BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Proposed tariff to restructure and reprice local private line service by **GTE FLORIDA INCORPORATED.**	DOCKET NO. 910967-TL
In re: Proposed tariff to restructure and reprice local private line service by **UNITED TELEPHONE COMPANY OF FLORIDA.**	DOCKET NO. 911085-TL
	ORDER NO. PSC-92-0401-FOF-TL ISSUED: 05/26/92

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK
J. TERRY DEASON
BETTY EASLEY
LUIS J. LAUREDO

ORDER APPROVING GTE FLORIDA INCORPORATED'S AND UNITED TELEPHONE COMPANY OF FLORIDA'S TARIFFS TO RESTRUCTURE AND REPRICE LOCAL PRIVATE LINE SERVICE

BY THE COMMISSION:

I. Background

Private Line is a generic term which refers to a circuit dedicated to one customer. Dedicated circuits provide a direct path for communications capabilities between customer locations and are not connected to the public switched network. Dedicated circuits are used for such services as alarm circuits and private data networks.

In these dockets, we address only those private line services which are local for GTE Florida Incorporated (GTEFL) and United Telephone Company of Florida (United), respectively. Local Private Line Service consists of circuits that originate and terminate within a local area or exchange.

The proposed restructure and repricing by GTEFL and United is a continuation of the complete restructure and repricing of dedicated services. The process was initiated in Docket No. 890505-TL, wherein we approved the restructure and repricing of interexchange private line services and special access services for all Florida local exchange companies (LECs).

The restructure and repricing provides that the same rates and structure will be applicable between jurisdictions, including intraexchange and interexchange private line services and special access services. Before the restructure, each of these services had differing rate structures and rates for basically the same service. In Docket No. 890505-TL, we approved the concept of common rate structures and rates in July 1990, with an effective date of January 16, 1991. Special access rates experienced such a dramatic increase that we ordered these rates be phased in over two years in three different steps. The second phase of Docket No. 890505-TL became effective on January 16, 1992 and the third phase is set to take effect on January 16, 1993. All LECs currently have the same rates for special access except Centel which has company specific rates for intraexchange private line and special access services.

Interexchange private line services are the only services that are currently pooled and this has delayed the implementation of company specific rates for intraexchange private line, interexchange private line and special access services. With implementation of these tariffs all four major LECs, Southern Bell, GTEFL, Centel and United, will have in place company-specific local private line tariffs. United's and GTEFL's special access rates will be revised in phase 3 of the private line/special access docket. Interexchange private line rate revisions will take place in conjunction with the depooling of these services. Depooling should be initiated in the Fall of 1992 and implemented no later than June 1, 1993.

II. Cost Studies

Rule 25-4.044, Florida Administrative Code, requires the submission of cost studies in accordance with the Commission's Private Line/Special Access Cost Manual to support any rate change for private line or special access services. The manual is used to determine incremental cost. The cost manual allows companies to exercise a high degree of flexibility in choosing the assumptions and methods used to develop incremental cost. Hence, when an analyst compares results between companies, the cost results can vary dramatically based on the assumptions used.

GTEFL and United have provided copies of cost studies based upon the Commission's manual to support their proposed rate changes for local private line services.

In the past, we concluded that the manual had been correctly applied, although results were contested based upon the assumptions of the companies. While continued review of the cost studies is necessary, our primary decision is whether the rates based upon the cost study are appropriate.

We conclude that the cost information is one of many pieces of information that must be accounted for in determining the appropriate rates for services. The cost of service docket, Docket No. 900633-TI, is moving toward a set of parameters that may reduce some of the flexibility currently found in the current cost manual. This is an important issue, however, other items must be taken into account when reviewing proposed rates for services.

The cost studies provided by GTEFL and United are appropriately prepared and the proposed rates by both companies cover cost as stated in these studies. The rate to cost relationship is equally as important as the issue to align dedicated rates between jurisdiction for each company.

