Case No. TO-2001-391

In the Matter of a Further Investigation Of the Metropolitan Calling Area Service After The Passage and Implementation Of The Telecommunications Act of 1996

Final Status Report

Of the

Industry Task Force

January 2002

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BACKGROUND

On January 18, 2001, the Missouri Public Service Commission ("Commission" or "MoPSC") issued its Order Establishing New Case and Creating an Industry Task Force. The new case was docketed as Case No. TO-2001-391. RE: *In the Matter of a Further Investigation of the Metropolitan Calling Area Service After the Passage and Implementation of the Telecommunications Act of 1996* (Order). In its Order, the Commission instructed the task force to investigate three specific matters: (1) the effects of an expanded MCA on pricing; (2) issues related to pricing of Metropolitan Calling Area (MCA) service; and (3) whether the Local Exchange Routing Guide (the "LERG") is an appropriate mechanism to identify the MCA NXX codes in the future. In addition, the Commission asked the task force to bring to the Commission's attention any other issues that may impact MCA service and its continued viability in the future.

On April 18, 2001, the Telecommunications Department Staff of the MoPSC (Staff) filed a status report regarding the activities of the Industry Task Force (Initial Report). In its Initial Report, Staff conveyed to the Commission the activities of industry workshops and meetings. Staff's Initial Report conveyed the activities completed, activities in process, future activities, and the next steps required to comply with the Commission's instructions in its Order.

This Final Status Report of the MCA Task Force is composed of four (4) subject matter sections, a recommendations section, and six (6) appendixes. The four sections correspond to the specific matters referenced in the Commission's original Order: (1) the effects of an expanded MCA on pricing; (2) issues related to pricing of MCA service; (3) whether the LERG is an appropriate mechanism to identify MCA codes and; (4) other issues that impact MCA service and its continued viability. Appendix One (1) is a Glossary of Terms associated with this Report. Appendix Two (2) contains maps and descriptions of MCA service. Appendix Three (3) to this report is a single page blank worksheet depicting the formula used to determine revenue impacts of expanding the MCA and a detailed description of the line items and formula used in compiling the worksheet. Appendix Four (4) is a Highly Confidential summary of rate impacts estimated for the ten incumbent local exchange carriers (I-LEC) associated with implementing Staff's MCA-2 proposal. Appendix Five (5) is Highly Confidential and shows specific line-by-line calculations performed by each individual incumbent local exchange carrier for estimating the revenue impact associated with Staff's proposed MCA-2. Appendix Six (6) is an order of the Public Utilities Commission of Texas expressing its support for competitive local exchange carriers (C-LEC) to obtain additional Extended Area Service NXX codes in the Dallas area to accommodate dialing arrangements similar to Missouri's MCA service.

1. THE EFFECTS OF AN EXPANDED MCA ON PRICING

Discussion

1.1 What sort of MCA expansion did the Industry Task Force contemplate?

Since the Commission's Order did not discuss a preference for how the MCA should be expanded, as an initial matter the Task Force decided to determine the monetary impacts associated with the Staff's MCA-2 proposal. The MCA-2 proposal was chosen as a starting point with the knowledge that the data (specifically, traffic volumes) used to determine the revenue impacts for MCA-2 could also be used for other methods of expanding the MCA within the current geographical boundaries (for example, blending various optional MCA tiers into one rate). Moreover, MCA-2 was the only proposal that was discussed in the context of expanding the MCA in Case No. TO-99-483. RE: *In The Matter Of An Investigation For The Purpose Of Clarifying And Determining Certain Aspects Surrounding The Provisioning Of Metropolitan Calling Area Service After The Passage And Implementation Of The Telecommunications Act of 1996.* Other possible MCA expansion scenarios are discussed in Section 4 of this Report, entitled Other Issues Viewed by the Task Force as Impacting the Continued Viability of MCA Service.

1.2 What are the main aspects of Staff's MCA-2 proposal?

MCA-2 is a proposed one-way outgoing calling plan that enables mandatory and optional tier MCA subscribers to call all telephone numbers within the MCA geographic area, regardless of whether or not the called party also participates in the MCA plan. The proposed MCA-2 would not change the current 7 or 10-digit or 1 plus 7 or 1 plus 10 digit dialing arrangement of the MCA. However, unlike the current MCA (which is often characterized as a two-way plan) which limits outbound calling to only certain NXX codes, MCA-2 places no limitation on NXX codes which may be dialed toll free within the MCA. It is anticipated that MCA-2 would encompass the same geographic area as the current MCA(s). The proposed MCA-2 would not be more "limiting" to callers. To the contrary, MCA-2 would expand upon the toll-free dialing capabilities within the MCA.

Benefits of MCA-2

MCA-2 reduces the need to segregate NXX codes into MCA-NXXs and non-MCA-NXXs, thus contributing to numbering conservation by eliminating utilization issues further discussed in section 4.9 of this Report. MCA-2 allows toll-free calling within the entire MCA, thus reducing toll charges for optional MCA subscribers and mandatory MCA customers. MCA-2 eliminates what many consider to be confusing dialing patterns when the caller does not recognize the called number as a local or toll call. MCA-2 also eliminates the requirement that subscribers change their telephone number when subscribing to, or canceling, MCA service. Some parties maintain that the administrative efficiencies associated with MCA-2 would actually decrease administrative costs of MCA service. Given that compensation within the MCA is bill-and-keep, some parties note that intercompany compensation mechanisms would become less contentious because MCA-2 would expand the calling volume associated with a simple bill-and-keep compensation mechanism in lieu of per-minute tariff charges (i.e. access charges).

