Q.Please state your name, position and business address.

A.My name is Birdelle Brown.  I am a Telecommunications Analyst for the Idaho Public Utilities Commission (IPUC) at 472 West Washington Street, Boise, Idaho 83720.

Q.Please describe your educational and occupational background.

A.I have worked at the Idaho Public Utilities Commission as a Telecommunications Analyst over five years.  Prior to working for the IPUC, I performed telecommunications consulting work for the Idaho Department of Administration, where I wrote specifications and requests for proposals for telecommunications facilities.  Before that, I worked for more than eleven years in telecommunications at Morrison-Knudsen Company, Inc., where I gained considerable experience in networking, design, maintenance and support of large PBX networks and small systems, as well as ensuring compliance with regulation, budget and other considerations.

I graduated from Boise State University with a BBA in Business Administration in 1989 and have attended several telecommunications workshops sponsored by AT&T and Mountain Bell, as well as various business-related seminars and workshops.

Q.Please describe your work at the IPUC.

A.As a member of the Commission Staff, my duties include reviewing and making recommendations concerning telephone company tariffs, rate applications and customer petitions.

Q.What is the purpose of your testimony in this proceeding?

A.My testimony discusses issues surrounding implementation of intraLATA presubscription (1+) dialing in Idaho.  I discuss such issues as whether intraLATA presubscription is in the public interest, what the implementation costs would be, how it should be implemented and how it should be paid for.

Q.What do you mean by intraLATA presubscription?

A.“Presubscription” (or “equal access” or

“1+ dialing”) enables customers to select a carrier to carry their long distance traffic when they dial 1 plus the called number.  Most customers in Idaho currently have interLATA presubscription so that they can subscribe to their long distance carriers for calls outside of their LATAs, but if they dial 1 plus a number inside their LATAs, their calls will be carried by their underlying local exchange carriers (LECs).  In order to choose any carrier other than the underlying LEC for intraLATA calls, callers today must dial 10XXX, 101XXXX, 950-XXXX (with the XXX or XXXX being an identification code for their carrier of choice) or an 800 number before they dial their called numbers.

Q.What is a LATA?

A.A LATA (local access and transport area) is a geographic area designed by the United States District Court in the Modification of Final Judgment in the divestiture of AT&T and the Bell Operating Companies (BOCs).  LATAs were created to facilitate the division of assets between AT&T and the BOCs, and to mark the boundaries within which the BOCs could transport calls.  As approved by the Court, all of the U S WEST exchanges south of the Salmon River are included in a single LATA, called the Idaho LATA.  Eight central exchanges served by U S WEST Northern (formerly Pacific Northwest Bell)form the Spokane LATA.  Also in north Idaho is the        Coeur d’ Alene Market Area served by GTE and not associated with either the Spokane or Idaho LATA.

Q.Why is this issue before the Commission?

A.On December 30, 1994 AT&T Communications of the Mountain States, Inc. (AT&T) filed a Petition with the Commission requesting the institution of intraLATA 1+ equal access and presubscription for competitive provision of intrastate message telecommunication service (MTS) and wide area telecommunications service (WATS) in U S WEST Communications’ Idaho service territory.  The Commission had also requested an investigation of presubscription with the possibility that it might be included in a modified alternate form of regulation for  U S WEST in the southern Idaho LATA.  (Order No. 25826, USW-S-94-3.)  Following the filing of AT&T’s petition and U S WEST’s Petition for Reconsideration of Order

No. 25826, the Commission decided to address intraLATA presubscription in this docket.  (Order No. 25923.)  A prehearing conference was held on March 7, 1995 in Boise, Idaho.  Representatives from AT&T, Sprint Communications, TDS Telecom, Citizens Telecom, Century Telephone, MCI Telecommunications, the Idaho Telephone Association, the Idaho Cable Telephone Association, GTE Northwest,

U S WEST and Commission Staff attended.

The parties discussed the recent bill passed by the Idaho Legislature restricting the Commission’s ability to order intraLATA 1+ and its effect on AT&T’s petition and agreed to proceed with this case on a protracted timetable because of the general belief that the Regional Bell Operating Companies (RBOCs) and GTE will be allowed by federal legislation in the future to provide interLATA services.  The parties agreed and proposed to the Commission:  1) to proceed with this case; 2) to expand it to include the GTE service area, which would mean the case includes the entire state of Idaho; 3) to request that each party prepare a list of issues for all of the other parties; and 4) to establish a schedule for testimony and hearings.

AT&T has collected the lists of issues from the parties to this case and combined them to guide all parties in their preparation of testimony.  I will present my testimony to conform with the list of issues.

I.  EFFECTS AND IMPLICATIONS

Effects

Q.Is access code dialing (using 10XXX, 101XXXX or 950-XXXX) inferior to 1+ intraLATA equal access?

