

Exhibit No.:

Issues: Suspension &
Modification of LNP
Requirements

Witness: Natelle Dietrich

Sponsoring Party: MO PSC Staff

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Case No.: TO-2004-0484

Date Testimony Prepared: June 18, 2004

MISSOURI PUBLIC SERVICE COMMISSION

UTILITY OPERATIONS DIVISION

TESTIMONY

FILED

JUL 13 2004

OF

NATELLE DIETRICH

Missouri Public
Service Commission

BPS TELEPHONE COMPANY

CASE NO. TO-2004-0484

Jefferson City, Missouri

June 2004

Exhibit No. 78

Case No(s) TO-2004-0484

Re 7-07-04 Rptr XF

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the Matter of the Petition of BPS)
Telephone Company for Suspension and)
Modification of the FCC's Requirement to)
Implement Number Portability)

Case No. TO-2004-0484

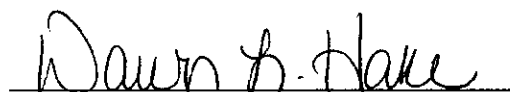
AFFIDAVIT OF NATELLE DIETRICH

STATE OF MISSOURI)
) ss
COUNTY OF COLE)

Natelle Dietrich, of lawful age, on her oath states: that she has participated in the preparation of the following testimony in question and answer form, consisting of 11 pages of testimony to be presented in the above case, that the answers in the following testimony were given by her; that she has knowledge of the matters set forth in such answers; and that such matters are true to the best of her knowledge and belief.


Natelle Dietrich

Subscribed and sworn to before me this 17th day of June, 2004.


Notary Public

My commission expires _____

DAWN L. HAKE
Notary Public - State of Missouri
County of Cole
My Commission Expires Jan 9, 2005

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13 A. My name is Natelle Dietrich. I am employed by the Missouri Public
14 Service Commission (Commission), 200 Madison Street, Jefferson City, Missouri,
15 65101.

17 A. I am employed as a supervisor and regulatory economist for the
18 Telecommunications Department Staff (Staff) of the Commission. My duties include the
19 review and analysis of cost studies and the application of general costing theory as it
20 relates to the regulation of telecommunications services with supervisory responsibility to
21 ensure thorough and complete economic analysis of telecommunications issues by the
22 economic/competitive analysis Staff. I have previously testified or filed affidavits in
23 Case Nos. TA-99-405, an analysis of the appropriateness of a "payday loan" company
24 providing prepaid telecommunications service; TO-2001-455, the AT&T/Southwestern
25 Bell Telephone Company (SWBT) arbitration, which included issues associated with
26 unbundled network elements; TO-2001-222, the MCI/SWBT arbitration, which also
27 included issues related to unbundled network elements; TR-2002-251, Sprint's price cap
28 adjustments; and TO-2004-0370, IO-2004-0467, TO-2004-0505 et al, the present LNP

Testimony of
Natelle Dietrich

1 suspension/modification cases. I have also prepared comments and testified in several
2 proposed rulemakings before the Commission.

3 As supervisor of the Telecommunications Department economic/competitive
4 analysis group, I have reviewed many cost studies and have had testimony prepared at
5 my direction and under my supervision on many cost related dockets including, but not
6 limited to TO-2001-437, TO-2001-438 and TO-2001-440 (the SWBT 271 "spin-off
7 cases); TR-2001-65, an investigation into the cost of providing switched access service in
8 Missouri; TO-2001-455, the AT&T/SWBT arbitration; TO-2001-222, the MCI/SWBT
9 arbitration; and, TO-2004-0207, the Triennial Review Order proceeding.