III. GTEFL's Tariff

A. Tariff Provisions

In Order No. 23400, Docket No. 890505-TL, we ordered GTEFL to file a restructure and repricing of intraexchange local private line services to conform with the restructure approved for Southern Bell. GTEFL's filing proposes to restructure local private line services to align these services more appropriately in relationship to cost of service. GTEFL filed cost studies in support of this filing and in accordance with the Private Line/Special Access Cost Manual guidelines.

GTEFL proposes to make minor rate structure changes from those approved in Docket No. 890505-TL. GTEFL proposes to phase-in the rate increases associated with the restructure and repricing. The phase-in approach is intended to reduce customer impact and allow customers time to make arrangements for alternatives.

The revenue increase associated with the increase in rates will be offset with reductions to GTEFL's BHMOC rate for phase 1. This tariff is effective August 1, 1992, with the second phase effective on August 1, 1993 and the third phase effective on August 1, 1994. GTEFL should file updated revenue impact data and proposed offsets four (4) months prior to the effective dates of phases 2 and 3. The proposed offsets also will become effective on the same dates as the proposed increases. Customers should receive notification of the proposed changes 30 and 60 days prior to the effective date of each phase. GTEFL should also file updated cost information for analog local channel services six (6) months prior to the effective date of phase 3 or August 1, 1994 so that this Commission may review the proposed final rates versus their cost.

GTEFL's proposal would simplify the rate structure and eliminate rate differences between jurisdictions. The "channel series" classification of analog local channels, which was approved in the Southern Bell tariff, is eliminated. In its place, GTEFL proposes a rate structure which establishes local private line rate levels on 2-wire and 4-wire physical facility characteristics.

Mileage rate bands on interoffice transport rates for both analog and digital services are eliminated. The Company proposes a simplified rate structure consisting of fixed and per mile rate components.

The Company proposes the following changes for DS1 private line services:

a) Local channel rates are restructured to a non-distance sensitive rate, same as that approved for analog interexchange services. The structure also includes "first" and "additional" service rate items.

b) Service term commitment discounts are added and referred to as the DS1 Optional Payment Plan.

Additional proposals include:

a) Phase in rate increases in three phases over twenty-four (24) months in order to minimize customer impact.

b) There is a promotional waiver of nonrecurring charges associated with digital private line or DS1 private line service offerings. The waiver begins on the effective date of the restructure and lasts for six (6) months. This gives customers who postponed an upgrade to a service an incentive to transition to digital services before the full impact of the proposed rate increases are implemented.

c) OPX and Tie Lines are reclassified as analog private line services. This Commission reclassified these services in the interexchange jurisdiction to analog private line services.

d) To offset the increases associated with this filing with reduction of rates for other services, most notably BHMOC rates.

e) To charge Foreign Central Office (FCO) mileage at the same rates as local private line transport. This is also the same provision that this Commission previously approved for Southern Bell.

B. Cost Support

GTEFL filed cost support which conforms to the Commission's Private Line/Special Access Cost Manual. The specific parameters used in the development of cost support were reviewed and appear to be correct. GTEFL's rates cover cost as summarized by the cost study provided.

Our only concern with GTEFL's cost study is its cost to support the analog local channel rate element. We have some concerns with the cost as represented in the cost study provided. We will move forward in the restructure, however, we will review the cost before the phase 3 rates are implemented. If at that time the cost is lower or other changes have occurred, (for example, the implementation of company-specific dedicated services tariffs for all private line services), we will consider adjusting the final rates for phase 3.

To accomplish this, GTEFL shall file updated cost information on analog local channel services six (6) months before phase 3 is implemented. This information should be filed in the Commission prescribed format based upon the Private Line/Special Access Cost Manual.

As noted before, the rationale for the rate levels proposed in this docket are based upon a review of the relevant cost, changes in markets, and rate levels in effect in other jurisdictions, including interexchange and special access rates.

C. Customer Impacts

Customer impacts in GTEFL's area are going to be more significant than in other jurisdictions due to the fact that these rates have not been adjusted in many years. The customer impacts provided by GTEFL indicate that customers in general should experience an increase of 50% in phase 1 with 25% increases following in phases 2 and 3.

