



Competition in Telecommunications Markets in Florida

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TABLE OF CONTENTS

	Page
LIST OF TABLES AND EXHIBITS	3
LIST OF ACRONYMS	4
EXECUTIVE SUMMARY	5
I. INTRODUCTION	6
II. FLORIDA PUBLIC SERVICE COMMISSION ACTIONS	8
Operational Support System (OSS) Testing	8
Unbundled Network Elements (UNEs)	11
Reciprocal Compensation Docket	12
Phase I	14
Phase II	15
BellSouth Petition for InterLATA Authority	15
Service Quality Dockets/Incumbent Local Exchange Companies	16
Florida Telecommunications Competitive Topics Forum	17
III. STATUS OF LOCAL SERVICE COMPETITION	19
Status of Local Service Competition Throughout Florida	20
The Overall Impact of Local Exchange Telecommunications Competition on the Continued Availability of Universal Service	21
The Ability of Competitive Providers to Make Functionally Equivalent Local Exchange Services Available to Both Residential and Business Customers at Competitive Rates, Terms, and Conditions	22
The Ability of Customers to Obtain Functionally Equivalent Services at Comparable Rates, Terms, and Conditions	24

The Overall Impact of Price Regulation on the Maintenance of Reasonably Affordable and Reliable High-Quality Telecommunications Services	31
What Additional Services, if Any, Should Be Included in the Definition of Basic Local Telecommunications Services, Taking Into Account Advances in Technology and Market Demand	32
Any Other Information and Recommendations Which May Be in the Public Interest	33
Summary of Status of Local Service Competition Throughout Florida	35
Status of Local Service Competition by Exchange	35
How Florida Compares with the Rest of the United States	54
Limitations in the Preceding Alternative Local Exchange Company Market Analyses	54
Complaints Filed By Alternative Local Exchange Companies against Incumbent Local Exchange Companies	55
Summary	59
IV. CONCLUSIONS	60
APPENDIX A ALECs Certificated as of June 30, 2001	62
APPENDIX B Key Federal Issues:	78
Reciprocal Compensation	78
Rural High-Cost Support	81
Funding For Non-Rural High Cost Areas	83
Total Element Long-Run Incremental Cost Pricing Rules	84

LIST OF TABLES and EXHIBITS

Table 3.1	Summary of Resale Discount Rates	24
Table 3.2	ALECs Providing Service	25
Table 3.3	Local Rates For Selected ALECs	29
Table 3.4	Percentage of ALEC Access Lines By Exchange	35
Table 3.5	Exchanges with an ALEC Provider	43
Table 3.6	Summary of Florida Exchanges With and Without ALEC Providers	50
Table 3.7	Exchanges with the Most ALEC Providers	51
Table 3.8	ALEC Providers by Local Access Transport Area (LATA)	52
Table 3.9	Summary of Complaints Filed by ALECs	55

LIST OF ACRONYMS

ALEC.....	Alternative Local Exchange Company
AT&T.....	AT&T Communications of the Southern States
ATM.....	Asynchronous Transfer Mode
BEBR.....	Bureau of Economic and Business Research
BellSouth.....	BellSouth Telecommunications, Inc.
Commission.....	Florida Public Service Commission
CTIA.....	Cellular Telecommunications Industry Assoc.
DSL.....	Digital Subscriber Line
FCC.....	Federal Communications Commission
FCCA.....	Florida Competitive Carriers Association
FPSC.....	Florida Public Service Commission
FTIA.....	Florida Telecommunications Industry Assoc.
GTEFL.....	GTE Florida, Inc. (now known as “Verizon”)
ISP.....	Internet Service Provider
ILEC.....	Incumbent Local Exchange Company
Joint Board.....	Federal-State Joint Board
LATA.....	Local Access and Transport Area
LERG.....	Local Exchange Routing Guide
NANPA.....	North American Numbering Plan Administrator
NXX.....	End Office Code
NPA.....	Area Code
OSS.....	Operational Support System
PICC.....	Presubscribed Interexchange Carrier Charge
SLC.....	Subscriber Line Charge
Sprint.....	Sprint-Florida, Inc.
UNE.....	Unbundled Network Element

EXECUTIVE SUMMARY

This report is prepared to satisfy the statutory requirements of Section 364.386, Florida Statutes. It contains a review of the major Commission actions in the past year, discusses the status of local exchange competition within Florida's telecommunications markets, and reviews key federal rulings that affect telecommunications services in Florida.

From June 30, 2000, to June 30, 2001, the Commission received 12 petitions for arbitration of rates, terms and conditions for interconnection, unbundling, and resale. During that same time period, the Commission has received 455 negotiated agreements between alternative local exchange companies (ALECs) and incumbent local exchange companies (ILECs) for review and has approved 1,996 negotiated agreements since June 1996.

As of June 30, 2001, 463 ALECs were certificated in Florida, 108 of which reported they were providing local service to 959,586 business and residential access lines. Florida has experienced gains in competition since the 2000 report, although the ILECs remain the dominant providers. Measured with respect to access lines served, ALECs have increased their total market share to 8.0 percent. The ALECs' percentage of business access lines increased from 14.2 percent to 15.9 percent; while their percentage of residential lines increased from 2.7 percent to 4.4 percent since the 2000 report. Competitive entrants continue to expand their presence beyond the densely populated urban areas and into some of Florida's less densely populated markets.

The Commission has received 18 ALEC complaints against ILECs since last year's report. Of the total, 17 have been resolved and one has been withdrawn by the ALEC.

CHAPTER I: INTRODUCTION

The Florida Public Service Commission regulates the telecommunications industry under the auspices of Chapter 364, Florida Statutes. Among the Commission's obligations under this chapter is to prepare and deliver a report on "the status of competition in the telecommunications industry" to the Governor and Legislature by December 1 of each year.

Under the provisions of Section 364.386, Florida Statutes, the annual report on the status of the telecommunications industry in Florida must address the following issues:

- The overall impact of local exchange telecommunications competition on the continued availability of universal service.
- The ability of competitive providers to make functionally equivalent local exchange services available to both residential and business customers at competitive rates, terms, and conditions.
- The ability of customers to obtain functionally equivalent services at comparable rates, terms, and conditions.
- The overall impact of price regulation on the maintenance of reasonably affordable and reliable high-quality telecommunications services.
- What additional services, if any, should be included in the definition of basic local telecommunications services, taking into account advances in technology and market demand.
- Any other information and recommendations which may be in the public interest.

Additionally, a 1997 amendment to Section 364.161(4), Florida Statutes, requires the inclusion of a summary of all complaints filed by alternative local exchange companies (ALECs) against incumbent local exchange companies (ILECs).

Information for this report was drawn from a number of sources. A data request was submitted to all certificated ILECs and ALECs in Florida, a total of 473 companies, specifically for the purpose of creating the underlying factual basis for a number of conclusions drawn in subsequent sections. Additional research was conducted by reviewing Commission certification records, orders, and dockets. Reports from industry, trade associations and federal sources - including the Federal Communications Commission (FCC) and Government Accounting Office (GAO) - were used in the preparation of this report.

Chapter II outlines actions taken by the Commission to promote a competitive environment. Chapter III assesses the status of competition in the local telecommunications markets in Florida and Chapter IV offers some conclusions based on available data. Appendices list the ALECs certificated in Florida as of June 30, 2001 and an update of federal activities that impact Florida markets.

CHAPTER II: FLORIDA PUBLIC SERVICE COMMISSION ACTIONS

This chapter reviews some of the major issues being addressed by the Commission to foster a more competitive telecommunications environment, including evaluation of BellSouth's operational support systems, pricing of unbundled network elements, reciprocal compensation, BellSouth interLATA authority, quality of service evaluations of Florida's three major incumbent local exchange companies, and structural separation of BellSouth's retail and wholesale operations.

OPERATIONAL SUPPORT SYSTEM (OSS) TESTING

Operational support systems (OSS) generally refers to an incumbent local exchange company's "back office" systems and databases required for pre-ordering, ordering, provisioning, maintenance and repair, and billing. The FCC has concluded that

. . . the massive operations support systems employed by incumbent LECs, and the information such systems maintain and update to administer telecommunications networks and services, represent a significant potential barrier to entry. It is these systems that determine, in large part, the speed and efficiency with which incumbent LECs can market, order, provision, and maintain telecommunications services and facilities. (FCC 96-325, ¶ 516)

Accordingly, the FCC has required that an ILEC provide to ALECs nondiscriminatory access to the incumbent's OSS. The ease and efficiency with which an ALEC can gain

access to the incumbent's OSS is important in order for the ALEC to be able to provide service to its customers in a manner comparable to the ILEC.

Nondiscriminatory access to its OSS is one of the requirements that BellSouth must satisfy in order to be permitted to provide interLATA long distance service in its service area. To fulfill this requirement, the Commission concluded that an independent third party should conduct a test of the adequacy of BellSouth's operational support systems; this test, which is ongoing, began in 2000. KPMG Consulting has served as manager of the test since its approval in late 1999. The testing is in three major areas: Process and Procedures Review (PPR) Tests, Transaction Validation and Verification (TVV) Tests, and Performance Metrics Review (PMR) Tests.

PPR Tests

Sixteen PPR tests are in progress to evaluate processes and practices involved in performing the various OSS functions (preordering, ordering, provisioning, maintenance/repair, and billing). Where possible, parity comparisons between BellSouth retail and alternative local exchange company (ALEC) processes are made. KPMG obtains input for the PPR tests through interviews of BellSouth and ALEC employees, and through direct observation of processes.

TVV Tests

Eleven TVV tests provide direct evidence regarding the functioning of BellSouth's OSS in preordering, ordering, provisioning, maintenance/repair, and billing of all services offered by BellSouth to ALECs. During 2000 and into 2001, test orders and transactions have been submitted by KPMG's testing pseudo-ALEC. The results of these transactions are assessed by KPMG versus a set of Service Quality Measures approved for use in the tests by the Commission.

Performance Metrics Tests

Performance metrics tests are in use to assess the accuracy and adequacy of the interim performance metrics and statistical analysis methods approved for use through collaborative workshops. In addition, a written report on the adequacy of the performance metrics will be presented by KPMG separate from the testing report.

Observations and Exceptions

For all three areas of testing, KPMG findings are noted via the observations and exceptions process. Problems identified in the testing are initially noted as “observations.” BellSouth is required to respond with either an explanation or a plan for correction. If the observation rises to the level of constituting a hindrance to an ALEC’s ability to compete and operate, KPMG may categorize the problem as an “exception.”

Under the “military testing approach” being used, BellSouth must make necessary corrections to the satisfaction of KPMG and FPSC staff before observations and exceptions can be closed. During the test, observations and exceptions are posted on the FPSC webpage, <http://www.psc.state.fl.us>.

KPMG Consulting has identified 131 observations, of which 44 were open at the time of publication of this report. Similarly, 117 exceptions have been noted, with 67 open at the time of publication.

Test Schedule

Testing is currently projected to be completed and the results reported during January 2002. This target date is subject to revision since actual completion of testing is dependent upon the number of observations and exceptions encountered and the time

required for correction. It is possible that a small number of test areas will be delayed beyond the January 2002 completion date and reported separately.

Permanent Performance Metrics

Through Docket No. 000121-TP, the FPSC has explored the development of an enforcement mechanism and performance measures to ensure the ongoing adequacy of OSS access and service quality to ALECs. The initial hearings held in April 2001 addressed permanent metrics applicable to BellSouth. A set of performance metrics was adopted by the Commission August 14, 2001, which will form the basis of a performance assessment plan. Once the plan is approved, BellSouth will have 90 days to implement the plan, which will be reviewed at 6-month intervals for 24 months.

UNBUNDLED NETWORK ELEMENTS (UNE)

Section 251(c)(3) of the Telecommunication Act of 1996 obligates incumbent local exchange companies to “provide, to any requesting telecommunications carrier for the provision of a telecommunications service, nondiscriminatory access to network elements on an unbundled basis at any technically feasible point, on rates, terms, and conditions that are just, reasonable, and nondiscriminatory . . .”

An unbundled network element (UNE) is a discrete subcomponent of the incumbent’s facilities, such as a local loop or a minute of local switching, which an ALEC can combine in order to provide its retail services. For those ALECs who desire to offer their services using UNEs, the level of UNE rates that an incumbent LEC can charge is of great importance. Docket No. 990649-TP was opened in 1999 to address UNE deaveraging, UNE combinations, and recurring and nonrecurring charges for unbundled network elements. Deaveraging refers to establishing more than one rate for a service or offering, as opposed to a single rate made available in all areas.

Initially, UNE rates for BellSouth, Sprint, and Verizon (formerly GTE) were to be set at the same time. Due to court actions in 1999, parties refiled their cost studies in 2000. However, on July 18, 2000, the Eighth Circuit Court vacated the FCC's use of a hypothetical network standard as the basis for UNE pricing.¹ As a result, Sprint-Florida and Verizon withdrew their cost studies because they did not believe those cost studies were in compliance with the current state of the law.

The Commission proceeded with hearings for BellSouth, completing hearings in late 2000. UNE rates were decided upon at a special agenda conference on April 18, 2001. While the majority of the issues were finalized, the Commission decided to evaluate certain issues further. Those are: (1) hybrid copper/fiber xDSL-capable loops; (2) network reliability and security concerns; (3) revisions in the cost study for network interface devices (NIDs); and (4) cable placements and associated structures. BellSouth filed additional cost studies in September 2001, to address concerns with these issues. A decision will be made on that filing in 2002.

Sprint and Verizon refiled their cost studies on May 18, 2001. Subsequently, several ALECs asked for a continuance of the hearings, citing a need for more time to evaluate the cost models. The continuance was granted in part, and hearings were rescheduled to March 2002. Parties are scheduled to refile cost studies on November 7, 2001.

