BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Investigation into IntraLATA Presubscription.	) DOCKET NO. 930330-TP) ORDER NO. PSC-95-0203-FOF-TP) ISSUED: February 13, 1995

The following Commissioners participated in the disposition of this matter:

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FINAL ORDER

BY THE COMMISSION:

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PARTIES

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ALLTEL FLORIDA, INC.	(ALLTEL)
CENTRAL TELEPHONE COMPANY OF FLORIDA	(CENTRAL)
UNITED TELEPHONE COMPANY OF FLORIDA	(UNITED)
VISTA-UNITED TELEPHONE COMPANY OF FLORIDA	(VISTA-UNITED)
GTE FLORIDA INCORPORATED	(GTEFL)
FLORALA TELEPHONE COMPANY, INC.	(FLORALA)
GULF TELEPHONE COMPANY	(GULF)
INDIANTOWN TELEPHONE SYSTEM, INC.	(INDIANTOWN)
NORTHEAST FLORIDA TELEPHONE COMPANY	(NORTHEAST)
QUINCY TELEPHONE COMPANY	(QUINCY)
SOUTHLAND TELEPHONE COMPANY	(SOUTHLAND)
ST. JOSEPH TELEPHONE & TELEGRAPH COMPANY	(ST. JOSEPH)
BELLSOUTH TELECOMMUNICATIONS, INC. D/B/A SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY	(SOUTHERN BELL)

INTEREXCHANGE CARRIERS

AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.	(AT&T)
MCI TELECOMMUNICATIONS CORPORATION	(MCI)
SPRINT COMMUNICATIONS COMPANY LIMITED PARTNERSHIP	(SPRINT)

OTHERS

FLORIDA PUBLIC TELECOMMUNICATIONS ASSOCIATION	(FPTA)
FLORIDA INTEREXCHANGE CARRIERS ASSOCIATION	(FIXCA)
OFFICE OF PUBLIC COUNSEL	(PUBLIC COUNSEL)
FLORIDA PUBLIC SERVICE COMMISSION	(FPSC)

I. BACKGROUND

The instant proceeding was initiated on this Commission's own motion to consider again whether intraLATA presubscription should be implemented to complement interLATA presubscription and to further open the local exchange company (LEC) toll market to competition. Presubscription is the ability of a telephone customer to preselect a telecommunications company to carry that customer's toll calls by dialing the digit "1", the area code, and the called number. This dialing pattern is referred to as "1+" dialing. Presubscription for interLATA toll calls was implemented beginning in 1984 in conjunction with the divestiture of the Bell Operating Companies from AT&T and the advent of competition in the toll market. While 1+ was available early on for interLATA toll traffic, all 1+ intraLATA toll traffic has to date been reserved to the serving LEC. In addition, we have also included 0+ and 0- dialed calls in our treatment of 1+ calls.

The issue of 1+ intraLATA calls has been addressed in several prior proceedings. See Order No. 22243. By Order No. 23540, issued in Docket No. 880812-TP, we noted that there was no evidence that indicated that the policy outlined in Order No. 22243 should be changed and once again determined that our 1+, 0+ and 0- dialing policies should be continued. Also in that Order, we advanced the level of competition by eliminating Toll Monopoly Areas, thereby allowing intraEAEA transmission competition in Florida.

In Docket No. 860723-TP, Petition for review of rates and charges paid by PATS providers to LECs, we considered whether nonLEC pay telephone service (NPATS) providers should be allowed to utilize store and forward technology to handle local and intraLATA 0+ traffic historically reserved to the LECs. By Order No. 24101, we once again reaffirmed our position that all 0+ and 0- intraLATA traffic should be handled by the LEC.

We initiated the instant proceeding on March 25, 1993, to determine again whether intraLATA presubscription (ILP) was feasible and appropriate. A technical workshop was held April 26, 1993 to discuss 0+ and 1+ intraLATA presubscription with the participating parties. In addition to the 13 LECs operating in Florida, the following parties intervened and participated in this proceeding: ATT-C, Litel, Sprint, MCI, FPTA, OPC, and FIXCA. On April 12, 1993, MCI filed a "proposal for intraLATA presubscription." However, MCI withdrew its proposal on September 21, 1993 due to anticipated action on the part of this Commission.