GTEFL provided worst case examples with the largest increase over the three phases as high as a 250% cumulative increase. This is comparable to the increases associated with the special access restructure and supports the position that these increases should be phased in.

GTEFL has proposed two means to offset the impact of such dramatic rate increases. First, the Company has proposed to phase-in the rates. This should provide customers time to make the necessary adjustments and budget accordingly. Second, the Company is proposing a promotional waiver of nonrecurring charges associated with digital private line or DS1 private line service offerings. The waiver would begin on the effective date of the restructure and would last for six (6) months. This allows customers, who postponed an upgrade of service, an incentive to transition to digital services before the full impact of the proposed rate increases are implemented. Similar waivers were approved in the restructure and repricing of interexchange private line and special access services.

D. Revenue Impact

GTEFL states that the current revenues from the services to be restructured is $12.2 million. GTEFL projects the phase 1 revenue impact to be $3.8 million, phase 2 to be $3.2 million and phase 3 to be 3.6 million. The total projected revenue increase is $10.6 million. The impacts for phases 2 and 3 include no repression or stimulation in the service units.

GTEFL's projected phase 1 increase of $3.8 million will be used to reduce the Company's BHMOC rate. This is consistent with our recent decisions to continue reductions in this access rate element when additional revenue has been identified. This is the same approach we used in Docket No. 890505-TL, the private line/special access docket, to offset additional revenue for GTEFL, Centel and Southern Bell. GTEFL has provided preliminary data which suggest the BHMOC rate is reduced to $2.33 from $2.88 with the above noted proposal.

GTEFL is hereby directed to file updated revenue impacts associated with phases 2 and 3, four (4) months prior to the implementation of each phase. We will use this information to determine the appropriate amount of revenue to use as an offset on the above noted effective dates for phases 2 and 3.

E. Conclusion

Upon consideration, we approve GTEFL's tariff. GTEFL's local private line restructure introduces a rate structure for these services with minimal modification from that which currently exists in the interexchange and special access markets. We find this is appropriate, for the reason similar services should have similar rate structures. GTEFL has stated that the Company intends to restructure its special access rates in the up coming rate case and will revise interexchange rates to that rate structure once depooling has been achieved.

GTEFL's proposal includes phased-in rates to lessen the rate shock to customers and to allow customers to determine the economic feasibility of maintaining private line service. GTEFL also has proposed a promotional waiver of nonrecurring charges associated with digital private line or DS1 private line service offerings. The waiver would begin on the effective date of the restructure and would last for six (6) months. This would offer customers, who were postponing an upgrade of service, an incentive to transition to digital services before the full impact of the proposed rate increases are implemented.

The revenue associated with the increase in rates for phase 1 will be used to reduce GTEFL's BHMOC rate. The tariff is effective on August 1, 1992 with the second phase effective on August 1, 1993 and phase 3 effective on August 1, 1994. The proposed offsets also are effective on these same dates. Customers shall be noticed of the approved changes sixty (60) and thirty (30) days prior to the effective date of each phase.

IV. United's Tariff

A. Tariff Provisions

United's local private line rates were increased by 50% in its last rate case in Docket No. 891231-TL. We stated that these rates were considerably below cost and the 50% increase was just an initial step in the restructure of local private line rates. We ordered United to file a restructure and repricing of local private line service to bring these services in line with the rates and charges for similar services in other jurisdictions including interexchange private line and special access services.

On July 1, 1991, United filed tariff revisions to restructure and reprice local intraexchange private line services. The company revised its filing in January 1992 to reflect suggestions of staff.

United's proposal includes the same rate structure elements that we approved for Southern Bell and Centel for local private line services. The proposed rate structure is simplified over what currently exists and should reduce customer confusion. With the approval of the restructure, the rate structure for all three service categories in United's territory, including intraexchange and interexchange private line and special access, will be the same.

These rates are a dramatic increase over current rates, even after the 50% increase in the last rate case. To help offset the impact to individual customers, United proposes to phase-in these rates. The Company's proposal to phase-in rates would increase rates to 75% of their final level on September 1, 1992. The rates would then be increased to the final proposed level on September 1, 1993.