RECIPROCAL COMPENSATION DOCKET

A generic docket was established in 2000 to address the issue of reciprocal compensation. Reciprocal compensation is money that is paid to one carrier by another carrier for the transport and termination of telecommunications traffic. The Commission

¹ On September 22, 2000, the Court stayed its order pending the filing and ultimate disposition of a petition for certiorari with the U.S. Supreme Court.

established a generic docket primarily to consider compensation issues for traffic bound for Internet Service Providers (ISPs), and to set commission policy in that regard. Intercarrier compensation for ISP-bound traffic has been a contentious issue in recent years, having been repeatedly brought before this Commission by Florida carriers through complaints and arbitrations.

When resolving formal complaints, the Commission has determined whether the language in existing agreements entitled ALECs to reciprocal compensation for ISP-bound traffic. The Commission has consistently held that reciprocal compensation was due for ISP-bound traffic, based solely upon the language in the particular interconnection agreements in question.

However, in the context of arbitrations, the Commission was asked to determine if reciprocal compensation should apply to ISP-bound traffic in new interconnection agreements. In the earlier proceedings the Commission determined that parties should continue to operate under the terms of their previous agreements until the FCC issued final rules regarding this issue. However, due to possible delays in FCC action, and a desire to ensure that competition is not hindered by the lack of intercarrier compensation, in later arbitrations the Commission decided that reciprocal compensation was to be applied to ISP-bound traffic.

This has been a controversial subject, in which the Commission has tried to balance the requirements for intercarrier compensation contained in the Telecommunications Act of 1996, with the possibility that ALECs have entered the market for the sole purpose of serving ISPs. Many ILECs have contended that these ALECs have sought to “game” the system by pursuing customers such as ISPs that would have high incoming traffic levels and low outgoing traffic levels. By focusing on serving these high incoming traffic customers, ALECs would be able to collect reciprocal compensation, without the “reciprocal” paying of compensation that would exist with customers that produced both incoming and outgoing traffic.

On December 7, 2000, the Commission incorporated additional issues into this docket, including: when ALECs are entitled to the Tandem Switching rate; how “local calling area” should be defined; what should be the responsibilities of an originating local carrier to transport its traffic to another local carrier; and under what conditions may carriers utilize “virtual NXXs.” These issues have also appeared before the Commission within several arbitration proceedings. In an effort to ensure consistent decisions on these important issues, the Commission decided to address them in this generic docket to establish policy on a going forward basis. The Commission took this action with the hope that establishing policy within Florida would also promote the resolution of these issues within the negotiation process, obviating the need for arbitration.

Subsequently, the Commission bifurcated the proceeding into two phases. Phase I addresses the original issues concerning ISP-bound traffic, while Phase II addresses compensation issues unrelated to ISP-bound traffic.

Phase I

An administrative hearing was held for Phase I of this docket on March 7-9, 2001. On April 19, 2001, the FCC released its decision in CC Dockets Nos. 96-98 and 99-68 on matters regarding intercarrier compensation for traffic to ISPs. This decision responded to a remand from the Court of Appeals for the District of Columbia Circuit requiring the FCC to provide further explanation why LECs that terminate calls to ISPs are not properly seen as terminating local telecommunications traffic, and why such traffic is “exchange access” rather than “telephone exchange service.”

In its order on remand, the FCC stated that ISP-bound traffic was “information access,” not subject to the reciprocal compensation obligations in Section 251(b)(5) of

the Act and was under the exclusive jurisdiction of the FCC. The FCC then established an interim compensation mechanism for ISP-bound traffic. In addition, the FCC determined that States would no longer have authority to address compensation for ISP-bound traffic on a going-forward basis.

As a result, the Commission ordered the parties to file supplemental briefs addressing what impact the FCC's April 19, 2001, order on remand would have on the Phase I issues. A Commission decision on these issues is pending.

Phase II

An administrative hearing was held for Phase II of this docket on July 5-6, 2001. The Commission is scheduled to reach a final decision on the Phase II issues on December 5, 2001.

BELLSOUTH PETITION FOR INTERLATA AUTHORITY

Part III of the Telecommunications Act of 1996 establishes special provisions for Bell Operating Companies (BOCs) that wish to apply to the Federal Communications Commission (FCC) for authority to provide interLATA service within their in-region service areas. On June 28, 1996, the Commission opened a docket to initiate its consultative role in determining whether BellSouth's Florida operations were compliant with the 14-point checklist outlined in Section 271(c)(1)(A) of the Act. A finding that BellSouth met all the requirements of Section 271(c)(1)(A) by the Commission, the FCC and the United States Department of Justice would have permitted the company to originate interLATA calls. In an order issued November 19, 1997, the Commission found that BellSouth did not meet the requirements of five of 14 items on the checklist, that the company was in compliance with a majority of the requirements for one item, and met the requirements for eight items on the checklist.

On May 31, 2001, BellSouth filed a second petition with the Commission to provide interLATA services in Florida, triggering a further review of whether the company is in compliance with the 14-point checklist outlined in the Act. As this report goes to print, the parties have conducted hearings and filed post hearing legal briefs. The Commission is scheduled to consider its staff's recommendation on whether BellSouth is in compliance with the checklist items at a special agenda conference December 19, 2001.

The December 19, 2001, agenda will address only those aspects not related to operational support system (OSS) testing. All OSS testing issues are being considered on a separate, non-hearing track in accord with Order No. PSC-00-0104-PAA-TP, issued January 11, 2000. Currently, the test is scheduled for completion in mid-December, which would lead to a staff recommendation in March 2002.

SERVICE QUALITY DOCKETS/INCUMBENT LOCAL EXCHANGE COMPANIES

In September 1999, the Commission opened dockets to initiate show cause proceedings against Sprint, BellSouth and Verizon for violation of Commission service standards. Incumbent LECs (ILECs) are required by rule to consistently meet standards established to ensure their customers receive a high quality of service. Commission standards, for example, require a company to restore interrupted service within 24 hours in 95 percent of the instances reported. Commission standards also require and ILECs to install service 90 percent of the time in three working days from receipt of an application. The Commission also conducts field evaluations of ILECs to verify compliance with the FPSC's service standards. Each ILEC is required by rule to submit quarterly reports to the Commission detailing their compliance with the established service standards.

Sprint and the Office of Public Counsel (OPC) stipulated to an agreement in July 2000 that results in the company crediting its customers when it fails to meet the Commission's standards for out of service repair and primary service installations. The amount credited increases the longer it takes the company to repair or install the service. The agreement was approved by the Commission on November 7, 2000.

BellSouth has also signed an agreement with OPC that is similar to the Sprint settlement. It was approved by the Commission on July 24, 2001. The settlement established an automatic fixed credit for missed commitments for service installation and an increased credit for missed out-of-service repairs.

As of the date of this publication, Verizon was engaged in settlement negotiations to resolve outstanding issues related to service quality.

It should be noted that these dockets were not opened based on complaints from consumers, but were predicated on data supplied by the incumbent LECs in a "self-reporting" process.

FLORIDA TELECOMMUNICATIONS COMPETITIVE TOPICS FORUM

When an ILEC and an ALEC cannot reach agreement on some aspect of their interconnection or resale terms and conditions, they may come before the Commission with a request to resolve that conflict. Generally, those conflicts are dealt with in a formal process that may involve discovery, the filing of testimony and hearings. Such a formal process may require substantial expenditure of funds and time. Because of the financial costs and time expenditure involved in a formal process, an ALEC may choose not to file a complaint with the Commission and accept conditions that it does not believe are in its best interests.

In an effort to accelerate the handling of ALEC/ILEC disputes and reduce the cost of resolution, the Commission has initiated a process to deal with these disputes on an informal basis as an alternative to a formal process. Known as the Florida Telecommunications Competitive Topics Forum, the process is a collaborative one in which both ALECs and ILECs can discuss matters of interest in a round-table format. In addition to discussing specific issues in dispute, discussions may also involve more generic topics that may help limit future misunderstandings. While the forum is still in a developmental status, three meetings involving ALECs and ILECs were held in August, September and October.

In summary, the Commission continues to address substantive issues, the impacts of which have a direct bearing on competition in local telecommunications services in Florida.

CHAPTER III: STATUS OF LOCAL COMPETITION

Section 364.386, Florida Statutes requires the Commission to report annually to the Governor and the Legislature on the status of competition in the telecommunications industry in Florida, with emphasis on competitive entry into the local services market. The first section of this chapter is devoted to industry assessment and specifically addresses the six points outlined in Section 364.386 (1), Florida Statutes.

In addition to the industry update, the Commission is required by a 1997 amendment to Section 364.161(4), Florida Statutes, to maintain a file of all complaints by ALECs against ILECs regarding timeliness and adequacy of service. The information included must recap how and when each complaint was resolved. The second portion of this chapter addresses that requirement.

In preparation for this report, data requests were sent to 473 certificated ALECs and ILECs to determine the extent of competitive entry. The ALEC data request consisted of questions designed primarily to discern which companies were providing local service in Florida, the exchanges and type(s) of customers being served, the method(s) of providing service, and their primary business focus. The ILEC data request focused on revenues, number of access lines and the number of access lines sold to ALECs. Both data requests solicited opinions and suggestions from the companies on possible actions the Commission or the Legislature should take to foster competition in local exchange markets in Florida. Companies were also asked to comment on impairments to the growth of local competition.

While staff is confident that the data presented and the analyses that follow are accurate, it should be noted that differences in the ways companies report, the completeness of responses or lack thereof, and the number of companies failing to report may have an impact on the conclusions cited.

Since the 2000 report, Florida has seen continued increases in competitive entry in the business and residential sectors. As of June 30, 2001, 463 ALECs were

certificated in Florida, with 108 reporting they were serving 959,586 access lines. By contrast, the 2000 report found 91 companies serving 710,617 access lines.

STATUS OF LOCAL COMPETITION THROUGHOUT FLORIDA

Section 364.386(1), Florida Statutes, mandates that the Commission address the following points in analyzing the status of competition in Florida:

- (1) The overall impact of local exchange telecommunications competition on the continued availability of universal service.
- (2) The ability of competitive providers to make functionally equivalent local exchange services available to both residential and business customers at competitive rates, terms and conditions.
- (3) The ability of customers to obtain functionally equivalent services at comparable rates, terms, and conditions.
- (4) The overall impact of price regulation on the maintenance of reasonably affordable and reliable high-quality telecommunications services.
- (5) What additional services, if any, should be included in the definition of basic local telecommunications services, taking into account advances in technology and market demand.
- (6) Any other information and recommendations which may be in the public interest.

Each of these six points will be addressed in the ensuing discussions.

(1) The overall impact of local exchange telecommunications competition on the continued availability of universal service.

Universal service is the concept that a specified set of telecommunications services should be available to all customers at affordable rates. Section 364.025, Florida Statutes, provides guidelines for the maintenance of universal service objectives with the introduction of competition in the local exchange market. Incumbent local exchange companies are required by Section 364.025(1), Florida Statutes, to furnish basic local exchange telecommunications service within a reasonable time period to any person requesting such service within a company's service territory until January 1, 2004.

According to the FCC, 92.9 percent of Florida households have local telephone service, compared to a national average of 94.1 percent (Telephone Subscribership in the United States, Federal Communications Commission, March 2001). In meeting the requirements of Section 364.025(4), Florida Statutes, the Commission submitted its report, Universal Service in Florida, to the Governor and Legislature in December 1996. In 1998, the Commission revisited the issue at the direction of the Legislature. In the resulting report, Universal Service and Lifeline Funding Issues, submitted to the Legislature in February 1999, the Commission found "although the potential for an ILEC to experience competitive erosion of its high-margin customers while retaining its high-cost (and perhaps below-cost) customer base is a real concern, the Commission has not discerned any such major impact to date." As addressed later in this chapter, information from the data requests indicates that ALECs in Florida have experienced gains in certain markets since publication of this report in the year 2000. At the same time, ILECs report modest net losses in access lines in certain sectors. As was stated in the February 1999 report and in last year's report on competition, it is probable that the absence to date of any significant adverse impact on ILEC provision of universal service may be attributable to strong underlying growth in access lines and minutes of

use. While ILECs are experiencing some loss of market share, they retain the dominant share of an expanding market.

(2) The ability of competitive providers to make functionally equivalent local exchange services available to both residential and business customers at competitive rates, terms, and conditions.

The FPSC staff surveyed the 463 ALECs that were certificated as of June 30, 2001. Of the 255 responses received, 108¹ ALECs stated they were providing service in Florida. Respondents were asked to identify obstacles or barriers to competition. Responses were received from companies not yet offering service and from those providing service.

Competition has forced ALECs to focus on the customer, and operations support systems (OSS) are geared toward managed relationships with customers. The majority of ALECs surveyed stated that the major obstacles, barriers and impediments they encounter in the Florida center around OSS, specifically where the ALEC relies on ILECs to provide the ALECs' end-user with service. Parity, at this point, is the major concern in the industry.

ALECs assert that when provisioning resale services ILECs have taken seven days and longer to initiate service for an ALEC customer; while the ILEC provides service to their own end-user within a day and sometimes hours. For pre-ordering and ordering purposes, surveyed ALECs transmit their orders electronically to ILECs using the ILECs' interface; this allows the ALEC to receive from the ILEC information concerning order status and firm order commitments. ALECs note that frequently these systems are "down" or "time-out" and therefore inaccessible to ALECs. ALECs also

¹As this report was being finalized, the three largest ILECs provided the Commission with information on the number of active ALECs providing service in their respective territories. The numbers reported are: BellSouth, 158; Sprint, 174; and Verizon, 109. Although an exhaustive reconciliation has not been performed, a cursory review indicates some ALECs included in the ILEC counts informed the Commission they are not currently offering service.

complain of submitted orders “dropping out” resulting in service delays, out-of-service phone lines and lost business. One error involves failure to include an order blocking service electronically ordered by an ALEC, which can result in ALEC customers generating usage-sensitive charges outside of their monthly payment.

Aside from OSS, numerous comments were made by ALECs pertaining to the lack of accountability or incentive ILECs have to either accurately bill ALECs or promptly address and resolve disputes; the primary reason they state is because the interconnection agreements drafted by ILECs fail to impose penalties on themselves for “inaccuracies and delays.”