A.It would be easier and more convenient for a caller to dial only 1 plus a 10-digit number to make a toll call using a chosen carrier.  Where there is interLATA equal access today, callers can generally reach their intraLATA carrier of choice by dialing the four or six additional digits required for carrier identification.  Other alternatives (950-XXXX or an 800 number) may require a caller identification code in addition to the carrier identification number and may require up to fifteen additional digits.  Customers have the opportunity to rent or buy automatic dialing equipment to dial the extra digits, but the very fact that this requires additional money may effectively negate the savings or convenience a customer may realize. Consequently many (and probably most) callers, even if they are aware of their access code dialing options, will choose to allow their calls to default to their LECs.  This obviously gives LECs a competitive advantage in an intraLATA toll market.  One demonstration of the LEC advantage is the advertisement on the back of the

U S WEST billing envelope in which U S WEST customers received their October, 1995 bills.  (See Staff Exhibit No. 101.)

Q.What would be the effects of intraLATA presubscription on Idaho customers?

A.It is often difficult for callers to know whether their call destinations are within or outside of their LATAs or whether calls will be carried by their LECs or by their interexchange carrier (IXC) of choice.  Where this is the case, many callers simply dial 1 plus their number and let their intraLATA calls go to their default carriers.  With intraLATA presubscription, customers could use their preferred carriers as easily as they can now use their LECs to make toll calls and they would not need to know whether they are calling inside or outside of the LATA.

Many IXCs now provide toll packages with discounts to callers who use their services for both intrastate and interstate calling.  In an intraLATA environment, these discounts could be extended to intraLATA calling.  An informed customer could choose the carrier or combination of carriers that would provide him or her with the greatest savings for the types of calls the customer makes with little or no inconvenience to the customer.  Less informed customers might simply enjoy having all their calls carried by their favorite IXC, whether it is because their toll bill is presented on only one bill or whether they prefer particular advertisements or are simply loyal to their existing carriers.

Additionally, advocates for intraLATA presubscription claim that many new and advanced products will become available in an equal access environment.  While I am not aware of new products that would be precluded from access code dialing or LEC-carried toll, there is no reason to doubt that new technologies and products using telephone lines are being rapidly deployed in today’s market.  The customer who can reach them by dialing only 1 plus ten digits may be more likely to use them.

Advocates also project lower toll rates when competition can enter the intraLATA arena on an equal basis, while dissenters fear that local rates will increase and universal service will be sacrificed.  I will discuss these further in the following paragraphs.

Q.What would be the effects of intraLATA presubscription on Idaho LECs?

A.LECs whose toll is subject to Title 62 regulation expect to be free from LATA boundary constraints when the federal telecommunications legislation is passed.  This means they can expand their calling areas to compete with IXCs to increase their market share in larger market areas.  If IXCs can also compete with LECs on an equal basis within the LATAs, then IXCs will likely capture some of the market currently enjoyed by the LECs.  IntraLATA presubscription will promote this type of competition.

In U S WEST’s northern (Spokane) LATA and in GTE’s Market Area, the total intrastate revenue requirement (toll and local) is under the regulatory authority of the Commission.  Opponents of presubscription allege that where monopoly regulation has set rates to recover revenue requirement, “social pricing” has resulted in subsidization of local rates with the access revenue collected from toll carriers and with the LEC’s own toll revenue.  To the extent that this subsidization exists, LEC toll and access rates will not be competitive in an open market and LECs claim they will lose market share.  Fully regulated LECs predict that their total revenue will decrease and in order to meet their revenue requirement, they will be forced to increase local rates, thereby posing a threat to penetration rates and universal service.

Because the Commission does not consider toll revenue requirements for LECs regulated under Title 62 when it sets local line rates, there is no danger of local rates being affected by either increased or decreased toll revenues.  Proponents of presubscription argue that although LEC market share may decline, any lost revenue by the LECs will be recovered by increased access revenue as more companies enter the market and by increased toll due to stimulation and growth.  With the added incentive of increased market area due to the removal of LATA constraints, LEC market shares could easily increase.

Implementation of the technology that permits 1+ equal access will fall to the LECs and they will incur expenses that presumably will be recovered.  I will discuss later in this testimony mechanisms to recover these costs so that the LECs will be adequately compensated and local customers will not be subjected to local rate increases.

Most of the independent LECs do not carry their own toll calls.  They charge the same toll access rates to all IXCs that originate or terminate toll calls within their serving area.  If these LECs are reimbursed for the expenses they incur to provide intraLATA equal access, their revenue recovery positions may be neutral, or they may be somewhat improved due to technological efficiencies, new products and possible toll stimulation.  Q.What would be the effects of intraLATA presubscription on IXCs?

A.The IXCs would benefit from intraLATA 1+.  Equal access would provide opportunities for IXCs to compete equally in providing long distance service.  Strong companies will likely gain greater market share which will lead to increased profits and many smaller IXCs will find market niches where they can profitably provide their services on an equal basis with all other providers.  All IXCs will be able to offer volume discounts on total toll charges and “one-stop shopping” for interLATA and intraLATA services.  Customers would be able to use IXCs as easily as they can currently use their LEC for intraLATA toll provision, and IXCs would likely become more aggressive in marketing new products and new technologies to their customers.