By Order No. PSC-93-1669-FOF-TP, issued on November 16, 1993, we set the matter of intraLATA presubscription for hearing on our own motion. Hearings were held on September 12-15, 1994, at which time various parties presented their evidence and positions to the Commission. Having considered the evidence and arguments of the parties, our decision is set forth below.

II. INTRODUCTION

This proceeding has again underscored the difficulties inherent in the delicate balancing process that is the transition to a competitive telecommunications environment. As discussed in greater detail below we have determined that it is now appropriate to implement intraLATA presubscription. In addition we have set forth the requirements and implementation schedule to accomplish intraLATA presubscription. We have also reserved certain additional dialing patterns to the LECs.

III. INTRALATA PRESUBSCRIPTION

The question of whether or when to implement intraLATA presubscription requires an examination of several factors including the technical capability of the LECs, the cost of implementation, the revenue impact on the LECs, as well as various other public interest factors. These factors are discussed below.

A. Technical Capability

Currently, none of the LEC's switches is technically equipped to provide intraLATA presubscription. In order to technically provide intraLATA presubscription (ILP), the LECs must modify various internal administrative support systems and purchase software from their respective switch equipment vendors. Although the LECs have the capability to modify the administrative systems, the required presubscription software is not yet available from all switch vendors. The question of technical capability is dependant on when the vendors will have the software developed and ready for order by the LECs. According to the LECs' expectations of software availability, all switches can be equipped with the requisite intraLATA presubscription software by the end of 1997 or will be replaced with switches that can be so equipped. The data submitted by the LECs is summarized and shown in Table 1, attached to this Order in Appendix A. We note that no additional equipment or software will be required for remote switches served by a host switch.

All of the parties agree that the technical capability is available now or will be available by early 1997 for all LEC switches except the 2B-ESS. Southern Bell states that its 2B-ESS switches will be replaced by switches capable of intraLATA presubscription by the end of 1997. In addition GTEFL's witness Menard testified that the software availability dates for the AT&T 5ESS switch and the AGCS GTD5 switch may come earlier than the dates in Table 1.

Based on the record before us, it appears that the LECs can be technically able to implement intraLATA presubscription beginning in 1995 and complete such implementation by the end of 1997.

B. Cost of Implementation

Each of the LECs, except three that did not actually participate in this proceeding, provided estimates of the costs for modifying support systems and providing switch software and network restructuring related to the implementation of intraLATA presubscription. The cost estimates are as follows:

Southern Bell	$ 7,400,000
GTEFL	15,000,000
United\Centel	4,950,000
ALLTEL	126,000
Northeast	50,000
St. Joseph	125,000
Indiantown	8,000
Gulf	7,000
Vista-United	35,000
Florala	No Estimate
Southland	No Estimate
Quincy	No estimate

We note that the cost estimate for GTEFL is dramatically higher than the other LECs. According to GTEFL, its cost estimate includes a $7.25 million charge for software development from AGCS which will be incurred by the first GTE company to implement intraLATA presubscription. Witness Menard testified that, if GTEFL was the first to order, it would be assessed the entire $7.25 million; however, if other states were later to order the software, then GTEFL would probably receive credits from AGCS, but she had no way to estimate the amount.

ATT-C questioned witness Menard on both the software development policy of AGCS and GTEFL's cost estimate, suggesting that both the cost and timing might be inflated. FIXCA viewed the costs as insignificant. MCI said the costs are not an impediment to intraLATA presubscription. Sprint took no position.

Upon consideration, we accept the cost estimates of each LEC as a preliminary starting point for a public interest determination. However, we must make clear that, at this point, we make no decision regarding the prudence or reasonableness of these estimates for purpose of cost recovery.