A number of ALECs that responded to this year’s data request indicated that resale discount rates available from BellSouth, Sprint and Verizon are not sufficient to allow reasonable profits. Resale discount rates were set by the Commission and allow an ALEC to purchase an ILEC’s services and resell those services to retail customers to encourage competition.

Despite these difficulties, based on the responses to the ALEC data request and the number of ALEC/ILEC interconnection agreements, it appears that ALECs are able to provide telecommunications customers with functionally equivalent services at rates, terms and conditions comparable to those available from incumbent local exchange companies.

The Telecommunications Act of 1996 requires ILECs to resell any telecommunications service they provide to subscribers who are not telecommunications carriers. The Act gives to state commissions the responsibility to set resale discounts based on the ILEC’s retail rates excluding any costs avoided by selling at wholesale. The discount rates for BellSouth, Verizon (formerly GTE) and Sprint are summarized in Table 3.1. These discounts were established in arbitration proceedings conducted in 1996 and 1997.

SUMMARY OF RESALE DISCOUNT RATES			
			Table 3.1
Resale Discount	BellSouth	Verizon	Sprint
Residential	21.83%	13.04%	19.40%
Business	16.81%	13.04%	19.40%
Operator/Directory Assistance			12.10%

(3) The ability of customers to obtain functionally equivalent services at comparable rates, terms, and conditions.

As of June 30, 2001, 108 ALECs reported being engaged in some form of local telecommunications service in Florida. Table 3.2 lists each responding ALEC, the type of customers it identified as its target market, how service is provided and where in Florida service is offered. Activities of companies holding multiple certificates were merged. The initials “N/R” indicate the respondent did not report on a particular aspect of their activities. Additionally, in order to protect proprietary business information, some companies requested confidentiality for areas of this report, which is noted in the table. Methods of offering service listed are resale of an incumbent carrier’s products (“resale”); provisioning entirely through a competitor’s own facilities (“facilities”); or a combination of resale, self-provisioning, and the purchase of unbundled network elements (UNEs), or a combination of two or more discrete elements, which is described in the table as “mixed.” Some providers reported their sole means of offering service is through the purchase of UNEs, which is listed as “UNE” in the table.

ALECs PROVIDING SERVICE

Table 3.2

ALEC	Service Provided To:	Method	Geographic Areas Served
1-800-RECONEX, Inc.	Residential	Resale	Statewide
A.R.C. Networks, Inc.	Residential	Resale	Statewide
Access Integrated Networks, Inc.	Business/Residential	Resale	Statewide
Access One Communications	Business/Residential	Resale	N/R
Access Point, Inc.	Business/Residential	Resale	Statewide
ACI	Business/Residential	Resale	Statewide
Adelphia Business Solutions Investment, LLC	Business	Mixed	Statewide
Adelphia Business Solutions of Jacksonville, Inc.	Business	Mixed	Jacksonville
Advantage Group of Florida Communications,	Residential	Resale	Statewide
Allegiance Telecom of Florida, Inc.	Business	Mixed	Statewide
ALLTEL Communications, Inc.	Business/Residential	Mixed	North Florida
Alternative Phone, Inc.	Residential	Resale	Statewide
American Dial Tone	Residential	Resale	Statewide
AmeriMex Communications Corp.	Residential	Resale	Statewide
Annox, Inc.	Residential	Resale	Statewide
Anns Communication	Residential	Resale	Statewide
AT&T	Business/Residential	Mixed	Statewide
Atlantic.Net Broadband, Inc.	Business/Residential	Mixed	Central Florida
ATS	Business/Residential	Resale	South Florida
BellSouth Telecommunications (ALEC)	Business/Residential	Facilities	Central Florida
Broadslate Networks of Florida, Inc.	DSL Provider	N/R	North Florida
BTI	Business/Residential	Mixed	Statewide
Budgeted Systems, Inc.	Residential	Resale	Statewide
BudgeTel Systems Inc.	Residential	Resale	South Florida
Buy-Tel Communications, Inc.	Residential	Resale	Statewide
C.B. Telecomm, Inc.	Residential	Resale	Statewide
Citywide-Tel	Residential	Resale	Statewide
CommSouth	Residential	Resale	Statewide
Communication Service Centers	Business	Mixed	Southeast Florida
COMUSA, Inc.	Residential	Resale	N/R
Direct-Tel USA, LLC	Residential	Resale	Statewide
DPI-Teleconnect, L.L.C.	Residential	Resale	Statewide
DSLnet Communications, LLC	Business	Mixed	N/R
Eagle Telco, Inc.	Business	Resale	Statewide
Easy Telephone Services Company	Residential	Resale	Statewide
eLEC Communications	Business/Residential	Resale	Statewide

ALECs PROVIDING SERVICE

Table 3.2

ALEC	Service Provided To:	Method	Geographic Areas Served
e.spire	Business	Mixed	Statewide
EPICUS , Inc.	Business/Residential	Resale	Statewide
Ernest Communications, Inc.	Residential	Resale	Statewide
Florida Comm South	Residential	Resale	Statewide
EZ Talk Communications, L.L.C.	Residential	Resale	Statewide
Florida Consolidated Multi-Media Services, Inc.	Business/Residential	Resale	Central Florida
Florida Digital Network, Inc.	Business	Mixed	Statewide
Florida Telephone Company	Residential	Resale	Statewide
Florida Telephone Services, LLC	Business/Residential	Resale	Statewide
Global Crossing Local Services, Inc.	Business	Mixed	South Florida/Tampa
Global Crossing Telemanagement, Inc.	Business	Mixed	Statewide
High Tech Communications of Central Florida,	Residential	Resale	Southwest Florida
I Vantage Network Solutions	Business/Residential	Resale	Tampa
Intermedia Communications, Inc.	Business	Mixed	Statewide
Intetech, L.C.	Business/Residential	Resale	North Florida
ITC^DeltaCom	Business/Residential	Mixed	Statewide
Knology	Business/Residential	Mixed	North Florida
LecStar Telecom, Inc.	Residential	Resale	Statewide
Lightyear Communications, Inc.	Business	Mixed	Statewide
Local Line America, Inc.	Residential	Resale	Statewide
M.T.G.	Business/Residential	Resale	South Florida
MCI WorldCom Communications, Inc.	Business	Facility	Statewide
MCImetro Access Transmission Services LLC	Business	Facility	Statewide
KMC Telecom Inc.	Business/Residential	Mixed	Statewide
Microsun Telecommunications, Inc.	Business/Residential	Resale	South Florida
MY-TEL INC.	Business/Residential	Resale	Orlando area
Navigator Telecommunications, LLC.	Business	Resale	Statewide
Network One	Business/Residential	Resale	Statewide
Network Telephone Corporation	Business/Residential	Resale	Statewide
New Edge Networks	Business	UNE	N/R
NewPhone	Residential	Resale	North Florida
Norcom, Inc.	Residential	Resale	South Florida
NOW Communications, Inc.	Residential	Resale	Statewide
NUI Telecom	Business	Resale	Orlando, South Florida

ALECs PROVIDING SERVICE

Table 3.2

ALEC	Service Provided To:	Method	Geographic Areas Served
NuStar Communications Corp.	Residential	Resale	South Florida
NuVox Communications, Inc.	Business/Residential	Resale	Miami/Jacksonville
Omnicall, Inc.	Business/Residential	Resale	N/R
OnePoint Communications	Residential	Resale	Miami
Orlando Telephone Company	Business/Residential	Mixed	Orlando area
PaeTec Communications, Inc.	Business	Mixed	South Florida
PARCOM Communications, Inc.	Business/Residential	Resale	Southwest Florida
Phone-Link, Inc.	Residential	Resale	Central Florida
Phones For ALL	Residential	Resale	Statewide
Phone Out/Phone-On	Residential	Resale	Central Florida
Quad City Communications, Inc.	Residential	N/R	N/R
QuantumShift Communications, Inc.	Residential	Resale	South Florida
Rhythms Links	Confidential	DSL	Confidential
SATCOM Communication	Business/Residential	Resale	South Florida
SBC Telecom, Inc.	Business	Mixed	South Florida
Second Chance Phone	Residential	Resale	Statewide
Source One Communications, Inc.	Residential	Resale	North Florida
Southeastern Services, Inc.	Business/Residential	Resale	North Florida
Sprint Communications Company Ltd. (ALEC)	Business/Residential	Mixed	Statewide
Supra	Business/Residential	UNE	Statewide
State Discount Telephone, L.L.C.	Residential	Resale	Miami
Talk America	Business/Residential	UNE	N/R
Teleson Carrier Services	Business	N/R	N/R
TeleConex	Residential	N/R	Statewide
Teligent Services, Inc.	Business	Mixed	Statewide
The Mobile Phone Company, Inc.	Business/Residential	Resale	South Florida
Time Warner Telecom	Business	Facility	Confidential
UAI of Florida, Inc.	Business	Resale	South Florida
Unicom Communications, LLC	Residential	Resale	Statewide
Universal Telecom, Inc.	Residential	Resale	N/R
USA Telephone Inc.	Residential	Resale	N/R
Verizon Select Services Inc.	Residential	Resale	Confidential
XO	Business/Residential	Mixed	Statewide
Z-Tel Communications	Residential	Resale	Statewide

As illustrated by the preceding table, service offerings in Florida vary widely in terms of target markets, method of service provision and geographic availability. Despite concerns raised by ALECs regarding the inadequacy of discount rates, responses indicate that of the companies that reported offering service, 62 identified resale of ILEC lines as their exclusive means of serving customers. Of these 62 companies, about 20 percent identified prepaid service as their market niche.

The prepaid service market is defined by consumers who have difficulty obtaining telephone service from the ILEC and may have to choose an alternative company. These customers may have poor credit histories or may have been disconnected previously by an ALEC for repeated late payments or nonpayment.

The customer of a prepaid phone company typically agrees to pay a monthly fee in advance in exchange for local calling and access to 911. All prepaid phone companies that reported indicated their customers must agree to toll call blocking, 900-number blocking, and directory assistance blocking. In exchange for these restrictions, the customer has unlimited access to local calling. The price for this reduced level of service ranges from about \$29.00 to \$57.00 for residential service and approximately \$30.00 to \$70.00 for business service. Based on the reporting of the ALECs, prepaid phone companies appear to account for between 15 and 20 percent of the residential access lines currently served by ALECs.

It appears from the responses that competitive entities have chosen a variety of pricing strategies to gain customers. Table 3.3 indicates some of the strategies used by ALEC respondents, including across-the-board discounts or simply matching an incumbent's price. Note that competition is not limited to local exchanges in large urban areas. Northeast Florida Telephone Company, Inc., an incumbent carrier providing service in two North Florida exchanges, has drawn competition from an ALEC whose strategy is to match the incumbent's price.

LOCAL RATES FOR SELECTED ALECs

Table 3.3

		ALEC RATE		ILEC RATE	
ALEC	ILEC	Residential	Business	Residential	Business
Atlantic Telecom	BellSouth	\$6.67 - 9.73	\$26.50	\$7.41-\$10.81	\$29.10
ACI	BellSouth	\$6.87-9.95	\$14.90- \$27.90	\$7.41-\$10.81	\$20.11- \$29.55
eLEC	BellSouth	10% discount off BellSouth tariffed rate	10% discount off BellSouth tariffed rate	\$7.41-\$10.81	\$20.11- \$29.55
High Tech Communications	Sprint	\$26.34 prepaid; restrictions apply	Not offered	\$6.47-\$10.23	\$15.20- \$24.03
Orlando Telephone Company	BellSouth/ Sprint	\$11.50	\$20.00	\$7.41- \$10.81/ \$6.47-\$10.23	\$29.10/ \$21.75
Southeastern Services	Northeast Florida	\$9.00	\$24.40	\$9.00	\$24.40

Previous editions of this report have tracked the emergence of ALECs that specialize in providing data services. These companies specialize in high-speed services, including the various forms of digital subscriber line (DSL) service and other specialized products marketed primarily to businesses. These companies typically establish themselves in large metropolitan areas and provision service through UNEs and in conjunction with their own facilities. A number of these data-oriented ALECs indicated their business plan is to provide a wholesale DSL service to ISPs for them to sell at retail to their customers. Since the last edition of this report was published, a number of these data-oriented ALECs have reported experiencing difficulties accessing capital markets and some have filed for reorganization under Chapter 11. In some

instances, this has led to a cessation of market activity and the relinquishing of customers to other carriers. In other instances, however, companies have retained their customers while seeking to recapitalize and continue to pursue amended business plans. While financial conditions appear to have imposed a level of difficulty on carriers in specialty market niches, it appears based on responses provided by some of these companies – much of which is filed as proprietary – that the high-speed market will continue to grow, but at a pace that cannot be predicted at this time.

A number of ALECs reported utilizing resold lines as part of an overall provisioning strategy that also involves development of their own facilities. This blend of using resold lines and developing facilities - including switches and digital subscriber line multiplexers - enables ALECs to offer bundled service packages that include local service, long distance service, custom calling features and Internet access for one monthly fee. Other companies report combining resold telecommunications services in concert with cable and Internet services as single packages.

Business customers continue to see expanded competition, particularly those in densely populated metropolitan areas. A number of companies, including Intermedia and Orlando Telephone Company, continue to match their local business rates to those of the ILEC. The offering of parallel rates in business markets exists to a greater degree than in the residential market; however, examples of parallel rates exist in the ALEC responses, and some of these examples are included in Table 3.3.

