN IS DIFFERENT THAN THE ONE YOU ARE
14 PROPOSING?

15 A. Yes, substantially different. Under MCI's proposal, customers
16 are provided with separate choices for interLATA and intraLATA
17 carriers. Additionally, if at some point in the future the
18 Commission desires to open the local market to the same level
19 of competition, then it should do so with a full 3-PIC option.
20 Ameritech-Ohio should not be allowed to propose options that
21 force competitors into markets they are unable to serve
22 economically.

23 Q. BEYOND THE CUSTOMER FIRST ISSUES YOU HAVE JUST COVERED, HAVE

1 YOU SEEN ANY OTHER TESTIMONY THAT INDICATES THAT THE
2 STREAMLINED REGULATION PROPOSED BY OBT IS IN THE PUBLIC
3 INTEREST OR INCREASES THE COMPETITIVE FORCES TO THE EXTENT
4 THAT COMPETITION CAN SERVE AS A SUBSTITUTE FOR REGULATION?

5 A. No. Absent adoption of the intraLATA equal access, there is
6 no increase in competitive pressure to help control the level
7 of rates for the non-competitive services and no indication
8 that the company intends to share efficiency gains, if any, or
9 overearnings with any of its customers. I am hard-pressed to
10 find any public benefit to this proposal.

11 B. The Solution: IntraLATA Equal Access.

12 Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION IN THIS REGARD?

13 A. I strongly urge the Commission to require the implementation
14 of intraLATA equal access, as expeditiously as possible, and
15 prior to granting any rate flexibility for any of Ohio Bell's
16 toll services.

17 1. Types of IntraLATA Equal Access Readily
18 Available in Ohio.

19 Q. HOW SHOULD INTRALATA EQUAL ACCESS BE IMPLEMENTED IN OHIO?

20 A. There are several methods of intraLATA equal access available.
21 For the purposes of my testimony I will discuss three in
22 detail. The two recommended by MCI are referred to by most of
23 the industry as the "Full 2-PIC" and the "Modified 2-PIC."

1 Q. WHAT DOES "PIC" MEAN?

2 A. PIC is an acronym for primary interexchange carrier. It is
3 used to refer to the IXC chosen by the customer to carry the
4 customer's 1+ calls.

5 Q. PLEASE DEFINE WHAT IS MEANT BY "FULL 2-PIC."

6 A. The Full 2-PIC method allows each customer for toll service to
7 presubscribe to any carrier for his or her interLATA toll
8 calls and to any other carrier or the interLATA PIC for his or
9 her intraLATA calls. Customer choice is maximized with this
10 option.

11 Q. PLEASE DEFINE MODIFIED 2-PIC.

12 A. The modified 2-PIC method allows each customer to have either
13 the customer's presubscribed interLATA IXC also carry 1+
14 intraLATA calls, or the customer may choose to have the LEC
15 currently providing that service continue to carry those
16 intraLATA calls. Although this option restricts the provider
17 of intraLATA toll service to only two entities, the customer
18 still benefits from the choice of utilizing either the IXC or
19 the LEC.

20 An advantage of this method over that of the full 2-PIC is
21 that it requires no new software nor hardware except that
22 necessary to divide the switch into two partitions using class

1 of service codes. This is the same method proposed by
2 Ameritech in its "Customer First" proposal, but "intraLATA
3 toll" area proposed by MCI is significantly different than
4 that proposed by Ameritech. Unrebutted evidence of record in
5 North Dakota indicates that the total software and hardware
6 costs for U S WEST in North Dakota average approximately
7 \$1,500.00 per switch for all models of switches currently
8 providing interLATA equal access. That the costs for this
9 method are reasonable and affordable is best shown by the
10 voluntary agreement of Western Reserve and Cincinnati Bell to
11 use this method in their respective alternative regulation
12 cases.

13 Q. HOW DOES THIS COMPARE TO THE FULL-2-PIC COSTS?

14 A. I have attached as MCI Exhibit 1.2 a copy of the Report of the
15 IntraLATA Equal Access Task Force to the Public Service
16 Commission of Kentucky. Page 38 of that report lists the
17 major switch vendors and the list prices associated with each
18 switch. AT&T switch estimated list prices, however, have
19 undergone substantial change. I have attached as MCI Exhibit
20 1.3 a letter from AT&T Network Services to Southern New
21 England Telephone Company indicating an availability date of
22 first quarter, 1995, and a list price per switch of \$30,000.

23 Q. WHICH OPTION DO YOU RECOMMEND IN OHIO?

1 A. MCI recommends the full two-PIC option. The Commission might
2 consider, however, allowing the modified 2-PIC option upon a
3 showing by Ohio Bell that the difference in costs and
4 availability are so substantial that the use of the modified
5 2-PIC brings greater benefit to Ohio consumers. This would
6 also give OBT at least some bargaining power with switch
7 manufacturers in pursuing the full 2-PIC right-to-use fees and
8 generic upgrade fees.

9 Q. WOULD ALL END OFFICES HAVE TO RE-BALLOTTED IF INTRALATA EQUAL
10 ACCESS WERE IMPLEMENTED?

11 A. Not necessarily. Re-balloting of end offices that have
12 already been converted to interLATA equal access could be
13 expensive and confusing for customers. If carriers want
14 customers to subscribe to their services after intraLATA equal
15 access is in place, they can solicit those customers through
16 their own marketing efforts.

17 Q. PLEASE EXPLAIN THE OPTION YOU DISCUSSED ABOVE THAT YOU BELIEVE
18 COULD BE USED BY OBT EVEN IF OBT LACKED 2-PIC CAPABILITY?

19 A. The extended one-PIC option appears to be the recommendation
20 of the Staff Report for implementation of dialing parity.
21 Ohio Bell would use the same software that it uses today to
22 provide consumer choice of interLATA long distance service.
23 The difference is that, unless OBT has received relief from

1 its interLATA restrictions, it would be precluded from
2 receiving presubscribed customers. For this reason, MCI has
3 not advocated the one-PIC option except in instances when an
4 LEC maintains that full and modified 2-PIC are not available.

5 Q. HOW WOULD EXTENDED ONE-PIC CHANGE THE ECONOMIC OR FINANCIAL
6 FEASIBILITY OF FULL OR MODIFIED 2-PIC?

7 A. I am confident that when faced with the prospect of either
8 losing all of the market through extended one-PIC or some
9 small portion of the market through full or modified 2-PIC,
10 OBT will find a way to immediately implement 2-PIC
11 capabilities. It has been my experience in the intraLATA
12 equal access arena that when the financial incentives exist
13 that create within the local exchange company the desire to
14 implement this technology, all of the formerly formidable
15 technical constraints are solved quickly.

16 Q. YOU SEEM TO HAVE A SPECIFIC EXAMPLE OR EXAMPLES IN MIND.
17 WOULD YOU PLEASE SHARE THEM?

18 A. Very specifically, when Iowa Network Services (INS), a
19 consortium of small, independent LECs in Iowa, first proposed
20 its centralized equal access proposal before the Iowa
21 Utilities Board (IUB), INS sought to have U S WEST, the Bell
22 Operating Company with statewide PTC responsibility in Iowa at
23 that time, pay INS's centralized equal access charge for all

1 intraLATA toll calls carried by U S WEST to or from exchanges
2 served by INS member companies. MCI disagreed and suggested
3 that 2-PIC intraLATA equal access be implemented. INS argued
4 that the 2-PIC software did not exist and that the task of
5 providing full-2-PIC was therefore not technically feasible.

6 When the IUB ruled that INS could only collect the centralized
7 equal access charge on intraLATA traffic if it were providing
8 intraLATA equal access, INS found, within two short months,
9 ways to overcome all of the technical barriers they had
10 previously posited. I do not believe that INS has superior
11 switch technicians or engineers than Ohio Bell. Nor do I
12 believe that the task of providing the switch software for
13 INS's centralized equal access was more difficult than
14 providing the same software for OBT switches. I do know,
15 however, that INS readily overcame the "technical" obstacles
16 only after it was given the economic incentive to do so.

17 2. IntraLATA Equal Access is Technically and
18 Financially Feasible.

19 Q. IS THE RECOMMENDATION FOR FULL 2-PIC TECHNICALLY FEASIBLE?

20 A. Yes, it is. It is not a technically difficult task to
21 accomplish given the highly sophisticated nature of today's
22 digital switches. All of the software coding necessary to
23 provide the logic for intraLATA equal access already exists in

1 switches which provide interLATA equal access.

2 The coding for sorting of interLATA and intraLATA calls, the
3 coding for carrier selection and the coding for routing the
4 call to the appropriate carrier all exist today in the
5 software used for interLATA equal access.

6 Q. IS THE TECHNOLOGY TO ACCOMPLISH THIS SERVICE CURRENTLY
7 AVAILABLE?

8 A. Yes, it is. The technology has been available from Northern
9 Telecom for its DMS 100/200 Switches since January, 1990.
10 Other switch manufacturers, including AT&T, have indicated
11 that they would also make this software universally available
12 as indicated in MCI Exhibits 1.2 and 1.3. In fact, Northern
13 Telecom actually provided the switch software for use by INS
14 in Iowa in early 1989.

15 Q. HOW DO YOU KNOW OF THIS SOFTWARE AVAILABILITY IN IOWA?

16 A. Both MCI and Teleconnect have received intraLATA equal access
17 from INS since early 1989. Customers in that balloting had a
18 choice of both an interLATA and an intraLATA carrier.
19 Similarly, MCI receives intraLATA toll traffic on a one-plus
20 basis from independent exchanges in Minnesota, South Dakota
21 and North Dakota.

1 Q. IS THE SOFTWARE AVAILABLE FROM VENDORS OTHER THAN NORTHERN
2 TELECOM?

3 A. Yes, it is available from every major switch vendor. The list
4 of switch manufactures, switch types, software generics and
5 list prices of the vendors to upgrade to intraLATA equal
6 access are included in MCI Exhibit 1.2. It is because of the
7 nearly universal availability of this software in LEC switches
8 that the Commission should require the implementation of
9 intraLATA equal access prior to granting any streamlined
10 regulation of OBT's intraLATA toll services.

11 Q. WHAT IS THE SOURCE OF THIS LIST?

12 A. The list is the result of switch vendors answers to requests
13 for information in Kentucky.

14 Q. YOU USED THE TERM "LIST PRICE" INSTEAD OF PRICE OR CHARGE
15 REGARDING THE COSTS SHOWN ON MCI EXHIBIT 1.2 AND 1.3. WHY?

16 A. Typically switch vendors do not charge the full amount of the
17 list price to the LECs for these types of features. While
18 there is no hard and fast rule for the amount of discounts, I
19 understand from discussions with switch vendor representatives
20 that the BOCs typically receive anywhere from 20 to 40 percent
21 discounts from list prices.

22 3. Other Jurisdictions Have Ordered the

Implementation of IntraLATA Equal Access.

Q. HAVE ANY OTHER JURISDICTIONS ORDERED THE IMPLEMENTATION OF 1+ DIALING PARITY AND PRESUBSCRIPTION ON AN INTRALATA BASIS?

A. Yes. Minnesota was the first state to order the implementation of 1+ intraLATA dialing parity and presubscription. The Minnesota Public Utilities Commission (MPUC) ordered Northwestern Bell (now U S WEST) to provide intraLATA 1+ dialing parity and presubscription, and to provide a discount of 25 percent in conforming end offices from which intraLATA 1+ presubscription is not available.⁵

The relevant language in the order is as follows:

The Commission finds that 1-plus presubscription is necessary for effective competition. While IXCs competing with NWB for intraLATA traffic have FG-C or FG-D access, they do not have 1-plus dialing parity. An important part of equal access is the reduction in the number of digits necessary when dialing. The form of access made available to IXCs in the intraLATA toll market, where consumers must dial a 10XXX code to complete an intraLATA toll call, cannot be considered equal access. This possibly could be corrected by ordering the LECs to provide 1-plus intraLATA dialing capability for all IXCs. As an alternative, the Commission could rectify this situation by adjusting access charges to reflect the less than equal access afforded to the IXCs in the intraLATA toll market.

Further, the discount is necessary and appropriate to permit effective competition among intraLATA competitors until equal access and presubscription is available on an intraLATA basis. While the

⁵ Minnesota Public Utilities Commission, Docket No. P-999/CI-85-582; FINDINGS OF FACT, CONCLUSIONS OF LAW AND ORDER AND ORDER INITIATING SUMMARY INVESTIGATIONS; Issue Date: November 2, 1987; pp. 45-46.

1 adoption of a precise discount is a subjective
2 decision, this should not prevent the Commission
3 from establishing a discount . . . On the record
4 here, the Commission finds that the problem exists.
5 Thus, the Commission concludes that it would be
6 appropriate to provide a discount in conforming end
7 offices in which intraLATA 1-plus presubscription
8 is not available.

9 Based on the Commission's assessment of the
10 disadvantages to the IXC's of not having intraLATA
11 dialing parity, the Commission finds that a
12 discount of 25 percent is appropriate. This
13 discount will be in effect for the two year interim
14 period or until the Commission determines
15 otherwise. The discount will be reassessed when
16 information is available on the altered market
17 shares between IXC's with 1-plus dialing and those
18 with 10XXX access.⁶

19 Q. HAS INTRALATA EQUAL ACCESS BEEN IMPLEMENTED IN MINNESOTA?

20 A. Only partially. Pursuant to the Order in Docket No. 582, the
21 Equal Access and Presubscription Implementation Committee was
22 set up to implement intraLATA 1+ dialing parity and presub-
23 scription in Minnesota (Docket Number P-999/CI-87-697). The
24 committee was charged with eliminating the technical and
25 economic barriers to intraLATA equal access and establishing
26 an implementation schedule for intraLATA 1+ dialing parity and
27 presubscription statewide.

28 The committee investigated the costs and technology required
29 to implement intraLATA equal access, and developed a

30 ⁶Id.

1 methodology for implementation as well. Despite issuing its
2 report and recommendation to the Minnesota Commission on June
3 30, 1989, however, U S WEST has not provided this access in
4 Minnesota.

5 Soon after the Minnesota Committee issued its report,
6 Minnesota Independent Equal Access Committee ("MIEAC"), a
7 consortium of independent LECs, filed for operating authority
8 to offer centralized equal access in Minnesota. The MPUC
9 decided to investigate the MIEAC request before taking further
10 action on the intraLATA equal access issue. After it issued
11 its orders in the MIEAC proceeding,⁷ the MPUC re-established
12 that its original order was that implementation be made as
13 expeditiously as possible and that the costs of implementation
14 be concurrently updated. The original Minnesota Report has
15 been updated so that actual implementation statewide can
16 finally occur.⁸

17 Q. EARLIER IN YOUR TESTIMONY YOU MENTIONED THAT YOU SUBMITTED
18 TESTIMONY IN NORTH DAKOTA IN A SIMILAR CASE. WOULD YOU PLEASE

19 ⁷Before the Minnesota Public Utilities Commission, Order
20 Granting Certificate of Authority to Provide Equal Access Service,
21 Docket No. P3007/NA-89-76, issued January 10, 1991.

22 ⁸Order of the Minnesota Public Utilities Commission Docket
23 Nos. P-999/CI-85-582, P-999/CI-87-697 and P-999/CI-87-695, Order
24 Denying Petition and Reconvening the 697 Study Committee, March 30,
25 1993.

1 **REVIEW THAT PARTICULAR CASE FOR THE COMMISSION?**

2 A. Yes. Probably the most comprehensive order on intraLATA equal
3 access to date in the United States was issued by the North
4 Dakota Public Service Commission.

5 After notice and hearing on the steps needed to implement the
6 law, the North Dakota Commission found that:

7 "98. As a first and most important step to
8 realizing the benefits of competition, we believe
9 that both intraLATA 1-plus equal access and
10 interLATA 1-plus equal access should be implemented
11 in North Dakota rapidly. ... 101. ... 1-plus
12 intraLATA equal access is the single most important
13 step toward effective competition in the intraLATA
14 long distance market. Effective competition will
15 improve efficiency and result in lower prices for
16 consumers."⁹

17 As for 10XXX dialing, the North Dakota Commission found,
18 "10XXX dialing is not equal to 1+ access."¹⁰ It also found
19 that the arguments of U S WEST against intraLATA 1+ equal
20 access to be in some cases without merit and otherwise
21 outweighed by the benefits of intraLATA equal access.¹¹ I

22 ⁹North Dakota Public Service Commission, Findings of Fact,
23 Conclusions of Law and Order, Case No. PU-2320-90-183, issued April
24 7, 1992, paragraphs 98, 101.

25 ¹⁰Id., paragraph 100.

26 ¹¹Id., paragraph 99.

1 believe that the evidence in this proceeding will be similarly
2 viewed by this Commission.

3 Subsequent to the task force recommendations on the issues
4 outlined by the Commission, a state district court found that
5 the Commission must proceed with a rulemaking in order to
6 implement this type of change. Shortly thereafter U S WEST
7 sought and obtained legislation giving it veto power over
8 opening its monopoly intraLATA toll market to competition.
9 The constitutionality of that law is being challenged in the
10 North Dakota Supreme Court.