Q.Will 1+ intraLATA presubscription lead to significant intraLATA competition in the rural areas of Idaho?

A.Competition will occur wherever market opportunities are found and where regulation permits.  It is reasonable to expect that large market areas will be the first to attract competitive providers.  Eventual saturation of large markets and the tenacity of specialty providers with services to market especially to rural communities may bring competition to rural areas.  In designing the environment for intraLATA presubscription in rural areas, the Commission provides safeguards to ensure that LECs and IXCs will continue to provide essential toll facilities in these rural areas (See Idaho Code §62-612).

Q.Will toll rates go down?

A.That competition in the provision of toll will produce lower toll rates has almost become an axiom in the telephone industry.  Economists have been telling us since before the divestiture of AT&T that competition would result in decreased toll rates, and many staff reports and commission orders in other jurisdictions have attested to reduced toll rates with the implementation of interLATA equal access.  We have not seen a decrease in average intrastate toll rates in Idaho.  Although nearly all central offices in Idaho provide interLATA equal access and switched access charges have been significantly reduced on an averaged statewide basis, the statewide average MTS rates per minute have increased or, at best, only slightly decreased.  Longer distance rates have decreased while short haul rates have increased, and daytime rate decreases have come at the expense of evening/night/weekend rates.  Staff Exhibit No. 102 shows AT&T’s intrastate toll rates for ten years between 1984 and 1995 and illustrates this point.  Whether lower toll rates will develop because of 1+ access remains to be seen.

Q.  Is intraLATA presubscription in the public interest?

A.I believe intraLATA presubscription is essential to competition in the long distance industry, and where a LEC has elected to place toll service under Title 62 regulation, the public can truly benefit only if robust competition develops.  Robust competition in intraLATA toll can only happen when there is no perceptible difference in call routing, quality of transmission and interconnection and dialing patterns.  If effective competition grows in Idaho, we may finally see the type of competitive pressure that will cause toll rates to decline.  Therefore, intraLATA presubscription is in the public interest, at least in LECs’ Title 62 service areas.

Regulatory - Federal

Q.What federal regulations must be considered in the issue of intraLATA equal access?

A.Under the decisions issued by the federal district court in US v. Western Electric Co. and AT&T and US v. GTE Corporation, the RBOCs and GTE are restricted from carrying long distance calls between LATAs, i.e., interLATA traffic.  This traffic is carried by IXCs.  However, the question of whether IXCs would be allowed to carry intrastate intraLATA traffic was reserved to the individual states.

If the restrictions on RBOCS and GTE are left in place, implementing intraLATA equal access would permit IXCs to enter and compete in LEC areas, but LECs would not be permitted to compete outside their LEC boundaries.  This has been the primary objection of most RBOCs to intraLATA equal access——they claim it tilts the playing field in favor of the IXCs at the LECs’ expense in terms of lost market share and lost toll revenue.

Q.What is the status of pending legislation that may change this federal position?

A.Federal bills that would provide means for lifting these restrictions have passed both the House and Senate.  A Conference Committee is now attempting to work out differences in the bills.  Advocates are hoping for resolution by November.  While the outcome is not yet known, it is almost certain that if new telecommunications legislation is finally enacted, some provision will be made for RBOC competition in interLATA toll.

Regulatory - Idaho

Q.Is intraLATA competition permissible under the existing Idaho law that provides for exclusive service area franchises?

A.Under Idaho Code § 62-615, LECs which also provide toll service within their certified service area and which keep their toll service under Title 61 regulation may choose to allow or prevent IXCs from providing toll service within the LECs serving area.  In the 1995 session, the Idaho Legislature passed House

Bill 152 (Idaho Code § 62-608A) which prevents the Commission from requiring intraLATA dialing parity until the federal MFJ (Modification of Final Judgment) restrictions on the RBOCs and GTE are lifted.  If the MFJ restrictions on RBOCs and GTE are lifted by federal legislation, the Idaho legislature may decide or may be required to revise Idaho law to permit toll competition within certificated areas.

Commission Jurisdiction

Q.If intraLATA presubscription is implemented in Idaho, who will participate?

A.Other jurisdictions that have investigated intraLATA presubscription have examined the participation issue in detail, dealing with questions about whether an IXC participation should be mandatory or voluntary and whether a participant must provide both interLATA and intraLATA service.  Current Idaho law does not expressly give the Commission authority to require or prohibit legitimate IXCs from providing service in the state.

  II.  TECHNOLOGY

Q.Is intraLATA presubscription technically feasible throughout Idaho?