Detriments of MCA-2

Absent pricing changes, implementation of MCA-2 is expected to decrease revenue for most, if not all, local and long distance telephone companies who provide calling within the MCAs. Some parties note that they will encounter one-time administrative costs with implementation of MCA-2. Other parties note the problems associated with transiting traffic within the current MCA, and maintain MCA-2 would only exacerbate the current situation whereby small incumbents allege non-payment of access charges from non-MCA participants such as wireless carriers. Lastly, some parties note that changes to the MCA may result in disaggregation of the prices customers pay for MCA service, as contrasted with the uniform prices originally established by the Commission and as are currently charged by the I-LECs.

1.3 What is the projected financial impact to implement the proposed MCA-2 calling plan?

The estimated financial impact expected to be incurred by incumbent local exchange carriers from implementing the MCA-2 proposal is approximately Eight Million Eight Hundred Twenty Thousand and Eight Hundred Ninety Six ($8,820,896) annually. This estimate is the sum of the financial data submitted by the local exchange carriers and includes downward changes in revenues directly attributable to MCA-2, as well as some implementation costs such as customer notification and equipment programming costs. However, not all carriers have included all expected implementation costs, nor does this estimate attempt to gauge the effects of cross elastic impacts associated with customers who may reconsider their choice of services in lieu of MCA-2 (individual company implementation methods are described in footnotes 2 through 11 of Attachment Four, while cross elastic impacts are defined in Attachment One and discussed further in section 4.6).

1.4 What considerations were taken into account when calculating the effects of expanding the MCA on pricing?

The Task Force believes that any expansion of the MCA, including the proposed MCA-2, would likely have the effect of reducing the revenues of all involved telephone companies. This revenue reduction would occur because expanding the MCA necessarily involves eliminating long distance calls and replacing them with local calls. The Task Force participants agreed that such revenue reductions impact incumbent and competitive local and interexchange carriers (i.e. both local and long distance carriers). In short, impacted carriers will have revenue reductions because calls that once were toll would become local under an expanded MCA. While the Task Force participants generally agree that such revenue reductions would apply to all involved carriers, it is anticipated that some disagreement may emerge with regard to the method of revenue recovery by each involved carrier.

Although it is expected that traditional long distance companies would see some reductions in revenue by expansion of the MCA, no attempt has been made by the Task Force to analyze such revenue impacts. As competitive companies, it is expected that traditional long distance carriers would gauge the potential lost revenue impact and, if necessary, make the necessary rate increase adjustments by filing tariffs with the Commission. Similarly, competitive local exchange carriers who have not already implemented MCA-2 would be expected to analyze the impact of an expanded MCA and make adjustments to tariffed rates, if necessary. Given the more stringent regulatory requirements of incumbent local exchange carriers, the primary focus of the Task Force for the past several months has been to gauge the revenue impact on the ten incumbent local exchange carriers who would be impacted by an expanded MCA.

The Task Force participants considered the monetary impact on these ten incumbents by analyzing expected revenue losses associated with MCA-2. Additionally, the data gathered by these ten incumbents is conducive to calculating revenue impacts associated with other modifications within the existing MCA boundaries, which the Commission may want to consider. Such potential considerations might involve making certain optional tiers mandatory, or combining tiers into a single rate group.

1.5 What data period was used to calculate the revenue impact?

The workshop participants chose to use data from the month of March 2001. By using March data, the workshop participants were able to use data free of unusual traffic patterns. March's traffic data was then annualized.

1.6 What method was used to calculate the monetary impact of MCA-2?

The ten incumbent LECs used similar methods in data gathering and processing techniques and reported the results for March 2001 on identical worksheets. Copies of each carrier's worksheet showing revenue impacts is contained in Appendix Five of this Report. A summary of the revenue impacts is shown in Appendix Four, and a description of the specific items used to calculate the revenue impacts for each incumbent carrier is contained in Appendix

Three. The data from the month of March 2001 was used to form a database of the long distance activity within the MCA. Data programs were written that created files of minutes-of-use (MOU). Considerable effort was put forth by the Staff, the OPC, and the industry to compile and verify a list of MCA NXX codes. With LERG information and/or the compiled MCA NXX list, output files were created that segregated the MCA calls from the non-MCA calls. Toll calls from MCA NXXs to non-MCA NXXs represent the MOU and messages that would be MCA calls under a MCA-2 plan. This change would create a monetary impact because these currently long distance calls would be considered local calls under the proposed MCA-2. The MOU and messages necessary to calculate certain impacts were shared with the other I-LECs where the traffic terminated within the MCA.

1.7 What types of telephone companies would have revenues impacted by proposals such as the MCA-2?

The Task Force believes any changes to the MCA would financially impact all telephone carriers operating in the MCA areas. Such carriers may be categorized as follows:

- ✓ Traditional facility-based interexchange carriers such as AT&T, WorldCom, and Sprint and long distance resellers, such as those traditionally represented by CompTel of Missouri. Although it is not known precisely how many such carriers currently operate in the MCA areas, it is estimated that there may be as many as 500. These carriers may be referred to as *competitive* interexchange carriers. These carriers would be financially impacted because calls which they carry today as toll calls would be converted to locally dialed calls under MCA-2. Conversely, such carriers would see a reduction in access expenses paid to local exchange carriers as fewer toll calls would be originated and terminated.