11 Q. ARE THERE ANY OTHER STATES THAT HAVE ORDERED OR ARE ACTIVELY
12 STUDYING INTRALATA EQUAL ACCESS?

13 A. Yes, but rather than go through the complete list, I will
14 limit my response to states in which Ameritech serves. The
15 Illinois Commerce Commission is currently pursuing a
16 rulemaking (Illinois Docket Nos. 93-0409, 94-0096 and 94-0046)
17 that will determine the nature and scope of intraMSA
18 (intraLATA) equal access. Illinois Bell is advocating the
19 method outlined in its Customer First Plan, but continues to
20 tie this issue to relief from the MFJ interLATA restrictions.
21 In Wisconsin, the Commission is proceeding with a rulemaking
22 after its latest order in Docket No. 05-TI-119 and has
23 indicated that it expects to implement intraLATA equal access

as soon as it can reasonably implement rules. In Michigan, the Public Service Commission has ordered the implementation of intraLATA equal access by Michigan Bell and GTE upon the earlier of either their entry into the interLATA long distance market or January 1, 1996. (Docket No. U-10138) Of course the Western Reserve Alternative Regulation Case (Docket No. 92-230 and the Cincinnati Bell Alternative Regulation Case (Docket No. 93-432) both have been settled in Ohio with the agreement in each case of expeditious implementation of intraLATA equal access. Only in Indiana is intraLATA equal access not on the regulatory horizon.

4. The MFJ Permits IntraLATA Equal Access.

Q. DOES THE MODIFICATION OF FINAL JUDGMENT PROHIBIT INTRALATA COMPETITION?

A. No. It is my opinion that Judge Greene never contemplated that the IXCs would be excluded from providing intraLATA toll traffic. He left it to the state regulators to decide what intrastate calling arrangements best suit the public interest in each state.¹²

It is my belief that the Court made it clear that its decision with respect to the size of the LATAs presupposed that the

¹²United States v. Western Electric Co., 569 F. Supp. 1057, 1109 (Dist. D.C. 1983).

1 states would permit intraLATA competition. The Court states
2 as follows:

3 . . . that the lack of competition in this
4 [intraLATA] market would constitute an intolerable
5 development. The opening up of competition lies at
6 the heart of this lawsuit and of the decree entered
7 at its conclusion, and the significant amount of
8 the traffic that is both intrastate and intraLATA
9 should not be reserved to the monopoly carrier.¹³

10 Although OBT may cite other portions of the MFJ in an attempt
11 to persuade this Commission not to implement intraLATA equal
12 access, I believe the MFJ permits the states to ultimately
13 determine whether competition will be allowed in the intraLATA
14 (intraLATA) market.

15 5. IntraLATA Equal Access is in the Public Interest.

16 Q. YOU STATED IN THE PURPOSE OF THIS TESTIMONY THAT INTRALATA
17 EQUAL ACCESS IS IN THE PUBLIC INTEREST. PLEASE EXPLAIN HOW
18 ORDERING OF INTRALATA EQUAL ACCESS WOULD BE IN THE PUBLIC
19 INTEREST?

20 A. As I have stated already, dialing parity is such an essential
21 component of a competitive telecommunications market that
22 without this parity, a competitive market cannot exist. The
23 Commission can take no greater, nor, for that manner, lesser

24 ¹³United States v. Western Electric Co., 569 F. Supp. 990, 1005
25 (Dist. D.C. 1983).

1 step to provide for an open competitive market free of
2 discrimination, rid of inferior and degraded connections, and
3 able to protect intraLATA ratepayers through competitive
4 services than to order the implementation of intraLATA equal
5 access. By taking this step in the development of
6 competition, it will immediately bring greater choice to Ohio
7 consumers. It will also begin the process of developing more
8 competitive markets which will benefit Ohio consumers and the
9 public interest in general in several ways. Also, absent
10 opening the market to greater competition, Ohio Bell's desire
11 for streamlined regulation is per se fatally defective.

12 Q. WHAT ARE THE WAYS THAT COMPETITION BENEFITS CONSUMERS?

13 A. First, competitive markets are generally superior to
14 noncompetitive markets at producing telecommunications
15 services which are most in demand by consumers. The
16 deregulation of the customer premise equipment market is a
17 good example of how the market responds to customer demand.
18 Consumers now have a much larger selection of telephone
19 equipment to purchase, and at lower prices, than was available
20 prior to the deregulation of that market.

21 In the interexchange long distance market, MCI, like other
22 competitive companies, must constantly respond to customer
23 demand or it will not survive. Moreover, competitive

1 companies such as MCI help to discover what those customer
2 demands are by experimenting with new offerings. It is not
3 always possible to determine in advance what unmet customer
4 needs exist until a company tries to make a profit by offering
5 new services. As customer wants and needs change, companies
6 that do not adapt quickly may lose customers to companies that
7 do respond.

8 Q. WHAT IS THE SECOND WAY IN WHICH COMPETITION BENEFITS
9 CONSUMERS?

10 A. A second benefit of competition is its unique ability to force
11 carriers to seek out lower cost means of providing services or
12 products. The competitive market thus establishes and
13 maintains reasonable charges for the services in that market.
14 Adam Smith recognized long ago the benefits to be derived from
15 competition.

16 If this capital is divided between two different
17 grocers, their competition will tend to make both
18 of them sell cheaper, than if it were in the hands
19 of one only; and if it were divided among twenty,
20 their competition would be just so much greater,
21 and the chance of their combining together, in
22 order to raise the price, just so much less. Their
23 competition might perhaps ruin some of themselves;
24 but to take care of this is the business of the
25 parties concerned, and it may safely be trusted to
26 their discretion. It can never hurt either the
27 consumer, or the producer; on the contrary, it must
28 tend to make the retailers both sell cheaper and
29 buy dearer, than if the whole trade was monopolized

1 by one or two persons.¹⁴

2 MCI must always seek more efficient ways to provide its
3 services to increase its market share and profits or, at
4 worst, to prevent the loss of customers to other carriers
5 which may have reduced their costs and rates. This benefit of
6 competition is also one reason the Commission must monitor
7 OBT's pricing - to ensure that OBT is not lowering its toll
8 rates at the expense of the bottleneck monopoly providers.

9 A third benefit of competition is its effect on technological
10 innovation. An entrepreneur can only hope to increase profits
11 and move ahead of his or her competitors by developing new
12 products or deploying cost-saving technological innovation.
13 The introduction of competition into the telecommunications
14 market has had a marked effect on the pace of innovation,
15 resulting in, or speeding the implementation of, domestic
16 satellite technology, digital data networks, computer
17 controlled PBXs and customer premise equipment, and optical
18 fiber transmission systems. An example of MCI's efforts to
19 seek more efficient ways to provide services is its recent
20 deployment of dispersion-shifted (DS) fiber. MCI installed
21 this new type of fiber optics technology in an 800 mile route

22 ¹⁴An Inquiry into the Nature and Causes of the Wealth of
23 Nations, by Adam Smith, edited by R. H. Campbell and A. S. Skinner,
24 Liberty Press, 1981, Volume I, pp. 361-362.

1 of its interstate network. The new system will operate at 2.4
2 gigabits per second using SONET (synchronous optical network)
3 protocols. It will be capable of carrying 32,256 simultaneous
4 calls on a single pair of fiber strands. This new technology
5 will also allow the sending of these higher bit rates over
6 longer distances without as many regeneration devices.
7 Because the number of regeneration devices is halved as well
8 as because the bit rates have been substantially increased,
9 the service provided over these new fiber strands will be
10 significantly more efficient.

11 AT&T accelerated its fiber deployment in response to a Sprint
12 marketing campaign touting an all-fiber optic network. This
13 is another example of competition-induced deployment of new
14 technology.

15 Innovative service offerings have also been introduced, e.g.,
16 1-800-COLLECT, MCI's 800 Service for residential customers,
17 MCI PRISM services, MCI Vnet products, MCI Vision and MCI's
18 Friends & Family Bonus Discount Plan. Thus Ohio customers
19 would receive modern and efficient telecommunications services
20 at the most economical and beneficial rates if the Commission
21 proceeds with the adoption of intraLATA equal access. It gets
22 none of the consumer benefits cited above if it adopts OBT's
23 plan without, as a prerequisite, an order opening the

1 intraLATA market to more competition.

2 Ex-FCC Chairman Al Sikes recognized the impact of competition
3 on the deployment of technology:

4 Today, the United States leads the world in the
5 deployment of four networks: broadcast, cable,
6 satellite, and long-distance. Each is more
7 advanced and more widely deployed than any place in
8 the world. In each case, our progress was also
9 years faster than the rest of the world, because
10 regulatory dams were not erected or -- to the
11 extent they were -- legal dynamite destroyed them.
12 Market forces -- the freedom to respond to and help
13 encourage demand -- assured relentless progress.
14 Competition, in short, acted like an accelerator.¹⁵

15 Competition does indeed act as an accelerator, propelling the
16 investment by multiple companies in the infrastructure of
17 Ohio. The current level of competition in the intraLATA toll
18 and USS market does not provide this same incentive.

19 Q. ARE THERE ANY OTHER BENEFITS TO CONSUMERS PROVIDED BY
20 COMPETITION?

21 A. A fourth important benefit of competition is that it permits
22 society to reduce expenditures on regulatory processes. Rate
23 and entry regulation were adopted to try to recreate, in
24 monopolistic markets, the kinds of outcomes that competitive
25 markets achieve naturally: production at the lowest cost and
26 prices that do not result in monopoly profits.

27 ¹⁵Remarks of FCC Chairman Alfred C. Sikes before the Town Hall
28 of California, January 11, 1991.

1 For competitive carriers such as MCI, streamlined regulatory
2 treatment can be applied. Then, when effective competition
3 develops for the services of traditional telephone companies
4 as well, much of the regulatory burden imposed on the
5 Commission can be eased, reducing costs to the consuming
6 public.

7 Q. HAS EXPERIENCE BORNE OUT YOUR POSITION THAT ALLOWING
8 COMPETITIVE ENTRY BRINGS BENEFITS TO CONSUMERS?

9 A. Yes. Allowing competitive entry into telecommunications
10 markets in this country has been highly beneficial. Competing
11 interexchange companies have been trying actively to meet
12 customers' needs. AT&T and MCI must respond quickly to the
13 pricing and marketing strategies of one another to remain
14 competitive. New products are continually being evolved to
15 create a competitive advantage. Both AT&T and MCI have been
16 actively taking steps to control expenditures and achieve
17 greater operating efficiencies. These cost-controlling
18 measures have helped to reduce interstate toll rates in Ohio
19 significantly since divestiture.

20 Q. WILL ORDERING INTRALATA EQUAL ACCESS BRING ALL OF THESE
21 BENEFITS TO OHIO CONSUMERS?

22 A. Ordering intraLATA equal access to be provided by all LECs is
23 a necessary first step if Ohio consumers are to reap the

benefits of competition. Permitting MCI's entry into intraLATA 1+ and 0+ markets will immediately provide additional choices -- for carriers and services -- to Ohio consumers. However, fully effective competition will not develop immediately in this market, which has been kept a monopoly or near monopoly for so long. A more realistic expectation is that competitive conditions will develop over time if regulatory policies which allow that development are in place. As competition expands, so will the benefits that consumers receive from competition. Only with effective competition in place and expanding should the Commission order the flexible regulation sought by OBT.

Q. WOULD FAILURE TO OPEN THIS MARKET HARM OHIO CONSUMERS?

A. Yes. A policy of barring entry would be particularly costly to consumers in light of 1) Ohio Bell's nearly complete monopoly of intraLATA toll services, and 2) the significant technical advances in communication, which may lead to far cheaper techniques of providing services. Adam Smith also warns us against narrowing competition:

To widen the market and to narrow the competition, is always the interests of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. The proposal of any

1 new law or regulation of commerce which comes from
2 this order, ought always to be listened to with
3 great precaution, and ought never to be adopted
4 till after having been long and carefully examined,
5 not only with the most scrupulous, but with the
6 most suspicious attention. It comes from an order
7 of men, whose interest is never exactly the same
8 with that of the publick, who have generally an
9 interest to deceive and even to oppress the
10 publick, and who accordingly have, upon many
11 occasions, both deceived and oppressed it.¹⁶
12 (Emphasis added.)

13 Q. WOULD OBT OR UNIVERSAL SERVICE IN OHIO BE HARMED IF INTRALATA
14 EQUAL ACCESS WERE ORDERED?

15 A. No. Ohio Bell enjoys what I call customer inertia.

16 Q. PLEASE DEFINE WHAT YOU MEAN BY CUSTOMER INERTIA.

17 A. Customer inertia is the propensity of customers to stay with
18 their current provider of service. It is a significant
19 obstacle that a new firm entering a market or any firm
20 entering a new market must overcome if it is to be successful.

21 Q. DO YOU HAVE ANY EXAMPLES THAT YOU BELIEVE INDICATE THE POWER
22 OF THIS CUSTOMER INERTIA?

23 A. Yes. The best example I have seen came with the balloting for
24 equal access in the INS initial round of balloting in Iowa.
25 In that round of balloting U S WEST had indicated to INS that

26 ¹⁶Id., p 267.

1 it did not wish to participate on the intraLATA ballot. While
2 not placing the name of U S WEST on the initial ballot, INS
3 included a ballot choice that allowed the consumer to pick,
4 "No change to my current 1+ intraLATA carrier." A cover
5 letter explained that the current 1+ intraLATA carrier was U
6 S WEST.

7 On that initial ballot U S WEST, with no marketing effort to
8 try to retain customers, with, in fact, a determined effort to
9 avoid taking customers, would have retained 80 percent of the
10 intraLATA market. Only a subsequent formal complaint¹⁷ with
11 the Iowa Utilities Board kept U S WEST from "being forced" to
12 retain its dominant market position in the INS territory.

13 Q. IS THERE CURRENTLY COMPETITION IN THE INTRALATA TOLL MARKET?

14 A. Not effective competition. There is a fundamental difference
15 between the existence of competition and effective
16 competition. Some level of competition presumably exists as
17 soon as a second provider enters the market. Indeed, some
18 people even claim that competition exists when another company
19 has the potential to enter the market. This definition is not
20 useful, however, for describing market dynamics. When
21 considering the regulatory status and treatment of a company

22 ¹⁷Iowa Network Services, Inc., Northwestern Bell Telephone
23 Company, and the Participating Telephone Companies, Iowa State
24 Utilities Board Docket No. FCU-89-3, "Order Holding Discontinuance
25 of Service in Abeyance and Requiring Reballoting," March 31, 1989.

1 with monopoly services the definition of competition must be
2 drawn more stringently to protect the public interest. In the
3 absence of regulation, or in situations where regulation is
4 somehow reduced, effective competition must exist to protect
5 the public interest.

6 Q. PLEASE DEFINE WHAT YOU MEAN BY EFFECTIVE COMPETITION.

7 A. Competition is effective when, irrespective of the number of
8 firms in the industry, no single provider has the ability to
9 set prices above cost for some customer or customer class
10 without losing market share so fast as to be unprofitable.
11 Simply put, effective competition is price-constraining
12 competition.

13 The existence of captive customers or price discrimination
14 indicates that fully effective competition does not exist.
15 Barriers to entry would also prohibit the development of
16 effective competition. Thus competition can be said to be
17 effective if no firm has the ability to profitably set prices
18 that deviate from cost, and if it is easy for potential
19 competitors to enter the industry on the same terms and
20 conditions as any other firm. It is precisely this type of
21 competition that is necessary in order to protect the consumer
22 from monopoly abuse in the absence of effective regulation.

1 Q. IS OHIO BELL SUBJECT TO EFFECTIVE COMPETITION IN THE INTRALATA
2 MARKET?

3 A. No. Certain barriers to the development of effective
4 competition remain in Ohio. As noted above, the lack of
5 intraLATA equal access is a major barrier to the development
6 of effective competition. Ohio Bell's continued artificial
7 monopoly on all 1+ten-digit and seven digit intraLATA calls
8 protects it from effective competition for its switched
9 services.

10 Q. WILL OBT SUFFER FINANCIAL HARM IF IT IS REQUIRED TO OFFER
11 INTRALATA EQUAL ACCESS?

12 A. No. First, any traffic stimulation enjoyed by OBT would
13 likely result in increased access and billing and collection
14 revenues and decreased toll costs for OBT. This increase in
15 billing and collection and access revenues and decrease in
16 toll costs will offset, in part, or in total, any revenues
17 diverted from OBT. Indeed, if OBT's access and billing and
18 collection services provide more contribution relative to
19 their toll services, OBT would be better off providing access
20 in lieu of intraLATA toll.