The Legislature has directed the Commission to determine not only whether customers are able to receive services at comparable rates, but whether customers can receive from ALECs services comparable to those offered by ILECs. This assessment presents some difficulties because ALECs are not obligated to provide services under the same requirements as ILECs. An ILEC has an obligation to serve as a carrier of last resort except under limited circumstances, such as a customer's repeated refusal to pay their bills. An ALEC may choose a more selective marketing strategy in an

exchange. While an ALEC must file a price list if offering basic local service and comply with Commission rules, it has no obligation to serve, and need only show that it does not unduly discriminate in the provision of service. Given that ALECs continue to market products to residential and business customers and that their share of the residential market continues to increase, there appears to be no evidence to contradict the observation that terms and conditions offered by ALECs are at least comparable to those offered by ILECs.

(4) The overall impact of price regulation on the maintenance of reasonably affordable and reliable high-quality telecommunications services.

Section 364.051, Florida Statutes, imposed rate caps for basic local telephone service until January 1, 2000 for price-regulated ILECs with fewer than 3 million access lines and until January 1, 2001 for BellSouth. In March 2001 five ILECs proposed increases for basic and non-basic services pursuant to the provisions of Section 364.051:

- ALLTEL Florida's filing to raise basic and non-basic rates by 1.34 percent was effective June 24, 2001. The increase equates to an increase in monthly rates of up to \$0.15.
- BellSouth filed a 1.5665 percent increase for basic service, equivalent to a monthly increase of \$0.11 to \$0.17 depending on the customer's service area. The increase took effect February 2, 2001. BellSouth filed a 5.9835 percent rate increase for non-basic business exchange services, pursuant to Section 364.051(5). The increase became effective January 19, 2001.

- Quincy Telephone Company filed a 1.8011 percent increase for basic services on May 25, 2001. The increase, equal to a monthly increase of up to \$0.20, went into effect June 25, 2001.
- Sprint-Florida filed a 1.8 percent rate increase for certain basic services August 2, 2001. The increase, which is \$0.11 to \$0.18 per month, depending on rate group, was effective September 1, 2001.
- Verizon Florida filed a 1.6365 percent increase in basic service rates March 12, 2001. The increase, effective April 1, 2001, is equivalent to a monthly increase of \$0.16 to \$0.19, depending on customer service area.

(5) What additional services, if any, should be included in the definition of basic local telecommunications services, taking into account advances in technology and market demand.

Information does not exist at this time to justify recommending additions or deletions to the definition of basic local service. It may be relevant to point out the difference in definitions between basic local service for ILECs versus ALECs. Basic local service provided by an ILEC includes, "...voice-grade, flat-rate, residential and flat-rate single-line business local exchange services which provide dial tone, local usage necessary to place unlimited calls within a local exchange area, dual tone multi-frequency dialing, and access to the following: emergency services such as "911," all locally available interexchange companies, directory assistance, operator services, relay services, and an alphabetical directory listing (Section 364.02(2), Florida Statutes).

By comparison, basic service provided by an ALEC must include "...access to operator services, '911' services and relay services for the hearing impaired." Additionally, ALECs must offer a flat-rate price option (Chapter 364.337(2), Florida Statutes).

(6) Any other information and recommendations which may be in the public interest.

Presently, there is ongoing discussion on the extent to which facilities-based competition can exist in the residential local market. Clearly business accounts attract most new entrants, although densely populated residential niches such as condominiums or apartment buildings will also attract entrants.

Under the Florida law and the Federal Telecommunications Act of 1996 (the Act), there are three ways an ALEC can enter the market: (1) through resale of services provided by an ILEC; (2) through purchase of unbundled network elements from an ILEC, which are then combined to provide its own service; or (3) by constructing its own facilities. No matter which method of entry an ALEC chooses, it must rely to some extent on the ILEC's facilities. While resale legitimately offers an ALEC the opportunity to develop a customer base with minimal capital investment, it is the facilities-based ALEC that will most likely achieve and sustain higher profit margins over the long-run.

Profit margins are simply revenues less expenses for a given company in a market and can be maximized by increasing the revenue stream or by decreasing the expenses or costs. A company should only enter a market if the sustainable profit margins are commensurate with the risk to which a company will be exposed. If profit margins are thin, maintaining low costs becomes imperative to maximize and generate positive returns. Only the lowest-cost providers can survive in a market where the returns are low. If there is a low profit margin, few, if any, competitors may be willing to place any capital at risk to sustain relatively thin returns.

ALECs often contend that current rates for local exchange service (especially residential) are set so low that it is virtually impossible for them to make a business case to serve this market; accordingly, they assert that the solution is either to raise the

ILECs' current local rates, or lower the rates the ALEC pays the ILEC for services it obtains from the ILEC, such as UNEs. Similarly, long distance companies protest that intrastate switched access rates are too high, which forces them to charge high intrastate toll rates. In response, ILECs counter that if they must lower access charges, it is inevitable that local rates must increase, to offset the revenue loss. Regardless of the policy decisions made, it is the consumer of telecommunications services that ultimately foots the bill; however, which specific consumers benefit depends on the mix of services to which they subscribe.

Under current Florida law, an ILEC's ability to increase basic local rates is limited, so these rates cannot be raised to cover costs (where below costs) without a change in the statutes or without coming to the PSC and documenting that circumstances have changed and the Commission then authorizing an increase. If the ILECs are correct in their assertion that some rates for basic residential service are below cost, there are two possible remedies: (1) the legislature could pass a bill to allow the ILECs to increase their rates for basic, local residential service to a level which will more closely cover their costs, or (2) the legislature could direct the PSC to rebalance all rates to eliminate the purported subsidies that the ILECs say exist. Under either of these scenarios, residential rates would increase and the profit margin available for potential competitors would, in turn, increase, thus making the market more attractive for competitive entry. Of course, a residential customer would see a basic rate increase that may or may not be offset by other decreased rates, depending upon the mix of telecommunications services to which he subscribes. This leads to the question whether customers are willing to pay more in monthly rates for telephone service in order to be able to choose an alternative telephone service provider. Even after rate changes, it would remain to be seen if the residential market would be sufficiently attractive to encourage the investment in facilities necessary to foster a truly competitive local telephone service market.

SUMMARY OF STATUS OF LOCAL SERVICE COMPETITION THROUGHOUT FLORIDA

The past year has seen moderate rises in competitive activity in Florida. As of June 30, 2001, 108 ALECs reported offering some form of local service in Florida. The ALECs responding to the data request offered a number of suggestions for actions that they believe will pave the way for greater competition in the months ahead. A number of the ALECs' suggestions will be addressed in ongoing dockets on collocation, UNEs and OSS, as outlined in Chapter II. Given that more than 20 percent of the ALECs certificated in Florida as of June 2001 are actively engaged in service provision, it appears competitive entrants are taking advantage of the opportunities offered under state and federal law.

STATUS OF LOCAL SERVICE COMPETITION BY EXCHANGE

Table 3.4 reviews each exchange in Florida and provides the percent of residential and business access lines claimed by ALEC respondents. Percentages are expressed in ranges to avoid the inadvertent disclosure of proprietary business information. In instances where an ILEC reports having resold lines in an exchange but no ALEC provider acknowledged providing service, a percentage range equivalent to the number of resold lines in the exchange is reported.

Percentage of ALEC Access Lines by Exchange			Table 3.4
Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers	
Alachua	> 0 to 1%		
Alford	1% to 5%	> 0 to 1%	
Alligator Point			
Altha		5% to 10%	
Apalachicola			
Apopka	1% to 5%	5% to 10%	
Arcadia	1% to 5%	1% to 5%	
Archer	1% to 5%	1% to 5%	

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Astor	> 0 to 1%	1% to 5%
Avon Park	1% to 5%	1% to 5%
Baker	1% to 5%	1% to 5%
Baldwin	1% to 5%	5% to 10%
Bartow	1% to 5%	1% to 5%
Belle Glade	5% to 10%	1% to 5%
Belleview	1% to 5%	5% to 10%
Beverly Hills	> 0 to 1%	1% to 5%
Big Pine Key	1% to 5%	1% to 5%
Blountstown	1% to 5%	
Boca Grande		1% to 5%
Boca Raton	1% to 5%	5% to 10%
Bonifay	1% to 5%	> 0 to 1%
Bonita Springs	> 0 to 1%	1% to 5%
Bowling Green	1% to 5%	1% to 5%
Boynton Beach	1% to 5%	5% to 10%
Bradenton	1% to 5%	1% to 5%
Branford	> 0 to 1%	
Bristol	1% to 5%	
Bronson	1% to 5%	> 0 to 1%
Brooker	> 0 to 1%	
Brooksville	1% to 5%	1% to 5%
Bunnell	> 0 to 1%	> 0 to 1%
Bushnell	1% to 5%	1% to 5%
Callahan	> 0 to 1%	
Cantonment	1% to 5%	25% to 30%
Cape Coral	> 0 to 1%	1% to 5%
Cape Haze	> 0 to 1%	1% to 5%
Carrabelle	> 0 to 1%	
Cedar Key	> 0 to 1%	1% to 5%
Celebration		1% to 5%
Century	1% to 5%	> 0 to 1%
Chattahoochee		
Cherry Lake	1% to 5%	
Chiefland	1% to 5%	1% to 5%
Chipley	1% to 5%	1% to 5%
Citra	> 0 to 1%	> 0 to 1%
Clearwater	> 0 to 1%	1% to 5%
Clermont	> 0 to 1%	1% to 5%

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Clewiston	5% to 10%	5% to 10%
Cocoa	> 0 to 1%	1% to 5%
Cocoa Beach	> 0 to 1%	> 0 to 1%
Coral Springs	5% to 10%	10% to 15%
Cottondale	5% to 10%	1% to 5%
Crawfordville	1% to 5%	1% to 5%
Crescent City	1% to 5%	
Crestview	1% to 5%	15% to 20%
Cross City	1% to 5%	> 0 to 1%
Crystal River	> 0 to 1%	5% to 10%
Dade City	1% to 5%	1% to 5%
Daytona Beach	> 0 to 1%	15% to 20%
DeBary	> 0 to 1%	> 0 to 1%
Deerfield Beach	1% to 5%	1% to 5%
DeFuniak Springs	1% to 5%	1% to 5%
Deland	> 0 to 1%	> 0 to 1%
DeLeon Springs	> 0 to 1%	
Delray Beach	1% to 5%	5% to 10%
Destin	5% to 10%	15% to 20%
Dowling Park	> 0 to 1%	
Dunnellon	> 0 to 1%	1% to 5%
East Orange	1% to 5%	1% to 5%
Eastpoint		
Eau Gallie	> 0 to 1%	1% to 5%
Englewood	> 0 to 1%	1% to 5%
Eustis	1% to 5%	5% to 10%
Everglades	> 0 to 1%	> 0 to 1%
Fernandina Beach	> 0 to 1%	1% to 5%
Flagler Beach	> 0 to 1%	25% to 30%
Florahome	> 0 to 1%	
Florida Sheriff's Boy's	1% to 5%	
Forest	1% to 5%	1% to 5%
Freeport	1% to 5%	1% to 5%
Frostproof	1% to 5%	1% to 5%
Ft. Lauderdale	1% to 5%	10% to 15%
Ft. Meade	1% to 5%	1% to 5%
Ft. Myers	> 0 to 1%	1% to 5%
Ft. Myers Beach	> 0 to 1%	1% to 5%
Ft. Pierce	1% to 5%	1% to 5%

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Ft. Walton Beach	1% to 5%	5% to 10%
Ft. White	> 0 to 1%	
Gainesville	1% to 5%	1% to 5%
Geneva	> 0 to 1%	
Glendale	> 0 to 1%	
Graceville	1% to 5%	1% to 5%
Grand Ridge	1% to 5%	1% to 5%
Green Cove Springs	1% to 5%	1% to 5%
Greensboro	> 0 to 1%	
Greenville	1% to 5%	> 0 to 1%
Greenwood	5% to 10%	1% to 5%
Gretna	> 0 to 1%	
Groveland	1% to 5%	1% to 5%
Gulf Breeze	1% to 5%	10% to 15%
Haines City	1% to 5%	1% to 5%
Hastings	> 0 to 1%	
Havana	1% to 5%	1% to 5%
Hawthorne	1% to 5%	1% to 5%
High Springs	> 0 to 1%	
Hilliard	1% to 5%	
Hobe Sound	> 0 to 1%	1% to 5%
Holley-Navarre	> 0 to 1%	10% to 15%
Hollywood	5% to 10%	1% to 5%
Homestead	5% to 10%	10 to 15%
Homosassa	1% to 5%	1% to 5%
Hosford		
Howey-in-the-Hills	> 0 to 1%	15% to 20%
Hudson	> 0 to 1%	1% to 5%
Immokalee	1% to 5%	1% to 5%
Indian Lake	> 0 to 1%	1% to 5%
Indiantown		1% to 5%
Interlachen	> 0 to 1%	
Inverness	> 0 to 1%	1% to 5%
Islamorada	1% to 5%	1% to 5%
Jacksonville	1% to 5%	20% to 25%
Jacksonville Beach	1% to 5%	5% to 10%
Jasper	1% to 5%	
Jay	1% to 5%	> 0 to 1%
Jennings	1% to 5%	

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Jensen Beach	> 0 to 1%	1% to 5%
Julington		1% to 5%
Jupiter	> 0 to 1%	5% to 10%
Keaton Beach		
Kenansville	> 0 to 1%	
Key Largo	1% to 5%	1% to 5%
Key West	1% to 5%	1% to 5%
Keystone Heights	> 0 to 1%	1% to 5%
Kingsley Lake	15% to 20%	
Kissimmee	1% to 5%	10% to 15%
La Belle	1% to 5%	1% to 5%
Lady Lake	> 0 to 1%	1% to 5%
Lake Buena Vista		
Lake Butler	1% to 5%	
Lake City	> 0 to 1%	1% to 5%
Lake Placid	> 0 to 1%	1% to 5%
Lake Wales	1% to 5%	1% to 5%
Lakeland	1% to 5%	1% to 5%
Laurel Hill	> 0 to 1%	
Lawtey	1% to 5%	1% to 5%
Lee	1% to 5%	
Leesburg	1% to 5%	10% to 15%
Lehigh Acres	> 0 to 1%	1% to 5%
Live Oak	1% to 5%	
Luraville	> 0 to 1%	
Lynn Haven	5% to 10%	15% to 20%
Macclenny	5% to 10%	10% to 15%
Madison	5% to 10%	1% to 5%
Malone	1% to 5%	
Marathon	1% to 5%	1% to 5%
Marco Island		1% to 5%
Marianna	5% to 10%	1% to 5%
Maxville	> 0 to 1%	
Mayo	1% to 5%	
McIntosh	> 0 to 1%	
Melbourne	1% to 5%	10% to 15%
Melrose	> 0 to 1%	
Miami	1% to 5%	15% to 20%
Micanopy	1% to 5%	1% to 5%