- ✓ The ten traditional incumbent local exchange carriers (I-LECs) who provide service in the MCA areas. Those carriers are SWBT, Sprint, Verizon, Spectra, ALLTEL, Choctaw, Mo-Kan Dial, Orchard Farm, Lathrop, and Cass County Telephone Companies. These carriers may be referred to as *non-competitive* local exchange carriers. For this group of carriers, revenue reductions would primarily occur both from the loss of toll calls carried (as with SWBT, Verizon, and Sprint) as well as from the loss of access revenues received from other interexchange carriers.

- ✓ Upwards of 80 competitive local exchange carriers (C-LECs). Although the revenue impact would most directly impact facilities-based carriers such as Brooks Fiber, AT&T, McLeod, and Birch Telecom, resellers of local exchange service would also have their revenue impacted. This group of carriers may be referred to as *competitive* local exchange carriers. To the extent that C-LECs may not already have implemented MCA-2, revenue losses to this group of carriers would primarily occur from the loss of access revenue received from long distance carriers. In the case of C-LEC resellers, retail revenues are based on the retail rates of underlying carriers such as SWBT. Any change in retail rates would impact the reseller's costs as well.

- ✓ The Task Force wishes to acknowledge that many carriers provide both local and toll services within the MCA. For example, AT&T and SWBT provide both local and toll services within the Kansas City and St. Louis MCAs. Sprint provides both local and toll service in the Kansas City MCA and Verizon provides both local and toll service in the St. Louis and Springfield MCAs. Carriers who provide service in this category are classified as both *non-competitive price cap carriers*, such as Verizon, Sprint, and SWBT, and as *competitive carriers* such as AT&T.

1.8 Is revenue neutrality appropriate for all carriers if the Commission implements revenue impacting changes to the MCA, such as MCA-2?

A majority of the Task Force concludes that Commission imposed revenue neutrality is appropriate only for carriers who are required to provide MCA service. In other words, only the incumbent local exchange carriers who are mandated to provide MCA service should be assured of revenue neutrality.

1.9 The MoPSC has not heretofore implemented a newly mandated local calling scope in a competitive environment. If the Commission determines to involve itself in matters of revenue neutrality only for the incumbent local exchange carriers, how should revenue neutrality be implemented? Stated differently, if the Commission allows revenue neutrality only for I-LECs, what is the role of the MoPSC in determining rate-making which establishes revenue neutrality for the ten non-competitive local exchange carriers who are currently required to provide MCA service?

While a majority of the Task Force believes the Commission should assure revenue neutrality for the ten incumbent local exchange carriers, not all Task Force participants agree such is the requirement. For those participants who believe revenue neutrality is appropriate, the method of assuring revenue neutrality among such non-competitive incumbents should involve approving rate increases designed to recover the expected losses.

1.10 Why do some Task Force members believe that loss of long distance toll revenue should not be included as part of I-LEC revenue neutrality for MCA-2?

Some Task Force participants believe toll revenue of Sprint, Verizon, and SWBT represents lost revenue from a competitive marketplace. Such commentators believe these three price cap carriers should no more be assured of revenue neutrality in competitive markets than competitive carriers. This viewpoint is not shared by Sprint, Verizon, or SWBT.

1.11 What is the anticipated financial impact to incumbent local exchange carriers, which is anticipated to be brought about as a result of the proposed MCA-2?

A summary of the monetary impacts of implementing MCA-2 is shown in Appendix Four.

2. ISSUES RELATED TO PRICING OF MCA SERVICE

The Task Force has identified the following issues related to pricing of MCA service.

2.1 Is it necessary to continue a uniform price for MCA service? Stated differently, should all incumbents continue to charge the same price for MCA service?

The Task Force believes this issue was addressed by the Commission in its Report and Order in Case No. TO-99-483. As stated,

> "[t]he Commission determines that ILECs are allowed to change their MCA service charges in response to competition brought on by flexible pricing of MCA service by CLECs, subject to statutes and other safeguards against predatory pricing" (Report and Order, page 23).

However, the Task Force believes expanding the MCA brings on additional pricing issues involving incumbent local exchange carriers which go beyond the Commission's order in Case No. TO-99-483. Specifically, the revenue impacts associated with implementing MCA-2 are different for each incumbent, just as the revenue impacts were different on each carrier when the original MCA was established in 1993. The main difference between now and 1993 is that SWBT, Sprint, and Verizon are no longer the Primary Toll Carriers and these carriers are no longer under rate-of-return regulation. Additionally, unlike the situation in 1993, no carrier currently has an intra or interLATA obligation to serve all toll customers if no other carrier desires to do so (i.e. SWBT and AT&T no longer have toll carrier-of-last-resort obligations). If the Commission decides to order implementation of MCA-2 or make other revenue impacting modifications to the current MCA, the Task Force is divided on whether the resulting rate increases should be uniform across all incumbents, or whether each incumbent should be allowed to increase rates for MCA service by different amounts and thereby begin to charge different rates for MCA service.

The Task Force recognizes different MCA prices among incumbents represents a potential for "looking over the fence" by consumers. For example, the exchanges of East Lynne and Holden adjoin each other in the Kansas City MCA tier 5. If Sprint charges a different price for MCA in its Holden exchange than Cass County charges for MCA in its East Lynne exchange, customers of each company may question why they pay different rates for the exact same service.