21 Second, OBT should be able to recover any incremental equal
22 access charges by use of the same methodology used in the
23 interstate and interLATA jurisdiction. That is, it should be

1 allowed to recover those expenses that are solely related to
2 equal access conversion through an equal access recovery
3 charge (EARC). Alternatively, OBT would be allowed to collect
4 the charges through its local switching charges. Using either
5 scenario, the expenses should be amortized over eight years,
6 just as the interLATA EARC was recovered. Specifically, Part
7 36.421 (47 CFR Ch.1)¹⁸ should be used as a guideline for
8 identification of intraLATA conversion costs. Part 36.421
9 states:

10 Equal access expenses include only initial
11 incremental costs and other initial incremental
12 expenditures related directly to the provision of
13 equal access, that would not be required to upgrade
14 the capabilities of the office involved absent the
15 provision of equal access. Equal access expenses
16 are limited to such expenditures for converting to
17 central offices that serve competitive
18 interexchange carriers or where there has been a
19 bona fide request for conversion to equal access.

20 Equal access expenses are apportioned between
21 jurisdictions by first segregating them from all
22 other expenses in the primary accounts and then
23 allocating them on the same basis as equal access
24 investment.

25 There is no reason to reinvent the wheel. The above process
26 for identifying and recovering the costs of interLATA equal
27 access will work as well for purposes of intraLATA equal
28 access.

29 ¹⁸Code of Federal Regulations, Title 47, Chapter 1, Federal
30 Communications Commission.

1 Q. WILL TRAFFIC STIMULATION CAUSED BY THE MARKETING EFFORTS OF
2 IXCS IMPOSE ADDITIONAL COSTS ON OBT?

3 A. No. Ohio Bell will be fully compensated for all traffic
4 carried by new entrants through the access charge mechanism.
5 Access charges have been designed to permit LECs to recover
6 all of their cost of providing access service including a
7 significant level of contribution. Thus, properly designed
8 access charges fully compensate Ohio Bell for services it
9 supplies to IXCs such as MCI.

10 Q. DO YOU HAVE ANY EVIDENCE THAT SUCH STIMULATION WILL OCCUR?

11 A. Yes. Basic economics states that as prices fall, demand for
12 the services increases. Also, through advertising, IXCs seek
13 to shift the demand curve of the consumers upward. The
14 economic expectation, especially considering these two force
15 in tandem, is that demand will be stimulated. MIEAC (the
16 Minnesota Consortium of independent LECs) stated in both North
17 Dakota and Minnesota that it expects a ten percent stimulation
18 of demand upon converting to both interLATA and intraLATA
19 equal access.¹⁹

20 The INS experience in Iowa demonstrated these expected

21 ¹⁹Before the Minnesota Public Utilities Commission, Docket No.
22 P-3007/NA-89-76, The Minnesota Independent Equal Access
23 Corporation, Non-Proprietary Rate Design & Development and Cost
24 Support Statement, January 10, 1991, p.2.

1 results. In 1988 U S WEST carried all intraLATA 1+ traffic in
2 Iowa. According to its annual report filed with the Iowa
3 Board, U S WEST carried approximately \$120,590,000 worth of
4 toll revenue. After the implementation of equal access in the
5 INS exchanges in 1989, U S WEST carried \$110,620,000 in 1990.
6 INS, according to a report it filed with the Iowa Board,
7 carried about \$18,339,835 worth of intraLATA toll from its
8 exchanges in 1990. Not even accounting for the intraLATA toll
9 of MCI, Sprint or Teleconnect, the intraLATA toll revenue had
10 climbed \$8 million dollars. At the same time, U S WEST's
11 intrastate access revenues grew from \$47,471,000 in 1988 to
12 \$72,766,000 in 1990.

13 The net effect of these two figures show that not only did
14 stimulation minimize the toll revenue loss by U S WEST, but
15 the stimulation experienced by other carriers resulted in
16 gains in access charges far outstripping the toll revenue
17 loss. Similar results are quite possible in Ohio.

18 C. Other Safeguards Are Necessary to Allow Competition

19 A Fair Opportunity to Exist in Ohio.

20 Q. ARE THERE ANY REGULATORY SAFEGUARDS THAT WOULD ENHANCE OR
21 PROTECT THE DEVELOPMENT OF EFFECTIVE COMPETITION IN OHIO?

22 A. Yes. As competition develops in Ohio, imputation of access
23 charges in the LECs' toll rates and prevention of cross-

1 subsidization between competitive and non-competitive services
2 will be necessary. These issues are succinctly addressed in
3 the testimony of MCI witness Don Laub. The Commission should
4 apply the imputation, cost of service and cross-subsidization
5 standards that it adopts or intends to adopt in other
6 proceedings to OBT in this proceeding as well. The
7 Commission should take great care to enforce these protections
8 for the intraLATA toll market.

9 Q. DOES MCI SUPPORT AMERITECH'S DESIRE TO PREVENT ACCESS TO ITS
10 IMPUTATION AND COST STUDIES.

11 A. No. Ameritech argues that it should be allowed to prevent its
12 (phantom) competitors from analyzing the results of their
13 imputation and cost study tests. The only way an entity that
14 Ameritech decides to characterize as its competitor can
15 adequately review such materials is to hire an outside
16 consultant. This position is meritless and directly contrary
17 to my experience with Ameritech in its "Advantage Illinois"
18 and "Opportunity Indiana" price cap application dockets,
19 Illinois Commerce Commission Docket No. 92-0448 and Indiana
20 Utility Regulatory Commission Case No. 39705.

21 The position is meritless because how can Ameritech's largest
22 monopoly ratepayers -- IXCs like MCI, AT&T, Sprint, LDDS,
23 Allnet and LCI -- discover if Ameritech is engaging in

1 unlawful discrimination or predatory pricing? It is IXCs that
2 would be directly and immediately affected by such behavior,
3 and it is inexplicable, from a policy standpoint that they
4 cannot have the opportunity to analyze the information.

5 What Ameritech is trying to do here -- not allowing entities
6 it labels as competitors to access imputation and cost studies
7 -- is directly inconsistent with its activities in two other
8 alternative regulation cases in which I testified on behalf of
9 MCI that are cited above. In those two cases, Ameritech
10 provided the information to MCI under seal. No allegation was
11 ever made in those cases by Ameritech, the commissions or
12 staff that MCI violated the terms of its proprietary agreement
13 with Ameritech and gave the cost information to its marketing
14 department. It is outrageous that Ameritech feels it can
15 "game" the Commission here and seek the ability to deny its
16 largest monopoly ratepayers access to imputation and price
17 tests. The Commission should accordingly rule here that IXCs
18 should have access to imputation and cost-of-service
19 information (under seal, if proprietary treatment is
20 appropriate).

21 SUMMARY.

22 Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

23 A. Yes. I have demonstrated that the current proposal of OBT is
24 not in the public interest. It affords no increase in

1 competition for the intraLATA toll and USS market and
2 therefore brings none of the benefits of competition to the
3 end users in Ohio. Continuation of the present system of
4 regulation must continue until Ohio Bell has implemented
5 intraLATA equal access. Only with this type of access in
6 place will the type of open and fair competition that is
7 requisite for lessened regulation occur. Without this dialing
8 parity, a competitive market cannot hope to exist and the
9 problems of unfair discrimination and imposition of inferior
10 connections will continue. Consumers will receive none of the
11 benefits required in order for this Commission to consider an
12 alternative regulation plan.

13 I have demonstrated that intraLATA equal access will increase
14 competition. Increased competition will, in turn, bring with
15 it many benefits for Ohio consumers. These benefits include
16 an immediate expansion of consumer choice; more and varied
17 services in the intraLATA market - such that consumers are
18 more likely to find a service that closely matches their
19 needs; a further acceleration of technology and innovation in
20 the intraLATA market; prices driven downward as they are
21 pushed closer to costs and the costs are reduced by the
22 innovations and new technologies; and, eventually, reduced
23 regulatory expenses for all competitive carriers.

1 Additionally, imputation and prevention of cross-subsidies are
2 necessary protections prescribed by the Act to insure the
3 development and maintenance of a healthy telecommunications
4 market. As such the Commission must complete the development
5 of a proactive monitoring system to ensure that the LECs do
6 not impose unfair and anti-competitive pricing practices on
7 the industry. It then needs to apply that system, to the best
8 of its ability, in the present case. Finally, the Commission
9 should treat the imputation cost studies of OBT as proprietary
10 but refuse to hold them hostage on behalf of Ohio Bell. All
11 that is necessary for the protection of the Ohio Bell privacy
12 interests are protective agreements similar to those used in
13 other states.

14 Q. DOES THAT COMPLETE YOUR TESTIMONY?

15 A. Yes, it does.

MCI EXHIBIT 1.1

**TESTIMONY AND FORMAL COMMENTS
OF DENNIS L. RICCA**

Illinois

- o Docket No. 87-NOI-1, An investigation into the desirability of retaining intraMSA (LATA) dialing restrictions in the communications statute; filed initial and reply comments; 1987.
- o Docket No. 88-0091, A formal investigation into the desirability of retaining intraMSA (LATA) dialing restrictions in the communications statute; filed direct, rebuttal, and cross-examination testimony; 1988, 1989.
- o Docket No. 90-0264, Illinois Bell petition to deregulate its operator services; provided initial, rebuttal and cross-examination testimony; 1990, 1991.
- o Docket No. 92-0317, Commission investigation into assignment of N11 codes; provided initial testimony; 1993.
- o Docket No. 92-0448, Illinois Bell petition for Alternative Regulation/Rate Case; provided initial, rebuttal and cross-examination testimony; 1993.
- o Docket No. 92-0400, COCOT Dial-around complaint, filed direct and rebuttal testimony; 1993, 1994.

Indiana

- o Cause No. 38550, Teleconnect Certification; provided direct and cross-examination testimony; 1988.
- o Cause No. 38632, AOS certification for Teleconnect; presented direct and rebuttal testimony; 1989-1991.
- o Cause No. 38812, Generic Commission investigation into AOS; provided direct and rebuttal testimony; 1991.
- o Cause No. 39319, MCI application for authority to indirectly acquire the stock of Teleconnect Long Distance Services and Systems Company; provided initial testimony; 1991.
- o Cause No. 39618, Commission Investigation into Colocation Standards set by Federal Communications Commission; provided direct, rebuttal and cross-examination testimony, as well as comments and a partial proposed order; 1993.
- o Cause No. 39475, Petition of the Indiana Payphone Association

for implementation of intrastate Dial-Around Compensation; filed direct testimony; 1993.

- o Cause No. 39718, Petition of Ameritech Advanced Data Services for a Certificate of Territorial Authority; filed direct testimony; 1994.
- o Cause No. 38269 Sub-docket 3, Imputation of Access Charges; filed direct, rebuttal and cross-examination testimony; 1994.
- o Cause No. 39705, Indiana Bell Alternative Regulation Petition; filed direct, rebuttal and cross examination testimony; 1994.

Iowa

- o INU-83-33, Iowa Access Charge Rulemaking; provided reply comments; 1983.
- o Docket No. INU-85-3, Deregulation of MTS, WATS and Private Line for all IXCs and LECs; Filed comments and reply comments; 1985.
- o Docket No. INU-88-2, Deregulation of InterLATA MTS, WATS and Private Line Services; Comments and reply comments; 1988.
- o Docket No. FCU-89-3, formal complaint about balloting procedures of INS; presented direct, rebuttal and cross-examination testimony; 1989.
- o Docket No. INU-90-1, Investigation into intraLATA presubscription, imputation and discounted access charges; presented initial, rebuttal and cross-examination testimony; 1990.
- o Docket No. RMU-90-36, Rulemaking regarding disconnection and blocking of 900 and 976 calls; provided comments and reply comments; 1991.
- o Docket No. FCU-91-1, Show Cause Order against Teleconnect, provided initial and cross-examination testimony; 1991.
- o Docket No. FCU-91-2, Complaint against Central Scott Telephone Company; filed initial, rebuttal and cross-examination testimony; 1991-92.
- o Docket No. RPU-91-4, Overearnings complaint against U S West; filed initial, rebuttal and surrebuttal testimony and participated in settlement negotiations; 1991, 1992.
- o Docket No. RMU-91-9, Deregulation, Reregulation and Service

Regulation of Communications Services and Facilities; co-authored comments; 1991.

- o Docket No. RPU-93-9, U S WEST overearnings investigation; filed initial, rebuttal surrebuttal and cross examination testimony; 1994.

Kansas

- o Operator Service Show Cause; provided direct, rebuttal and cross-examination testimony regarding Teleconnect's provision of intrastate operator services; 1988.

Maryland

- o Teleconnect's Certification Proceeding; provided written application and oral testimony before the Commission; 1987.

Massachusetts

- o Teleconnect's Certification Proceeding; provided written application and oral testimony before the Commission; 1988.

Michigan

- o Case No. U-9921, Application by Michigan Bell to have its high volume special access services deregulated and allow ICB pricing; submitted comments and reply comments for MCI; 1991.
- o Case No. U-10064, Classification of Services under the Michigan Telecommunications Act; provided MCI comments; 1992.
- o Case No. U-10138, MCI complaint against Michigan Bell and GTE that they were not providing equal access to MCI pursuant to the new Telecommunications Act. Filed initial, rebuttal and cross-examination testimony; 1992.

Minnesota

- o Docket No. P-478/NA-87-268, Teleconnect's Request for intrastate authority; filed written application and answered Commission questions on day of Public Hearing; 1986-87.
- o P-999/CI-88-917, a commission investigation into alternative Operator Service Providers; provided initial, rebuttal and cross-examination testimony for Teleconnect; 1988-1991.
- o P-3007/NA-89-76, application by Minnesota Independent Equal Access Corporation (MIEAC) for a certificate of authority to provide centralized equal access; provided direct, rebuttal, surrebuttal and cross-examination testimony on behalf of Teleconnect and MCI; 1989-1991.
- o P-421/CI-90-373, an ONA tariff filing of U S WEST Communications; provided reply comments for MCI; 1991.
- o P-999/CI-90-373, the generic investigation of the Commission into ONA; provided reply comments for MCI; 1992.
- o The request of U S WEST Communications, Inc. to restructure and reprice Centron and to restructure and reprice PBX trunk and Private Line Rates - MPUC Docket Nos. P-421/EM-91-1002, P-421/EM-91-1000 and P-421/EM-91-328; filed direct testimony; 1993.
- o P-3007/GR-93-1, Minnesota Independent Equal Access Corporation (MIEAC) Rate Case; provided initial testimony and participated in settlement conference; 1993.
- o P-405/GR-93-2, Vista Telephone Company Rate Case; provided initial testimony and participated in settlement conference; 1993.
- o P-421/EI-89-860, U S WEST alternative regulation investigation; filed initial comments; 1993.

Missouri

- o Operator Service Investigation; provided direct, rebuttal and cross-examination testimony on behalf of Teleconnect; 1987.

Nebraska

- o C-672 and C-687, Teleconnect Certification Proceedings; provided direct, rebuttal and cross-examination testimony demonstrating the public convenience and necessity required the Commission to approve Teleconnect's applications for interLATA and intraLATA authority, respectively; 1986, 1987.

Nebraska (cont.)

- o Commission investigation into PIC change practices of industry; provided oral testimony on Teleconnect practices; 1989.
- o MCI Acquisition of Telecom*USA; provided oral testimony to the Commission on the day of the Commission's hearing; 1990.

North Dakota

- o Docket No. PU-2320-90-183, Commission investigation to implement new telecommunications statute; provided direct, rebuttal, and cross-examination testimony regarding intraLATA equal access and presubscription; 1991.

Oklahoma

- o Operator Service Investigation; provided direct, rebuttal and cross-examination testimony on behalf of Teleconnect; 1989.

South Dakota

- o Docket No. TC90-40A, a commission investigation of the correct access charge costing methodology for all LECs in the state; filed direct and rebuttal testimony; 1991-1992.
- o Docket No. TC90-40B, a commission investigation as to the appropriateness of establishing a statewide pool for all LECs and the establishment of one average rate for all LECs; filed direct and rebuttal testimony; 1991-1992.
- o Docket No. TC92-026, Commission investigation into reclassification of telecommunication services. Filed initial, rebuttal and cross-examination testimony; 1992.
- o Docket No. TC92-001, Commission investigation into the future of telecommunications. File Comments for MCI; 1992.

Wisconsin

- o Docket No. 05-TI-116, an investigation into the provision of alternative operator services; provided direct, rebuttal and cross-examination testimony; 1988.
- o Docket No. 05-TI-104, a commission investigation into the proper level of regulation of facility-based IXCs; filed initial, rebuttal and cross-examination testimony; 1992.
- o Docket No. 05-TI-119, commission investigation into the issues surrounding intraLATA competition; filed comments in the EAS phase of this docket indicating MCI's position regarding EAS rules; 1992; filed comments on LEC plans to implement Commission rules; 1993.
- o Docket No. 05-NC-102, MCI petition for 10XXX intraLATA authority in Wisconsin; filed initial testimony; 1992.
- o Docket No. 05-TR-103, Independent Companies access charge docket. Filed initial, rebuttal and cross examination testimony; 1992.
- o Docket No. 2180-TR-103, GTE Rate Case, filed initial, rebuttal and cross-examination testimony; 1992.
- o Docket No. 05-TI-131, Commission Investigation into Expanded Interconnection with Local Telephone Company Facilities; co-authored comments; 1993.
- o Docket No. 05-TI-119, Phase II, Commission Investigation into the Technical and Financial Issues surrounding Implementation of IntraLATA Equal Access; Co-authored initial and reply comments; 1993.
- o Docket No. 05-TI-119, Phase III, Commission Investigation into the Policy Considerations surrounding Implementation of IntraLATA Equal Access; Co-authored initial and reply comments; 1993.

