

Exhibit No.:

Issues: Suspension &  
Modification of LNP  
Requirements

Witness: Natelle Dietrich

Sponsoring Party: MO PSC Staff

Type of Exhibit: Testimony

Case No.: TO-2004-0438

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

**PEACE VALLEY TELEPHONE COMPANY**

**CASE NO. TO-2004-0438**

**Jefferson City, Missouri**

**June 2004**

Exhibit No. 22  
Case No(s) TO-2004-0438  
Date 7-07-04 Rptr xf

**BEFORE THE PUBLIC SERVICE COMMISSION**  
**OF THE STATE OF MISSOURI**

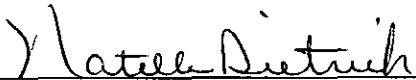
In the Matter of the Petition of Peace )  
Valley Telephone Company for )  
Suspension and Modification of the FCC's )  
Requirement to Implement Number )  
Portability )

Case No. TO-2004-0438

**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 17<sup>th</sup> 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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**TESTIMONY**  
**OF**  
**NATELLE DIETRICH**  
**PEACE VALLEY TELEPHONE COMPANY**  
**CASE NO. TO-2004-0438**

Q. Please state your name and business address.

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

Q. Please describe your work experience.

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

Testimony of  
Natelle Dietrich

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."<sup>1</sup> 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."<sup>2</sup> 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.

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

<sup>2</sup>Id. 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.<sup>3</sup>

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”.<sup>4</sup> 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.”<sup>5</sup>

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<sup>3</sup> Id. at paras. 143-144.

<sup>4</sup> Id. at para. 142.

<sup>5</sup> *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.<sup>6</sup> 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

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<sup>6</sup> Id. at para. 100.

Testimony of  
Natelle Dietrich

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.

Testimony of  
Natelle Dietrich

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"<sup>7</sup> 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"<sup>8</sup>, 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

<sup>7</sup> *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.

<sup>8</sup> *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