> 2.2 *If MCA-2 were implemented, all MCA subscribers would have the same local calling scope. This is vastly different than the current MCA that establishes different calling scopes depending on the MCA tier. Is it practical to charge different rates to subscribers who have the same local calling scope?*

The Task Force is unable to agree to an answer on this issue. Some parties believe it is perfectly acceptable to charge different (higher) rates in outer tiers because of the greater distance to the core metropolitan areas, even though the different tiered subscribers have the identical local calling scope.

Other parties do not accept that different rates should be charged for subscribers with identical calling scopes. These parties generally favor some sort of "blending" MCA rates among the different tiers. The Task Force also believes it appropriate to at least consider the possibility of spreading the cost of an expanded MCA on the mandatory tier customers as well as the optional tier customers (as has been shown by SWBT in footnote 1 of Appendix Four).

3. USE OF THE LOCAL EXCHANGE ROUTING GUIDE (THE "LERG") AS AN APPROPRIATE MECHANISM TO IDENTIFY THE MCA NXX CODES IN THE FUTURE

Background

The current MCA requires carriers to be able to identify MCA and non-MCA NXX codes. Historically, SWBT has been the carrier undertaking the responsibility for tracking and issuing all such codes. With the onset of local exchange competition, SWBT no longer has that responsibility. It appears to the Task Force that the former system of SWBT oversight of administering MCA codes has been replaced with a system of "voluntary" oversight, which is not understood by all who need accurate MCA NXX code listings. Of particular importance to the Task Force was what method should be utilized to make known the MCA and non-MCA NXX codes SWBT formally administered?

At this point in time, carriers may not be using a common process for identifying MCA and non-MCA NXX codes. While the Commission in Case No. TO-99-483 directed carriers to use the LERG to identify MCA NXX codes, it is not clear to the Task Force that all carriers are consistently using the LERG in a manner that allows identification of MCA and non-MCA NXX codes. As explained below, the Staff and OPC developed a database of MCA NXX codes, however, this was a static process and the database may not contain current listing of NXX codes in the MCAs.

Such NXX code assignment information is used not only by traditional and new competitive telephone carriers, but also by many businesses (such as the lodging industry), government (such as colleges) and other institutions that maintain business telephone systems.

Discussion

3.1 Who maintains the LERG?

The Task Force is unable to identify any party with overall responsibility for maintenance of the LERG. Rather, the Task Force believes each carrier is responsible for maintaining its own portion of the LERG.

3.2 Who is responsible for the overall accuracy of the LERG?

The Task Force is unable to identify any party who is responsible for the overall accuracy of the LERG. Rather, the Task Force agrees that each carrier is responsible to insure its data is accurate in the LERG.

3.3 Is the LERG an appropriate mechanism to identify the MCA NXX codes in the future?

The parties represented on the Task Force have not come to a consensus on this issue. In its April 18th Report, the Task Force acknowledged shortcomings of the LERG. Of primary concern is the lack of instructions on how to read the LERG and the inconsistent use of the "J" code to designate MCA NXX codes, as further discussed below in section 3.4. In this Final Industry Report, the majority of Task Force participants conclude that the LERG is not an appropriate mechanism to identify MCA NXX codes, although this view is not shared by all Task Force participants. As an alternative to the LERG, the Task Force acknowledges the work of Staff and the OPC in posting MCA and non-MCA codes on the Commission's Web site. Most parties, including the Staff and OPC, conclude that the information posted on the Commission's Web site is much simpler to use than the LERG, although the Task Force also acknowledges that some parties will continue to use the LERG as a means to identify MCA and non-MCA NXX codes.

As an example of the disagreement surrounding this issue, SWBT emphasizes Ordered Paragraph 13 in the Commission's Report and Order in Case No. TO-99-483, in which the Commission ordered MCA NXX codes to be identified using the LERG. SWBT believes if this aspect of the Commission's directives were satisfied, the LERG is an appropriate mechanism to identify MCA NXX codes. Other parties, such as the Staff and the OPC, believe Ordered Paragraph 13 does not sufficiently address the myriad issues associated with the use of the LERG to identify MCA NXX codes. For example, Ordered Paragraph 13 provides no reference to use of the "J" code, provides no guidance on whether or not NXX codes in the mandatory MCA area are dialable as local calls from non-mandatory areas, and provides no guidance for owners of business telephone systems to program MCA and non-MCA NXX codes. Moreover, the Staff and OPC question the validity of Ordered Paragraph 13 on carriers and other entities who were not a party to Case No. TO-99-483.

The Task Force wishes to acknowledge that if the Commission orders implementation of MCA-2, the issue of MCA NXX code identification via the LERG largely becomes a moot issue. This is because MCA-2 allows both MCA subscribers and non-subscribers to be assigned from the same block (or thousands block) of NXX codes. If the Commission implements MCA-2, it is envisioned that the LERG would be used primarily as a means to identify new code assignments.

If the Commission does not implement MCA-2, some Task Force members such as the Staff and the OPC suggests the Commission order facility-based local exchange carriers to report their MCA NXX codes to the Staff so that the results may continue to be posted on the Commission's Web site.