C. Financial Impact of IntraLATA Presubscription

A major point of contention among the parties concerned the potential foregone revenues due to the LECs' losses of toll revenue. There was consensus among the LECs that there would be a net loss in revenues due to the implementation of intraLATA presubscription. The IXCs predictably disagreed. A few of the LECs believed that there would be slight mitigation of the losses due to demand stimulation, but the majority of the companies voiced no opinion regarding stimulation. Regardless of the lack of quantification, the LECs were almost overwhelmingly in agreement that local rates would have to be increased, and that there would be a negative impact on universal service.

Each of the LECs participating in this case estimated the potential toll loss. GTEFL and Southern Bell performed market studies. Centel/United, ALLTEL, and Northeast each assumed 100 percent loss of toll revenue.

GTEFL's witness Menard testified that GTEFL would have an annual toll revenue loss, net of access revenues, of $6.4 million if intraLATA presubscription is implemented. She argued that this is a conservative estimate which assumes GTEFL would retain 70 percent of the intraLATA toll market. GTEFL indicates that the $6.4 million loss will occur within two years of implementation. Based on a 50 percent market share, witness Menard estimates a net loss of $22 million assuming that intrastate access charges are reduced to interstate levels.

In addition to Ms. Menard's estimated loss, GTEFL's witness Perry performed a customer survey. The survey examined the market shares that would result from various pricing scenarios. Witness Perry testified that the results show that GTEFL's losses will be similar to what ATT-C experienced in the interLATA market. Witness Perry argues that the survey results also show that GTEFL is at a significant disadvantage because it cannot package discounts on both intraLATA and interLATA toll service.

We note that witness Menard's estimates were not based on the study advanced by witness Perry because the study had not been prepared at the time she prepared her testimony. In comparing witness Menard's estimates with those of witness Perry, witness Menard agreed that Mr. Perry's numbers are more realistic. We also note that Mr. Perry's study and its results are currently subject to confidential treatment. For purposes of our discussion here, witness Menard's calculations are a reasonable proxy for the study.

Southern Bell estimated its annual toll revenue loss, net of access revenues, at $24 million, assuming the current 23 percent price advantage that Southern Bell enjoys on MTS rates. This loss estimate was generated by an econometric model which is based on survey data, demographic data, and billing data. Using this model, Southern Bell developed three scenarios: one where Southern Bell has a 23% price advantage, one where the IXCs match Southern Bell's price, and a third where there is no price information provided to the respondents to the survey. The annual net revenue losses in those three scenarios range between $24 million and $79 million. Southern Bell's witness Smith notes that these losses take place even though only around 40% to 45% of Southern Bell customers make intraLATA calls in a given month. He argues that if the IXCs were to price below Southern Bell, the losses would be even greater. Witness Smith argues that these estimates are the most reliable guides available regarding the impact of 1+ presubscription on Southern Bell's revenues. In addition, witness Smith points out that Southern Bell's toll distribution is highly skewed, with most of the revenue coming from a very small number of customers. He states that, "A loss of only 10% of current Southern Bell customers could result in a net revenue loss of $56 million on an annual basis."

Centel/United estimated its potential net revenue loss at $17.4 million, assuming loss of all intraLATA toll revenues.

Of the small LECs, only ALLTEL and Northeast provided testimony. ALLTEL estimated its potential net revenue loss at approximately $865,000. Northeast estimated its potential net loss at $300,000. Both Northeast and ALLTEL assume 100 percent loss of intraLATA toll revenue.

The IXCs were generally critical of the estimates advanced by the LECs. MCI witness Gates expressed his skepticism stating, "It's what we hear all over the country. I believe they are grossly exaggerated, but, again, I don't have a specific study to project."