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Middleburg	1% to 5%	10% to 15%
Milton	1% to 5%	5% to 10%
Molino	> 0 to 1%	
Monticello	1% to 5%	1% to 5%
Montverde	> 0 to 1%	> 0 to 1%
Moore Haven	1% to 5%	> 0 to 1%
Mount Dora	1% to 5%	5% to 10%
Mulberry	1% to 5%	1% to 5%
Munson	1% to 5%	
Myakka	> 0 to 1%	> 0 to 1%
Naples	> 0 to 1%	1% to 5%
New Port Richey	> 0 to 1%	1% to 5%
New Smyrna	> 0 to 1%	> 0 to 1%
Newberry	1% to 5%	1% to 5%
North Cape Coral	> 0 to 1%	1% to 5%
North Dade	5% to 10%	1% to 5%
North Fort Myers	> 0 to 1%	1% to 5%
North Key Largo	> 0 to 1%	1% to 5%
North Naples	> 0 to 1%	1% to 5%
North Port	> 0 to 1%	1% to 5%
Oak Hill	> 0 to 1%	> 0 to 1%
Ocala	1% to 5%	5% to 10%
Ocklawaha	1% to 5%	1% to 5%
Okeechobee	5% to 10%	5% to 10%
Old Town	> 0 to 1%	10% to 15%
Orange City	> 0 to 1%	5% to 10%
Orange Park	> 0 to 1%	5% to 10%
Orange Springs	> 0 to 1%	
Orlando	1% to 5%	25% to 30%
Oviedo	1% to 5%	1% to 5%
Pace	1% to 5%	5% to 10%
Pahokee	5% to 10%	1% to 5%
Palatka	> 0 to 1%	> 0 to 1%
Palm Coast	> 0 to 1%	1% to 5%
Palmetto	> 0 to 1%	10% to 15%
Panacea	1% to 5%	1% to 5%
Panama City	10% to 15%	5% to 10%
Panama City Beach	10% to 15%	10% to 15%
Paxton		

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Pensacola	1% to 5%	25% to 30%
Perrine	1% to 5%	5% to 10%
Perry	> 0 to 1%	
Pierson	> 0 to 1%	
Pine Island	> 0 to 1%	1% to 5%
Plant City	1% to 5%	1% to 5%
Polk City	1% to 5%	> 0 to 1%
Pomona Park	>0 to 1%	1% to 5%
Pompano Beach	5% to 10%	5% to 10%
Ponce de Leon	1% to 5%	5% to 10%
Ponte Vedra Beach	> 0 to 1%	5% to 10%
Port Charlotte	> 0 to 1%	1% to 5%
Port St. Joe		
Port St. Lucie	> 0 to 1%	1% to 5%
Punta Gorda	> 0 to 1%	1% to 5%
Quincy	> 0 to 1%	
Raiford		
Reedy Creek		5% to 10%
Reynolds Hill	> 0 to 1%	
Salt Springs	1% to 5%	1% to 5%
San Antonio	> 0 to 1%	> 0 to 1%
Sanderson	5% to 10%	
Sanford	1% to 5%	5% to 10%
Sanibel-Captiva Island	> 0 to 1%	1% to 5%
Santa Rosa Beach	1% to 5%	10% to 15%
Sarasota	> 0 to 1%	10% to 15%
Seagrove Beach	1% to 5%	10% to 15%
Sebastian	> 0 to 1%	1% to 5%
Sebring	> 0 to 1%	1% to 5%
Shalimar	1% to 5%	1% to 5%
Silver Springs Shores	1% to 5%	1% to 5%
Sneads	1% to 5%	
Sopchoppy	1% to 5%	1% to 5%
Spring Lake	> 0 to 1%	> 0 to 1%
St Cloud	> 0 to 1%	5% to 10%
St. Augustine	1% to 5%	5% to 10%
St. Johns	> 0 to 1%	
St. Marks	1% to 5%	> 0 to 1%
St. Petersburg	1% to 5%	1% to 5%

Percentage of ALEC Access Lines by Exchange

Table 3.4

Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers
Starke	1% to 5%	1% to 5%
Stuart	> 0 to 1%	10% to 15%
Sugarloaf Key	1% to 5%	5% to 10%
Sunny Hills	> 0 to 1%	> 0 to 1%
Tallahassee	1% to 5%	5% to 10%
Tampa	1% to 5%	20% to 25%
Tarpon Springs	> 0 to 1%	1% to 5%
Tavares	> 0 to 1%	5% to 10%
The Beaches		
Titusville	1% to 5%	5% to 10%
Trenton	1% to 5%	> 0 to 1%
Trilacoochee	1% to 5%	1% to 5%
Tyndall		
Umatilla	1% to 5%	5% to 10%
Valparaiso	1% to 5%	5% to 10%
Venice	> 0 to 1%	1% to 5%
Vernon	1% to 5%	> 0 to 1%
Vero Beach	> 0 to 1%	1% to 5%
Waldo	> 0 to 1%	
Walnut Hill		
Wauchula	1% to 5%	5% to 10%
Weekiwachee Springs	> 0 to 1%	1% to 5%
Welaka		5% to 10%
Wellborn	> 0 to 1%	
West Kissimmee	1% to 5%	1% to 5%
West Palm Beach	1% to 5%	5% to 10%
Westville	1% to 5%	
Wewahitchka		
White Springs	1% to 5%	
Wildwood	1% to 5%	1% to 5%
Williston	1% to 5%	1% to 5%
Windermere	> 0 to 1%	> 0 to 1%
Winter Garden	1% to 5%	5% to 10%
Winter Haven	1% to 5%	1% to 5%
Winter Park	1% to 5%	15% to 20%
Yankeetown	> 0 to 1%	> 0 to 1%
Youngstown-Fountain	1% to 5%	5% to 10%
Yulee	1% to 5%	1% to 5%
Zephyr Hills	> 0 to 1%	1% to 5%

Percentage of ALEC Access Lines by Exchange			Table 3.4
Exchange	% of Residential Access Lines ALEC Providers	% of Business Access Lines ALEC Providers	
Zolfo Springs	1% to 5%	> 0 to 1%	

Table 3.5 reflects the number of ALEC residential and business providers on an exchange by exchange basis that, reported offering service in Florida as of June 30, 2001. Because of requests by some providers for confidentiality on the location of their operations, names of companies providing service are not disclosed. In some instances in Table 3.4, an ILEC reported having resold lines in an exchange but no ALEC acknowledged providing service. This explains why Table 3.4 may reflect the presence of competition in exchanges where, in Table 3.5, no competitor is listed.

EXCHANGES WITH AN ALEC PROVIDER			Table 3.5
Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers	
Alachua	1	0	
Alford	2	0	
Alligator Point	0	0	
Altha	0	1	
Apalachicola	0	0	
Apopka	11	4	
Arcadia	7	2	
Archer	5	1	
Astor	1	1	
Avon Park	5	0	
Baker	5	3	
Baldwin	2	3	
Bartow	8	2	
Belle Glade	10	3	
Belleview	8	2	
Beverly Hills	7	1	
Big Pine Key	1	3	
Blountstown	1	0	
Boca Grande	1	1	
Boca Raton	16	15	
Bonifay	4	1	

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
Bonita Springs	5	3
Bowling Green	1	0
Boynton Beach	13	8
Bradenton	10	4
Branford	1	0
Bristol	1	0
Bronson	4	1
Brooker	1	0
Brooksville	11	7
Bunnell	8	3
Bushnell	6	2
Callahan	1	0
Cantonment	7	4
Cape Coral	10	1
Cape Haze	3	0
Carrabelle	1	0
Cedar Key	0	2
Celebration	0	1
Century	3	1
Chattahoochee	0	0
Cherry Lake	1	0
Chiefland	6	5
Chipley	8	5
Citra	1	0
Clearwater	10	7
Clermont	7	2
Clewiston	8	2
Cocoa	14	7
Cocoa Beach	7	5
Coral Springs	14	9
Cottondale	3	1
Crawfordville	6	2
Crescent City	1	1
Crestview	7	3
Cross City	5	1
Crystal River	5	1
Dade City	6	2
Daytona Beach	16	7
DeBary	8	2
Deerfield Beach	12	7

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
DeFuniak Springs	4	3
Deland	11	3
DeLeon Springs	3	0
Delray Beach	16	11
Destin	4	3
Dowling Park	1	0
Dunnellon	8	4
East Orange	4	2
Eastpoint	0	0
Eau Gallie	9	6
Englewood	8	2
Eustis	7	1
Everglades	1	0
Fernandina Beach	9	5
Flagler Beach	5	2
Florahome	1	0
Florida Sheriff's Boys	1	0
Forest	1	0
Freeport	3	1
Frostproof	4	1
Ft. Lauderdale	22	18
Ft. Meade	4	1
Ft. Myers	12	5
Ft. Myers Beach	2	1
Ft. Pierce	12	7
Ft. Walton Beach	9	3
Ft. White	1	0
Gainesville	15	14
Geneva	5	0
Glendale	1	0
Graceville	6	1
Grand Ridge	2	0
Green Cove Springs	9	4
Greensboro	1	0
Greenville	5	0
Greenwood	3	0
Gretna	1	0
Groveland	5	1
Gulf Breeze	7	8
Haines City	9	1

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
Hastings	1	1
Havana	7	2
Hawthorne	7	2
High Springs	1	0
Hillard	1	0
Hobe Sound	4	2
Holley-Navarre	4	1
Hollywood	19	15
Homestead	15	7
Homosassa	7	1
Hosford	0	0
Howey-in-the-Hills	2	0
Hudson	8	4
Immokalee	6	1
Indian Lake	1	0
Indiantown	1	1
Interlachen	1	0
Inverness	7	3
Islamorada	3	3
Jacksonville	22	20
Jacksonville Beach	11	8
Jasper	1	0
Jay	3	1
Jennings	1	0
Jensen Beach	5	4
Julington	1	2
Jupiter	9	7
Keaton Beach	0	0
Kenansville	1	0
Key Largo	8	5
Key West	11	4
Keystone Heights	7	1
Kingsley Lake	1	0
Kissimmee	12	7
La Belle	6	3
Lady Lake	5	1
Lake Buena Vista	0	0
Lake Butler	1	0
Lake City	10	8
Lake Placid	4	0

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
Lake Wales	8	1
Lakeland	8	4
Laurel Hill	1	0
Lawtey	2	0
Lee	2	0
Leesburg	9	3
Lehigh Acres	7	1
Live Oak	1	0
Luraville	1	0
Lynn Haven	5	5
Macclenny	1	1
Madison	3	2
Malone	1	0
Marathon	5	3
Marco Island	1	1
Marianna	4	3
Maxville	1	0
Mayo	1	0
McIntosh	1	0
Melbourne	16	9
Melrose	1	0
Miami	26	26
Micanopy	4	1
Middleburg	10	6
Milton	9	6
Molino	1	0
Monticello	4	1
Montverde	1	0
Moore Haven	2	1
Mount Dora	7	1
Mulberry	7	0
Munson	1	0
Myakka	1	0
Naples	8	1
New Port Richey	8	4
New Smyrna Beach	6	4
Newberry	9	2
North Cape Coral	2	1
North Dade	11	7
North Fort Myers	4	1

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
North Key Largo	1	1
North Naples	2	1
North Port	7	2
Oak Hill	4	1
Ocala	11	3
Ocklawaha	5	1
Okeechobee	6	2
Old Town	4	2
Orange City	5	2
Orange Park	16	10
Orange Springs	1	0
Orlando	25	28
Oviedo	12	7
Pace	9	6
Pahokee	8	1
Palatka	12	3
Palm Coast	11	5
Palmetto	10	4
Panacea	2	0
Panama City	15	8
Panama City Beach	9	5
Paxton	0	0
Pensacola	17	12
Perrine	7	7
Perry	1	0
Pierson	4	0
Pine Island	2	0
Plant City	9	3
Polk City	7	0
Pomona Park	1	1
Pompano Beach	19	13
Ponce de Leon	3	1
Ponte Vedra Beach	9	7
Port Charlotte	9	1
Port St. Joe	0	0
Port St. Lucie	14	7
Punta Gorda	7	2
Quincy	1	0
Raiford	0	0
Reedy Creek	2	2

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
Reynolds Hill	2	0
Salt Springs	0	1
San Antonio	3	0
Sanderson	1	0
Sanford	16	7
Sanibel-Captiva Island	1	1
Santa Rosa Beach	4	2
Sarasota	10	5
Seagrove Beach	2	1
Sebastian	7	4
Sebring	5	1
Shalimar	5	3
Silver Springs Shores	4	1
Sneads	2	0
Sopchoppy	2	0
Spring Lake	0	1
St Cloud	9	1
St. Augustine	13	8
St. Johns	1	0
St. Marks	1	0
St. Petersburg	10	6
Starke	6	2
Stuart	12	6
Sugarloaf Key	3	3
Sunny Hills	1	1
Tallahassee	10	5
Tampa	13	15
Tarpon Springs	8	4
Tavares	5	1
The Beaches	0	0
Titusville	13	7
Trenton	7	1
Trilacootchee	3	0
Tyndall	0	0
Umatilla	8	2
Valparaiso	3	3
Venice	9	3
Vernon	3	2
Vero Beach	14	7
Waldo	1	0

EXCHANGES WITH AN ALEC PROVIDER

Table 3.5

Exchanges	Total ALEC Residential Providers	Total ALEC Business Providers
Walnut Hill	0	0
Wauchula	1	1
Weekiwachee Springs	7	4
Welaka	0	3
Wellborn	1	0
West Kissimmee	1	2
West Palm Beach	20	15
Westville	2	0
Wewahitchka	0	0
White Springs	1	0
Wildwood	5	3
Williston	5	1
Windermere	0	2
Winter Garden	9	6
Winter Haven	8	3
Winter Park	14	11
Yankeetown	3	1
Youngstown-Fountain	5	4
Yulee	9	3
Zepher Hills	8	3
Zolfo Springs	2	0

Table 3.6 offers a summary of the detailed findings of Table 3.5, and categorizes the number of providers by exchange. It should be noted that in the 2000 edition of this report, there were 72 exchanges without an alternative business provider, compared with 86 this year, and 29 exchanges without a competitive residential provider, compared with 18 this year. Table 3.6 includes the Walnut Hill and Century exchanges which, while located physically in Florida, are included in the Mobile, Alabama LATA.