10 Through an appointment to the National Association of Regulatory Utility
11 Commissioners Staff Subcommittee on Telecommunications and as Assistant Chair to the
12 Federal Regulatory Policy Sub-Group, I am responsible for monitoring federal
13 telecommunications activity and informing the Commission of relevant federal activity. I
14 have prepared comments on behalf of the Commission to be filed at the Federal
15 Communications Commission (FCC) on several occasions. These comments included
16 such issues as the Coalition for Affordable Local and Long Distance Service's (CALLS)
17 modified access charge reform proposal; the Multi-Association Group's ("MAG")
18 interstate access reform and universal service support proposal for incumbent local
19 exchange carriers subject to rate-of-return regulation; and, the feasibility of a bill-and-
20 keep approach as means of attaining a unified regime for the flows of payments between
21 carriers. I have also prepared congressional testimony on behalf of the Commission on
22 number conservation efforts in Missouri.

Testimony of
Natelle Dietrich

1 I also worked for over 13 years in lending, analyzing customer credit, financial
2 histories and payment capabilities of individuals and businesses. The last five plus years
3 were spent working in the risk asset unit where I was responsible for and successful in
4 reducing the bank's risk exposure by several million dollars per year through the
5 restructuring high-risk customer debt using means that continue to meet the customer's
6 financial needs and payment abilities.

7 Q. Please describe your educational background.

8 A. I hold a Bachelor of Arts Degree in English from the University of
9 Missouri-St. Louis and a Master's Degree in Business Administration from William
10 Woods University.

11 Q. Are you the same Natelle Dietrich that provided expert testimony during
12 the May 5, 2004, local number portability on-the-record-presentation in Case Nos.
13 TO-0370, IO-2004-0467, TO-2004-0505, et al?

14 A. Yes I am.

15 Q. What is the purpose of your pre-filed testimony?

16 A. Several incumbent local exchange telecommunications carriers (ILECs)
17 requested a two-year suspension of the Federal Communications Commission's (FCC)
18 intermodal porting requirements. I compiled a spreadsheet of the cost information
19 provided with the ILEC petitions and completed an analysis of that information in order
20 to make a recommendation as to the economic feasibility of small ILEC subscribers
21 bearing the costs associated with local number portability. Through that analysis and the
22 corresponding recommendations, \$1.68 appears to be the point at which any greater
23 amount could result in a significant economic impact if subscribers bear the costs

1 associated with local number portability. The purpose of my testimony is to explain my
2 analysis and rationale for recommending what appears to be a cut-off point of \$1.68.

3 Q. Did you determine that \$1.68 is the uppermost point at which it is
4 economically feasible for subscribers to bear the costs associated with local number
5 portability?

6
7 A. Not specifically. Although it appears that \$1.68 is the cut-off point for
8 Staff, it is not that simple. I considered multiple factors in making my recommendations.
9 It just happens that after reviewing several factors and based on the numbers presented
10 for each ILEC, the "line" is drawn at a total monthly recurring charge increase of \$1.68
11 per company subscriber.

12 Q. You state that you considered multiple factors in making your
13 recommendations. What factors were considered?

14 A. Following is an outline of the factors or steps I completed in making my
15 recommendations.

16 Reviewed FCC orders to seek guidance on the FCC's expectations for local
17 number portability cost recovery;

- 18 • Reviewed cost projections of each company;
- 19 • Considered the type of switch currently employed versus switch upgrade
20 expense projections;
- 21 • Compared the rates for all companies to determine any large gap that might be
22 considered a reasonable cut-off point;

- 1 • Reviewed the increase in the monthly recurring rate compared to the current
- 2 rate;
- 3 • Reviewed the increase for implementation only versus the additional increase
- 4 for database queries once a number is ported;
- 5 • Reviewed the rates for other LECs in Missouri.

6 Q. Please explain what you reviewed in FCC orders to seek guidance on the
7 FCC's expectations for local number portability cost recovery.

8 A. On May 5, 1998, the FCC adopted its Third Report and Order,
9 implementing cost recovery mechanisms for local number portability. In the Report and
10 Order, the FCC noted, "[it] will allow but not require incumbent [I]LECs subject to rate-
11 of-return or price-cap regulation to recover their carrier-specific costs directly related to
12 providing number portability through a federal charge assessed on end-users."¹ The FCC
13 allowed the costs related to number portability to be required for a maximum of 5 years
14 "to help produce reasonable charges for customers and avoid imposing those charges for
15 an unduly long period."² In other words, to determine a monthly recurring charge, the
16 ILEC obtains the current cost for implementation, divides that number by its access lines,
17 and further divides that number by 60 months. Following is a hypothetical, mathematical
18 example:

19 \$150,000 implementation costs/1000 access lines/60 months = a
20 recurring charge of \$2.50 per subscriber per month for 60 months.