A.Many states have investigated the possibility of implementing intraLATA equal access and have found that implementation in all types of digital switches and the technological and software upgrades, if not already available, will be available within eighteen months to two years at the latest.  Since we have not yet begun discovery in this case, I have not accumulated any solid information about options, availabilities or cost in Idaho switches.  Information about current hardware and software must be gathered for each of the switches in the state and information must be solicited from the vendors regarding availability and costs.

Q.What types of calls should be processed using intraLATA presubscription technology?

A.By definition, calls dialed using the 1+10 digit dialing pattern should be routed to presubscribed carriers; dial-around using 10XXX should also be routed to their identified carriers.  0+ calls (e.g. credit card calls) should be completed by the presubscribed carrier or the cardholder's carrier of choice.  Local calls, including 911 calls, EAS calls and calls within local calling areas, are traditionally carried by LECs and costs are generally recovered in basic local service rates.  These are not toll calls and should continue to be processed by the LECs.  The Commission has pay telephone rules requiring that 0- calls (operator and emergency calls) be processed by the LEC unless the presubscribed carrier applies for and receives an exemption from the Commission.  The carrier's application must show that it has the capability to easily and efficiently access an up-to-date emergency services data base.  This rule could also apply to IXCs wishing to carry these calls.

Q.Please describe the technical process for providing intraLATA equal access.

A.Equal access should be considered a Feature Group D (FGD) switched access service provided by the local exchange carriers.  The service gives long distance companies trunk side access to the switched network that is equal to LEC access in type, quality and price.

When a customer presubscribes to a toll carrier, the preference is indicated within the central office switch by means of an entry typed into the switch software.  The area of software which contains this entry is referred to as the “line translation area.”  For each subscriber’s line, one or more lines of data entries are maintained.  In most switches today, a single field within the line translation area contains data which specifies the interexchange carrier of choice.  This data field is usually referred to as a “primary interexchange carrier” (PIC).  When the customer originates a call using normal 1+ dialing, and if the call is one which would be transported by an interexchange carrier, the switching logic uses the PIC entry to determine call handling requirements.  Customers may override their preselected carrier by dialing the identification code of an alternative interexchange carrier.  This procedure is usually referred to as 10XXX dialing.

Currently, the line translation areas in most switches contain only a single PIC field which is used to designate a customer’s choice of primary carrier for interLATA calls.  To provide equal access for intraLATA calling as well, additional entries and/or translation fields will be required.  Switching software logic must enable the switch to “look up” carrier identification codes and extract the information it needs to continue processing the call.  The switch must be able to determine whether the call is interLATA or intraLATA and then assign the carrier the customer has chosen to process that type of call.  The switch software logic currently in use in most switches in Idaho does not include the ability to “look-up” presubscription information and process it for multiple PICs.

IntraLATA dialing parity can be provided using any of four PIC options:  1-PIC, 2-PIC, modified

2-PIC or multi-PIC.

Q.Please explain the PIC options.

A.The 1-PIC method allows only one provider to carry both interLATA and intraLATA toll traffic.  Where equal access is currently being provided, existing technology can be used.  The 2-PIC method allows a subscriber to subscribe to any IXC provider for interLATA and any IXC or LEC for intraLATA service.  This option, while more costly than the 1-PIC, maximizes the customer’s ability to choose the carrier he or she wants.  The modified 2-PIC option allows subscribers to use any interexchange carrier for their interLATA toll carrier, but they must use their chosen interLATA PIC or the LEC for intraLATA toll.  The multi-PIC option allows subscribers multiple PIC options for any interexchange carrier or primary exchange carrier and additionally allows the selection of different carriers on a time-of-day or route-by-route basis.  Using 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.

Q.What are the costs and availability of each of these options?

A.The 1-PIC option is available on existing technology where equal access is being provided. According to reports from other jurisdictions, no additional cost will be incurred if the end office is already converted to interLATA equal access.  The 2-PIC and the modified 2-PIC options are, according to the reports of other commissions, currently available for nearly all types of switches for costs that generally range from $30,000 to $50,000 per switch.  The multi-PIC option requires some version of Advanced Intelligent Network (AIN) and is not universally available at this time.

Q.What type of switch modifications would be required for each option?

A.Under the full 2-PIC option, the line translations within the switch would be modified to add a second PIC field dedicated to intraLATA originating calls.  On those 1+ calls, the switch would read the PIC entry to determine the caller’s primary intraLATA carrier.  This carrier may be any intraLATA carrier, regardless of who the customer has as an interLATA PIC.  The call would then be routed using standard access dialing and billing requirements to the intraLATA carrier designated by the 2-PIC entry.  Using the modified 2-PIC method, an additional PIC entry for intraLATA is not made in the line translations.  Instead, a single pointer would be entered for a customer’s line to indicate whether or not the customer’s primary interLATA carrier is also to serve as the primary intraLATA carrier.  If not, 1+ intraLATA calls are relayed to the LEC.

Q.What is the best choice?

