In the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
BellSouth Telecommunications Inc.	)	WCB/Pricing No. 02-15
Tariff No. 1	)	
Transmittal No. 629	)	

REPLY OF AT&T CORP.

I. BellSouth's Tariff Includes Numerous Costs That Do Not Qualify For Recovery.

1. Exogenous cost treatment is appropriate only for costs incurred *after* they are "require[d]" or "permitted by" Commission rule. 47 C.F.R. § 61.45(d). "[R]ecovery of costs incurred by incumbent LECs prior to number pooling implementation" is therefore barred. *First NRO Order*, 15 FCC Rcd. 7574, ¶ 219 (2000). The earliest possible date for eligible thousand block number pooling costs is June 18, 2001, when the National Thousands-Block Pooling Administrator was chosen. As BellSouth concedes (at 4), the Commission's policy in the *First NRO Order* requiring number pooling did not "finaliz[e] [any] implementation details." The Commission contemplated that implementation of number pooling would begin after selection of the number pooling administrator in June 2001, with actual rollout of number pooling to occur beginning nine months later, in March 2002. *Id.* ¶ 156; *see also id*. ¶ 161 ("we will not commence national thousands-block number pooling implementation until we select a thousands-block number Pooling Administrator"). But BellSouth would lose even if it were entitled to recover any number pooling costs incurred after the Commission's issuance of the *First NRO Order*. BellSouth is not entitled to recover any costs incurred prior to the effective date of *that* order, July 17, 2000. The costs BellSouth seeks to recover, however, were incurred beginning on January 1, 2000, three months prior to the release of the *First NRO Order* on March 31, 2000, and more than six months before the effective date of that order.

BellSouth's only defense (at 4), that it "used a standard mid-year convention, *i.e.*, one that assumes all expenditures occur mid-year," erroneously assumes that one can comply with the Commission's exogenous cost rules by using this accounting gimmick to shift costs incurred before the issuance of the *First NRO Order* to later in the year. More fundamentally, the *First NRO Order* took effect on July 17,

2000, the actual effect of BellSouth's "standard mid-year convention" is (ironically) to shift *all* 2000 costs to a date *before* the effective date of the order – rendering them ineligible for recovery.

2. The Commission has made clear that ILECs may recover only those OSS costs that are related solely to implementation of the national number pooling requirements. *Third NRO Order* ¶¶16-19. BellSouth seeks recovery of costs related to the deployment of its SWITCH system, which – as BellSouth explained to the Commission in a waiver request in 2000 – was necessary to facilitate compliance with numbering resource reporting requirements, not number pooling. *See* AT&T Application at 11.[1] The *First NRO Order* states that costs stemming from general adaptations of existing systems are inappropriate for recovery. *See First NRO Order* ¶ 217.

BellSouth asserts (at 5) that its exogenous cost adjustment is limited to certain upgrades to its SWITCH system for to implementation of number pooling. BellSouth's tariff filing, however, does not provide any underlying documentation that would allow AT&T (or the Commission) to verify this claim. In fact, it appears that BellSouth will incur little, if any costs, associated with SWITCH on a going forward basis because BellSouth is "converting" wire centers away from SWITCH "to a new operations support system, CNUM (which includes . . . TN Tracker)." July 31 Petition at 3. And BellSouth has effectively conceded that it is not appropriate to recover CNUM or TN Tracker costs for thousands block numbering.[2]

3. BellSouth's defense of its inclusion of costs for number *porting* is equally baseless. ILECs may not seek recovery of costs that are already being recovered in the local number portability surcharge. *See Third NRO Order* ¶ 44. BellSouth seeks recovery of costs that it purports to incur in porting contaminated numbers back to itself. Such intracarrier porting is an integral part of local number portability and predates implementation of mandatory thousands-block number pooling. As AT&T explained (at 12), even prior to the number pooling mandate, carriers were required to implement an intracarrier porting capability to meet

[1] *See also Numbering Resource Optimization*, BellSouth Telecommunications, Inc. Emergency Petition For Partial Waiver And Extension of Time, CC Docket No. 99-200, at 3 (filed July 31, 2002) ("July 31 Petition") (seeking "a partial waiver or extension of August 1 deadline for submitting complete forecast and utilization report" because, in part, of modifications to BellSouth's SWITCH systems necessary to comply with the Commission's *numbering resource requirements*).

[2] *See BellSouth Telecommunications, Inc., Tariff FCC No. 1*, Reply, Transmittal No. 629, at 6-8.

the Commission's separate requirement that numbers be managed on a rate center basis. BellSouth does not deny that it already had the capability to perform intracarrier porting, but asserts that it seeks recovery of costs related to certain modifications to the logic in its systems. As AT&T noted (at 13 n.31), the only porting capability that could conceivably be related specifically to thousands-block pooling would be automatic porting of contaminated numbers when a block is donated, but BellSouth has not supplied adequate support to determine whether it is making such a claim, much less to justify cost recovery.

4. BellSouth's attempt to recover the costs of establishing a thousands-block number pooling administration center is also meritless. As AT&T showed, other carriers have recognized that a separate administration center for number pooling functions, rather than integrating such administration with other numbering functions, would be inefficient. BellSouth's separate administration center also appears to be duplicative of other functions for which BellSouth already receives cost recovery. BellSouth contends (at 6-7) that the mere fact that the costs have something to do with number pooling entitles it to recovery, and that "AT&T has provided no basis for the Commission to question BellSouth's costs." But BellSouth ignores that the Commission has established a presumption against *any* exogenous recovery of number pooling costs. It was BellSouth's burden to explain why these costs were prudently incurred and merit recovery.