United's tariff revision of the local private line services also includes recent changes that have been made to Southern Bell's private line tariff. The changes are as follows:

a) Introduce a Channel Services Payment Plan and reduce MegaLink (1.544 service) initial service period to one month.

b) Obsolete Subvoice Grade Service, allowing customers to convert existing metallic-based services to Voice Grade Service and waive any nonrecurring charges associated with the change.

c) Expand the Clear Channel Capability option to include multiplexed 1.544 Mbps (TransLink service) channels.

United's tariff revision includes changes to nonrecurring charges. The proposed charges are at or above cost and are equal to the nonrecurring charges approved for Centel.

B. Cost Support

United filed cost support which conforms to the Commission's Private Line/Special Access Cost Manual. The specific parameters used in the development of the cost support were reviewed and appear to be correct. United's rates cover cost as summarized by the cost study provided.

The rationale for the rate levels used in this docket includes a review of the relevant costs but also includes market changes and rate levels in effect in other jurisdictions of interexchange and special access rates.

C. Customer Impacts

United filed customer impacts based on customers' current total bills. Typical large customers have monthly charges averaging $100.00, typical medium customers $50.00 and typical small customers $10.00. The typical small customer will have the largest impact. Even with this Commission's 50% increase in the last rate case, the typical small customer's charges were minimal. United indicates that customers in this category will receive an average 270% increase in charges in the first phase. The average bill for a typical small customer will increase from $10.01 to $36.70.

Typical medium and typical large customers will see much smaller impacts. Typical medium customers in the first phase will see an increase of 7% and typical large customers will see a decrease of 20%. Typical medium customer's bills will increase from $52.68 to $56.25 and typical large customer's bills will decrease from $100.11 to $79.35.

The second phase will provide for a more uniform 33% increase for all customers. Typical small customers will see rates increase from $36.70 to $48.90. Typical medium customers will experience a rate increase from $56.25 to $74.65 and typical large customers will see a rate increase from $79.35 to $105.60.

It is difficult administratively to separate large customers from others. It is not desirable to have a decrease in rates and then increase rates as is noted with large customers. However, as noted in past restructures, this is only an example of typical impacts and there is no uniform rate increase or decrease identifiable by bill size. With the change in rate elements, each customer will experience different rate changes based upon his or her service configuration.

D. Revenue Impact

United filed estimated revenue impacts of phase 1 and phase 2. United based the revenue impact on the revenue amount included in schedule E-1a of the current United rate case in Docket No. 910980-TL for local private line services. United projects the phase 1 revenue impact is $251,203 and phase 2 is $1,711,451. The total projected revenue increase is $2.4 million. This includes what has been accounted for in the rate case.

United's current revenue from local private line services is $3.5 million. With the restructure, the total revenue for these services is $5.5 million or a 74% increase in total revenue over two years.

United's projected phase 1 increase of $251,203 will be used to reduce the Company's BHMOC rate. This is consistent with our recent decisions to continue reductions in this access rate element when additional revenue has been identified. This is the same approach we used in the private line/special access docket, Docket No. 890505-TL, to offset additional revenue for GTEFL, Centel and Southern Bell.

United will file updated revenue impacts associated with phase 2 by May 1, 1993. We will use this information to determine the appropriate amount to offset increased rates on September 1, 1993.

E. Conclusion

United's local private line restructure introduces the same rate structure for these services that currently exist in the interexchange and special access markets. We find this is appropriate for the reason similar services should have similar rate structures.

United's proposal includes phased in rates to lessen the rate shock to customers and allow customers to determine the economic feasibility of maintaining private line service. Due to the implementation of the new structure, many of the medium to large customers will experience a rate decrease. While this is not desirable, it is the only way to implement the rate restructure and assure all customers are moved to the same structure and rates.