¹In the *Matter of Telephone Number Portability*, Third Report and Order, CC Docket No. 95-116 (1998) at para. 135.

²Id. at para. 144.

Testimony of
Natelle Dietrich

1 Once the ILEC recovers its initial implementation costs, the FCC considers number
2 portability a normal network feature. Therefore, any remaining costs are to be recovered
3 through existing mechanisms available for recovery of the general costs of providing
4 service.³

5
6 The FCC determined that “recovery from end users should be designed so that end users
7 generally receive the charges only when and where they are reasonably able to begin
8 receiving the direct benefits of long-term number portability”.⁴ Once local number
9 portability is implemented, the ILEC’s subscribers should immediately be able to receive
10 the benefits of porting, if they so choose.

11 Q. Are there other means in which a small ILEC can recover the costs
12 associated with LNP?

13 A. The FCC also found that small ILECs can benefit from economies of scale
14 by arranging for another carrier or third-party provider to provide number portability.
15 This assertion was supported in the FCC’s Memorandum Opinion and Order on
16 Reconsideration of the Third Report and Order. The FCC further stated, “such [small
17 ILECs] could arrange for another carrier to perform queries for them, enter into
18 cooperative agreements with other small carriers, or install number portability in their
19 own networks and use excess number portability capacity to provide query service to
20 other carriers.”⁵

³ Id. at paras. 143-144.

⁴ Id. at para. 142.

⁵ *In the Matter of Telephone Number Portability*, CC Docket No. 95-116, Memorandum Opinion and Order on Reconsideration and Order on Application for Review, February 15, 2002, at para. 64.

1 Q. Did the FCC address the recovery of costs associated with database
2 queries?

3 A. The FCC requires ILECs to treat the query service charge as a new service
4 within the meaning of Section 61.49(g). However, querying calls, and assessing the
5 associated charges, prior to the date the first number is ported from that ILEC's switch
6 was found to be inconsistent with the FCC's Third Report and Order and Cost
7 Classification Order.⁶ In other words, end users would not be charged the monthly
8 recurring cost associated with database queries or dips until such time as the first number
9 is actually ported.

10 Q. Please explain your review of the cost projections of each company.

11 A. The ILECs filed company-specific cost and implementation information. I
12 reviewed this information and compared it to the cost information submitted by other
13 ILECs to determine that costs were similar, included the same components and were
14 calculated in a similar manner.

15 Q. Please explain your review of the type of switch currently employed
16 versus switch upgrade expense projections.

17 A. Some ILECs indicated switches would need to be replaced within a couple
18 years. Other ILECs had newer switches, but indicated vastly different implementation
19 costs for the same type of switch. This information was reviewed with technical Staff.
20 As part of this review, technical Staff agreed that certain switches would need to be
21 replaced, largely due to the technical limitations of the switch, the lack of on-going
22 vendor technical investment in research and development of customer features, and the
23 lack of on-going vendor support. Technical Staff also verified that the projections for

⁶ Id. at para. 100.

1 implementation could vary depending on the version of the switch and excess capacity
2 projections and needs.

3 Q. Please explain what you mean when you say you compared the rates for
4 all companies to determine any large gap that might be considered a reasonable cut-off
5 point.

6 A. The various LNP suspension petitions were filed over a two-month period.
7 As petitions and associated cost and implementation support were filed, I compiled a
8 spreadsheet of this information. I then reviewed the spreadsheet to determine any large
9 gaps, or clear cut-off points, in the monthly recurring charges for implementation and
10 database dips. Originally, there was a fairly significant gap with the monthly recurring
11 charges falling below \$1.00 or above \$2.50. As more cost information was received from
12 various companies over the two-month period, the lower end of the gap was raised to
13 what appears as a cut-off of the \$1.68 as discussed in my testimony.