MCI EXHIBIT 1.2



KENTUCKY INTRALATA EQUAL ACCESS TASK FORCE
Administrative Case No. 323, Phase I

Report of the
Task Force Coordinating Committee
to the:



PUBLIC SERVICE
COMMISSION
OF KENTUCKY

November 6, 1992

**REPORT OF THE TASK FORCE COORDINATING COMMITTEE TO THE
KENTUCKY PUBLIC SERVICE COMMISSION**

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I. EXECUTIVE SUMMARY

The attached "Report of the Task Force to the Kentucky Public Service Commission," first provides an Introduction to explain why the Task Force was established, the mission of the Task Force and how the Task Force was organized to meet its goals. It then gives an overview or definition of intraLATA equal access before discussing some of the general issues surrounding intraLATA equal access. The Results and Recommendations section summarizes the reports from the four subcommittees and then addresses the nine specific issues identified by the Commission. Finally, the report provides a glossary and attachments, including the Subcommittee Reports.

Introduction

On May 6, 1991, the Kentucky Public Service Commission ("Commission") issued an Order authorizing intraLATA facilities-based toll competition between carriers. The Commission found that intraLATA facilities-based toll competition is in the public interest, and that "such competition should extend to equal access on a presubscribed basis and include intraLATA interexchange private line services, intraLATA interexchange message toll services, and intraLATA interexchange operator services, with the implementation phase to proceed apace." The Commission also ordered that an industry task force be created to examine the availability of switching equipment and software generics necessary for implementation of intraLATA 1+/0+ dialing parity

and presubscription ("intraLATA equal access").

Pursuant to the Commission's Order, the IntraLATA Equal Access Task Force ("Task Force") was formed. The Commission emphasized that the Task Force should be fact finding in nature and that it should not reexamine policy issues or develop an implementation plan for intraLATA equal access. The Commission's Order required the following issues to be addressed:

1. Specification of access features necessary to provide intraLATA equal access;
2. The availability and cost of intraLATA equal access software generics;
3. The relative merits and cost of generic upgrades to existing switching equipment and replacement alternatives for local exchange companies planning central office or toll/access tandem change-outs in the normal course of business;
4. The relative merits and cost of requiring local exchange companies to include intraLATA equal access capability with any installation of interLATA equal access generics;
5. The need for national protocol standards, including whether vendor-designed protocols vary or are likely to vary substantially and whether national standards are likely to follow rather than precede state implementation;
6. The relative merits of alternative intraLATA equal access cost recovery mechanisms;
7. The relative merits and cost of alternative presubscription balloting procedures;
8. The need for any network reconfiguration to facilitate intraLATA equal access, including the relative merits and cost of centralized access tandems shared by groups of local exchange companies, and
9. The relative merits and cost of alternative intraLATA equal access implementation schedules.

Four subcommittees were established to investigate and report on the issues surrounding the implementation of intraLATA equal access in Kentucky. The four subcommittees were organized into the following categories: Switch Vendor, Interexchange Carrier, Large Local Exchange Company, and Small Local Exchange Company. The subcommittees were to report their findings to the Task Force, which would in turn report to the Commission.

Overview of IntraLATA Equal Access

IntraLATA equal access means that a person can use the familiar dialing pattern of "1+" or "0+" the telephone number being called to make all long distance calls. The quality of the connection should be identical in every respect to that provided with interLATA equal access. The only difference between intraLATA and interLATA equal access should be the selection of carriers available to the consumer. Unlike interLATA equal access, a local exchange company may be one of the choices available to consumers as their interexchange carrier for intraLATA interexchange calls.

Results and Recommendations

The following results and recommendations were reached based upon an examination of the findings on the nine issues and an assessment of the subcommittee reports. As an overview, it is apparent that intraLATA equal access is feasible and attainable. Therefore, there is no technical reason that competition cannot be extended to include

intraLATA equal access on a presubscribed basis.

The consensus of the Task Force was that the two-PIC method was the preferred presubscription method. This option would allow an end user to select a presubscribed intraLATA carrier that may be different from its presubscribed interLATA carrier. All local calls would be completed by the local exchange company.

All of the switch vendors indicated that intraLATA equal access using the two-PIC feature is available or could be developed. Based on the information gathered by the Task Force, the Task Force believes that intraLATA equal access can be implemented in Kentucky during the 1994-1996 time frame, with due regard to network reliability concerns. This time frame coincides with the availability information provided by the switch vendors and allows the local exchange companies time to order and install the technology at the cost identified in this Report. In order to implement intraLATA equal access, the local exchange companies may be required to upgrade certain switches to the required software generic and/or add software feature packages. In addition, the implementation of intraLATA equal access may necessitate trunking rearrangements and additional features between the local exchange company switches and the interexchange carrier switches. It appears that intraLATA equal access can be implemented without a national standard protocol or before one is developed.

The Task Force reviewed the issue of centralized equal access but decided that it was unnecessary due to the advanced schedule for deployment of end office based equal access by the Kentucky local exchange companies.

Three balloting alternatives were explored: (1) ballot all customers who have already converted to interLATA equal access; (2) ballot going forward in conjunction with offices converting to interLATA equal access; (3) no balloting for intraLATA equal access, but use a market driven conversion. The Task Force recommends that a carrier marketing approach be adopted for offices already converted to interLATA equal access. Existing customers who had already been balloted in the interLATA presubscription process should not be reballoted as intraLATA presubscription becomes available. It was also agreed that for locations that receive interLATA and intraLATA equal access concurrently, one balloting process should be conducted for both interLATA and intraLATA calling. After intraLATA equal access conversion, new customers could be canvassed for their choice of intraLATA carrier as they are for their interLATA carrier.

A consensus was not reached regarding the intraLATA equal access cost recovery. Each party therefore filed individual comments on this issue.

All of the costs submitted by the local exchange companies (including costs for the two-PIC software, switch/generic upgrade, balloting and nonballoting, network

reconfiguration and administration) were categorized as capital, recurring or non-recurring costs. The following table takes these costs and adds the costs for the various balloting options, thus reflecting the total cost of implementing intraLATA equal access given the available balloting options.

TOTAL LOCAL EXCHANGE COMPANY COSTS

Balloting with Allocation				
Cost Category		Costs Excluding Selection Option	Increase Due to Selection Option	TOTAL
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$4,782,590	\$17,880,839
	Recurring	\$2,991,040	\$6,000	\$2,987,040
	Total	\$16,079,289	\$4,788,590	\$20,867,879
Ongoing Annual Costs		\$1,005,680	\$2,000	\$1,007,680
Capital Costs		\$5,501,000	\$0	\$5,501,000
Balloting without Allocation				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$3,609,130	\$16,707,379
	Recurring	\$2,981,040	\$6,000	\$2,987,040
	Total	\$16,079,289	\$3,615,130	\$19,694,419
Ongoing Annual Costs		\$1,005,680	\$2,000	\$1,007,680
Capital Costs		\$5,501,000	\$0	\$5,501,000
allot Going Forward				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$571,599	\$13,669,848
	Recurring	\$2,981,040	\$118,500	\$3,099,540
	Total	\$16,079,289	\$690,099	\$16,769,388
Ongoing Annual Costs		\$1,005,680	\$41,500	\$1,047,180
Capital Costs		\$5,501,000	\$0	\$5,501,000
Market Driven Conversion				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$469,000	\$13,567,249
	Recurring	\$2,981,040	\$73,000	\$3,054,040
	Total	\$16,079,289	\$542,000	\$16,621,289
Ongoing Annual Costs		\$1,005,680	\$27,500	\$1,033,180
Capital Costs		\$5,501,000	\$0	\$5,501,000

Notes

Capital costs are unaffected by carrier selection method and remain at \$5,501,000 regardless of method selected. Recurring and nonrecurring costs are affected by the selection method and this table shows incremental change to recurring and nonrecurring costs for the planning period and also the change to ongoing costs. Nonrecurring costs exclude any development costs that may be allocated to Kentucky.

II. INTRODUCTION

A. Discussion of Order in Administrative Case No. 323

On May 6, 1991, the Kentucky Public Service Commission ("Commission") issued an Order authorizing intraLATA facilities-based toll competition between carriers.¹ The Commission found that intraLATA facilities-based toll competition is in the public interest, and that "such competition should extend to equal access on a presubscribed basis and include intraLATA interexchange private line services, intraLATA interexchange message toll services, and intraLATA interexchange operator services, with the implementation phase to proceed apace".² In reaching this finding, the Commission noted that:

[i]nclusion of 1+ presubscription in the development of intraLATA competition will encourage the most efficient investment decisions by new entrants and maximize utilization of existing investment.

* * *

If the Commission were to exclude 1+ presubscription, the result would be a short-lived interim step in creating competition in the intraLATA toll market. It would not provide the IXCs, resellers or the LECs the long-run policy direction needed to make appropriate investment decisions in Kentucky. Given the pace of technological change and the existing encroachment of IXCs into the intraLATA toll market, the 1+ presubscription issue must be included.

¹ Order, Public Service Commission of the Commonwealth of Kentucky, Administrative Case No. 323, Phase I, May 6, 1991, p. 58.

² Id., p. 3.

The original Joint Motion³ filed March 10, 1989 included a provision to initiate a review of further expansion of competition including 1+ presubscription 2 years after the effective date of the Phase I Order. This is rejected. A delay in authorizing 1+ presubscription will stifle the benefits of the Commission's finding that intraLATA competition is in the public interest. It will create an artificial boundary that would increase inefficiency in the development of a competitive intraLATA toll market. Authorization of competition in the full range of intraLATA toll services is in the public interest, will provide policy direction to the telecommunications industry, and maximize the long-run benefits to the ratepayer. IntraLATA competition is viable and sustainable and local rates and universal service will not be significantly harmed.⁴

The Commission also ordered that all local exchange companies and interexchange carriers comply with the provisions of the Joint Motion and Supplement, as modified.⁵

In addition, the Commission agreed with the Coalition that an industry task force be created to examine the availability of switching equipment and software generics necessary for implementation of intraLATA 1+/0+ dialing parity and presubscription ("intraLATA equal access"). The Commission emphasized that the Task Force should be fact finding in nature and should not include evaluations of the possible financial impacts of intraLATA competition or market changes that might result from intraLATA competition. It was not the purpose or the intent of the

³ A coalition of industry players ("the Coalition") submitted a Joint Motion which contained a proposed outline of activities necessary to implement intraLATA competition.

⁴ Order, Public Service Commission of the Commonwealth of Kentucky, Administrative Case No. 323, Phase I, pp. 12-13.

⁵ Id., p. 58.

Task Force to reconsider policy issues already ruled on by the Commission. Additionally, the mission of the Task Force was not to include the preparation of an implementation plan, although implementation options could be considered and offered for descriptive purposes.

B. Mission of Task Force

Pursuant to the Commission's Order, the IntraLATA Equal Access Task Force ("Task Force") was formed. The Commission's Order gave specific instructions to the Task Force regarding what issues were to be addressed. The Commission required the following issues to be addressed:⁶

1. Specification of access features necessary to provide intraLATA equal access;
2. The availability and cost of intraLATA equal access software generics;
3. The relative merits and cost of generic upgrades to existing switching equipment and replacement alternatives for local exchange companies planning central office or toll/access tandem change-outs in the normal course of business;
4. The relative merits and cost of requiring local exchange companies to include intraLATA equal access capability with any installation of interLATA equal access generics;
5. The need for national protocol standards, including whether vendor-designed protocols vary or are likely to vary substantially and whether national standards are likely to follow rather than precede state implementation;
6. The relative merits of alternative intraLATA equal access cost recovery mechanisms;

⁶ Id., pp. 35-36.

7. The relative merits and cost of alternative presubscription balloting procedures;
8. The need for any network reconfiguration to facilitate intraLATA equal access, including the relative merits and cost of centralized access tandems shared by groups of local exchange companies; and,
9. The relative merits and cost of alternative intraLATA equal access implementation schedules.

The list of issues provided by the Commission was meant to be illustrative and not exhaustive.

At the first meeting of the Task Force, its plans and objectives were discussed. As a result, the following Mission Statement was adopted:

TASK FORCE MISSION STATEMENT

1. Gather and present information concerning potential statewide toll dialing parity plans that allow for interLATA and intraLATA equal access. IntraLATA equal access should be equivalent to and compatible with existing interLATA equal access while exceptions to this policy may be identified by the individual subcommittees.
2. The mission of the Task Force should be fact-finding in nature and will not necessarily present a consensus report of all members. The mission of the Task Force does not include the preparation of an implementation plan.
3. The Task Force will establish a Coordinating Committee which will organize and coordinate four subcommittees and decide the scope of work and work plans for those subcommittees.

C. Purpose and Description of Subcommittees

Four subcommittees were established to investigate and report on the issues surrounding the implementation of intraLATA equal access in Kentucky. The Coordinating Committee was formed to provide an oversight function for the four subcommittees and was comprised of all participants of the Task Force. The four subcommittees were created to investigate various aspects of intraLATA equal access implementation and were organized according to the industry group from which information would be required. The subcommittees were to report their findings to the Coordinating Committee, which would in turn report to the Commission.

The four subcommittees were organized into the following categories and are described below: Switch Vendor, Interexchange Carrier, Large Local Exchange Company, and Small Local Exchange Company. Each Subcommittee Report is included in Attachment B.

1. Switch Vendor Subcommittee

The mission of this subcommittee was to gather price estimates and availability dates for the development and deployment of intraLATA equal access switch software and hardware.

2. Interexchange Carrier Subcommittee

The mission of this subcommittee was to ascertain the carriers' level of participation in presubscription in the intraLATA market and whether that participation would affect the local exchange companies' network provisioning outlooks. The Interexchange Carrier Subcommittee sent a questionnaire to all interexchange carriers certified as of March 10, 1992. Responses

were received from AT&T Communications of the South Central States ("AT&T"), MCI Telecommunications Corporation ("MCI"), U.S. Sprint Limited Partnership ("Sprint"), Cincinnati Bell Long Distance ("CBLD"), Metromedia Communications Corporation ("Metromedia") and LDDS, Inc. ("LDDS").

3. Large Local Exchange Company Subcommittee

The mission of this subcommittee was to determine the operational procedures that would be impacted by intraLATA equal access and develop the costs that would be incurred by the large local exchange companies to implement intraLATA equal access. The large local exchange companies in Kentucky are South Central Bell Telephone Company ("South Central Bell"), Cincinnati Bell Telephone Company ("Cincinnati Bell"), and GTE South Incorporated and Contel of Kentucky, Inc., d/b/a GTE Kentucky (collectively referred to hereinafter as "GTE").

4. Small Local Exchange Company Subcommittee

The mission of this subcommittee was to determine the operational procedures that would be impacted by intraLATA equal access and develop the costs that would be incurred by the small local exchange companies to implement equal access. The small local exchange companies in Kentucky are:

- ALLTEL Kentucky, Inc.
- Ballard Rural Telephone Cooperative
- Brandenburg Telephone Company
- Duo County Telephone Cooperative
- Foothills Rural Telephone Cooperative
- Harold Telephone Company, Inc.
- Highland Telephone Cooperative
- Logan Telephone Cooperative
- Mountain Rural Telephone Cooperative
- North Central Rural Telephone Cooperative

Peoples Telephone Cooperative
South Central Rural Telephone Cooperative
Telephone and Data Systems, Inc.⁷
Thacker-Grigsby Telephone Company, Inc.
West Kentucky Rural Telephone Cooperative

D. Overview of IntraLATA Equal Access

IntraLATA equal access means that a person can use the familiar dialing pattern of "1" or "0" plus the telephone number being called to make all long distance calls, without having to dial a 10XXX access code.⁸ The only difference between intraLATA and interLATA equal access should be the selection of carriers available to the consumer. Unlike interLATA equal access, a local exchange company may be one of the choices available to consumers as their interexchange carrier for intraLATA interexchange calls.

IntraLATA equal access will provide consumers with a choice of intraLATA carriers in the same manner as interLATA equal access. The consumer should not experience any perceptible difference between interLATA equal access and intraLATA equal access when making 1+/0+ interexchange calls. Further, the quality of the connection after conversion to intraLATA equal access should be identical in every respect to that provided with interLATA equal access, i.e., there should be no difference in the quality of the connection, dialing patterns, cost of access or presubscription

⁷ Leslie County Telephone Company; Lewisport Telephone Company; and Salem Telephone Company

⁸ 10XXX dialing is a feature available in end offices converted to equal access. The "XXX"--such as 222 for MCI or 288 for AT&T--is the carrier identification code used to designate a specific interexchange carrier to handle the call.

methods between interLATA and intraLATA equal access.