SUMMARY OF FLORIDA EXCHANGES WITH AND WITHOUT ALEC PROVIDERS

Table 3.6

Exchanges with one ALEC provider	61
Exchanges with two ALEC provider	20
Exchanges with three or more ALEC providers	187
Exchanges without an ALEC provider	14

SUMMARY OF FLORIDA EXCHANGES WITH AND WITHOUT ALEC PROVIDERS		Table 3.6
Exchanges without a business ALEC provider		86
Exchanges without a residential ALEC provider		18
Total exchanges in Florida		282

Table 3.7 lists the exchanges in Florida where the greatest number of competitive companies provide service. The total number of ALEC providers does not equal the sum of residential and business providers because one provider may offer both residential and business service in an exchange, while other providers may offer only one category of service.

EXCHANGES WITH THE MOST ALEC PROVIDERS				Table 3.7
Exchange	Residential	Business	Total ALEC Providers	
Miami	26	26	41	
Orlando	25	28	41	
Ft. Lauderdale	22	18	29	
Jacksonville	22	20	32	
West Palm Beach	20	15	27	
Hollywood	19	15	24	
Pompano Beach	19	13	23	
Pensacola	17	12	21	
Delray Beach	16	11	20	

In evaluating the level of competitive entry, the number of access lines the competitors are serving may be as significant as the number of reported competitors in an exchange. The number of access lines served by the 108 companies that reported offering service is 959,586 compared with 91 ALECs that reported serving 710,617 one year ago. In the 1999 edition of this report, this agency found 80 companies serving a

total of 555,172 access lines. To delineate between ALEC lines and those served by ILECs, the total number of access lines reportedly served by ILECs is 11,071,006 excluding resold lines. This means that overall, competitive entrants to the telecommunications market in Florida currently hold 8.0 percent of the market, compared with 6.1 percent last year.

ALECs providing business service in Florida reported serving 594,223 access lines, compared with 3,139,959, excluding resold lines, reported by ILECs. This gives ALECs 15.9 percent of the business market, compared with 14.2 percent one year ago. ALECs providing residential service reported serving 366,653 access lines, compared with 7,931,047 reported by ILECs. This places the ALEC share of the residential market at 4.4 percent, compared with 2.7 percent in 2000.

ILECs report fewer residential access lines this year than last (7,994,987 in 2000 compared with 7,931,047 in 2001), which is the first time a reduction has been observed since this report was mandated by the Legislature in 1996. Because the net reduction is small both in terms of number (63,940 access lines) and percentage (0.8 percent), a cautious approach to drawing conclusions based on these figures may be warranted.

As has been reported in previous editions of this report, it is evident that ALECs continue to focus on heavily populated markets with large concentrations of customers. Table 3.8 lists each of the state's 10 Local Access and Transport Areas (LATAs). A LATA is defined by the FCC as a "[A] continuous local exchange area which includes every point served by a local phone company within an existing community of interest." The ensuing table indicates the number of exchanges in each LATA and the number of exchanges without competitive entrants. As is clear from the table, the more densely populated LATAs enjoy the highest level of competition.

ALEC PROVIDERS BY LATA			
			Table 3.8
LATA	Exchanges in LATA	Exchanges without competitive entrant	Area codes serving LATA
Daytona	10	0	386
Ft. Myers	31	0	863, 941
Gainesville	49	0	352
Jacksonville	43	2	386, 904
Orlando	22	1	321, 407
Panama City	35	9	850
Pensacola	23	1	850
Southeast	31	0	305, 561, 754, 786, 954
Tallahassee area	12	1	850
Tampa area	24	0	727, 813, 941, 863

This table demonstrates that the densely populated areas such as Southeast Florida and the Tampa, Daytona, and Ft. Myers areas have competitive activity in all exchanges. As noted in Table 3.6, however, competitive entrants are offering service in all but 15 of the state's 282 exchanges, including many of which are located in the state's less urban LATAs.

Of the ALECs responding to this year's data request, 41 listed residential service as their sole source of revenue, 22 reported offering services only to businesses, and 45 indicated their service offerings were extended to both business and residential customers. While the number of providers for distinct market segments is relatively equal, ALECs serving businesses have captured a greater share of their target market.

The inherent advantages enjoyed by ALECs -- no requirement to serve all customers in an exchange and no carrier of last resort responsibilities -- have led ILECs to raise the issue of competitive balance. Incumbents argue they are losing a disproportionate share of their high-revenue business to ALECs, which have the luxury of serving only those customers they choose to pursue. While this year's data support

the view that ALECs have a larger share of the business market than the residential market, incumbents continue to hold 92 percent of the state's 12 million access lines.

HOW FLORIDA COMPARES WITH THE REST OF THE UNITED STATES

The FCC collects data annually to assess the level of competition in telecommunications markets throughout the United States and any identifiable trends. In its most recent report, Local Telephone Competition, released in May 2001, and summarizing data as of December 31, 2000, the FCC found competitors were claiming 8.5 percent of the approximately 194 million telephone lines serving end-users in the United States. In Florida, that number is 8.0 percent. It should be noted that key differences exist between the research methods used by the FCC and the Commission. ALECs with fewer than 10,000 lines are not required to report to the FCC, while the Commission asks all certificated ALECs to report. The FCC obtains the bulk of its data from voluntary submissions from major incumbent LECs in addition to revenue data from universal service reporting forms. The Commission sends data requests to incumbents and competitors. Despite these differences in data collection, this year, as in past years, information published by the FCC tends to parallel that obtained by this agency.

LIMITATIONS IN THE PRECEDING ALTERNATIVE LOCAL EXCHANGE COMPANY MARKET ANALYSES

Although on balance we believe that the preceding ALEC market share analyses are reasonable, a number of caveats should be noted. First, data compilation is based on responses received from responding ALECs and is, therefore, only as valid as the answers received from the companies that responded to this year's data request. Second, responding ALECs did not respond uniformly to all questions posed because of differing interpretations and the companies' ability to separate data. Some companies, for example, responded to questions about the markets they served on an exchange-by-exchange basis, while others responded by municipality, area code, serving switch, or simply by giving a statewide aggregate. Companies were asked to distinguish between

residential and business access lines and while most were able to make this distinction, some indicated their billing process does not allow them to provide this information. Some respondents provided only the number of residential or business customers they serve, which does not allow for specific line counts if a business, for example, has more than one access line. Third, in instances where ILECs reported having resold lines in an exchange but no respondent acknowledged providing service, staff assumed the presence of one ALEC for purposes of Table 3.5. This chart also reports the range of competitive access lines held by ALECs in increments of five percent to avoid disclosing confidential information.

Finally, consideration must be given to the fluctuations in the market share held by ALECs in various exchanges as reported in Table 3.4. Changes in reporting may cause distortion. For example, a company may report access lines on an exchange basis one year and report access lines by city the ensuing year. If the preceding example involves a large ALEC, the impact to that particular table may be considerable. Despite these limitations and qualifiers, we believe this report represents the most accurate information available to this agency at the time of its writing.

COMPLAINTS FILED BY ALTERNATIVE LOCAL EXCHANGE COMPANIES AGAINST INCUMBENT LOCAL EXCHANGE COMPANIES

A 1997 amendment to Section 364.161(4), Florida Statutes, requires this report to include a discussion of all complaints filed by ALECs against ILECs. Table 3.9 lists the complaints filed from June 30, 2000 to June 30, 2001.

SUMMARY OF COMPLAINTS FILED BY ALECs

Table 3.9

ALEC	ILEC	Date Opened	Docket No. or CATS No.	Description of Complaint	Date Closed	Resolution
BTI	VERIZON	08/31/00	333524T	Complaint for failure to release line to BTI.	05/31/01	Line released, service initiated with BTI.
ELEC Comm.	BST	11/17/00	346146T	ELEC claimed that the additional deposit required by BellSouth was anti-competitive.	08/01/01	FPSC requested ELEC to provide specific evidence. ELEC never responded and complaint was closed.
XO Florida and New South Comm.	VERIZON	01/10/01	355106T	Complaint on whether Verizon had responsibility to search its database for defaulted numbers as the N-1 company.	04/20/01	Verizon installed equipment to add capacity to handle the traffic in its tandem. Agreed to search database for the defaulted numbers.
Mpower Comm.	BST	01/29/01	358560T	Delay in connection of service and improper billing.	07/18/01	All lines transferred as of 02/23/01. BST provided \$306.75 in credits per staff inquiry.
Florida Digital Network	BST	02/01/01	359541T	Complaint for failure to comply with FDN LSRs to switch four lines.	03/26/01	FDN sent BellSouth an additional LSR for the fourth line, completed on 03/02/01.
KMC Telecom	SPRINT	02/13/01	361867T	KMC unable to install service due to problem with Sprint's line.	05/18/01	Resolved by parties, service in order.
Adelphia	SPRINT	02/13/01	361898T	Delay in repair to T-1 service.	06/14/01	Problem corrected after locating an incorrect PIC.

SUMMARY OF COMPLAINTS FILED BY ALECs

Table 3.9

ALEC	ILEC	Date Opened	Docket No. or CATS No.	Description of Complaint	Date Closed	Resolution
TeleConex	BST	02/13/01	362027T	Complaint over upgrades to TAG system which required TeleConex to enter service orders via fax.	04/24/01	Resolved by parties.
Adelphia Business Sol. (JAX)	BST	02/20/01	363331T	Complaint resulting from incomplete transfer of business lines and improper billing.	07/06/01	Adelphia now serves all lines in dispute and a settlement has been reached on the billing issue.
Mpower Comm.	BST	02/28/01	365027T	Complaint for delay in transferring service from BST to Mpower.	04/10/01	The wrong assignment of cable pairs caused the delay in the service order.
Teligent	SPRINT	04/03/01	372073T	Incomplete porting causing service problems.	05/21/01	Resolved by parties.
Mpower Comm.	BST	04/25/01	376427T	Complaint resulting from incomplete transfer of lines.	05/18/01	Transfer completed on 05/03/01.
Mpower Comm.	BST	06/07/01	383565T	Improper disconnection of services.	07/16/01	Service reinstated on 08/03/01.
Supra	BST	06/14/01	384780T	Complaint for delay in transfer of service.	07/09/01	Service installed on 06/23/01 after the removal of the local service freeze.
Arrow	BST	06/22/01	386452T	Unable to process orders due to PIC freeze.	07/31/01	After staff's inquiry, fourth service order was issued and completed on 07/09/01.

SUMMARY OF COMPLAINTS FILED BY ALECs

Table 3.9

ALEC	ILEC	Date Opened	Docket No. or CATS No.	Description of Complaint	Date Closed	Resolution
TeleConex	BST	06/26/01	387769T	Surety bond requirement.	07/05/01	Withdrawn at ALEC's request.
The Other Phone Co.	BST	01/29/99	990108-TP	Complaint alleging breach of resale agreement.	04/09/01	Motion to dismiss granted; no contact from complainant for 16 months.
Orlando Telephone Company	SPRINT	07/8/99	990884-TP	Complaint over switched access termination fees.	02/06/01	Withdrawn at ALEC's request.
US LEC	BST	07/2/99	990874-TP	Alleged breach of interconnection agreement.	10/24/01	Withdrawn at ALEC's request.
Global NAPS	BST	08/31/99	991267-TP	Alleged breach of interconnection agreement.		Commission order appealed by BST; state proceedings stayed during appeal.
Intermedia	BST	10/08/99	991534-TP	Alleged breach of interconnection agreement.	07/06/01	Commission order issued 09/14/00; appealed by ALEC; appeal withdrawn.
MCImetro Access	BST	11/23/99	991755-TP	Alleged breach of interconnection agreement.	12/21/00	Commission order issued.
ITC^Delta Com	BST	12/17/99	991946-TP	Alleged breach of interconnection agreement.	09/08/00	Resolved by the parties.
Sprint (ALEC)	BST	5/24/00	000636-TP	Alleged breach of interconnection agreement.	02/02/01	ALEC filed voluntary motion for dismissal.

SUMMARY OF COMPLAINTS FILED BY ALECs

Table 3.9

ALEC	ILEC	Date Opened	Docket No. or CATS No.	Description of Complaint	Date Closed	Resolution
Network Telephone	SPRINT	08/31/00	001275-TP	Complaint alleging refusal to allow collocation of equipment.	02/09/01	Withdrawn by ALEC.
IDS Telecom	BST	05/11/01	010740-TP	Alleged breach of interconnection agreement.		Withdrawn by ALEC.

SUMMARY

As of June 2001, ALECs were offering service to approximately 8.0 percent of the total access lines in Florida compared with 6.1 percent in 2000 and 5 percent in 1999. Florida has approximately 12 million access lines of which 959,586 are served by ALECs. Of the total of 12 million access lines, 8.3 million are residential and 3.7 million are business. Competitive entrants reported serving 365,363 residential lines compared with 218,048 last year and 594,223 business access lines, compared with 492,569 in 2000.