A.A review of numerous task force reports and commission orders from other jurisdictions that have conducted investigations into intraLATA presubscription produced a near consensus of these jurisdictions that the 1-PIC was too restrictive and the multi-PIC (which involves Advanced Intelligent Network) was too expensive or not yet available.  Most states that were choosing options chose to require implementation of the 2-PIC, but in some cases telephone companies could request a waiver from the 2-PIC requirement.  While the 2-PIC option costs a little more (one estimate is about 10% more than      1-PIC), it offers customers the greatest freedom of choice.  One state opted to wait for the multi-PIC option to become available before it implemented intraLATA equal access.  Since that time, a 3-PIC option (that includes an international PIC) has become available.  However, I do not believe the Commission should order a specific technology.

Q.What do you recommend?

A.I recommend that the Commission set a minimum standard, such as 2-PIC, that LECs must meet when implementing presubscription, but that the actual option be left for the LECs.  Rapidly changing technology may make 2-PIC options obsolete and it is likely that some LECs might prefer AIN technology either now or in the near future and they could realize savings if it were installed simultaneously with the presubscription upgrade.  It would not be appropriate to mandate 2-PIC and then find that a new option could better suit the plans of one or more of the LECs.

Q.Under what circumstances would 1-PIC be adequate?

A.In the list of issues U S WEST submitted for this case U S WEST suggests that since Idaho law prevents intraLATA 1+ from being implemented until interLATA relief is granted, intraLATA equal access will not be introduced until after there are no LATA distinctions; therefore 2-PIC software would not be necessary.  If interLATA relief results in the concurrent dissolution of all LATA boundaries, the 1-PIC option would allow all toll calls to be carried by each customer's single preferred carrier.  Until we know how federal and/or state legislation will affect toll services in Idaho, I will continue to pursue this investigation as if a minimum 2-PIC technology is required.

Q.Can small LECs that do not provide their own toll use technology at the LEC tandems to provide intraLATA 1+?

A.Centralized intraLATA presubscription has been implemented in a few states (e.g. Minnesota and Iowa) where consortiums of LECs share common facilities.  Most jurisdictions have not investigated or adopted this methodology because central offices have already implemented interLATA presubscription using end office technology, making it more logical and efficient to use the same methodology for intraLATA presubscription.  Centralized presubscription permits LECs to make their conversions at their own pace.  If Idaho LECs are interested in using centralized technology, further investigation is warranted.

Q.Are requirements different in host-remote arrangements?

A.Indications are that host-remote arrangements are adequate to allow intraLATA presubscription; however, I will need confirmation, through discovery and discussion with other parties before making a recommendation.

Q.How should intraLATA presubscription be achieved with respect to private and carrier-provided pay telephones?

A.I see no objection to allowing LECs to continue to provide toll service to their own public pay telephones as long as the capability for 10XXX dial-around is maintained.  Privately-owned pay telephones should be presubscribed by the owner who has contracted with a carrier to process the calls.  Many privately owned pay telephones are equipped with store-and-forward capabilities which permit calls to be processed by the owner's carrier of choice today.

III.  COSTS

Q.Is the deployment of intraLATA equal access economically feasible throughout the state of Idaho?

A.Before we can determine the economic feasibility of intraLATA equal access in Idaho, all parties should participate in a thorough discovery process to determine what the costs will be.  Other jurisdictions have found that intraLATA equal access can be provided in their states for costs ranging from a few cents to just under one dollar per access line when amortized over five or more years.

Q.What costs should be considered?

A.Those incremental costs directly related to the provision of 1+ equal access using 2-PIC technology should be considered.  Where the software and technology required for intraLATA equal access may also provide other features required by the FCC (such as interchangeable area code, expandable carrier identification codes and 800 number portability delay requirements), costs for these upgrades should be prorated to apply only to 1+ equal access, as the other costs will be recovered elsewhere through separations.  Some of the specific cost items are:

Existing switches and capabilities - There will be a large variation in costs per switch, depending on the type of switch employed, the current version of software, and impending plans for modification or upgrade.  For each exchange, parties will need to inventory switching equipment currently in place and identify plans to modify or replace equipment within the next three years.  Parties will also need to identify whether interLATA equal access is available now, what the current software generic release installed is for each switch, and whether the switches are compatible with    2-PIC technology.

Type of upgrade technologies required and cost to upgrade - Optional feature packages cannot be installed until the appropriate software generic is installed.  A "software generic" is a particular version of software that allows the central office switch to make choices.  Some features are basic to a software generic and others are optional.  The intraLATA equal access features will likely be optional for most central office switches.  Therefore, intraLATA equal access costs will be incurred when 1) a switch must be replaced because it cannot be equipped with the feature package, 2) a switch must be upgraded to the basic software generic compatible with the feature package, or 3) the feature package must be installed and tested.  Vendors will be asked to provide descriptions of the switch upgrades that will be required to provide intraLATA 1+ (using the 2-PIC option) on a switch-by-switch basis and whether it is currently available or when it is expected to be available for each switch, and reasonable estimates of their costs.