5. BellSouth has included an unsupported 4.42 percent overhead factor in all of its exogenous cost calculations. But thousands-block number pooling is merely an enhancement to existing numbering administration systems, and ILECs are already recovering the overhead relating to those systems in access charges. *See Third NRO Order* ¶¶ 38. As BellSouth concedes, this overhead factor includes expenses such as plant operations, administration, general engineering and motor vehicle expense, as well as company-wide activities such as executive and planning, accounting and legal. BellSouth cannot legitimately claim these costs as "new." *See Third NRO Order* ¶ 46. By definition, these costs have previously been incurred and (contrary to BellSouth's claim at 7) will continue to be incurred regardless of thousands-block number

pooling. BellSouth is already recovering these costs in access charges, and therefore it should not be permitted to break out a portion of those costs for double recovery in an exogenous cost adjustment.[3]

II. BellSouth Fails To Show That Number Pooling Will Increase Costs.

Any costs BellSouth has incurred to implement number pooling are dwarfed by the *savings* to BellSouth of postponing number exhaust and the need to undertake a massively expensive overhaul of the North American Numbering Plan (NANP). BellSouth has no serious response to this demonstration.

BellSouth erroneously asserts (at 9) that AT&T relies on an "assumed $50-150 billion dollar industry cost of a continued expansion of the North American Numbering Plan." In fact, a conservative estimate for the costs to *BellSouth* of NANP expansion, using *BellSouth's* reported costs of implementing local number portability and NPA overlays as a proxy, would be $732 million. *See* AT&T Application at 16-18. Moreover, the Commission itself has noted that implementation of number pooling will postpone the need for NANP expansion from later in this decade until 2025-2034. *Third NRO Order* ¶ 1 n.2. It is therefore possible to calculate the present value of the savings to BellSouth of staving off NANP exhaust. *See* AT&T Application at 18-19. Under any reasonable estimate, BellSouth will receive a substantial net cost reduction as a result of implementing thousands-block number pooling. *See id.*

BellSouth challenges the entire basis of the Commission's number pooling requirement. According to BellSouth (at 9-10), NANP exhaust is not imminent, and it alludes to (without any support) temporary, cyclical economic conditions, the "return of NXX codes," and unspecified "other optimization measures that have been in effect for some time." In effect, BellSouth is saying that the implementation of number pooling is pointless, because there is no danger of NANP exhaust. The Commission properly found otherwise, and BellSouth's attempt to recover *all* of its implementation costs, while refusing to make *any* attempt to make a reasonable estimate of the substantial offset cost savings, is patently unreasonable.

[3] BellSouth's attempts to cast AT&T's application as procedurally improper are unavailing. *See* BellSouth Opp. at 1-2. First, contrary to BellSouth's claim, the *Reconsideration Order* is not equivalent to a decision not to suspend in the first instance. As BellSouth admits (at 1), the Bureau found that the tariff raises substantial questions of lawfulness and suspended the tariff *before* it took effect. Although the Bureau purported to "reconsider" that decision in the *Reconsideration Order*, the fact remains that the Bureau issued a suspension order and that vacating the *Reconsideration Order* could only have the effect of reinstating an

III. BellSouth's Tariff Is Not Competitively Neutral, As Required By Section 251(e)(2).

Because of the enormous magnitude of the costs that BellSouth (and other carriers) seek to recover, such exogenous cost adjustments are not "competitively neutral," as required by § 251(e)(2). When the Commission issued the *Third NRO Order*, it expressly stated that it expected that the additional costs of implementing number pooling should be minimal, and should produce cost *decreases*. *Third NRO Order* ¶ 40 ("[u]nlike other mandates of the Commission, thousands-block number pooling may reduce network costs"). Although the Commission found that exogenous cost recovery would be competitively neutral, the Commission assumed that the amount of recovery would be minimal or zero.

Permitting LECs to recover thousands-block number pooling costs by increasing access charges by tens or even hundreds of millions of dollars would *not* be "competitively neutral." Forcing IXCs to bear "extraordinary" thousands-block number pooling costs of that magnitude would create serious market distortions and would place IXCs at a competitive disadvantage to other carriers (such as wireless carriers) that are far more responsible for number exhaust. BellSouth does not even attempt to refute that showing.

Moreover, as AT&T demonstrated, these excessive tariff filings simply confirm that the Commission should not permit ILECs to recover *any* number pooling costs in access charges. As AT&T and others have previously demonstrated, there is no sound basis for including any thousands-block number pooling implementation costs in access charges. Placing these costs on access ratepayers violates § 251(e)(2), which requires numbering administration costs to be "borne by all telecommunications carriers on a competitively neutral basis." *See also* AT&T Petition for Reconsideration (filed May 6, 2002). The Commission should grant this application for review and vacate the Bureau's *Reconsideration Order*, and it should also grant the pending petition for reconsideration and fashion a new cost recovery scheme that is competitively neutral.

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otherwise valid suspension order, entered before the rates took effect.

Respectfully submitted,

AT&T CORP.

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August 2, 2002

CERTIFICATE OF SERVICE

The undersigned hereby certifies that a copy of the foregoing Reply of AT&T Corp., in Support of Application of Review was served, by the noted methods, the 2nd day of August, 2002, on the following:

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