In percentage terms, competitors served 4.4 percent of the residential market in 2001, compared with 2.7 percent in 2000; and 15.9 percent of business access lines in 2001, compared with 14.2 percent in 2000.

CHAPTER IV: CONCLUSIONS

Based on the data collected for the preparation of this report, it is apparent that ALECs view Florida as an attractive market. The number of certificated ALECs surveyed continues to increase, from 265 in 1999 to 362 in 2000, to 463 this year. ALEC market share has increased overall in Florida as well as in residential and business markets.

ALECs responding to this year's data request report serving 959,586 access lines, or 8.0 percent of the state's total, slightly less than the FCC's published average of 8.5 percent nationwide. Business customers can obtain services in 70 percent of the state's exchanges at rates, terms, and conditions presumably comparable to those offered by incumbent LECs. It is also apparent that data-oriented ALECs have entered Florida's business markets, generating demand for high-speed services in major metropolitan areas and creating submarkets.

Competition has increased in residential markets since the 2000 edition of this report, based on the information provided by respondents. The number of residential access lines held by ALECs increased by more than 36 percent since last year's report. With competitive providers present in 94 percent of Florida's 282 exchanges, the responses to this year's data request show the emergence of specialty markets in the residential sector as well as the business sector. First, some ALECs are providing bundled residential service, including local service, a fixed amount of monthly long distance service in addition to Internet access, or combining local and long distance phone service with cable television and Internet service at rates, terms, and conditions similar to those offered by the incumbent LECs. Second, prepaid telephone service companies appear to be growing, offering unlimited local service with toll restrictions to residential and business customers who would otherwise be excluded from the telecommunications market because of prior payment difficulties with the incumbent local exchange company. This service cannot be considered comparable to that offered by the ILECs owing to the restrictions placed on customers by the prepaid service company. Although more expensive and more limited than comparable ILEC service, the growth of these companies indicates there is a market for prepaid service.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Interprise America, Inc.
@link Networks, Inc.
@Xess Communications, Inc.
1-800-RECONEX, Inc.
2nd Century Communications, Inc.
360networks (USA) inc.
A 1 Mobile Tech, Inc.
A.R.C. Networks, Inc.
AA Tele-Com
Access Integrated Networks, Inc.
Access One Communications
Access Point, Inc.
AccuTel of Texas, Inc.
ACI
Actel Integrated Communications, Inc.
Adelphia Business Solutions Investment, LLC
Adelphia Business Solutions of Florida, Inc.
Adelphia Business Solutions of Jacksonville, Inc.
Adelphia Telecommunications of Florida, Inc.
Advanced TelCom of Delaware Inc.
Advantage Group of Florida Communications, L.L.C.
Advent Consulting and Technology, Inc.
AirTIME Technologies, Inc.
ALEC, Inc.
All Kinds Cashed, Inc.
Allegiance Telecom of Florida, Inc.
Alliance Tel-Com, Inc.
Allied Riser of Florida, Inc.
ALLTEL Communications, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Alternative Phone, Inc.
AMAFLA Telecom, Inc.
American Dial Tone
American Fiber Network, Inc.
American Fiber Systems, Inc.
American MetroUtilities Corporation/Florida
AmeriMex Communications Corp.
AMTEL NETWORK, INC.
Annox, Inc.
Anns Communication
Arbros Communications Licensing Company S.E., LLC
Asset Channels-Telecom, Inc.
AT&T
AT&T Digital Phone
Atlantic.Net Broadband, Inc.
Atlas Communications, Ltd.
ATS
Auglink Communications, Inc.
Available Telecom Services, Inc.
AvanaCom
axessa
Axsys, Inc./Tel Ptns.
Backbone Communications Inc.
Basic Phone, Inc.
Baytel Communications, Inc.
BellSouth BSE, Inc.
BellSouth Telecommunications
beMANY
Birch
Biz-Tel Corporation

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Bizy Phones, Inc.
BlueStar Networks, Inc.
Bluewater Communications Corporation
Boomerang Communications, Inc.
Broadband Digital Technologies, Inc.
BroadBand Office Communications, Inc.
Broadband2Wireless US, Inc.
BroadRiver Communication Corporation
Broadslate Networks of Florida, Inc.
BroadStream Corporation
BroadStreet Communications, Inc.
Broadtier Communications, Inc.
Broadwing Local Services Inc.
BTI
Budget Comm
Budget Phone, Inc.
BudgeTel Systems, Inc.
Business Communications, Inc.
Buy-Tel Communications, Inc.
C.B. Telecomm, Inc.
C.E.F. Answering and Telecommunications Service Inc.
C.I.O., Inc.
C2C Fiber of Florida, Inc.
Cable & Wireless USA, Inc.
Capital Exploration
Caretele, Inc.
Caronet, Inc.
Cash America
CAT Communications International, Inc.
Cbeyond Communications, LLC

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

CCCFL, Inc.
Cellular One of Southwest Florida
Centennial Florida Switch Corp.
Choctaw Communications, Inc.
CI2, Inc.
Ciera Network Systems, Inc.
City of Lakeland
City of Ocala
City of Tallahassee
Citywide-Tel
Cleartel Communications, Inc.
Comcast MH Telephony Communications of Florida, Inc.
Comcast Telephony Communications of Florida, Inc.
Communication Service Centers
Compact Data Systems, Inc.
Compass Telecommunications Incorporated
ComScape Communications, Inc.
COMUSA, Inc.
Concert Communications Sales LLC
ConnectSouth Communications of Florida, Inc.
Consumer Credit Assistance, Inc.
Convergence, Inc.
Convergent Communications Services, Inc.
Coral Telecom, Inc.
CoreComm Florida, Inc.
Covad Communications Company
Cox Communications
CTC Communications Corp.
Curbside Communications
Deland Actel, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Delta Phones, Inc.
Digital Access Communications of Florida, Inc.
Digital Media Partners
Direct Link Communications, Inc.
Direct-Tel USA, LLC
Direct2Internet Corp.
DPI-Teleconnect, L.L.C.
DSL Telecom, Inc.
DSLnet Communications, LLC
DTK Telecommunications, LLC
DV2, Inc.
Dynergy CLEC Communications, Inc.
e.spire Communications
e.spire Communications, Inc.
Eagle Telco, Inc.
Easton Telecom Services Inc.
Easy Tel, Inc.
Easy Telephone Services Company
EasyComm Corporation
EATEL
Edge Connections, Inc.
eLEC Communications
ElectroNet Intermedia Consulting, Inc.
Electronic Technical Services (E.T.S.)
eMeritus Communications, Inc.
Enkido, Inc.
Enron Telecommunications, Inc.
EPICUS , Inc.
Ernest Communications, Inc.
essential.com, inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

ET Telephone, Inc.
Eureka Telecom, L.L.C.
Everest Broadband Networks of Florida, Inc.
Everest Connections Corporation
eVoice Telecom, Inc.
Evolution Networks South, Inc.
Excel Telecommunications, Inc.
Excelink Communications, Inc.
Express Phone Service, Inc.
EZ Talk Communications, L.L.C.
FairPoint Communications Solutions Corp.
Fast Connections, LP
Fast Phones, Inc. of Alabama
First Choice Local Communications Inc.
First Mile Technologies, LLC
Florida City-Link Communications, Inc.
Florida Comm South
Florida Consolidated Multi-Media Services, Inc.
Florida Digital Network, Inc.
Florida Municipal Power Agency
Florida Phone Systems, Inc.
Florida Public Telecommunications Association, Inc.
Florida Telephone Company
Florida Telephone Services, LLC
Florida's Max-Tel Communications, Inc.
Focal Communications Corporation of Florida
Fones-4-U
FreedomTel, Inc.
Frontier Communications of America, Inc.
Fusion Telecom

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Fuzion Wireless Communications Inc.
GCI Globalcom Inc.
Genesis Communications International, Inc.
Global Broadband, Inc.
Global Connection, Inc of America
Global Crossing Local Services, Inc.
Global Crossing Telemanagement, Inc.
Global Dialtone, Inc.
Global Metro Networks Florida, LLC
Global NAPS, Inc.
Global Telecom Systems, Inc.
Global Telelink Services, Inc.
Globaltron Communications Corporation
Globcom, Inc.
GoBeam Services, Inc.
Grande Communications Networks, Inc.
Group Long Distance, Inc.
GRU Communication Service/GRUCom/GRU
Gulf Coast Communications, Inc.
H & L Taxhaus Communications
Hale and Father, Inc.
Hart Communications
Hayes Telecommunications Services, Inc.
High Tech Communications of Central Florida, Inc.
HJN Telecom, Inc.
Hosting-Network, Inc.
I Vantage Network Solutions
ICG Telecom Group, Inc.
IDS Telcom LLC
IE Com

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

IG2, Inc.

ILD

INET Local Phone Service

Intelligence Network Online, Inc.

Intelogistics Corp.

InterCept Communications Technologies, Inc.

InterCom Network, Inc.

Interlink Telephony, Inc.

Interloop, Inc.

Intermedia Communications, Inc.

International Telecom, Ltd.

Intetech, L.C.

IPVoice Communications, Inc.

ISN Communications

ITC^DeltaCom

ITS Telecommunications Systems

JATO Operating Two Corp.

Jones Phones

King Communications & Services, Inc.

KingTel, Inc.

Kissimmee Utility Authority

KMC Telecom II, Inc.

KMC Telecom III, Inc.

KMC Telecom Inc.

KMC Telecom V, Inc.

Knology of Florida, Inc.

Lake Wellington Professional Centre

LDDS Worldcom

LecStar Telecom, Inc.

Legends Communications, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Level 3 Communications, LLC
LightSource Telecom I, LLC
Lightyear Communications, Inc.
Local Line America, Inc.
Lone Star State Telephone Co.
Looking Glass Networks, Inc.
LPGA International Communications, LLC
Lyxom, Inc.
M.T.G.
Madison River Communications, LLC
Mainstream New Media
Maxcess, Inc.
MCI WorldCom
MCI WorldCom Communications, Inc.
MCImetro Access Transmission Services LLC
McLeodUSA Telecommunications Services, Inc.
Mercury Long Distance, Inc.
Meridian Telecommunications, Inc.
MET Communications, Inc.
Metro FiberLink, Inc.
Metromedia Fiber Network Services, Inc.
Metropolitan Fiber Systems of Florida, Inc.
Metstream Communications, Inc.
MetTel
Microsun Telecommunications, Inc.
Miketronics, Inc.
Miracle Communications
Mpower Communications Corp.
MSN Communications, Inc.
MY-TEL INC.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

NationNet Communications Corporation
Navigator Telecommunications, LLC.
Net One International, Inc.
NET-tel Corporation
Net2000 Communications Services, Inc.
Netcon Telcom, Inc.
Network Access Solutions Corporation
Network Information Solutions, Inc.
Network One
Network Telephone Corporation
NetworkIP, L.L.C.
New Access Communications LLC
New Connects, Inc.
New Edge Networks
NewPhone
NewSouth Communications Corp.
nii Communications, Ltd.
Norcom, Inc.
North County Communications Corporation
NorthPoint Communications, Inc.
Novus Communications, Inc.
NOW Communications, Inc.
Ntegrity Telecontent Services Inc.
NTERA, Inc.
NUI Telecom, Inc.
NuStar Communications Corp.
NuVox Communications, Inc.
NxGen Networks, Inc.
O1 Communications of Florida, LLC
Ocius Communications, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Oltronics, Inc.
Omnicall, Inc.
One EZ Call, Inc.
OnePoint Communications
OnFiber Carrier Services, Inc.
OnSite Access Local LLC
OpTel
Opticom, a Division of One Call Communications, Inc.
Orlando Telephone Company
Oronoco Networks, Inc.
Oscatel Communications
P.V. Tel of Florida, LLC
Pacific Centrex Services, Inc.
PaeTec Communications, Inc.
Palm Beach Community College
Palm Beach Telephone Company
PARCOM Communications, Inc.
Pathnet Communications, Inc.
PatriotCom Inc.
Phantom Networks, Inc.
Phone-Link, Inc.
Phone-Out/Phone-On
Phones For ALL
PICUS Communications, LLC
Pilgrim Telephone, Inc.
Pinnacle Telcom, Inc.
Positive Investments, Inc.
PowerNet Global Communications
Premiere Network Services, Inc.
Primus Telecommunications, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Priority Link
Pro Telecom, Inc.
ProfitLab, Inc.
Progress Telecommunications Corporation
Progressive Telecommunications Corp.
Public Telephone Network, Inc.
Quad City Communications, Inc.
Quality Telephone Inc.
Quantum Phone Communications, L.L.C.
QuantumShift Communications, Inc.
Questel Corp
Quick-Tel Communications, Inc.
Qwest Communications Corporation
Qwest Communications Services
RCN Telecom Services, Inc.
RCP Services
Re-Connection Connection
ReFlex Communications, Inc,
REI Communications
Resort Hospitality Services, Ltd.
Rhythms Links Inc.
Ripple Communications, Inc.
Robert E. Jones
S.F.M.&T. Inc.
Sandhills Telecommunications Group, Inc.
SATCOM Communication
SBC Telecom, Inc.
SCC Communications Corp.
Second Chance Phone
ServiSense.com, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

Seven Bridges Communications, L.L.C.
Shands Teaching Hospital and Clinics, Inc.
Sigma Networks Telecommunications, Inc.
Simply Communications
Smart City Networks
Soapstone Telecom LLC
Source One Communications, Inc.
Southeast Telephone Company
Southeastern Services, Inc.
Southeastern Telecommunications Service Inc.
Southern ReConnect, Inc.
Southern Telcom Network, Inc.
Southern Telecom
SouthNet Telecomm Services, Inc.
Speedy Reconnect, Inc.
Sphera Networks
Sprint Communications Company Limited Partnership
St. Johns Estates
Staples Communications-Networks
StartComm Corp.
State Discount Telephone, L.L.C.
StormTel, Inc.
Strategic Technologies, Inc.
Structus TeleSystems, Inc.
Sun-Tel USA, Inc.
Suntel Metro, Inc.
Supra Telecommunications and Information Systems, Inc.
T-Netix, Inc.
Talk America Inc.
Talk Too Communications

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

TalkingNets Holdings, LLC
Tallahassee Community College
Tallahassee Memorial Telephone Company
Tallahassee Telephone Exchange, Inc.
The Alternative Phone Company
TCG South Florida
Tel Com Plus
Tel-Phone Communications, Inc.
Telecom Connection Corp.
TeleConex
Telefyne Incorporated
TelePacific Communications
Telephone One Inc.
Telephone Systems of Georgia, Inc.
Telera Communications, Inc.
Telergy Network Services, Inc.
Telicor Inc.
Teligent Services, Inc.
TelNet.com, Inc.
TelQuest Communications, Corp.
Telscape Communications
Telseon Carrier Services, Inc.
Telsys, Inc.
The Grand Condominium Association, Inc.
The Mobile Phone Company, Inc.
Time Warner Telecom of Florida, L.P.
TOTALink of FLorida, LLC
TotalTel USA Communications, Inc.
Touch 1 Communications, Inc.
Trans National Communications International, Inc.