Software requirements - As with the technological requirements, vendors will be asked to provide descriptions and cost estimates for software and right-to-use fees on a switch-by-switch basis.

Switch/plant modifications required - LECs will provide information on a switch-by-switch basis that identifies the costs to install and test upgrades, provide equivalent routing capabilities for IXCs and perform translations.

Non-Network Costs - LECs should provide estimates of costs to provide 1) set up, 2) carrier billing and support systems modifications (including personnel training and software modification), 3) administration and support, 4) training for employees,  5) customer education, 6) PIC change charges, 7) service order systems and 6) balloting (if required).

Q.When current federal restrictions are lifted, if U S WEST or GTE convert their switches to provide intraLATA 1+ for IXCs and simultaneously enable themselves to carry interLATA traffic, would there be an overlap of technologies, facilities or costs?  To what degree?

A.LECs should provide information regarding the way costs may change if intraLATA and interLATA presubscription are implemented simultaneously.  I expect conversion costs to be significantly reduced, or they may be indistinguishable from the costs these LECs would incur when they enter the interLATA market.

Q.How should costs be recovered?

A.The method of cost recovery will depend on how federal/state regulations permit interLATA and intraLATA toll competition.  Presubscription will likely be allowed only where the LEC's toll is deregulated unless the LECs voluntarily implement it.  Toll revenue and the associated costs can be assumed to be subject to Title 62 regulation and the LECs can recover their costs as they see fit.  Where presubscription is implemented in a regulated environment, such as when independent LECs upgrade their switches to provide intraLATA presubscription, LECs could include the costs in their rate base and recover those costs through access rates.  If this method is used, there is a possibility that local rates could increase unless safeguards are put in place to ensure that costs are tracked and assigned to and recovered from access charges.  Another alternative would be to combine all appropriate costs and calculate an equal access recovery charge (EARC) that would be applied as a separate rate element to IXCs.  An EARC would be charged for a specified length of time until costs are recovered.

In either case where LECs are regulated, increased access charges could cause independent LECs to qualify for Idaho universal service funds (IUSF).  If LECs qualifying for IUSF are not already participants in the fund, rate cases would be required to determine the amount that could be recovered through the fund.  LECs already receiving funding may need to be audited before they are permitted to increase the amount they receive to cover increased access costs that are not recovered through rates.

Q.Should all of the costs discussed above be recovered?

A.Only capital and nonrecurring costs should be recovered, along with depreciation and the LECs' normal return on investment.  Recurring costs are ongoing and should be recovered through access rates.

Q.If presubscription is provided by a LEC whose toll is regulated, should the LEC be reimbursed for outside plant reconfiguration?

A.Today, IXCs gain access to LEC networks by establishing points of presence (POPs) in each LATA.  InterLATA, interstate, international and 10XXX-dialed calls are carried by the LECs to these IXC POPs, where they are handed off to the IXCs.  IntraLATA calls are completed by LECs on their own networks.  When intraLATA equal access is introduced, to the extent that IXCs gain intraLATA market share, the number of toll calls carried totally on the local exchange carrier's network will decrease and calls exchanged at IXC POPs will increase.  This shift in calling patterns may require certain network reconfigurations.  Additional trunk terminations and circuit equipment are legitimate access costs that should be recovered via switched access charges.

Q.Should regulated LECs be reimbursed for stranded investment?

A.“Stranded investment” is capital equipment no longer used due to introduction of new services, such as transport facilities.  The LECs have some control of stranded facilities so that they can change their facilities from toll circuits to access circuits.  Network changes required to meet changing customer needs resulting from dialing parity implementation will occur over an extended period of time.  No attempt should be made to recover costs for these changes from customers of noncompetitive services.  Network and engineering costs are already recovered via access tariff charges and should not be included in presubscription costs.  If there is justification for recovering facilities costs in the short term, LECs should provide evidence during discovery that can be discussed later in this proceeding.  Q.Should regulated LECs be reimbursed for toll revenue lost to competition?

A.In some other jurisdictions, LECs attested that there would be a loss of toll revenue and that local rates would have to be increased, resulting in a negative impact on universal service.  Some included a loss for toll operator services, which they believe will be at risk.  Most of these jurisdictions reasoned that lost toll revenue, when it is offset by avoided costs and increased access revenue, will be minimal and easily recovered through growth and stimulation and the introduction of new services so that there will be no long-term loss in revenue.  The Connecticut Department of Public Utility Control however, found it unacceptable that LECs not recover lost revenue costs, because noncompetitive LEC customers should not be harmed and should not have to pay through increased rates.  The Connecticut Department of Public Utility Control found that the LEC must include net income loss during the implementation period as part of the recovery charge.  (State of Connecticut Department of Public Utility Control; Docket No. 94-02-07, October 26, 1994.)