3.4 Should LERG "J" codes be used as the proper optional MCA NXX identifier?

In Missouri, "J" codes represent a Special Service Code in the LERG and are used to designate optional MCA NXXs. As reported in the April 18th Technical Report, the Task Force discovered that the "J" code was not being used consistently and uniformly by the industry in Missouri and the LERG was not being updated as often as it should be. The Task Force agrees that the use of "J" codes is a proper means to identify optional MCA NXX codes. As a result, the Task Force recommends that the "J" code be used for local exchange carriers to designate MCA codes as contrasted with the lack of a "J" code to designate non-MCA NXX codes within the MCA. The Task Force also wishes to acknowledge that, if implemented, "J" codes would no longer be necessary with MCA-2.

3.5 Should LERG "J" codes be used to designate NXX codes in the mandatory MCA areas such as the principal tier and tiers 1 and 2 in St. Louis and Kansas City and the principal tier and tier 1 in Springfield?

The Task Force recommends against designating mandatory MCA NXX codes with a "J" designation. Rather, the Task Force suggests that "J" codes designate only MCA NXX codes in optional MCA areas. Non-MCA codes in optional MCA tiers should not have a "J" designation nor should any NXX code in a mandatory tier receive a "J" designation because all NXX codes in the mandatory areas are treated as MCA codes to be dialed on a local basis and there is no need to separately identify mandatory tier NXX codes.

4. OTHER ISSUES VIEWED BY THE TASK FORCE AS IMPACTING THE CONTINUED VIABILITY OF MCA SERVICE.

Discussion

4.1 Should tier 3 of the current MCA be made mandatory?

In the original MCA case, the Commission considered whether or not to make tier 3 mandatory, as it stated:

> "[t]he real consideration which the Commission weighed and which may be addressed in a future docket is whether to make MCA service mandatory in MCA-3 in Kansas City and St. Louis and MCA-2 in Springfield. The Commission will make MCA service mandatory in MCA-Central, MCA-1 and MCA-2 in Kansas City and St. Louis and MCA Central and MCA-1 in Springfield" (Report and Order, page 21, Case No. TO-92-306).

At this time, the Task Force is unable to come up with any reason to make tier 3 mandatory. Generally, the Task Force believes customers should be allowed the option of choosing expanded calling plans, rather than having them made mandatory. However and as previously discussed, the data which has been compiled by the Task Force would allow an analysis of the cost of making MCA tier 3 mandatory (and tier 2 in Springfield), should the Commission desire. However, the Task Force has not as yet undertaken such an analysis.

4.2 Should the current MCA be expanded to include a tier 6 MCA area (or tier 3 in Springfield)?

The Task Force did not examine the potential for expanding the MCA beyond the current MCA geographic boundaries. Conceivably, expansion on an additional tier would include major communities in close proximity to the current tier 5 in St. Louis and Kansas City and tier 2 in Springfield. Although the Task Force acknowledges some demand for such an expansion, the Task Force considered MCA expansion on such a large scale to be beyond the scope of its mission, although the Task Force does wish to recognize the citizen petitions filed by the OPC in support of expanding the MCA to areas not currently included as part of the MCA. Prior to consideration of such an expansion, the Task Force recommends the Commission determine the feasibility of the MCA-2 proposal. This is especially recognized by the Task Force due to the inefficient manner in which the current MCA plan allocates NXX codes. While the Task Force does not necessarily want to limit on-going discussion of expanding the geographic boundaries of the current MCA, the Task Force does believes that the current MCA structure should be prioritized and finalized before geographic expansion of the MCA is implemented.

4.3 Should MCA subscribers in the optional MCA tiers be allowed to call ***all telephone numbers*** *in the mandatory MCA areas, regardless of the type of carrier offering service in a mandatory tier?*

The Task Force concludes that all telephone numbers in the mandatory tiers should be dialable as a local call by MCA subscribers in optional MCA tiers. The optional MCA calling scope as ordered by the Commission in Case No. TO-92-306 indicates that optional MCA subscribers should be able to call on a local basis, all customers in the mandatory MCA areas. The majority of the Task Force believes this should include customers of all companies including customers of C-LECs, paging, and wireless companies, whether or not these companies are considered by themselves, or others, as "MCA providers." The Task Force concludes that these carriers' customers should be dialed on a local basis from optional area subscribers. Indeed, the MCA NXX code listings posted on the Commission's Web site has designated the NXX codes in mandatory areas as mandatory NXXs.

4.4 Should wireless carriers be allowed to fully participate as part of the MCA?

In its original MCA order, the Commission noted:

> …"[T]here seems to be no disagreement that the expanded calling plans should not be available for calling from cellular customers to LEC customers or to cellular carriers to incorporate into their networks." (Report and Order, page 49, Case No. TO-92-306).