ATT-C's witness Mertz was particularly vociferous in his criticism of the LEC studies. He argued that no one can predict the outcome of intraLATA presubscription in a dynamic competitive intraLATA marketplace. He further criticized the LECs estimates stating:

> ...I think the company can sit down and do some financial analysis of what different amounts of market share loss would do to the company, but as far as money that they spent doing this study, that doesn't tell them really

> what's going to happen. They still don't know. No one in GTEFL knows what will happen. Somebody could have just said by the seat of their pants, we'll look and see what happens to us by 15%, 50% and you can look at your financials and determine what you may need to do in your operations to respond to that. But there doesn't have to be a study.

In contrast to some of the other IXC witnesses, FIXCA witness Gillan did not take exception to any of the studies presented by Southern Bell or GTEFL. He stated, "Whether or not they are gloom and doom as portrayed by ATT-C, or whether or not they're state of the art, as portrayed by Southern Bell, isn't really relevant unless it would affect your decision." Witness Gillan further argued that:

> If competitive entry eroded the LEC's market at a rate lower then the market's growth, then the LEC will continue to see its revenues and traffic volumes increase... The toll market is growing at a much faster pace than the number of residential access lines. For Southern Bell the retail toll market grew by an average of 11%/year from 1984-1993. Over this same period, residential access lines grew by only 4%. If the contribution from toll service was really being used to support local rates, with such disparate growth rates, local service should be free by now.

To assess the financial impact of the implementation of intraLATA presubscription, a number of the parties drew an analogy from ATT-C's experience with interLATA presubscription. Sprint's witness Nelson and FIXCA's witness Gillan argued that over the ten-year period between 1984 and 1994 ATT-C's revenues have increased approximately two percent annually. At the same time, prices decreased 40 percent, and ATT-C's market share also decreased 40 percent. Witness Nelson further noted that earnings, as a whole, have increased at 10 percent to 15 percent overall. Thus, while prices fell, revenues increased slightly, and earnings continued to grow. Witness Nelson argued that the implementation of intraLATA presubscription would place the LECs in an analogous situation.

MCI's witness Gates also noted that rates have gone down significantly, a decline of as much as 66 percent. Witness Gates explained that the price reductions were not related solely to the reductions in access charges. According to witness Gates, "Less than half of the toll revenue reductions since 1985 have been related to the flow-through of access charge reductions. Further, the average revenue per minute earned by MCI, and Sprint fell 63 percent relative to the general price level from 1985 to 1992."

In response to the IXCs, GTEFL's witness Perry discussed testimony presented by the National Economics Research Associates (NERA) in the state of New York. One of the results discussed in that report showed changes in MTS rates as opposed to changes in access charge levels. According to Witness Perry, the NERA study examined AT&T's MTS rates from divestiture to present, and compared them with access rates from divestiture to present. The conclusion reached was that MTS rates have not fallen as fast as access charges. We note, however, that the NERA study ignores volume discounts and other such plans that have become available to MTS users since divestiture. Further, witness Perry did not know whether these discount plans would be material in the evaluation of MTS rates.

Using data in this record from Southern Bell, similar to the data discussed above regarding ATT-C's performance for the last ten years is instructive. From 1984 to 1993 Southern Bell's total intrastate MOUs increased by 167.44 percent, the average revenue per minute declined 54.56 percent and toll revenues increased by 21.81 percent. Toll MOUs increased far more rapidly than access lines. At the same time, average revenue per minute from toll has decreased, along with average toll revenue per access line. Yet there have been no harmful impacts on local rates. The LECS have repeatedly testified that intraLATA presubscription will be harmful to the local ratepayers. Yet, not only does the analysis of ATT-C show that this is unlikely, but an analysis of the Southern Bell data shows essentially the same experience as that of ATT-C. It does not appear that this will change as a result of intraLATA presubscription. As pointed out by numerous parties, some reduction in market share for the LECs has already occurred due to 10XXX competition. Despite this 10XXX competition there have been no major impacts on the LECs.