In Idaho, we have three distinguishable situations:  1) U S WEST, southern LATA, has removed its toll services from rate regulation, as will other LECs before offering intraLATA presubscription.  There should be no lost revenue compensation in these LATAs.  2) Most independent LECs in Idaho do not carry toll, so will not experience any lost toll revenue.  3) Any remaining LECs may experience some revenue loss.  The amount of revenue loss will depend on how much market share these LECs can retain, whether intraLATA presubscription is implemented over time or in one statewide conversion and whether the LEC enters the interLATA market.  At any rate, it is the burden of the LECs to justify how much, if any, lost revenue should be reimbursed as a part of this action.   I agree with the Connecticut Department of Public Utility Control that no such losses should find their way back to local service rates to be borne by customers of local services.  Any counterbalancing factors such as increased access revenue, billing and collection revenue and stimulation should also be noted.

Q.How should an EARC be calculated?

A.After all cost information is gathered, the LECs should calculate either a rate-per-access line or rate-per-minute of use to be applied to intraLATA traffic.  This rate should be tariffed for a specified period of time as a separate rate element and should apply to all LECs and IXCs who carry intraLATA traffic.

Q.Should the recovery mechanism be based on minutes of use or a monthly charge per access line?

A.At first, it seems that a per-presubscribed line recovery assessed to intraLATA toll carriers is most appropriate, because presubscription is a non-traffic sensitive service.  Proponents suggest that a per-minute-of-use charge will encourage bypass.  However, further reflection leads to the conclusion that recovery should be based on FGD and Feature Group B (FGB) minutes of use because not all access lines have equal usage.  (FGB provides 800 and 950-XXXX interLATA and intraLATA access to specified non-presubscribed carriers.)  Some IXCs will market high-volume users.  A minute-of-use charge will help to equalize benefits derived from “cream skimming” as carriers pursue accounts that generate the highest revenue per line.  Recovery based on minute of use assigns the largest percentage of costs to customers that use dialing parity the most, and for the few years that the recovery mechanism is in place, bypass is not likely.  Costs will vary between company, so a separate rate element should be calculated for each company.

Q.Should LECs be required to impute the recovery rate when calculating their toll rates?

A.LECs should impute the same costs that are imposed on IXCs.

Q.Over what period of time should costs be amortized?

A.If an EARC is not applied, depreciation and amortization for regulated LECs will be at the rates set by the Commission.  If these depreciation and amortization rates result in a higher access charge than those used by LECs whose access charges are deregulated, they may become a barrier to entry of competitive IXCs.

Q.Should there be a true-up at the end of the recovery period?

A.If EARCs are implemented, one or more true-ups will probably be necessary to ensure that costs are adequately recovered over the appropriate time period.  One reason for this is that often the “planning prices” proposed by vendors do not reflect negotiated incentive and volume discounts.  One company quoted to a Michigan local exchange company an $80,000 “planning prices” but the net actual price was $7,444.  The costs to be recovered should be the actual capital and operational costs and nonrecurring network and administrative costs required to implement intraLATA presubscription.  If lost revenue costs and stranded investment costs are allowed, they must also be included.  True-ups may also be desirable to reflect the actual mix of presubscription between IXCs.

IV.  IMPLEMENTATION

Q.Should intraLATA 1+ be implemented in some kind of state-wide flash cut with a date certain for availability or should the LECs not be required to equip their switches to provide intraLATA 1+ until after they have received bona fide requests (BFR)?

A.I recommend that where interLATA presubscription already exists, LECs should not be required to implement intraLATA presubscription until a specified time after a BFR is received.  Where interLATA presubscription is not currently in place, it appears to be cost effective to implement intraLATA presubscription concurrently with the interLATA implementation.

Q.After a BFR is received, how much time should be allowed for a LEC to implement intraLATA presubscription?

A.I cannot answer this question until we have determined when necessary software and upgrades are available and in what time frame they can be provided to the LECs.  In addition, time must be allowed for balloting (if it is required), training, customer notification and billing system modifications.  In the case of interLATA presubscription, the FCC requires implementation within three years of a BFR.  I do not believe it should take that long for intraLATA presubscription to be implemented if interLATA presubscription facilities are already in place.

Q.Where LECs do not believe they can implement intraLATA presubscription within the time frame set by the Commission, should they be permitted to seek a waiver of the time requirement?

A.Waiver requests should be permitted.  The LEC requesting the waiver should explain the reasons the waiver is requested and identify a date when intraLATA presubscription can be implemented.  The Commission should allow a fifteen-day comment period, before deciding whether the waiver should be granted.

Q.Should LECs be allowed to request a waiver to implement 1+ intraLATA presubscription without a BFR and be allowed to recover the costs of implementation?

A.Since the obvious goal of all parties should be to implement intraLATA equal access as quickly and conveniently as possible, I see no reason to object to allowing a LEC to implement intraLATA presubscription before a BFR is received.  Cost recovery should be permitted to the extent that it would be permitted in other circumstances——that is, regulated LECs could recover costs either by including them in rate base or by using an EARC.

Q.Should balloting similar to that required by the FCC for interLATA presubscription be required?