The handling of interLATA calls is unaffected by intraLATA equal access. IntraLATA toll calls will be handled in the same manner whether dialed using the 10XXX access code or dialed on a 1+/0+ presubscribed basis. IntraLATA equal access will work without the use of any special customer premise equipment. The handling of specific call types (e.g., 0+, 411, etc.) is detailed in the chart found in Attachment F.

In order to provide this capability, the switch must first analyze the dialed number to determine if it is one which may be routed to an interexchange carrier. Each switch contains information concerning which intraLATA calls may be handled by an interexchange carrier and which are to be handled only by the local exchange companies.⁹ If it is determined that the call may be routed to an interexchange carrier, the switch retrieves the presubscription information and then routes the call to the presubscribed carrier. Appropriate billing records will be made for all intraLATA toll calls handled by interexchange carriers.

III. IDENTIFICATION OF ISSUES

A. Assumptions

The Coordinating Committee, in an effort to develop the most meaningful information relative to implementing intraLATA equal access, attempted to establish certain basic assumptions to be used

⁹ Interexchange carriers include local exchange companies providing toll service.

in the study process by all subcommittees. General guidelines or assumptions were established in the areas of: 1) the method of offering intraLATA presubscription; and 2) the balloting of subscribers for selecting their intraLATA carriers.

1. Methods of Offering IntraLATA Presubscription

The Task Force was aided in this area by the considerable efforts of the Minnesota and New York intraLATA presubscription Task Forces. Through the efforts of these groups, it was established that there are four identified methods of offering intraLATA equal access. A detailed description of the four methodologies is included in Section III(D) - Presubscription Options. The methods considered, including the extended one-PIC¹⁰ method, the two-PIC method, modified two-PIC method and Advanced Intelligent Network arrangements, offer varying degrees of consumer options.

An alternative method of providing intraLATA equal access is a centralized approach. Centralized equal access uses a tandem switch to provide equal access features to end offices that cannot provide equal access. This approach was deemed unnecessary by the Task Force due to the advanced schedule for deployment of end office based equal access by the Kentucky local exchange companies. Over 90% of Kentucky access lines have been converted to interLATA equal access on an end office basis (see Attachment E).

The consensus of the Task Force was that the two-PIC method

¹⁰ For purposes of this report, "PIC" is defined as Primary Interexchange Carrier.

was the preferred presubscription method for several reasons. The extended one-PIC method essentially eliminates the local exchange company from the intraLATA toll market and is inconsistent with the desire to expand competition in the intraLATA toll market. The modified two-PIC method offers fewer consumer options than the two-PIC method with no cost savings or other offsetting benefits. The Advanced Intelligent Network method, while theoretically appealing, is not well defined. In fact, few switch vendors are developing the Advanced Intelligent Network technology at this time. In light of these factors and as a result of efforts in other jurisdictions, it appears that the two-PIC method is most certainly the method that will evolve as the national standard for intraLATA equal access. Therefore, the Task Force focused its efforts on the end office based two-PIC method.

2. Balloting for IntraLATA Presubscription

There was general consensus among the Task Force that existing customers who had already been balloted in the interLATA presubscription process should not be reballoted as intraLATA presubscription becomes available. It was also agreed that for locations that receive interLATA and intraLATA equal access concurrently, one balloting process should be conducted for both interLATA and intraLATA calling.

Both interexchange carriers and local exchange companies agreed that re-balloting may tend to be expensive and confusing to the telephone customers in Kentucky. All agreed that the industry and consumers would best be served by allowing each interexchange

carrier and local exchange company to directly solicit residential and business customers. However, for informational purposes, it was agreed that cost information for rebalancing should be gathered to provide the Commission with the financial impact, should it be the Commission's desire to move in that direction. See III. E.; IV.B., Issue 7.

More detailed assumptions necessary to complete the cost information for the Switch Vendor, Large Local Exchange Company and Small Local Exchange Company Subcommittees are included in Section IV.A. and in the subcommittee reports.

B. Technology Required

The Switch Vendor Subcommittee was responsible for gathering price estimates and availability dates for the technology required to provide the intraLATA equal access feature. Depending upon the switch manufacturer involved, and the installed generic software, the need for hardware and software to provide the intraLATA feature varies. In order to determine the hardware and software requirements, the Switch Vendor Subcommittee developed and issued a Request for Information for Feature Development to the switch manufacturers that have switches in Kentucky. That Request For Information is attached to the Switch Vendor Subcommittee Report (Attachment B.1.).

C. Availability and Cost of Technology

All of the switch vendors indicated that intraLATA equal access using the two-PIC feature is available or could be developed. In order to implement equal access, however, some of

the central office switches will require generic software and/or hardware upgrades. In certain situations, local exchange company switches may have to be replaced to provide equal access. Table 2 contains a listing of the intraLATA equal access feature availability dates. In addition to the time requirements noted in Table 2, it will take a certain amount of time to request, engineer, install and test the intraLATA equal access feature. This time period will vary by local exchange company and switch vendor.

The timing for delivery of the intraLATA equal access capability varies because of the disparate implementation guidelines used by the different switch vendors. Switch vendors are approaching the development and deployment of the intraLATA equal access feature in different manners. Some switch vendors, such as Northern Telecom and Alcatel, have developed and incorporated the capability into their basic switch design. Other switch vendors, such as AG Communication Systems and AT&T, have identified the preliminary requirements for the capability and will develop the feature once a firm order is placed by a local exchange company.

The Switch Vendor Subcommittee solicited price estimates from the switch vendors. In the Request for Information sent to the switch vendors, the Subcommittee specifically asked for the "incremental" price of the equal access feature. In other words, only the price of the equal access feature was to be quoted, even though other features might be included in a generic software

upgrade.

The cost for the intraLATA equal access feature also varies by switch vendor and local exchange company. Some switch vendors are unable to prorate the development costs across their customer base without a more complete understanding of how widespread the deployment of intraLATA equal access will be. Other switch vendors have priced the feature as if it were a national standard. In situations where a switch must be upgraded to allow the new software, the cost may be impacted by the need to add hardware, software or memory. There may also be installation charges associated with upgrade activity. On the other hand, some switch vendors require only a right-to-use fee to activate the intraLATA equal access feature, with no need for additional hardware, software, memory or installation costs.

The price of switch features will vary among local exchange companies because of company-specific discounts. Such discounts will result in different prices for the same feature in the same type of switch. The prices quoted by the switch vendors in response to the Request For Information were for planning purposes only and did not reflect local exchange company-specific discounts. The costs provided by the local exchange companies to the Large Local Exchange Company Subcommittee, however, did reflect the switch vendor discounts. (See Attachment B.3.) A summary of the intraLATA equal access feature costs as provided by the switch vendors are listed at Section IV.B., Table 2. Additional detail on the availability and cost of intraLATA equal access technology is

provided in the Switch Vendor Subcommittee Report.

D. Presubscription Options

The Task Force has identified four principal options for offering intraLATA presubscription. These are as follows:

1. "Extended One-PIC" - This option would restrict the end user's choice of a presubscribed intraLATA carrier to that end user's presubscribed interLATA carrier, with all local calls to be completed by the local exchange company. This option would preclude the local exchange company from offering toll calling on a presubscribed basis. Moreover, technical considerations limit the ability of local exchange companies to modify their own end office software to implement the extended one-PIC solution.¹¹

As a result, there was general consensus among the Task Force members that this option cannot be supported from a public policy perspective and is not viable.

2. "Two-PIC" - This option would allow an end user to select a presubscribed intraLATA carrier that may be different from its presubscribed interLATA carrier. All local calls would be completed by the local exchange company.

For example, an end user in South Central Bell's service territory could choose South Central Bell or any participating interexchange carrier to be the presubscribed intraLATA carrier, independent of the presubscribed interLATA carrier. Thus, the end

¹¹ This statement notwithstanding, Alaska has required the extended one-PIC method where local exchange companies have requested a waiver from the two-PIC method.

user could have South Central Bell for local service, MCI for intraLATA service, and AT&T for interLATA service.

Software to provide the two-PIC solution is available from, or under development by, all of the switch manufacturers responding to the Task Force. The cost information developed by the local exchange carriers is for the two-PIC solution, since they were the only cost estimates that were available from the participating manufacturers at this time.

3. "Modified Two-PIC" - Under this option, the presubscribed intraLATA carrier could be either the presubscribed interLATA carrier or the local exchange carrier. No other intraLATA equal access choices would be available under this option. The local exchange company would handle all local calls.

There was a consensus that the two-PIC solution is preferable to the modified two-PIC because of greater consumer choice.

4. Advanced Intelligent Network - The Task Force received limited submissions on the ability of the Advanced Intelligent Network to provide intraLATA equal access. Under this option, an external data base would be queried, rather than a data base in the end office switch, to determine the identity of the end user's presubscribed intraLATA carrier. The Advanced Intelligent Network solution might allow for multiple-PIC options including the selection of different carriers on a time-of-day or route-by-route basis. However, cost information is not available.

The four principle options are summarized on Table 1.

TABLE 1: SUMMARY OF PRINCIPAL INTRALATA PRESUBSCRIPTION OPTIONS

OPTION	CHOICES OF PRESUBSCRIBED INTRALATA CARRIER AVAILABLE TO END USER
Extended One-PIC	*Presubscribed InterLATA Interexchange Carrier
Modified Two-PIC	*Presubscribed InterLATA Interexchange Carrier *Local Exchange Company
Two-PIC	*Presubscribed InterLATA Interexchange Carrier *Any other Interexchange Carrier *Local Exchange Company
Advanced Intelligent Network	*Presubscribed InterLATA Interexchange Carrier *Any other Interexchange Carrier *Local Exchange Company *Multi-PIC options, including selection of different carriers on time-of-day or route-by-route basis

E. Balloting

The two-PIC method of implementing intraLATA equal access allows a customer to select a different carrier for intraLATA calls than the carrier selected for interLATA calls. When intraLATA equal access is implemented, customers will fall into three general categories relative to this selection process. The first category is those customers served by central offices already converted to interLATA equal access. The second category is those customers served by offices which have not converted to interLATA equal access and who must select both an interLATA and an intraLATA

carrier. The final category is customers who are added to the network after the intraLATA conversion is completed in their central office.

In the interLATA equal access environment, local exchange companies use a balloting and allocation process to allow customers to select their interLATA carrier. This process was set forth by the Federal Communications Commission ("FCC") in the Allocation Plan, Appendix B of its Memorandum Opinion and Order in CC Docket No. 83-1145, Phase I. A brief summary of this plan follows:

1. The local exchange company delivers a ballot to each customer 90 to 85 days prior to equal access conversion explaining the balloting process and requesting response within 30 days.
2. Customers who do not respond within 30 days are allocated to carriers (choosing to participate in allocation) based on the percentage of lines subscribed to that carrier in Step 1.
3. A second ballot indicating the carrier to which the customer has been allocated is delivered to each customer from Step 2 40 days prior to equal access conversion. Each customer may select a different carrier than the one to which each has been allocated by returning the ballot within 20 days.
4. Those customers who do not return the second ballot within 20 days are allocated to the indicated carrier.
5. Customers have 180 days following conversion to change their carrier free of charge. After 180 days, or with the second change of carrier, a charge is applied.

For customers in the second category above, i.e. those being converted to interLATA and intraLATA equal access simultaneously, the balloting and allocation process just described is appropriate.

However, for those customers in the first category, an

alternative selection process may be appropriate. The options available are:

Full Balloting -- use the same process as just described above, i.e. two ballots with allocation.

Balloting with default -- provide a single ballot with all nonrespondents defaulting to the local exchange company.

No Ballot -- When intraLATA equal access capability is provided, all customers would be assigned to the local exchange company. Customers would then request changes in response to the marketing efforts of the market participants. (The initial assignment of all customers to the local exchange company is not intended to imply that carriers could not market prior to conversion, or that customers could not select a carrier on the conversion date.)

Finally, there is the third category of customer -- a new customer who begins service after an office is converted to intraLATA equal access. Such customers are canvassed at the time service is requested and required to select an interLATA carrier. A similar canvassing/selection requirement could apply to the choice of an intraLATA carrier. Alternatively, customers could be assigned to the local exchange company until such time as they made a specific choice in response to carrier marketing efforts.

Regardless of the customer category involved, balloting and canvassing raise an additional issue for some local exchange companies which offer optional calling plans with reduced intraLATA toll charges. For customers using these services, balloting of intraLATA equal access may be particularly confusing. In some

cases, such as Cincinnati Bell's Extended Community Calling, selecting a carrier other than the local exchange company will preclude customers from receiving their current service. The balloting process could add to this confusion because customers could select an intraLATA toll carrier without realizing the impact on their optional calling plans. A marketing based approach to intraLATA presubscription would alleviate this problem.

If a marketing approach is taken, the issue arises of whether a sufficient number of carriers would participate in all offices. The six carriers responding to questions from the Interexchange Carrier Subcommittee responded as follows on this issue:

1. When asked if they would participate in presubscription if interLATA and intraLATA service were offered together, all carriers responded affirmatively.
2. When asked what method they would prefer if intraLATA equal access is available after interLATA equal access, AT&T, MCI and LDDS suggested carrier marketing; Cincinnati Bell Long Distance suggested balloting; and Sprint made no suggestions. When asked if they would participate in any method selected, Sprint did not respond, AT&T indicated they could not comment on methods suggested by other carriers; and Cincinnati Bell Long Distance, MCI, Metromedia and LDDS indicated they would participate.
3. When asked if they would request equal access if an office was capable of equal access but not converted, MCI and Sprint responded that from their perspective, the local exchange company controls the process by indicating readiness for the receipt of a bona fide request. AT&T and the other respondents do not make such requests.

Currently, AT&T, MCI, Sprint and several other certificated interexchange carriers provide interLATA equal access service in

the rural areas where the capability exists. Required statewide local exchange company deployment of intraLATA equal access will insure that both interLATA and intraLATA equal access capability is provided statewide. However, the deployment of these capabilities does not insure participation on a statewide basis by any additional carriers for either interLATA or intraLATA equal access.

F. Cost Recovery Mechanisms

The Commission requested all parties to provide comments on proposed methods to recover the costs of implementing intraLATA equal access. Responses were provided by GTE, the Independent Telephone Group,¹² South Central Bell, AT&T, and MCI. There was not a consensus of how costs should be recovered by the local exchange companies.

The actual responses are included in Section VII, Attachment H. Since the responses took the form of recommendations, they are summarized in Section IV.B., Issue 6.

G. Calls Subject to Presubscription

A listing of calls subject to presubscription is included in Attachment F.

H. Implementation Schedule

Based on the information gathered by the Task Force, the Task Force believes that intraLATA equal access can be implemented in

¹² The Independent Telephone Group is composed of the following companies: Ballard Rural Telephone Cooperative; Brandenburg Telephone Company; Duo County Telephone Company, Inc.; Highland Telephone Cooperative; Logan Telephone Cooperative; Mountain Rural Telephone Cooperative; North Central Rural Telephone Cooperative; Peoples Telephone Cooperative; South Central Rural Telephone Cooperative; Thacker-Grigsby Telephone Company, Inc.; and West Kentucky Rural Telephone Cooperative.

Kentucky during the 1994-1996 time frame, with due regard to network reliability concerns. This time frame coincides with the availability information provided by the switch vendors and allows the local exchange companies time to order and install the technology at the cost identified in this Report.¹³ Although some local exchange companies may be able to provide intraLATA equal access in a relatively short time, others may require significantly more time.¹⁴

I. Impact on the Local Exchange Company Networks

In order to implement intraLATA equal access, the local exchange companies may be required to upgrade certain switches to the required software generic and/or add feature packages as specified by the switch vendors in their responses to the Request for Information. The required software generics are identified in Section IV.B., Issue 2, of this report.

As with other features, every attempt will be made to ensure that service quality and reliability will not be impaired during the implementation process. The local exchange companies will

¹³ Some switch vendors, such as AT&T, indicate that they will develop the intraLATA equal access feature once a firm order has been received from a local exchange company. Consequently, the timing of the firm order will impact when the software can be loaded into the switch and when intraLATA equal access capabilities will actually be available to consumers.

¹⁴ A local exchange company with an NEC switch can provide the intraLATA equal access feature quickly with no additional hardware or software costs if the switch is currently providing interLATA equal access. Other local exchange companies with different switch types may have to replace the switch in order to provide intraLATA equal access. The process of switch replacement, or a major upgrade for an existing switch, could take a considerable amount of time. Other administrative features as detailed in the responses of the local exchange companies, must also be changed in connection with implementation of intraLATA equal access.

ensure that the new feature meets the technical specifications and is properly tested and evaluated for conformity with, and compatibility across, switch types prior to implementation in the Kentucky network.¹⁵

The implementation of intraLATA equal access may necessitate trunking rearrangements and additional facilities between the local exchange company switches and the interexchange carrier switches. Such rearrangements and additional facilities may be required to handle additional traffic or the transfer of traffic between local exchange companies and interexchange carriers as consumers select their intraLATA PIC. An illustrative diagram and explanatory narrative describing the additional trunking is included in Attachment G.