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

TreasureCom Inc.
Tristar Communications
TTI National, Inc.
U.S. Dial Tone, Inc.
U.S. Telco, Inc.
UAI of Florida, Inc.
Unicom Communications, LLC
United Communications HUB, Inc.
United Southern Telecom
Universal Telecom, Inc.
Universal Wireless
UniversalCom, Inc.
Urban Media of Florida, Inc.
URJET Backbone Network, Inc.
US LEC of Florida Inc.
US South Communications, Inc.
US Telecom Services, Inc.
USA Digital, Inc.
USA Quick Phone, Inc.
USA Telecom, Inc.
USA Telephone Inc.
USLD Communications, Inc.
Utility Board of the City of Key West - City Electric Syst
VarTec Telecom, Inc.
Verizon Advanced Data Inc.
Verizon Select Services Inc.
Vision Prepaid Services, Inc.
Vitcom Corporation
Vitts Networks, Inc.
VIVO-FLA, LLC

APPENDIX A: ALECs CERTIFICATED as of June 30, 2001

VortalConnect.COM, Inc.

WaKuL, Inc.

WAMnet Communications Inc.

Williams Local Network, LLC

WinStar Wireless, Inc.

Wireless Access Network, Inc.

WorkNet Communications Inc.

WorldNet Fiber, Inc.

Worldwide Internet Services, Inc.

XO Florida, Inc.

XSPEDIUS Corp.

Yipes Transmission, Inc.

Z-Tel Communications, Inc.

Zephion Networks Communications, Inc.

APPENDIX B: KEY FEDERAL ISSUES

RECIPROCAL COMPENSATION

On April 27, 2001, the FCC issued its Order on Remand and Report and Order in CC Docket No. 99-68. This order addressed a Court of Appeals for the District of Columbia Circuit remand in which the Court expressed concern about the analysis previously used by the FCC to support its conclusion that Internet Service Provider (ISP) traffic is interstate, and therefore not subject to reciprocal compensation.

In the 1996 *Local Competition Order*, the FCC determined that the reciprocal compensation provisions of section 251(b)(5) applied only to what it termed “local” traffic rather than to the transport and termination of interexchange traffic. In the subsequent 1997 *Declaratory Ruling*, the FCC determined that ISP-bound traffic falls outside the scope of “local” traffic, based on an end-to-end analysis. The FCC concluded that ISP traffic is “jurisdictionally mixed and appears to be largely interstate,” and thus is excluded from the requirements of Section 251(b)(5) by Section 251(i).

In the *Order on Remand*, the FCC concluded that Congress, through section 251(g), expressly limited the reach of section 251(b)(5) to exclude ISP-bound traffic and reaffirmed its conclusion in its previous decision that ISP-bound traffic is not subject to the reciprocal compensation obligations of section 251(b)(5). Specifically, the service provided by LECs to deliver traffic to an ISP constitutes, at a minimum, “information access” under section 251(g) and, thus, compensation for this service is not governed by section 251(b)(5). The FCC reaffirmed its previous conclusion that traffic delivered to an ISP is predominantly interstate access traffic subject to section 201 of the Act.

The FCC adopted an interim recovery mechanism for ISP traffic that seeks to eliminate arbitrage opportunities presented by the existing recovery mechanism for

ISP-bound traffic by lowering payments and capping growth, while avoiding a market-disruptive “flash cut” to a pure bill-and-keep regime. The order also initiates a 36-month transition toward a complete bill-and-keep recovery mechanism while retaining the ability to adopt an alternative mechanism based upon a more extensive evaluation in the pending NPRM proceeding on intercarrier compensation. The Order became effective on June 14, 2001.

The provisions of the order are as follows:

- The FCC established a rate-cap that declines over time.

Duration (Months)	Rate Cap (\$ / Minute of Use)
0 - 6	.0015
7 - 24	.0010
25 - 36*	.0007

* or until further FCC action, whichever is later

- The FCC also imposed a cap on total ISP-bound minutes for which a LEC may receive this compensation. This cap is adjusted over time and is summarized as shown below:

Year	Cap on ISP-bound Minutes subject to FCC's Reciprocal Compensation Rate
2001	Number of minutes for first quarter of 2001 (annualized), plus a 10% growth factor.
2002	Number of minutes in 2001, plus another 10% growth factor.
2003	Number of minutes equal to the 2002 ceiling.

- The FCC adopted a rebuttable presumption that traffic delivered to a carrier, pursuant to a particular contract, that exceeds a 3:1 ratio of terminating to originating traffic is ISP-bound traffic.
 - A carrier may rebut the presumption by demonstrating to the appropriate state commission that traffic above the 3:1 ratio is in fact local traffic delivered to non-ISP customers. In that case, the state commission will order payment of the state-approved or state-arbitrated reciprocal compensation rates for that traffic. Conversely, if a carrier can demonstrate to the state commission that traffic it delivers to another carrier is ISP-bound traffic, even though it does not exceed the 3:1 ratio, the state commission will relieve the originating carrier of reciprocal compensation payments for that traffic. This traffic will instead be subject to the compensation regime set forth in the provisions of this Order.
- Decisions of state commissions are not preempted regarding compensation for ISP-bound traffic for the period prior to the effective date of the interim regime.
- For new carriers that have not entered a market or an existing carrier expanding into a new market, the FCC's order specifies that ISP-bound traffic will be exchanged on a bill-and-keep basis.
- The interim compensation regime applies as carriers renegotiate expired or expiring interconnection agreements. It does not alter existing contractual obligations, except to the extent that parties are entitled to invoke contractual change-of-law provisions.

The FCC stated that because it now exercises its authority under section 201 to determine the appropriate intercarrier compensation for ISP-bound traffic, state commissions will no longer have authority to address this issue. Furthermore, as of May 15, 2001, carriers may no longer invoke section 252(i) to opt into an existing interconnection agreement with regard to the rates paid for the exchange of ISP-bound traffic. Section 252(i) applies only to agreements arbitrated or approved by state commissions pursuant to section

252; it has no application in the context of an intercarrier compensation regime set by the FCC pursuant to section 201.

RURAL HIGH-COST SUPPORT

On May 23, 2001, the FCC released its Fourteenth Report and Order & Twenty-Second Order on Reconsideration in the federal universal service docket (CC Docket No. 96-45). In this order, the FCC adopted, with certain modifications, the recommendations of the Rural Task Force (RTF) to reform the existing high-cost universal service support mechanism for rural carriers. Rural carriers are local exchange companies that either serve study areas with fewer than 100,000 access lines or meet certain other criteria. The plan will only be in effect for five years, beginning July 1, 2001. In conjunction with the Order, the FCC issued a NPRM seeking alternative proposals to address potential excessive fund growth as competitive carriers enter the rural market.

Three federal universal service mechanisms provide high-cost support for rural carriers. High-cost loop support provides support based on embedded costs averaged over entire study areas. Rural carriers also receive federal high-cost support through the Long Term Support (LTS) and Local Switching Support (LSS) mechanisms.

The following points are some of the modifications made as a result of the RTF proposal to the rural high-cost support mechanism:

- Rural carriers received rebased high-cost loop support effective July 1, 2001.
- A "rural growth factor" was adopted that allows the rural high-cost loop support fund to grow equal to the sum of the annual change in the total number of working loops of rural incumbent local exchange carriers and the Gross Domestic Product-Chained Price Index (GDP-CPI).
- The national average loop cost is frozen at \$240.00.

- A "safety net additive" was adopted that would provide additional support to carriers who make significant investment in rural infrastructure. This additional support would only be available in years in which support levels would otherwise exceed the new indexed cap on the high-cost loop support fund. (§ 77)
- Three paths for disaggregating and targeting high-cost universal service support were adopted.
 - Path one allows a carrier to certify to the state commission, or other appropriate regulatory authority, that it does not want to disaggregate support.
 - Path two requires carriers to request state commission review and approval of a disaggregation plan.
 - Path three permits carriers to self-certify a method of disaggregation with the state commission or other appropriate regulatory authority.
- The FCC adopted the following requirements for all disaggregation plans:
 - An incumbent carrier's study area support in total for a study area from the disaggregated method employed must equal the total support available in the study area on a non-disaggregated basis.
 - Relative per-line support relationships between disaggregation zones for each disaggregated category of support will remain fixed over time and that such relationships be made publicly available.
 - The per-line support for each category of support in each disaggregation zone be determined such that the relative support relationships between zones will be maintained and that the product of all of the incumbent's lines

for each cost zone multiplied by the per-line support for those zones when added together equal the sum of the incumbent's total level of support.

- Per-line support amounts for each zone must be recalculated whenever an incumbent's total annual support changes using the changed support amounts and lines at that point in time.
- States are required to file annual certifications with the FCC to ensure that eligible telecommunications carriers providing service in the service area of a rural carrier use universal service support "only for the provision, maintenance and upgrading of facilities and services for which the support is intended" consistent with section 254(e) of the Act. Absent such certification, carriers will not receive such support.

FUNDING FOR NON-RURAL HIGH COST AREAS

The U.S. Court of Appeals for the 10th Circuit reversed and remanded the FCC's Ninth Order on universal service in CC Docket No. 96-45 regarding universal service funding for non-rural high cost areas. The order established a mechanism and computer model for calculating and providing support for high-cost lines. The court found that the FCC had not provided sufficient reasoning or record evidence to support the reasonableness of the fund. The appeals court was concerned that the FCC did not sufficiently justify its decision to provide "high-cost" support only to carriers whose average per-line costs in a given state are more than 135% of the national industry average. The court also found unacceptable the FCC's reliance on unspecified state efforts to support universal service. The court concluded that the FCC has not supported why the funding is sufficient. In particular, the FCC did not:

- define key statutory terms adequately;
- set forth a rational basis for the particular benchmark it selected;

- adequately induce state mechanisms to support universal service; or
- explain how this piece of federal support for universal service relates to other funding mechanisms.

The court pointed out that Section 254 of the federal Telecommunications Act of 1996 requires a comparison of rural and urban areas, not states. The FCC wishes to take credit for the states' actions in achieving reasonable comparability, but to do so it must also undertake the responsibility to ensure that states act. On remand, the FCC is required to develop mechanisms to induce adequate state action.

The court did uphold the FCC's computer model for determining the costs of providing service in a given area, finding that the technical aspects of the model that were challenged fall squarely within the FCC's discretion as an expert agency. The court determined that none of the alleged problems undermine the utility of the model for estimating costs. The court also upheld the FCC's practice of fixing minor errors in the computer model without full notice-and-comment procedures.

The court declined to address petitioners' contention that the actual level of funding is too low to be sufficient to support universal service. The FCC's existing universal support mechanisms pursuant to the Ninth Order will remain in effect and the FCC may continue to distribute universal service funds through those existing support mechanisms pending the completion of the proceedings on remand.

TOTAL ELEMENT LONG-RUN INCREMENTAL COST PRICING RULES

In 1996, the FCC developed Total Element Long-Run Incremental Cost (TELRIC), a forward-looking pricing methodology for setting ILEC prices for interconnection and unbundled network elements (UNEs) that is based on a hypothetical carrier deploying a network under the most efficient conditions. The ILECs argued that the pricing model was unfair because it did not reflect the actual historical costs they incurred to provide ALECs access to their networks. In July 2000, the U. S. Court of Appeals for the Eighth Circuit agreed in part, ruling that the FCC's model was arbitrary because it was based on costs that were hypothetical, and remanded the case to the FCC, ordering that part of the FCC's pricing plan be rewritten. At the same time, the court rejected ILEC arguments that prices should be based on historical costs and reiterated that except for Rule 51.315(b), the FCC's UNE combinations rules, Rules 51.315(c) - (f) remain vacated. The ruling resulted in five separate appeals to the U.S. Supreme Court by various parties asking the justices to review several different issues. On its own motion, the Eighth Circuit stayed its order, pending resolution of the appeals.

The Supreme Court granted the five petitions for writs of certiorari limited to the following questions:

- Whether the court of appeals erred in holding that 47 U.S.C. Section 252(d)(1) (Telecommunications Act of 1996) forecloses the cost methodology adopted by the FCC, which is based on the efficient replacement cost of existing technology, for determining the interconnection rates that new entrants into local telecommunications markets must pay incumbent local telephone companies.
- Whether the court of appeals erred in holding that neither the Takings Clause nor the Telecommunications Act of 1996 requires incorporation of an incumbent local exchange carrier's "historical" costs into the rates that it may charge new entrants for access to its network elements.

- Whether 47 U.S.C. Sec. 251(c)(3) prohibits regulators from requiring that incumbent local telephone companies combine certain previously uncombined network elements when a new entrant requests the combination and agrees to compensate the incumbent for performing that task.

It is anticipated that a decision on these issues may be reached in late 2001.