14 Q. Please discuss your review of the increase in the monthly recurring rate
15 compared to the current rate.

16 A. Staff researched tariffs to determine the current residential basic local rate
17 for each company. I then compared the future rate (the basic local rate plus the addition
18 of the LNP surcharge) to the current basic local rate. Based on this review, it was
19 discovered that some ILEC customers could see an increase in rates of approximately
20 five percent, while other ILEC customers could see an increase in rates in excess of 75
21 percent. Staff recommended suspension for those Petitioners' with rate increases of
22 approximately 40 percent or greater.

1 Q. Please discuss your review of the increase for implementation only versus
2 the additional increase for database queries once a number is ported.

3 A. As previously stated, the FCC found that charging for database queries
4 prior to the porting of the first number was inconsistent with the FCC's Third Report and
5 Order and Cost Classification Order. Therefore, I reviewed the monthly recurring charge
6 for implementation versus the additional increase a company can charge once a number is
7 ported. For implementation, charges were less than \$1.00 per month for all carriers but
8 one. In contrast, for database queries alone, five carriers will have monthly recurring
9 surcharges in excess of \$2.50. Therefore, for most carriers, the majority of the charge
10 will only be incurred after the first number is ported. (The spreadsheet I prepared
11 outlining costs for all companies was entered as proprietary exhibit number 10 at the
12 May 5, 2004, on-the-record presentation.)

13 Q. Please discuss your review of the rates of other ILECs in Missouri.

14 A. The FCC's LNP cost recovery requirements were to begin when local
15 number portability was implemented by a carrier. For SBC, Sprint Missouri, Inc. and
16 CenturyTel of Missouri, Inc., LNP was implemented around 1999. The three companies
17 have charged their subscribers LNP surcharges around \$.50 to \$.80 for the past five
18 years. These charges, since averaged over the entire customer base, were not only
19 assessed in areas of effective competition, but in areas where consumers had no
20 competitive choice since wireline-to-wireline porting was the only requirement. In
21 response to questions from the bench during the on-the-record presentation, I also
22 compared the basic local rates of these carriers, with LNP surcharges included, to the
23 basic local rate with LNP charges estimated by the Petitioners. Following is a summary

Testimony of
Natelle Dietrich

of that analysis, only including rate bands or zones with access lines comparable to
Petitioners' access lines.

| Company | Residential Rates for Comparable Rate Bands |
|------------|---|
| SBC | 7.49 to 9.03 |
| Sprint | 13.02 to 13.57 |
| CenturyTel | 9.38 to 9.87 |

Q. Please summarize your testimony.

A. Given the FCC's mandate that "porting from a wireline carrier to a wireless carrier is required where the requesting wireless carrier's 'coverage area' overlaps the geographic location in which the customer's wireline number is provisioned"⁷ and its previous determination that "recovery from end users should be designed so that end users generally receive the charges only when and where they are reasonably able to begin receiving the direct benefits of long-term number portability"⁸, I reviewed several factors, as discussed herein, in making my recommendations as to the point at which it is economically feasible for subscribers to bear the costs associated with local number portability. Through analysis and the corresponding recommendations, \$1.68, with a 40 percent or greater monthly rate increase appears to be the point at which any greater increase could result in a significant economic impact if subscribers are required to bear the costs associated with local number portability. However, it should be

⁷ *In the Matter of Telephone Number Portability CTIA Petitions for Declaratory Ruling on Wireline-Wireless Porting Issues*, Memorandum Opinion and Order and Further Notice of Proposed Rulemaking, November 10, 2003, at para. 1.

⁸ *In the Matter of Telephone Number Portability*, Third Report and Order, CC Docket No. 95-116 (1998) at para. 142.

Testimony of
Natelle Dietrich

1 noted this number is not supported on its own, but must be considered in context of all
2 the factors discussed in my testimony.

3 Q. Does this conclude your testimony?

4 A. Yes it does.

5