IV. RESULTS AND RECOMMENDATIONS

A. Summary of Subcommittee Results

1. Switch Vendor Subcommittee

The objective of the Switch Vendor Subcommittee was to gather price estimates and availability dates for the development and deployment of intraLATA equal access switch software and hardware. To do this, the Subcommittee drafted a detailed Request for Information for Feature Development (see Attachment B.1). Other Task Forces have used this approach, so it is familiar to switch vendors. The advantage of the Request for Information approach was that it provided an impartial and consistent approach to requesting

¹⁵ If problems are identified during the testing of the feature, additional time may be required for implementation.

the data from each switch vendor. The Request for Information was mailed from the Commission and signed by the Executive Director of the Commission.

After careful consideration of the four available options,

- * the extended one-PIC;
- * the modified two-PIC;
- * the Advanced Intelligent Network (multi-PIC); and
- * the two-PIC,

the Subcommittee decided to request cost and availability data only on the two-PIC and multi-PIC presubscription options because they maximized customer choice.

The Request for Information was mailed to the switch vendors on January 17, 1992 and requested price, availability, and technical requirements, among other data items for the two selected options. Seven switch vendors responded: AGCS, ALCATEL, ADS, AT&T, NEC, Northern Telecom, and Siemens. These vendors indicated that intraLATA equal access using the two-PIC feature is available or could be developed within two years. However, in order to implement intraLATA equal access, some switches will require software generics and/or hardware upgrades. In certain situations, end office switches may have to be replaced to provide equal access. The information provided by the vendors in their responses consists of non-binding and non-negotiated price estimates and the best available planning data. The specific data from the vendor responses is depicted on Table 2, Summary of Two-PIC Software Availability/Cost by Switch Type.

Upon receipt of the vendor responses to the Request for Information, the data was provided to the Large Local Exchange Company and Small Local Exchange Company Subcommittees as input to their analyses and quantification efforts.

2. Interexchange Carrier Subcommittee

The Interexchange Carrier Subcommittee had two goals: (1) to ascertain the carriers' level of participation in the intraLATA market, and (2) to determine whether that participation would affect the local exchange companies' network provisioning outlook. A questionnaire covering these issues was sent to all interexchange carriers.

The questionnaire responses indicated that AT&T, MCI, and Sprint would participate in intraLATA equal access. In general, the interexchange carriers responded that their network expansion as a result of intraLATA equal access is not specifically quantified but is expected to be minimal. When evaluating the network costs of intraLATA equal access, the local exchange companies therefore assumed that the interexchange carriers' network requirements would remain fixed or grow as indicated in existing forecasts.

3. Large Local Exchange Company Subcommittee

The objective of the Large Local Exchange Company Subcommittee was to develop the costs that would be incurred by the large local exchange companies to implement intraLATA equal access in Kentucky. The Coordinating Committee determined that it would be quite likely that the cost characteristics and cost study capabilities would be

different between the small local exchange companies and the large local exchange companies. Consequently, separate subcommittees were assigned to develop similar cost information. For the purpose of this undertaking, it was determined that the large local exchange companies in Kentucky consist of Cincinnati Bell, GTE, and South Central Bell.

To assist the Commission and other parties in evaluating the impact of intraLATA equal access, the large local exchange companies were requested to provide the cost information in a uniform format under a common assumption set. The cost quantification was to include both capital and expense items that would be incurred to install intraLATA equal access capability in each central office together with any required changes in administrative procedures and/or network rearrangement costs that would be incurred as a result of intraLATA equal access. A detailed description of the study assumptions is included in the Large Local Exchange Company Subcommittee Report at Attachment B.3 together with the individual responses of the companies which detail the costs that will be incurred by year assuming implementation is completed in 1996.

No attempt was made by the subcommittee to verify the validity or quantification of the costs provided by the individual large local exchange companies. It should be noted that these cost estimates are considered valid and appropriate by the individual local exchange companies for planning purposes. However, it should be recognized that actual implementation costs may vary. The

individual company responses include footnotes which provide insight as to the type of expenditures and rationale for the various anticipated costs of implementing intraLATA equal access.

For purposes of this study effort, the growth rate was assumed to be about 7 percent, based on three quarters of interstate switched access minute data.¹⁶

4. Small Local Exchange Company Subcommittee

The objective of the Small Local Exchange Company Subcommittee was to develop costs that would be incurred to implement intraLATA equal access in Kentucky. The Coordinating Committee determined that the cost characteristics and cost study capabilities of the small local exchange companies were unique and merited a study approach separate from the large local exchange companies.

The mission of the Small Local Exchange Subcommittee was to address the cost impacts and implications on the ten cooperatives and seven commercial local exchange companies listed on pages 13 and 14. No attempt was made by the subcommittee to verify the validity or quantification of the costs provided by the individual large local exchange companies for planning purposes.

For consistency purposes, the Small Local Exchange Company Subcommittee used the same study assumptions and approach as the Large Local Exchange Company Subcommittee, including a 1994-1996 planning period. However, the implementation schedule might extend beyond 1996 in some cases where economic efficiencies could result.

¹⁶ See, Federal Communications Commission Comprehensive Monitoring Report on Telephone Service, CC Docket 87-339, Report No. DC-2040, dated February 3, 1992, at 201.

Twelve of the seventeen small local exchange companies already have converted to intraLATA equal access or have interLATA conversion plans during the next three years and can deploy the intraLATA equal access feature concurrently when possible.

For purposes of the study effort, the growth rate was assumed to be about 7 percent, based on three quarters of data.¹⁷

B. Review of Issues Identified by the Public Service Commission

Issue 1: Specification of access features necessary to provide intraLATA equal access.

As the Task Force began its work, the Switch Vendor Subcommittee considered basic assumptions regarding methods of deploying intraLATA equal access. The intent of the Task Force was to ensure that intraLATA equal access was equal in most every respect to interLATA equal access.

It was determined after discussing the two primary methods of providing intraLATA equal access--centralized and end office--that end office intraLATA equal access should be the primary focus of the investigation. This is due primarily to the fact that local exchange companies in Kentucky have aggressively pursued conversion to equal access on an end office basis.

After reviewing the four fundamental methods of offering presubscription--extended one-PIC, the modified two-PIC, the Advanced Intelligent Network (multi-PIC) and the two-PIC--it was

¹⁷ Id.

decided that the two-PIC and multi-PIC methods should be investigated. This decision was reached after reviewing task force information gathered in other states and after discussing the merits of each method. Other important decisions, such as the call routing assumptions, were also made prior to seeking information from the switch vendors.

Once the fundamental decisions were made regarding intraLATA equal access, the Switch Vendor Subcommittee developed and delivered a Request for Information to certain switch vendors. The Request for Information reflected the basic assumptions discussed above and was sent to switch vendors on January 17, 1992. The Request for Information provided information on the switches currently in place in Kentucky and sought technical and pricing information for the two-PIC and multi-PIC methods. In addition, the switch vendors were asked to consider the modified two-PIC method and any other method that they felt deserved consideration and to report on those methods if they so desired. The switch vendor responses are included in the Switch Vendor Subcommittee Report in Section VII, Attachment B.1.

The Request for Information also defined intraLATA equal access and discussed the Commission's charge to the Task Force. The Switch Vendor Subcommittee corresponded with some of the switch vendors after receiving initial submissions, in order to clarify the Request for Information and to seek additional information. Once the switch vendor responses were received by the Switch Vendor Subcommittee, the results were summarized for use by the Large

Local Exchange Company Subcommittee and the Small Local Exchange Company Subcommittee. Specifically, the availability and cost of intraLATA equal access software and hardware were provided to the Large and Small Local Exchange Company Subcommittees.

Issue 2: The availability and cost of intraLATA equal access software generics.

A "software generic" is a particular version of the software for a central office switch. Some features are provided as basic elements of a given "software generic" while others are optional features, generally referred to as feature packages. IntraLATA equal access is or will be an optional software feature package in most central office switch types.

Optional software feature packages are developed for introduction with a specific basic software generic and remain compatible with future software generics. Optional software feature packages cannot be installed in a switch until the appropriate basic software generic is installed. Consequently, there are three possible situations which generate costs for providing the intraLATA equal access software feature package:

1. Some older switches cannot be equipped for intraLATA equal access and must be replaced before intraLATA equal access can be offered.
2. The basic "software generic" in a switch may not be the correct version and must be upgraded to the proper version before the intraLATA software feature package can be installed. This is typically referred to as a generic upgrade.
3. Where the "software generic" is the correct version, the intraLATA equal access software feature package must be purchased, installed and tested.

The switch vendors supplied information regarding the switch types that would be equipped with the two-PIC feature, the basic software generic required to add the optional intraLATA equal access feature and when the basic software generic and/or the intraLATA equal access feature package would be available. They also provided planning prices for the feature packages. The information provided by the switch vendors is summarized in Table 2.

TABLE 2 - SUMMARY OF TWO-PIC SOFTWARE AVAILABILITY/COST BY SWITCH TYPE

Switch Vendor	Switch Type	2-PIC Generic	Avail. Date	Planning Price
AGCS	GTD-5EAX	SVR 1.6.4.1	See (1)	\$6.8M Dev. + \$10K/site
	No.2-EAX-2A	SVR 1.4.1.1	See (1)	\$2.8M Dev.(2)
	No.2-EAX-2B	SVR 1.3.5.1	See (1)	
ALCATEL	1210	GSM 303	NOW (3)	\$50-\$350K
ADS	ITS 4/5	Release 8	NOW (3)	\$150K/site
*AT&T	1AESS	1AE11	See (4)	\$6.9 - \$7.3M Dev. Cost (2)
	2BESS	2BE5	See (4)	
	5ESS	5E9	See (4)	
NEC	NEAX 61E	G2	NOW (3)	\$0
NTI	DMS-100	BC335	4th Qtr '92	\$40k/site
	DMS-10	405.10	NOW (3)	\$5/wired line max of \$12.5K/site
SIEMENS	DCO/RNS	18.0	1st Qtr '94	\$16K/site
	EWSD	11.0	1995	\$7.4K/site

Notes on Table 2

*AT&T has not provided individual per switch planning prices for the two-PIC feature. The aggregate price for the two-PIC feature for AT&T switches in Kentucky is proprietary and is not provided in this report. Individual local exchange company reports should reflect AT&T planning prices.

- (1) AGCS has indicated that it will take 15 to 18 months to develop the two-PIC feature after they have received a request for development.
- (2) These development costs are one-time costs for all switches identified by this switch vendor.
- (3) It should be noted that it will take a certain amount of time—which may vary by local exchange company and switch vendor—to request, engineer and install the intraLATA equal access feature.
- (4) AT&T has indicated that it will take approximately 18 to 24 months to develop the two-PIC feature once a local exchange company has committed to purchase the feature.

site = a stand alone switch or a host/remote complex

As reflected in Table 2, two vendors provided a "development" cost for the intraLATA software feature package. Whether any or all of this development cost applies to Kentucky is a function of when the feature is required in Kentucky and the extent to which the feature is used in other states or regions. With the exception of GTE, the local exchange companies did not include these development costs in their individual cost analyses since there is some question as to their applicability. GTE, however, included the \$6,800,000 development costs from AGCS as they felt this cost

was certain in their case.

The general availability of intraLATA equal access generic software would be between twelve and twenty-four months following a specific request for such generic software, although it is available today with some switch vendors. Deployment would commence after successful testing of the new software. Although certain companies could begin deploying intraLATA equal access sooner, the Task Force assumed the study period of 1994 through 1996 in evaluating the cost associated with the installation of equal access generic software. The switch vendors' responses provide planning prices for intraLATA equal access generic software. These prices were provided as an input to the large and small local exchange companies' cost analyses. This information, along with the associated local exchange company costs of installing the generic software in the local exchange company switches, is included in the subcommittee reports for the Large Local Exchange Company Subcommittee and the Small Local Exchange Company Subcommittee.

Tables 3 through 9 display costs in three distinct categories --capital, recurring, or nonrecurring. A capital cost represents the purchase of a capital asset. Such a purchase affects a company's operating expense through its depreciation accounting procedures. No attempt was made in this study to identify the operating expense effects of any capital costs. Recurring cost is included in the operating expense of a company in the first year of occurrence and all subsequent years in which the function

continues. Nonrecurring cost is included in the operating expense of a company in a single year.

Table 3 provides total cost figures for intraLATA equal access generic software for all switches excluding upgrade and installation costs.

TABLE 3 - TWO-PIC SOFTWARE COSTS BY LOCAL EXCHANGE COMPANY

Actual Dollars

Company	Type of Cost	1994	1995	1996	Total
South Central Bell	Nonrecurring	\$ 917,000	\$181,000	\$216,000	\$1,314,000
GTE	Nonrecurring	\$1,055,000	\$409,000	\$ 0	\$1,464,000
Cincinnati Bell Telephone	Nonrecurring	\$ 390,000	\$ 60,000	\$ 0	\$ 450,000
Independent Telephone Group	Capital	\$1,332,800	\$330,000	\$ 0	\$1,662,800
	Nonrecurring	\$ 0	\$ 10,000	\$ 0	\$ 10,000
TOTAL	Capital	\$1,332,800	\$330,000	\$ 0	\$1,662,800
	Nonrecurring	\$2,362,000	\$660,000	\$216,000	\$3,238,000

Notes on Table 3:

General: None.

Capital: Each independent company evaluated the accounting treatment of their purchase of intraLATA equal access software. Most classified these costs as capital costs, others classified them as nonrecurring expense.

Recurring: Not applicable to this table.

Nonrecurring: The large local exchange companies' accounting requirements specify that such purchases be treated as nonrecurring expense.

\$0 entries: Under present generic software deployment plans, only South Central Bell anticipates the purchase of intraLATA equal access software in 1996. All other companies will complete their purchases by the end of 1995. Independent Company nonrecurring costs occur only in 1995.

Issue 3: The relative merits and costs of generic upgrades to existing switching equipment and replacement alternatives for local exchange companies planning central office or toll/access tandem change-outs in the normal course of business.

As mentioned previously, there are other costs associated with providing the intraLATA equal access software feature package besides the cost for the package itself, such as switch replacement, upgrading the basic software package, installation and testing. These costs were included in the Large and Small Local

Exchange Company Subcommittee reports which detail the costs associated with installing intraLATA equal access capabilities. From a general perspective, subcommittees used a three-year planning assumption of 1994 through 1996. Inherent in that assumption is that generic upgrades required for other switch growth or feature capabilities would not be attributable to the cost of providing intraLATA equal access. Table 4 is a summary of total upgrade and installation costs for all local exchange companies' end offices. Any accelerated deployment of the required intraLATA equal access technology will generate additional expense for some companies.

TABLE 4: LOCAL EXCHANGE COMPANY SWITCH/GENERIC UPGRADE COSTS

Actual Dollars

Company	Type of Cost	1994	1995	1996	Total
South Central Bell	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 0	\$ 0	\$ 0	\$ 0
GTE	Capital	\$ 161,000	\$574,000	\$ 0	\$ 735,000
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$1,100,000	\$184,000	\$ 0	\$1,284,000
Cincinnati Bell Telephone	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 46,000	\$ 7,000	\$ 0	\$ 53,000
Independent Telephone Group	Capital	\$ 944,100	\$ 22,000	\$ 0	\$ 966,100
	Recurring	\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000
	Nonrecurring	\$ 305,900	\$ 81,500	\$ 0	\$ 387,400
TOTALS	Capital	\$1,105,100	\$596,000	\$ 0	\$1,701,100
	Recurring	\$ 5,000	\$ 5,000	\$ 5,000	\$ 15,000
	Nonrecurring	\$1,451,900	\$272,500	\$ 0	\$1,724,400

Notes on Table 4

General: With the exception of GTE, the local exchange companies did not include development cost in their studies since there is some question as to their applicability to Kentucky. GTE included \$6.8M for AGCS development cost in their 1994 nonrecurring cost. This amount is excluded from this table to facilitate comparison.

Capital: GTE and some independent companies anticipate the purchase of additional central office hardware or base software as central offices are upgraded to accommodate intraLATA equal access software. These purchases are reflected as capital costs.

Recurring: Some independent telephone companies estimate an ongoing expense requirement to insure proper operation of the hardware and software reflected in capital costs.

Nonrecurring: With the exception of South Central Bell, all companies reflected nonrecurring costs for the installation of hardware and software related to intraLATA equal access.

SO entries: All companies expect to complete their acquisition and installation by 1995, consequently only recurring costs are shown in 1996. South Central Bell determined that additional software would not be required in any switch as a result of the intraLATA equal access conversion. South Central Bell also felt that the incremental expense of loading and maintaining the equal access software would be difficult to separate from the general cost of doing business recovered in charges for tariffed services. Consequently, no costs are shown in this table for South Central Bell.

Issue 4: The relative merits and cost of requiring local exchange companies to include intraLATA equal access capability with any installation of interLATA equal access generics.