A.The balloting process required by the FCC is fairly complicated.  It requires first that LECs notify IXCs of its implementation date so that IXCs can request that their names be included on the ballot.  Then a first ballot is mailed to customers identifying the available IXCs.  If customers do not respond to the first ballot, a second ballot is sent.  Any customers that do not respond to either ballot are allocated to IXCs using the same percentage for each IXC as the ratio of responses for each IXC.

 There are two major problems with the balloting and allocation concept:  1) there are over one hundred IXCs in Idaho that would be eligible for the ballot if they chose.  Of these, there are some who provide inferior service or charge exorbitantly high prices.  I am extremely reluctant to endorse a process that would require a LEC to allocate a nonresponding customer to an inferior IXC.  2) the balloting process is extremely costly.  Several state jurisdictions estimated the costs and found that they ranged from $5 million to $7 million (and sometimes a great deal more) if allocation is part of the process.  It may not cost so much in Idaho, but it still appears to be an expensive process.

Many argue that the balloting process is confusing because the customer does not understand LATA concepts and feels he/she has already selected a carrier.  Some argue that no response to a ballot is a vote to stay with the LEC, and it does not make sense to change the customer’s carrier, only to have to change it back again.

Proponents of the balloting process believe that the balloting gives customers greater choices and increases customer awareness and that these benefits far outweigh the expense involved.

I recommend that balloting be done only where LECs have not yet converted to interLATA equal access.  This agrees with decisions made in most other states.  Where the conversion for interLATA and intraLATA will occur concurrently, the balloting can be done for very little additional money.  I do not endorse the allocation of customers to IXCs.  IntraLATA presubscription is a condition sought by IXCs in order to increase their market share.  In keeping with that spirit, IXCs should welcome the opportunity to provide the best possible rates and packages to lure customers to their services.

Q.If balloting is not performed, how should customers be notified about the pending availability of intraLATA equal access?

A.An essential part of the success of competition in any technology is that the customers have enough information to make informed decisions.  I recommend that LECs send two generic, informative letters or brochures to all customers 90 days and 30 days before implementation.  These brochures should describe LATA boundaries and the difference between an intraLATA choice and the choices that were made when they were balloted for interLATA carriers.  These brochures should not be used as marketing tools and their costs should be included in the amount to be recovered by the LECs.  Copies of these brochures should be submitted to the Commission for approval before they are sent.

Q.How should interexchange carriers be notified?

A.The Telecommunications Resellers Association, in its February 28, 1995 comments to this case, has already suggested that LEC notification to IXCs must extend beyond those carriers who purchase FGD access.  Many resellers get their transport from underlying carriers who subscribe to FGD and consequently would not be notified of switch conversions through normal methods.  It seems that underlying carriers should be responsible for notifying their reseller customers of impending conversions to intraLATA presubscription.

Q.Should PIC change charges be waived for a sign-up period or for new subscribers?

A.I recommend a waiver of PIC change charges for 90 days after intraLATA presubscription is made available and for all new subscribers.

Q.Should there be only one PIC change charge for simultaneous requests of an interLATA and intraLATA PIC?

A.I recommend that the PIC change charge for intraLATA presubscription be the same as that for interLATA presubscription (as defined by the FCC), and that if both presubscriptions are made at the same time, only one charge shall apply.

Q.What verification of requests for PIC changes would be required?

A.The FCC recently modified its rules to require a signed letter of agency from the customer in order to change PICs.  I recommend that this requirement also apply to intraLATA carrier selection.

V.  OTHER CONSIDERATIONS

Q.Are existing billing records and standards sufficient to allow the transfer of data required for billing?

A.This information must be provided by the LECs in discovery.

Q.What modifications to billing systems are needed and who should be responsible for them?  What costs would be incurred?

A.If modifications are needed, their costs should be recovered along with the other costs for implementation.

Q.What customer information must be provided to IXCs by the LECs?

A.The LECs and AT&T allegedly already have vast amounts of information about nearly all Idaho customers.  Access to this information may give the LECs and AT&T a decided marketing advantage, reduce credit risks and make billing easier to implement.  I would like to hear from other parties regarding whether existing FCC requirements are sufficient to protect customer privacy or whether further restrictions on information handling should be required.

Q.If LECs are permitted to sell their customer lists to IXCs, should the revenue they receive from these sales be applied to the cost of implementing intraLATA 1+?

A.LECs should not be permitted to sell their customer lists.  Furthermore, LEC marketing entities should not be permitted access to customer lists for marketing purposes unless they are also made available to IXCs.

Q.Is rate rebalancing a required part of the implementation of intraLATA presubscription?

A.Any claims that local rates need to be corrected in some sort of rate rebalancing activity should be addressed in a rate case that should be presented to the Commission in an action separate from this one.  Costs to provide intraLATA presubscription should be fully recovered by means other than changes to local rates.

Q.Does that conclude your testimony?

A.Yes.