We approve United's tariff proposal to restructure and reprice local private line services. The revenue associated with the increase in rates will be used to reduce United's BHMOC rate. The tariff is effective on September 1, 1992 with the second phase effective September 1, 1993. The proposed offsets are effective on these same dates. Customers should be noticed of the approved changes sixty (60) and thirty (30) days prior to the effective date of each phase.

V. ATT-C's MTS Rates

In accordance with our actions in prior proceedings, we conclude that ATT-C should be required to reduce its MTS rates in response to GTEFL's and United's BHMOC reductions.

We have determined that we will address flow through of access reductions for ATT-C on a case by case basis. In the past, we have required ATT-C to pass through all access cost savings in the form of rate reductions. Since the offsets discussed in Sections III and IV of this Order have been approved, we find it appropriate to order ATT-C to pass onto its customers its additional cost savings resulting from the reduction of the BHMOC charges.

When GTEFL and United reduce their BHMOC revenues by $3.8 million, ATT-C will experience a cost savings of $2.47 million. This is based on ATT-C's current 65% market share. Therefore, we conclude that ATT-C should pass on to its MTS customers rate reductions as a result of GTEFL's and United's BHMOC rate reduction. ATT-C should submit to the Commission proposed rate reductions thirty (30) days prior to the effective dates of GTEFL's and United's tariffs. ATT-C tariffs will be effective on the same dates as GTEFL's and United's reductions, August 1, 1992 and September 1, 1992, respectively.

Therefore, based upon the foregoing, it is

ORDERED by the Florida Public Service Commission that GTE Florida Incorporated's tariff to restructure and reprice local private line service is approved. It is further

ORDERED that GTEFL's tariff is effective on August 1, 1992 with phase 2 effective on August 1, 1993 and phase 3 effective on August 1, 1994. It is further

ORDERED that GTEFL's revenue associated with the increase in rates for phase 1 will be used to reduce GTEFL's BHMOC rate. It is further

ORDERED that GTEFL shall file updated revenue impact data associated with phases 2 and 3 and proposed offsets, four (4) months prior to the effective dates of phases 2 and 3. It is further

ORDERED that the proposed offsets are effective on the same dates as the proposed increases. It is further

ORDERED that GTEFL's customers shall be noticed of the approved changes sixty (60) and thirty (30) days prior to the effective date of each phase. It is further

ORDERED that GTEFL shall file updated cost information for analog local channel services six (6) months prior to the effective date of phase 3 or before August 1, 1994. It is further

ORDERED that United Telephone Company of Florida's tariff to restructure and reprice local private line service is approved. It is further

ORDERED that United's tariff is effective on September 1, 1992 with the second phase effective on September 1, 1993. It is further

ORDERED that United's revenue associated with the increase in rates will be used to reduce United's BHMOC rate. It is further

ORDERED that the proposed offsets are effective on these same dates. It is further

ORDERED that United's customers shall be noticed of the approved changes sixty (60) days and thirty (30) days prior to the effective date of each phase. It is further

ORDERED that ATT-C will submit to the Commission proposed rate reductions to its MTS customers thirty (30) days prior to the effective dates of GTEFL's and United's tariffs. It is further

ORDERED that ATT-C tariffs are effective on the same dates as GTEFL's and United's reductions, which are August 1, 1992 and September 1, 1992, respectively. It is further

ORDERED that if a timely protest is filed pursuant to the requirements set forth below, all increased revenues resulting from these filings shall be held subject to refund. It is further

ORDERED that if no protest is received within the time frame set forth below, these dockets shall be closed.

By ORDER of the Florida Public Service Commission, this 26th day of May, 1992.

STEVE TRIBBLE, Director
Division of Records and Reporting

(S E A L)

JRW

by: Kay Flynn
Chief, Bureau of Records

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The Commission's decision on this tariff is interim in nature and will become final, unless a person whose substantial interests are affected by the action proposed files a petition for a formal proceeding, as provided by Rule 25-22.036(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a)(d) and (e), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on June 16, 1992.

In the absence of such a petition, this Order shall become final on the day subsequent to the above date.

Any objection or protest filed in this docket before the issuance date of this Order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this Order becomes final on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the date this Order becomes final, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.