In comparing intraLATA presubscription to interLATA presubscription, it should be noted that there are certain differences, most of them beneficial to the LEC. First, interLATA presubscription was implemented through the use of balloting. This caused a more sudden decrease in market share than that which would occur with no balloting. Second, those customers who did not return a ballot were assigned through an allocation process to the various participating IXCs. Again, this exacerbated the impact on ATT-C's market share by reassigning customers who did not make a conscious choice of carrier, instead of allowing the customer to remain with ATT-C. Third, the LECs will receive access revenues for those calls carried by the IXCs. This will partially offset the lost toll revenue. ATT-C had no such revenue. The only disadvantage the LECs discuss is that, since GTEFL and Southern Bell cannot provide interLATA toll service, they cannot package their services like the IXCs can.

Upon consideration it appears that the revenue impact is unclear at this time. The impact may prove to be minimal, and there may be no need to address revenue deficiencies. However, to the extent that a LEC experiences revenue problems, other adjustments may be necessary at a later time. The experience of ATT-C in interLATA presubscription indicates that losses in market share do not equate to losses in revenue. We do not expect the financial impact of intraLATA presubscription to be significantly different. Moreover, intraLATA presubscription will be less onerous for the LECs than interLATA presubscription was for ATT-C.

We are not persuaded that the LECs have accurately predicted whether any revenue losses would occur and, if so, to what magnitude. It appears that any toll revenue loss will be offset by increased usage due to stimulation, access charges paid by competitors, growth in access lines, and new competitive LEC offerings. As discussed above, even if any potential revenue loss is offset only by access charges, and not by growth in access lines and stimulation, the net impact, on average, will only be minimal.

D. Public Interest Factors

In this proceeding, the parties have testified at length on whether the implementation of intraLATA presubscription is in the public interest at this time. IntraLATA presubscription would open the LATAs up for full competition between the IXCs and the LECs for toll service. The participating parties maintain differing views which generally fall along predictable "party" lines. The LECs, except for Centel and United, opposed outright the prospect of intraLATA presubscription. Centel and United support intraLATA presubscription as long as they are granted the same regulatory flexibility as their competitors. The LECs focused on various concerns, such as the interLATA prohibitions, regulatory flexibility, and possible increases to local rates, and concluded that until all of their concerns were fully satisfied, the implementation of intraLATA presubscription is not in the public interest. ATT-C, FIXCA, FPTA, MCI, Sprint, and OPC argue that intraLATA presubscription would benefit consumers and is in the public interest.

1. Benefits and Detriments of IntraLATA Presubscription

Currently, end users may presubscribe to an interLATA carrier and avoid dialing additional digits for interLATA calls; however, the same end users are required to dial an access code when making an intraLATA toll call using a company other than a LEC. The IXCs argue that dialing extra digits is an unnecessary burden on end users. The IXCs further argue that the dialing parity gained through intraLATA presubscription is necessary for effective competition and, therefore, is in the public interest. MCI's witness Gates asserted that the dialing disparity that already exists between the LECs and the IXCs would be widened by expansion of the current three-digit carrier identification codes (CIC) to four digits in 1995. The IXCs further argue that interLATA presubscription was implemented because the five-digit access codes required to reach IXCs other than ATT-C were inconvenient and difficult to remember.

The IXCs contend that the ability of the customer to choose is the basis of any competitive market and argue that the LECs would also benefit from the implementation of intraLATA presubscription through their customers having a choice of carriers for intraLATA toll.

In response, several LECs argue that the IXC's claim of "more choice" is flawed because end users already have the ability to reach the IXC of their choice by dialing 10XXX or other access dialing codes. As witness Menard pointed out, end users have a number of intraLATA toll alternatives in the form of Feature Group A (FGA) and Feature Group B (FGB) dialing, 700 services, 800 services, Software Defined Network-like services, MEGACOM-like services and cellular services. The LECs argue that it is not the customers who will be the primary beneficiaries of intraLATA presubscription, but it will be the IXCs who would benefit from both increased revenues and economies of scale. MCI's witness Gates acknowledged that his company would benefit from the additional business and revenues due to the implementation of intraLATA presubscription; however, he argues that customers will be the primary beneficiaries.