The Task Force wishes to acknowledge that the wireless carriers have traditionally not been included as part of the MCA. Historically, if wireless carriers desired for their customers to be called as part of the MCA, such wireless carriers had to locate their switching equipment (or assign their NXX codes) as part of the mandatory MCA areas. The Task Force is unable to reach an agreement on whether or not this situation should be changed. This issue simply involves a disagreement between those parties who wish to maintain the status quo, and those parties who advocate inclusion of wireless carriers as part of the MCA. However, a Task Force consensus of members acknowledges the difficulty of including non-regulated wireless carriers into a

Commission mandated calling plan. For example, to preserve the integrity and benefits of MCA service, most parties advocate the benefits of posting MCA NXX codes on the Commission's Web site. Indeed, if the current MCA is maintained, the Task Force suggests the Commission require MCA participants to supply MCA NXX codes to the Staff in order to insure the accuracy of the Web site listings. However, the Task Force believes it would be difficult, if not impossible, to order such compliance among non-regulated participants such as wireless providers. Further, the existing MCA is a two-way plan, which provides for both incoming and outgoing calling features. The Task Force is unable to determine a way for the Commission to regulate the outbound calling scope of wireless providers to comply with existing MCA dialing. Therefore, full participatory inclusion of wireless providers is viewed as somewhat problematic, even among Task Force members who advocate inclusion of wireless carriers as part of the MCA. Again, as with other issues associated with the two-way calling aspects of the current MCA, inclusion of wireless providers becomes a moot issue should the Commission decide to implement MCA-2.

4.5 Should MCA be available to pay phones, resellers, and aggregators?

In its original MCA order, the Commission noted:

> "[M]CA, OCA and modified COS are to be available to residential and business customers of LECs. These services will not be made available to pay phones, resellers or aggregators. Pay phones, both LEC-owned and privately owned, will retain the basic, nonoptional calling scope for purposes of implementing the MCA plan." (Report and Order, page 48, Case No. TO-92-306).

The Task Force is unable to reach an agreement on whether or not this situation should be changed. Some parties believe pay phone providers should have the MCA calling scope available to them. Other parties believe pay phone providers should continue to be excluded from providing MCA service. The Task Force was unable to identify issues associated with pay telephones in the MCA. Again, this matter appears to involve a disagreement among those who advocate the status quo versus those who want a policy to include pay telephones.

4.6 Are there additional financial impacts the parties believe should be considered if the MCA is modified?

The Task Force acknowledges certain additional costs will be incurred due to any changes in the MCA. These costs are expected to include additional items such as trunking costs, increased network usage costs, customer education costs, physical network additions, and switch translation expense.

The Task Force also acknowledges that any changes to the current MCA, such as the proposed MCA-2, might cause consumers to evaluate other optional calling plans in lieu of the MCA service. For example, optional tier MCA subscribers might decide to switch to SWBT's Local Plus calling plan rather than continuing with MCA and to the extent that subscribers purchase MCA service solely to *receive* calls, such subscribers may cancel MCA service because they would no longer need the service for others to be able to call them on a local basis. Such cross elastic impacts have not been considered in this Report.

4.7 Are implementation costs appropriately included as a part of revenue neutrality?

The Task Force is unable to agree at this time on whether or not implementation costs should be considered as part of revenue neutrality. The Task Force is generally aligned on either the side of those who believe all reported implementation costs should be allowed as part of revenue neutrality, or on the side of those who believe such costs require further scrutiny, if indeed such costs should be allowed at all. For example, the Staff notes the following from the original MCA order:

> "[T]he Commission finds that revenue neutrality only requires the LECs be allowed to replace lost revenues which result from the implementation of the new services. Other items, such as additional expenses caused by separation allocations and the cost of new facilities, are not part of the requirement. Revenue neutrality is a substitute for changing rates within a general rate case and the inclusion of items other than revenue losses entails single -issue ratemaking. In addition, other costs should not be included to offset gains to reduce the refund to the PTCs. LECs can file general rate cases if they believe they are not earning an adequate return

after implementation of the plans." (Report and Order, page 45, Case No. TO-92-306).

This section of the original MCA Order specifies that only lost revenues were to be used for revenue neutrality calculations in the original MCA Order. The Task Force notes that the financial impacts identified in this Report also includes a reduction in the revenue impact by SWBT, Verizon, and Sprint due to a reduction in terminating access expenses associated with MCA-2. The negative revenue impact identified in Appendixes Four and Five of this Report would be greater if this expense change were not included in the calculations.

4.8 What issues are associated with expanding the MCA beyond the current MCA boundaries?

When expanding the MCA to geographic areas currently not served, the Task Force believes the same revenue items should be considered as have been used in calculating revenue impacts associated with the proposed MCA-2, as outlined in Appendix Three of this Report. One additional item required is to estimate the "take rate" of MCA subscribers in the target area.

Some parties believe a demonstrated community of interest should exist prior to expansion of the MCA beyond its current geographic boundaries. However, the Task Force did not consider details pertaining to standards, which might be used for determining a community of interest for such expansion.

4.9 What is the current status of the NANPA's denial of MCA codes to AT&T?

As reported in its April 18th Status Report, the Task Force wishes to reiterate that the North American Numbering Plan Administrator (NANPA) has denied AT&T's request for a second NXX code in an exchange in the St. Louis MCA calling scope because such a request violated FCC guidelines pertaining to 60% code utilization rates. For example, if a carrier has not used 60% of the available numbers in an NXX code, the NANPA will not issue another code in the same exchange, as is required to satisfy the dialing requirements for Missouri's MCA service. While the Task Force notes that the 60% utilization standard applies equally to competitors and incumbents, of particular concern is the fact that only competitors are being denied the ability to serve new customers. This is because incumbents already had the required minimum of two NXX codes to serve an exchange when the 60% utilization guideline was established. Plainly stated, competitors are being denied the MCA codes necessary to provide MCA service in competition with incumbents. As was discussed previously in section 1.2 *Benefits of MCA-2* and as is also discussed in Appendix One (definition of *MCA NXXX code*), MCA–2 would eliminate the requirement for segregated and duplicative NXX codes for MCA purposes, and thus would make such requests from the code administrator unnecessary and such issues moot.