South Central Bell and Cincinnati Bell will have interLATA equal access generic software installed in all of their central offices before the start of the planning period. Under the current plans, GTE expects to have 89.27% of their end offices converted to equal access by 1994, with the remainder to be determined at a later date.¹⁸ From a general planning perspective, it is assumed that as intraLATA equal access capability is available with a particular generic program, that capability is to be installed in conjunction with other activities or requirements during the planning period. As with any other software feature, the intraLATA equal access feature must be properly tested and evaluated.

There are obvious merits to joint interLATA/intraLATA conversion in terms of upgrade expense. The Task Force recommends that whenever possible, intraLATA and interLATA equal access be installed concurrently. However, the existing interLATA schedule versus the availability of intraLATA equal access may require separate implementation schedules.

Issue 5: The need for national protocol standards, including whether vendor-designed protocols vary or are likely to vary substantially and whether national standards are likely to follow rather than precede state implementation.

Based on the vendors' responses to the Switch Vendor Subcommittee's Request for Information, it appears that intraLATA equal access can be implemented without, or before, a national

¹⁸ The 89.27% figure is a combined GTE/Contel number.

standard protocol. Development of a national standard is not underway and would probably take eighteen months or more once the effort was started. Each of the vendors are developing or have indicated an ability to develop an intraLATA equal access capability without depending on a national standard. The vendor efforts are being driven by the numerous intraLATA equal access investigations taking place nationally. Since the vendors do have an existing feature, i.e. interLATA equal access, to use as a pattern, it is probable that they will be able to successfully develop this new feature with a degree of consistency from one vendor to the next. Nevertheless, there is a possibility that there will be some variation between switch vendors. The actual variations between vendors cannot be determined until all of the vendors have proceeded far enough in their development work to provide detailed technical descriptions of how the intraLATA equal access feature will work in each switch type.

If a national standard is developed, it will likely follow rather than precede state implementation, because of the time required and the current lack of initiative to develop such a standard. Without standards, if some discrepancy is discovered, defining what is correct could be contentious and developing fixes could be a lengthy process which could affect the overall schedule of implementation.

Issue 6: The relative merits of alternative intraLATA equal access cost recovery methods.

At the Commission's request parties filed individual comments on this issue. A summary follows.

GTE proposes recovery of intraLATA presubscription costs from the interexchange carriers on a percent market share basis. GTE's position is that only the interexchange carriers benefit from intraLATA equal access and therefore, only they should be responsible for covering the cost.

The Independent Telephone Group suggested using the National Exchange Carrier Association's interstate procedural guidelines and recovering intraLATA equal access expense from all applicable carriers using Feature Group B and D minutes of use. The Independent Telephone Group feels the local exchange companies should not absorb a portion of this cost.

South Central Bell proposed recovery from competing carriers, i.e., any intraLATA carrier other than South Central Bell, based on the "presubscribed line" interstate methodology.

AT&T suggests that costs be recovered by adding a surcharge to access minutes. They also suggest that the charge be assessed to all toll minutes, i.e., the local exchange companies would be required to absorb some portion of the cost. AT&T cautions that the Commission should ensure that equal access costs are not both allocated to the interstate jurisdiction and recovered in the intrastate jurisdiction.

MCI cautioned that the local exchange companies should identify only the incremental cost of providing intraLATA equal access pursuant to existing Federal guidelines (FCC Rule 36.421) and that only these costs be allowed recovery. The cost should be recovered by adding the cost to the existing cost recovery

mechanism. MCI allowed that this can be minutes based or based on presubscribed lines. MCI suggests that if intraLATA equal access is mandatory that the minutes based approach is acceptable. However, if participation is voluntary, the presubscribed line approach is a better method of recovering costs from the true market participants.

Issue 7: The relative merits and cost of alternative presubscription balloting procedures.

The Task Force recommends that a carrier marketing approach be adopted for offices converted to interLATA equal access, or already in the process of balloting for interLATA equal access. In this approach, customers would select an intraLATA carrier in response to marketing efforts. This recommendation is consistent with the recommendation in the "Report of Equal Access and Presubscription Implementation Study Committee to the Minnesota Public Utilities Commission" and with the "Report of the Balloting Subcommittee No. 7 to the Equal Access Workshop" in North Dakota. The "Final Report of the Task Force on IntraLATA Presubscription" in New York did not present a consensus recommendation on this issue. In the New York report, balloting these customers was felt to have merit because:

...it is feared that even those who understand their options, will not avail themselves of those choices absent a balloting process. Second, there is a concern that absent statewide balloting, some IXCs might offer presubscribed intraLATA toll service to select markets and avoid others.¹⁹

¹⁹ Final Report of the Task Force on IntraLATA Presubscription, New York Public Service Commission, Case 28425.

The recommendation of the Kentucky Task Force is based on the fact that customers in general do not understand interLATA versus intraLATA distinctions. Consequently, another round of balloting for intraLATA calls will confuse customers relative to their interLATA selection. Secondly, the New York concern about selective marketing appears unfounded given the interexchange carrier responses to the Interexchange Carrier Subcommittee. Finally, the benefit to be derived from such reballoting is unlikely to outweigh the costs.

The Large Local Exchange Company Subcommittee and the Small Local Exchange Company Subcommittee requested an estimate of the cost associated with three balloting alternatives as follows:

1. Statewide balloting -- that is, a separate ballot for all customers already converted to interLATA equal access. This ballot would be a single ballot without allocation. Customers who did not respond to the ballot would remain with the local exchange company. The cost to conduct this ballot using two ballots with allocation is included as a percentage inflator to the single ballot costs. Also included was simultaneous balloting for both interLATA and intraLATA equal access as new offices convert.
2. Ballot for interLATA and intraLATA equal access as new offices convert but do not ballot customers already converted (or where interLATA balloting is in process).
3. No balloting for intraLATA equal access. Customers would select an intraLATA carrier only in response to marketing efforts.

Table 5 summarizes the responses of the local exchange companies to the Subcommittees' inquiries.

TABLE 5: LOCAL EXCHANGE COMPANY BALLOTING AND NONBALLOTING COSTS

Actual Dollars

Company	Type of Cost	Reballot without Allocation	Reballot with Allocation	Ballot interLATA and intraLATA concurrently	Market Driven Conversion
South Central Bell	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$3,250,110	\$2,481,000	\$ 466,000	\$ 429,000
GTE	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 849,800	\$ 607,000	\$ 80,000	\$ 15,000
Cincinnati Bell	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 196,500	\$ 150,000	\$ 0	\$ 0
Independent Telephone Group	Recurring	\$ 6,000	\$ 6,000	\$ 118,500	\$ 73,000
	Nonrecurring	\$ 486,180	\$ 371,130	\$ 25,599	\$ 25,000
TOTAL	Recurring	\$ 6,000	\$ 6,000	\$ 118,500	\$ 73,000
	Nonrecurring	\$4,782,590	\$3,609,130	\$ 571,599	\$ 469,000

Notes on Table 5

General: Costs for balloting without allocation were specifically gathered. The costs for balloting with allocation were estimated using an inflator based on the general experience regarding response rate to a first ballot. Consequently, GTE used an inflator of 40% and all other used an inflator of 31%. The inflator was only applied to nonrecurring costs.

Capital: Not applicable to this table.

Recurring: The independent telephone companies anticipate a permanent increase in the time required for a Business Office contact with a customer as a result of the intraLATA carrier selection process.

Nonrecurring: These are the costs for mailing and handling ballots and ballot responses and/or customer instruction information. In addition, south Central Bell included the additional Business Office contact time as an increase in nonrecurring expense for each year of the study period. South Central Bell determined that any ongoing level of increased expense would be incorporated in tariffed rates by the end of the study period. GTE included these costs in "administrative expense" (see Table 7). Cincinnati Bell felt that the increased Business Office costs would be difficult to separate from the general cost of doing business recovered in charges for tariffed services. Consequently, no such costs are reflected for Cincinnati Bell.

The Task Force recommends balloting in offices converting to interLATA equal access and intraLATA equal access at the same time. Customers in these offices must be balloted according to the FCC Allocation Plan. From a cost efficiency standpoint, including the intraLATA selection on the same ballot appears reasonable. The Task Force has not considered the details of this process, such as

the appearance of the ballot, or the details of any additional explanatory information that should accompany the ballot. Nevertheless, it was felt that such details could be handled quickly and would not preclude a recommendation for this method.

Finally, the cost estimates developed by the local exchange companies assumed that new customers will be canvassed for their intraLATA carrier just as they are canvassed for their interLATA carrier. Another option would be to default new customers to a designated carrier, either local or interexchange.

Issue 8: The need for any network reconfiguration to facilitate intraLATA equal access, including the relative merits and cost of centralized access tandems shared by groups of local exchange companies.

In today's network, interexchange carriers gain access to the local exchange network by establishing one or more Point(s) of Presence in each LATA. IntraLATA intrastate toll calls placed using a 10XXX prefix and all interLATA intrastate, interLATA interstate and international toll calls originating from, or terminating to, the local exchange company are exchanged with an interexchange carrier at these Points of Presence. IntraLATA calls dialed with a 1+/0+ prefix are completed by local exchange companies on their network. When intraLATA equal access is introduced, and to the extent that interexchange carriers gain intraLATA market share, calls on the local exchange company toll network will diminish and calls exchanged at carrier Points of Presence will increase. This shift in calling patterns may require certain network reconfigurations (see Attachment G for additional

details).

The Large and Small Local Exchange Company Subcommittees gathered data from each individual company concerning any required network reconfiguration associated with intraLATA equal access. As an input to this process the interexchange carriers reported that the degree to which their Point of Presence requirements might change as a result of intraLATA carriage was unknown. AT&T added that they expected the effect to be minimal. Consequently, local exchange companies' evaluation of network rearrangements assume no change to the existing Point of Presence configuration. South Central Bell network reconfiguration expense consists of trunk rearrangements required as toll traffic shifts from local exchange companies to interexchange carriers.

Table 6 reflects network reconfiguration costs as provided to the Task Force.

TABLE 6: LOCAL EXCHANGE COMPANY NETWORK RECONFIGURATION COSTS

Actual Dollars

Company	Type of Cost	1994	1995	1996	TOTAL
South Central Bell	Capital	\$1,244,000	\$345,000	\$142,000	\$1,731,000
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 0	\$ 0	\$ 0	\$ 0
GTE	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 0	\$ 0	\$ 0	\$ 0
Cincinnati Bell	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 0	\$ 0	\$ 0	\$ 0
Independent Telephone Group	Capital	\$ 202,000	\$105,600	\$ 0	\$ 307,600
	Recurring	\$ 5,500	\$ 5,500	\$ 5,500	\$ 16,500
	Nonrecurring	\$ 20,000	\$ 0	\$ 0	\$ 20,000
TOTAL	Capital	\$1,446,000	\$450,600	\$142,000	\$2,038,600
	Recurring	\$ 5,500	\$ 5,500	\$ 5,500	\$ 16,500
	Nonrecurring	\$ 20,000	\$ 0	\$ 0	\$ 20,000

Notes on Table 6General: None.

Capital: South Central Bell anticipates the purchase of additional trunk equipment and facilities as traffic shifts from the toll network to the interexchange carrier network (see attachment G for details). Some independent telephone companies anticipate a similar requirement.

Recurring: These costs reflect the independent companies' estimate of ongoing costs to maintain the capital assets referred to above.

Nonrecurring: These costs reflect the independent companies' estimates for installing the capital assets referred to above.

SO entries: South Central Bell made no attempt to estimate the incremental increase in recurring or nonrecurring expense to install or maintain the trunks and facilities identified in capital above. It was felt that these incremental increases would be difficult to separate from the general cost of doing business as recovered through charges for tariffed services.

The Coordinating Committee did not pursue centralized equal access because the local exchange companies in Kentucky are aggressively deploying end office based interLATA equal access on an individual company basis.

Issue 9: The relative merits and cost of alternative intraLATA equal access implementation schedules.

The Large and Small Local Exchange Company Subcommittees requested a cost analysis of intraLATA equal access implementation based on a 1994 to 1996 implementation. Early 1994 was presumed to be a realistic starting point given certain vendor schedules and regulatory practicalities. The phased-in approach through 1996 was intended to accommodate the local exchange companies' existing network upgrade plans.

No other implementation or schedules were analyzed. Had the Task Force considered other periods of time, the costs would differ from those listed here.

Other Issues

Various administrative costs will be incurred as a result of intraLATA equal access as operations support systems are modified to accommodate two-PIC information, as employees are trained to deal with related issues and as customers are educated relative to the carrier selection process. The local exchange companies were asked to evaluate these issues and determine the resulting increase in cost. The information on Table 7 was provided.

TABLE 7: LOCAL EXCHANGE COMPANY ADMINISTRATIVE COSTS

Actual Dollars

Company	Type of Cost	1994	1995	1996	TOTAL
South Central Bell	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 811,000	\$811,000	\$811,000	\$2,433,000
	Nonrecurring	\$ 222,000	\$ 97,000	\$ 12,000	\$ 331,000
GTE	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 71,000	\$ 78,000	\$ 84,000	\$ 233,000
	Nonrecurring	\$7,302,000	\$ 7,000	\$ 5,000	\$7,314,000
Cincinnati Bell	Capital	\$ 0	\$ 0	\$ 0	\$ 0
	Recurring	\$ 0	\$ 0	\$ 0	\$ 0
	Nonrecurring	\$ 235,000	\$ 0	\$ 0	\$ 235,000
Independent Telephone Group	Capital	\$ 50,000	\$ 48,500	\$ 0	\$ 98,500
	Recurring	\$ 83,180	\$100,180	\$100,180	\$ 283,540
	Nonrecurring	\$ 191,099	\$ 44,750	\$ 0	\$ 235,849
TOTALS	Capital	\$ 50,000	\$ 48,500	\$ 0	\$ 98,500
	Recurring	\$ 965,180	\$989,180	\$995,180	\$2,949,540
	Nonrecurring	\$7,950,099	\$148,750	\$ 17,000	\$8,115,849

Notes on Table 7General: None.Capital: Some independent companies identified the purchase of equipment necessary to administer customer records and billing in an intraLATA equal access environment.Recurring: South Central Bell's cost includes advertising for toll considered both appropriate in the competitive environment and incremental, since the expenditure would not be made absent intraLATA competition. South Central Bell also anticipates operator savings as traffic requirements shift to interexchange carriers. GTE and the independent companies anticipate increases in their ongoing costs for billing interexchange carrier and end user customers and in service order procedures, etc. GTE's increase in Business Office contact time is reflected in this category.Nonrecurring: GTE, Cincinnati Bell and some independent companies anticipate increased costs to modify billing and service order systems for the intraLATA equal access environment. The majority of this expense falls in 1994. GTE has included various "first time" costs to modify their nationwide systems which cannot be simply modified on a "Kentucky only" basis. South Central Bell's nonrecurring expense represents advertising costs and operator savings in excess of the recurring level in any given year.SO Entries: The large local exchange companies have no capital requirements for administrative purposes relative to intraLATA equal access. South Central Bell and GTE have small nonrecurring costs in 1996, otherwise all administrative costs in 1996 are recurring in nature. Cincinnati Bell identified nonrecurring costs for 1994 only. South Central Bell felt that incremental administrative expense, separate from that created by some carrier selection methodology (e.g. balloting), would be difficult to identify and separate from the ongoing cost of doing business.

Table 8 is organized in three parts. All of the costs submitted by the local exchange companies were categorized as capital, recurring or non-recurring. In addition, the total cost of equal access is a function of the discussion regarding balloting. Consequently, Table 8, Parts 1 through 3 show total capital, recurring and non-recurring costs respectively for South Central Bell, GTE, Cincinnati Bell, and the Independent Telephone Group by year. Balloting costs, which vary by option, are excluded from Table 8.

TABLE 8: LOCAL EXCHANGE COMPANY COSTS

Part 1: CAPITAL COSTS

Actual Dollars

Company	1994	1995	1996	TOTAL	
South Central Bell	\$1,244,000	\$345,000	\$142,000	\$1,731,000	
GTE	\$161,000	\$574,000	\$0	\$735,000	
Cincinnati Bell	\$0	\$0	\$0	\$0	
Independent Telephone Companies	\$2,528,900	\$506,100	\$0	\$3,035,000	
Totals	\$3,933,900	\$1,425,100	\$142,000	\$5,501,000	

Part 2: RECURRING COSTS--EXCLUDING CARRIER SELECTION COSTS

Company	1994	1995	1996	3 YR TOTAL	Ongoing Level
South Central Bell	\$811,000	\$811,000	\$811,000	\$2,433,000	\$811,000
GTE	\$71,000	\$78,000	\$84,000	\$233,000	\$84,000
Cincinnati Bell	\$0	\$0	\$0	\$0	\$0
Independent Telephone Companies	\$93,680	\$110,680	\$110,680	\$315,040	\$110,680
Totals	\$975,680	\$999,680	\$1,005,680	\$2,981,040	\$1,005,680

Part 3: NONRECURRING COSTS--EXCLUDING CARRIER SELECTION COSTS

Company	1994	1995	1996	TOTAL	
South Central Bell	\$1,139,000	\$278,000	\$228,000	\$1,645,000	
GTE	\$9,457,000	\$600,000	\$5,000	\$10,062,000	
Cincinnati Bell	\$671,000	\$67,000	\$0	\$738,000	
Independent Telephone Companies	\$516,999	\$136,250	\$0	\$653,249	
Totals	\$11,783,999	\$1,081,250	\$233,000	\$13,098,249	

Notes on Table 8

General: This table represents the total costs of the intraLATA equal access undertaking exclusive of any costs associated with selecting an intraLATA carrier. In other words, these costs will be incurred regardless of the method used to select an intraLATA carrier.