The Task Force notes that a similar condition involving two-way EAS also exists in 31 SWBT rate centers in the Dallas, Texas area. In that jurisdiction, AT&T and other competitive local exchange carriers have also been denied a second NXX code by the NANPA because such requests also violated guidelines pertaining to the FCC's 60% code utilization requirement. In Texas, competitors have petitioned the Texas Commission for waiver of the NANPA's denial and the Texas Commission has granted the requests. A copy of the Texas Order granting such requests is attached as Appendix Six. Again, the Task Force recognizes that these issues will be avoided in Missouri should the Commission implement MCA-2.

4.10 Should MCA traffic be carried on separate trunk groups?

The Task Force notes that local MCA traffic is carried on "common" trunk groups with other types of telephone traffic such as toll traffic. Given the different compensation mechanisms associated with different types of telephone traffic, some Task Force members suggest that MCA traffic, which is compensated on a bill and keep basis, should be carried on separate trunk groups from other compensable traffic, such as toll. Those Task Force members advocating separate trunk groups believe dedicated trunk groups for MCA traffic would alleviate problems receiving carriers have of not knowing the degree or quantity of bill and keep traffic. Further, these parties maintain that the manageability of common trunk groups only becomes more pronounced as the number of competitive carriers grows. Other parties point to the increased cost of establishing dedicated trunks, and recommend continuation of the status quo of common trunk groups. Those opposed to establishing separate trunk groups believe the present case is not the proper forum for addressing this issue. The Task Force is unable to agree on a recommendation of whether separate trunk groups should be used for MCA traffic.

RECOMMENDATION OF THE STAFF

1) The Staff recommends the Commission order implementation of Staff's proposed MCA-2.

2) In implementing the MCA-2, the Staff recommends the Commission allow revenue recovery to offset revenue reductions and reasonable implementation costs for the ten incumbent local exchange carriers who are required to provide MCA service in Missouri. For the purposes of the MCA-2, the Staff characterizes such revenue recovery as "revenue neutrality." While the Staff acknowledges that some Task Force participants disagree that price cap carriers are entitled to revenue neutrality for competitive services such as intraLATA toll, the Staff is willing to concede such revenue neutrality for the purposes of this proceeding, and in the interest of implementing the number conservation aspects of MCA-2 as soon as possible.

3) The Staff suggests the Commission may want to conduct a one-day on-the-record presentation designed to answer Commission questions and to aid the Commission in determining whether it wants to implement MCA-2 or a similar proposal to expand the MCA within its current boundaries, or to address any question the Commission may have with regards to any item presented in this Report. The Staff suggests the Commission schedule such a presentation at its earliest convenience.

4) The Staff suggests the Commission instruct the Task Force as to what further material, if any, is needed to assist the Commission in determining its preference to expand the MCA beyond its current boundaries. If the Commission does not desire to expand the MCA beyond its current boundaries, the Staff recommends the

Commission re-express its desire for competition to take the place of regulation for expanded calling outside of the current MCA.

5) Should the Commission decide to proceed with implementation of MCA-2, or a similar expansion or other changes to the MCA, the Staff recommends the Commission establish an evidentiary hearing on the merits of such proposals.

6) Lastly, the Staff suggests that the Commission schedule public hearings to gauge demand for an expanded MCA-2. Staff suggests that any public hearings include advance notice to the public, which clearly describes MCA expansion plans under consideration, and also provides some insight as to the possible amount of potential rate increases. The Staff wishes to acknowledge that public disclosure of the proposed rate increases would necessitate a Commission order to make such data publicly available, a position favored by the Staff as the Staff fails to see how I-LECs are harmed by such public disclosure. Staff suggests members of the Commission's Telecommunications Department Staff, the Office of Public Counsel, and interested industry representatives be present to answer questions at the public hearing.

RECOMMENDATION OF CHOCTAW TELEPHONE COMPANY AND MOKAN DIAL, INC.

1) Choctaw and MoKan Dial recommend enhancing calling plans in rural areas before or simultaneous with enhancing calling plans in metropolitan areas. Choctaw and MoKan believe rural customers are entitled to parity of service consistent with urban customers. Choctaw and MoKan believe no viable solution currently exists for many rural customers who desire to have an expanded calling plan. Choctaw and MoKan believe any Commission-mandated calling plan should also encompass rural customers, not just urban customers. Further expansion of the existing MCA, such as the Staff's proposed MCA-2, or further extension of the current MCA territorial boundaries to include a "tier 6" MCA, would only exacerbate the current disparity between urban and rural customers' calling plans.

2) Choctaw and MoKan Dial recommend implementation of the Staff's proposed MCA-2 only upon the following conditions:

   a) Resetting of MCA rates to reflect a rebalanced set of rates reflecting comparable values for comparable essential calling scopes which can be the basis for implementing the Missouri Universal Service Fund and a comparable enhanced rural calling plan. MCA-2 should not be implemented without its effects being synthesized with the MoUSF docket.

   b) In contravention of the current practice, MCA traffic should be segregated on to separate trunk groups, as LECs have failed to provide traffic reports distinguishing bill and non-compensable traffic from compensable traffif.

   c) In contravention of the current practice, wireless carrier NXX codes should not be dialable as a local call from optional tier MCA customers, even when the wireless NXX code is located within the mandatory tiers of the MCA, unless that subscriber's LEC has an interconnection agreement with the wireless carrier authorizing it. Since implementation of the 1996 Telecommunications Act, interconnection agreements have become the authorization for local calling between LECs and wireless carriers. Continuation of the inclusion of wireless NXXs in the MCA calling scope has and will continue to disincent IAs, as today wireless carriers are utilizing the 1992 MCA Order as a basis to claim they are entitled to reciprocal bill and keep, in the absence of an approved interconnection agreement, and regardless of traffic balances.

   d) NXX codes and the LERG use must be controlled to preclude the misrepresentation of traffic. For example, wireless carriers are misrepresenting NXXs as MCA NXXs even when the NXX is actually in a different local calling scope, a different local exchange and/or a different Metropolitan Trading Area (MTA).

e) I-LECs must be assured of revenue neutrality when implementing changes to the current MCA (such as the MCA-2), including reasonable implementation costs.

RECOMMENDATION OF SWBT

1. The Industry Task Force should hold additional meetings to discuss specific pricing proposals of each company in an attempt to achieve a settlement agreement. The discussions to date have largely involved revenue impact assessment and the development of this report. The parties have not engaged in any significant discussion of specific pricing proposals.

2. The Industry Task Force should further examine the rebalancing of rates between outer tier exchanges and the inner tiers under Staff's MCA-2 proposal because, if adopted, all MCA subscribers will have the same calling scope.

3. The Commission should allow pricing proposals to consider cross-elastic impacts of changing the MCA plan on other services.

4. The Commission must allow I-LECs, who have not been declared competitive companies, full recovery of lost revenue and implementation costs.

5. SWBT believes that the Commission's Report and Order in Case No. TO-99-483 conclusively establishes that the LERG is an appropriate mechanism to identify MCA

NXX codes and that duplicate reporting to Staff may lead to discrepancies and further exacerbate the possibility of MCA NXX reporting problems.

RECOMMENDATION OF THE OFFICE OF PUBLIC COUNSEL

1) Public Counsel believes a few months delay may be needed to allow the parties to discuss and fashion a settlement agreement on how to proceed with implementation of MCA-2 or, if that is not possible, to at least better identify the scope of issues for hearing. Competition has not continued to require additional codes at the rate previously estimated and number conservation requirements and Pooling have and will also contribute to slowing the rate of code demand. With this in mind, the pressure generated by NXX exhaust has diminished and gives the parties a little more time for moving forward with MCA-2. Public Counsel believes that it is in the best interests of all concerned to see if some common ground can be reached on a reasonable negotiated settlement to implement MCA-2 (on some or all of the terms) without a protracted dispute over costing methods. Public Counsel suggests that a meeting to discuss whether there can be any room for a negotiated resolution of the MCA-2 issues. If not, it would be productive to have one or two additional meetings to establish a uniform list of recurring and non-recurring cost items and then to establish a date certain by which carriers must provide estimates including estimates of any cross-elastic impacts. Although the companies have already submitted some cost related data, the data request responses received from the companies suggest that a number of carriers are still identifying and quantifying cost related to MCA-2 that they might seek to recover if the plan is implemented. In addition, the data received to date exhibits significant differences in the types of reported costs and the elements that drive those costs.

2) Until some reasonable and uniform system of identification and reporting of allowable costs can be established, OPC cannot support recovery of the costs identified to date or any potential costs the companies may propose as this process

continues. While MCA-2 in concept offers potential benefits in reducing the demand for numbering resources and customer confusion and inconvenience, ultimately these benefits must be weighed against the costs. It is premature for OPC to declare its position now until the extent of the costs the companies seek to recover are developed in a uniform manner and are better identified and quantified.

3) OPC believes that a hearing regarding the basis of costs and pricing would be necessary if the Commission moves forward without first exploring these issues in further technical meetings.

4) The Commission should consider expansion of the MCA beyond its current boundaries on a case-by-case basis. In doing so, the Commission may wish to direct the industry to develop recommendations for determining where communities of interest might exist and to attempt to identify areas where those conditions are satisfied.

5) Public Counsel joins the Staff in recommending that the Commission schedule public hearings to gauge demand for an expanded MCA-2. Any public hearings should include advance notice to the public, which clearly describes MCA expansion plans under consideration, and provides some insight as to the possible amount of potential rate increases. A public hearing will allow customers to voice their opinions and concerns regarding MCA-2 or additional expansions.

6) The OPC agrees with Choctaw and MoKan Dial that no viable solution currently exists for many rural customers. Just as MCA serves the needs of urban customers, rural consumers need to have an economical expanded local calling plan that allows them to reach their community of interest. OPC would suggest that the Commission initiate an investigation into the extent the requirement for comparable services at comparable rates is being met between Missouri urban and

rural areas and for fashioning a separate calling plan (Rural Calling Area – RCA) that addresses the local calling scope needs of rural customers.

RECOMMENDATION OF SPRINT, MO., INC.

1) The Industry Task Force should hold additional meetings to discuss specific pricing proposals.

2) The Industry Task Force needs to examine and discuss the rebalancing of rates between the tiers.

3) The Commission must allow full recovery of lost revenue and implementation costs.

4) The geographical expansion of the MCA area should not be part of this docket but could be discussed more appropriately under a separate docket and after the issues of this docket have been resolved.