Capital: A capital expenditure of \$5,501,000 is required for the planning period. Once again, no attempt was made evaluate the effects of these expenditures on ongoing costs.

Recurring: Recurring costs of \$2,981,040 are required over the planning period. The ongoing requirement is \$1,005,600.

Nonrecurring: Total nonrecurring costs for the planning period are \$13,098,249. This excludes the \$6,800,000 for AGCS development costs. Other development costs may be attributable to Kentucky local exchange companies from AT&T Network Systems. These costs are likewise excluded.

Table 9 shows the totals for Table 8 and adds to them the cost for the various balloting options, thus reflecting the total cost of intraLATA equal access implementation given the various balloting options available.

TABLE 9: TOTAL LOCAL EXCHANGE COMPANY COSTS

Balloting with Allocation				
Cost Category		Costs Excluding Selection Option	Increase Due to Selection Option	TOTAL
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$4,782,590	\$17,880,839
	Recurring	\$2,981,040	\$6,000	\$2,987,040
	Total	\$16,079,289	\$4,788,590	\$20,867,879
Ongoing Annual Costs		\$1,005,680	\$2,000	\$1,007,680
Capital Costs		\$5,501,000	\$0	\$5,501,000
Balloting without Allocation				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$3,609,130	\$16,707,379
	Recurring	\$2,981,040	\$6,000	\$2,987,040
	Total	\$16,079,289	\$3,615,130	\$19,694,419
Ongoing Annual Costs		\$1,005,680	\$2,000	\$1,007,680
Capital Costs		\$5,501,000	\$0	\$5,501,000
allot Going Forward				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$571,599	\$13,669,848
	Recurring	\$2,981,040	\$118,500	\$3,099,540
	Total	\$16,079,289	\$690,099	\$16,769,388
Ongoing Annual Costs		\$1,005,680	\$41,500	\$1,047,180
Capital Costs		\$5,501,000	\$0	\$5,501,000
Market Driven Conversion				
Operating Costs for the Planning Period (1994-1996)	Nonrecurring	\$13,098,249	\$469,000	\$13,567,249
	Recurring	\$2,981,040	\$73,000	\$3,054,040
	Total	\$16,079,289	\$542,000	\$16,621,289
Ongoing Annual Costs		\$1,005,680	\$27,500	\$1,033,180
Capital Costs		\$5,501,000	\$0	\$5,501,000

Notes

Capital costs are unaffected by carrier selection method and remain at \$5,501,000 regardless of method selected. Recurring and nonrecurring costs are affected by the selection method and this table shows incremental change to recurring and nonrecurring costs for the planning period and also the change to ongoing costs. Note once again that onrecurring costs exclude any development costs that may be allocated to Kentucky.

V. Overview of IntraLATA Equal Access Activities in Other States

The purpose of this section is to provide an overview of intraLATA equal access investigations that have occurred in other states. Specifically, this section will focus on those states that have utilized the task force approach to study intraLATA equal access implementation issues. Unique aspects of the other state studies will be identified to provide additional perspectives on this topic. This section will also identify those states that have authorized centralized equal access as opposed to end office intraLATA equal access. No attempt will be made to identify all states that have addressed the intraLATA equal access issues and the results of those proceedings.

Minnesota was the first state to examine the issue of intraLATA equal access, establishing the "Equal Access and Presubscription Implementation Study Committee" to develop an implementation plan for intraLATA equal access in that state.²⁰ The Minnesota Implementation Committee issued its report on June 30, 1989. A unique aspect of the Minnesota Order regarding intraLATA equal access was the requirement for a 25 percent discount on access charges in offices converted to interLATA equal access but where intraLATA equal access is not available. The Minnesota Commission found that "[a]n important part of equal access is the reduction in the number of digits necessary when dialing. The form of access made available to IXCs in the

²⁰ Minnesota Public Utilities Commission, Docket No. P-999/CI-87-697, "Findings of Fact, Conclusions of Law and Order and Order Initiating Summary Investigations," Nov. 2, 1987.

intraLATA toll market, where consumers must dial a 10XXX code to complete an intraLATA toll call, cannot be considered equal access."²¹ The Minnesota Commission justified the 25 percent discount by noting that "the discount is necessary and appropriate to permit effective competition among intraLATA competitors until equal access and presubscription is available on an intraLATA basis."²²

The most recent development in intraLATA equal access occurred in North Dakota. On April 7, 1992, the North Dakota Public Service Commission issued an order in its intraLATA proceeding requiring, among other things, the deployment of intraLATA equal access on a statewide basis by the end of 1994.²³ As part of its Order, the North Dakota Commission established an equal access workshop to "review and make recommendations related to the equal access implementation procedure"²⁴ described in the Order. The Final Report of the North Dakota Equal Access Workshop was filed on September 4, 1992. As in Kentucky, the North Dakota Report recommends the use of two-PIC technology for presubscription purposes. Many of the findings and recommendations in the North Dakota Report are similar to those in this Task Force Report.

²¹ Minnesota Public Utilities Commission, Docket No. P-999/CI-85-582 Order, p. 45.

²² Id.

²³ North Dakota Public Service Commission, Findings of Fact, Conclusions of Law and Order, Case No. PU-2320-90-183, dated April 7, 1992.

²⁴ Id., p. 26.

As was the case in Minnesota, the North Dakota Public Service Commission required a 25 percent discount on access charges where intraLATA equal access is not available.²⁵ In its Rehearing and Reconsideration Order dated May 19, 1992, the North Dakota Public Service Commission vacated the ordering paragraphs regarding the 25 percent discount and agreed to have separate hearings on the appropriate level of the discount. No other states have required a discount on access charges for end offices converted to interLATA equal access where intraLATA equal access is not available.

Although many states have addressed intraLATA equal access in proceedings, only a few states have required study committees similar to the approach used in Kentucky. In addition to Minnesota and North Dakota, South Dakota and New York have issued reports on this topic. Those reports provided significant insights and information that were helpful to the efforts of this Task Force. The format of the Minnesota Request for Information, for instance, was used as a template in developing the Request for Information that was used in Kentucky to solicit technology and price information from switch vendors. Information about the Advanced Intelligent Network (multi-PIC option), presubscription options and cost recovery was provided in the New York Report and proved useful to the investigation in Kentucky. The New York Task Force issued its Report on September 9, 1991. The South Dakota Report, which was issued on July 31, 1990, provides extensive analysis of

²⁵ North Dakota Public Service Commission, Findings of Fact, Conclusions of Law and Order, Case No. PU-2320-90-183, April 7, 1992, p. 24.

industry positions on intraLATA equal access, but was not specifically referenced by the Task Force. Since the North Dakota and Kentucky reports were being developed during the same time period, the North Dakota Report was not available for review by this Task Force.

Certain states are still considering the Reports of their intraLATA equal access study committees. In New York, for instance, the Administrative Law Judge requested comments on the intraLATA presubscription issues contained in the report.²⁶ Initial and Reply Comments were filed by the parties. The Administrative Law Judge issued a Recommended Decision on August 24, 1992, finding that intraLATA equal access should be deployed using multi-PIC presubscription and specifically rejected the use of the two-PIC method that has been recommended by this Task Force and in other jurisdictions. The Administrative Law Judge stated that intraLATA equal access should be deployed coincident with the deployment of the Advanced Intelligent Network. The parties to the New York proceeding filed briefs on exceptions on September 13, 1992 and reply briefs on exceptions on September 26, 1992.

The Public Utilities Commission of South Dakota found, after reviewing the South Dakota Task Force Report, that remaining issues needed to be addressed before the Commission could properly order the statewide implementation of end office based intraLATA equal

²⁶ New York Public Service Commission, Case 28425, Ruling Seeking Comments on Intra-LATA Presubscription, issued February 18, 1992.

access.²⁷ A separate proceeding will be required in South Dakota before statewide implementation of intraLATA equal access is considered. Centralized equal access is currently being provided by the South Dakota Network, a consortium of independent telephone companies in South Dakota, in certain independent exchanges.

IntraLATA equal access was first deployed in 1989 as "centralized equal access." A consortium of independent telephone companies in Iowa formed a company (Iowa Network Services) to provide intraLATA equal access features. The goal of the company was to provide consumers with equal access without having to convert or replace each of the independent telephone company switches. The independent telephone company switches received the equal access features through a Northern Telecom DMS-100/200 switch. Other groups of independent telephone companies have also deployed centralized equal access [(Minnesota Independent Equal Access Corporation in Minnesota and North Dakota, South Dakota Network, Kansas Independent Network (application pending))].

Soon after the Minnesota Committee submitted its implementation report, the Minnesota Independent Equal Access Corporation, a consortium of independent local exchange companies, filed for operating authority. The Minnesota Commission decided to investigate the Minnesota Independent Equal Access Corporation request before addressing the intraLATA equal access report, since that proposal also suggested a form of intraLATA equal access. The

²⁷ Before the Public Utilities Commission of the State of South Dakota, Order Closing Docket, TC90-01, January 4, 1991.

Minnesota Commission granted Minnesota Independent Equal Access Corporation authority to provide centralized equal access service on January 10, 1991.²⁸ On September 15, 1992, US WEST Communications ("US WEST") filed a Petition for Further Proceedings in Minnesota regarding intraLATA equal access.²⁹ Specifically, US WEST has asked that the Minnesota Commission address certain factual and policy considerations regarding the implementation of intraLATA equal access in Minnesota. US WEST's petition is pending before the Minnesota Commission, and no decision is expected in the near future.

Other companies, similar to the Minnesota Independent Equal Access Corporation, have requested and received authority to provide centralized intraLATA and interLATA equal access. Currently, South Dakota, Iowa, North Dakota and Minnesota have companies providing centralized intraLATA and interLATA equal access in certain independent exchanges. The Kansas Independent Network, however, has requested operating authority to provide only centralized interLATA equal access to certain independent exchanges. Centralized equal access is discussed in detail under Section IV.B., Issue 8 of this Report.

The one state that has end office intraLATA equal access in place is Alaska. The Alaska Public Utilities Commission ordered

²⁸ Minnesota Public Utilities Commission, Order Granting Certificate of Authority to Provide Equal Access Service, Docket No. P3007/NA-89-76, January 10, 1991.

²⁹ Minnesota Public Utilities Commission, Petition for Further Proceedings of US WEST Communications, Inc., Docket Nos. P-999/CI-85-582, P-999/VI-87-695, P-999/CI-87-697, September 15, 1992.

intraLATA equal access on certain routes effective May 15, 1991.³⁰ Implementation of the extended one-PIC presubscription option is required whenever a local exchange company requests a waiver from two-PIC equal access. The Alaska experience is unique in that the local exchange companies, specifically Telephone Utilities of Alaska, Inc. and Telephone Utilities of the Northland, showed in response to a hearing request, that two-PIC intraLATA equal access could be provided by simply reconfiguring the translations in the Stromberg DCO, Northern Telecom DMS 10 and Northern Telecom DMS 100 switches. This solution allowed the deployment of intraLATA equal access in Alaska before the switch vendors made the two-PIC software generally available.

As noted above, many states have addressed the intraLATA equal access issue. Some states have required the industry to develop reports on the implementation issues surrounding intraLATA equal access, while other states have rejected the notion of intraLATA competition. In some states, certain local exchange companies have formed corporations to provide intraLATA equal access on a centralized basis. Many of these experiences were considered during the Task Force investigation.

³⁰ Alaska Public Utilities Commission, in the Matter of Consideration of Regulations to Provide Telephone Subscribers Equal Access to Alternative Intrastate Interexchange Carriers, Docket No. R-90-4, Order No. 4, Order Adopting Regulations, June 25, 1991.

VI. GLOSSARY

Acronyms

0+	A dialing prefix used when the calling party wishes to bill the charges associated with the call to some entity other than the originating access line. This is most commonly used with operator-assisted telephone calls.
1+	A dialing prefix used when the calling party wishes to bill the charges associated with the call to the originating access line. This is the dialing pattern used to make long-distance telephone calls billed to the telephone used to make the call.
10XXX	A dialing prefix used to select a carrier other than the carrier to which the access line is presubscribed. The XXX portion of this prefix is called the Caller Identification Code (CIC).
CIC	Carrier Identification Code - The three digit number that uniquely identifies a carrier. The same code applies to an individual carrier throughout the areas served by the North American Numbering Plan.
ITG	Independent Telephone Group - An organization of independent telephone companies in Kentucky comprising: Ballard Rural Telephone Cooperative Cooperation, Inc. Brandenburg Telephone Company, Inc. Duo County Telephone Cooperative Corporation, Inc. Foothills Rural Telephone Cooperative Corporation, Inc. Harold Telephone Company, Inc. Highland Telephone Cooperative, Inc. Logan Telephone Cooperative, Inc. Mountain Rural Telephone Cooperative Corporation, Inc. North Central Telephone Cooperative, Inc. Peoples Rural Telephone Cooperative Corporation, Inc. South Central Rural Telephone Cooperative Corp., Inc. Thacker-Grigsby Telephone Company, Inc. West Kentucky Rural Telephone Cooperative Corp., Inc.
LATA	Local Access and Transport Area - a geographic area within each Bell Operating Company's franchised area that has been established by the Bell Operating Company in accordance with the provisions of the Modification of Final Judgement for the purpose of defining the territory within which a Bell Operating Company may offer its telecommunications services. LATAs in the MFJ are referred to as exchanges or exchange areas.

MFJ Modification of Final Judgement - An agreement reached between the Bell System and the Department of Justice on January 2, 1982 and approved by the Federal District Court on August 24, 1982. The terms of this agreement required AT&T to divest itself of the exchange telecommunications and Yellow Page directory businesses.

NXX The first three digits of a seven digit telephone number, where N is any number 2-9 and X is any number 0-9.

NPA Numbering Plan Area - Typically referred to as an area code, this area defines a geographical area identified by a unique three digit code assigned by the North American Number Plan administrator. In Kentucky there are two NPAs--the central and western portion of the state are assigned to the 502 NPA and the eastern portion of the state is assigned to the 606 NPA. This code is the first three digits of a ten digit telephone number.

PIC Primary Interexchange Carrier - The purpose of this document, "PIC" is defined as the interexchange carrier designated by the subscriber to handle interexchange calls dialed on a 1+/0+ basis.

POP Point of Presence - A physical location within a LATA at which an interexchange carrier establishes itself for the purpose of obtaining access to the local exchange network.

Terms

Dialing Parity - The concept that, after the implementation of intraLATA equal access, customer dialing requirements for intraLATA calls will be equivalent to the greatest extent possible with interLATA dialing requirements.

Feature Package - A subset of central office software that enables the central office to provide a specific service or capability.

Interexchange - When applied to an interexchange carrier this term is equivalent to interLATA (since the MFJ refers to LATAs as exchanges). When applied to Bell Operating Company traffic, the term refers to traffic between specifically defined areas referred to as exchanges in the General Subscriber Services Tariff or similar tariffs.

InterLATA - A term which refers to a call which originates in one LATA and terminates in another LATA.

IntraLATA - A term which refers to a call which originates and terminates in the same LATA.

PIC Methods

1. Extended One-PIC: With this option, a customer's interLATA carrier becomes their intraLATA carrier. This option precludes the local exchange company from offering intraLATA toll service.
2. Two-PIC: A customer can select a participating carrier to handle interLATA traffic and a different carrier, one of whom may be the local exchange company, for intraLATA traffic.
3. Modified Two-PIC: In this method, at the customer's option, intraLATA traffic must be carried by either their interLATA carrier, or their local exchange company. Technology required for this option is the same as that for the two-PIC method.
4. Advanced Intelligent Network (multi-PIC): In this method a database external to the customer's central office contains information regarding the customer's preferences. The customer can choose multiple carriers based on route specific pricing, time-of-day discounts, or other customer criteria. This provides the greatest degree of customer choice but requires a network architecture which is not fully developed and for which cost information is unavailable.

Presubscription - An arrangement whereby a customer may select and designate to the Telephone Company an interexchange carrier for handling interLATA calls dialed on a 1+/0+ basis. This term is now extended to include the choice of a carrier for handling intraLATA calls on a 1+/0+ basis. The selected carrier need not be the same for interLATA calls and intraLATA calls and is determined by the method used to implement intraLATA equal access. In the two-PIC method the carriers selected may be different.

Software Generic: The basic software required to operate a specific vintage of central office hardware.