Southern Bell argues that even though it currently has toll rates lower than the IXC's, the seeming convenience of intraLATA presubscription will cause some end users to make uneconomic choices by selecting a single IXC for all calls. In response, FIXCA's witness Gillan asserts that in a competitive market customers do not always make choices that are the least expensive; there are factors other then price that can be important to consumers. In addition, Sprint points out that consumers have the ability to influence which products and services are to be offered in a competitive environment and consumers will only choose a competitor's price if it is favorable. Sprint sees these market controls as driving the public interest decision.

The IXCs concede that some customers have choices today - primarily large business customers with dedicated access to the IXC of their choice, or with PBXs that can be programmed to dial 10XXX for intraLATA calls. In spite of these choices, the IXCs contend that the primary beneficiaries of intraLATA presubscription would be Florida's residential and medium-to-small business users who do not have a choice, do not have the ability to utilize dedicated access and do not have customer premises equipment which incorporates autodialers to route traffic automatically to IXCs.

In contrast to the IXCs, GTEFL asserts that, based on a study performed by the National Economics Research Associates (NERA) which examined the costs and benefits of intraLATA presubscription, some of the benefits of intraLATA presubscription included lower prices, increases in demand, and a faster rate of technological change. However, the study quantified the price reduction benefits at approximately $0.14 per customer per month and the implementation costs at $0.30 per customer per month. Based on this GTEFL concludes that the benefits of intraLATA presubscription were small related to the cost. The study also concluded that only large toll users would benefit from intraLATA presubscription. In response, witness Gillan points out that Southern Bell's projected market share retention for residential customers of 72 percent is lower than the rate for business customers of 92 percent. He further notes that this is consistent with the IXCs' belief that intraLATA presubscription can be expected to benefit residential and small business customers more than other users.

GTEFL and Southern Bell each argue that the major advantage of intraLATA presubscription is one of dialing convenience. Southern Bell asserts that such a minor inconvenience as the dialing of five extra digits is more than offset by the significant discounts offered by the IXCs to their 10XXX intraLATA customers. Currently, all of the major IXCs' discount plans, such as ATT-C's "True USA" plan, Sprint's "The Most II" plan, and MCI's "Friends and Family" plan, are available to customers who dial 10XXX toll calls. GTEFL and Southern Bell expressed concern that a customer could maximize the volume discounts received from an IXC by combining intraLATA, interLATA, and interstate usage, while GTEFL and Southern Bell could not offer such combined volume discounts due to these LECs' inability to provide any toll service other than intraLATA.

The IXCs contend that, although GTEFL and Southern Bell cannot compete in the interLATA market, there is nothing that precludes these LECs from providing intraLATA discount plans that would match or even be greater than an IXC's discounts. MCI and Sprint pointed out that neither MCI's Friends and Family nor Sprint's The Most discount programs are volume-sensitive plans. Witness Merkle stated that United and Centel currently have intraLATA discount toll programs in place.

In response to the IXCs' arguments that the lack of dialing parity is a substantial burden to choice, Southern Bell argues that the problem is not the inconvenience of the five-digit access code, but the inadequate marketing by the IXCs. Southern Bell points out that when ATT-C undertook an advertising campaign in Georgia to convince customers to use 10XXX for intraLATA calls, ATT-C's intraLATA minutes of use doubled in only two to three months. However, until two weeks prior to the hearing in this docket, no IXC had attempted to specifically advertise the use of "10XXX" for intraLATA calls in Florida. Southern Bell and GTEFL conclude that, if consumers are aware of the ability to dial 10XXX to reach their IXC, as in Georgia, they will exercise this option if they believe they can benefit from doing so.

We agree with the LECs' arguments that the current low volume of 10XXX dialing may well be the failure of the IXCs to enhance customers' awareness of 10XXX dialing. This lack of consumer education in Florida makes it difficult to determine if 10XXX dialing would be a comparable alternative to the LECs' toll service. However, even if the IXCs gain intraLATA toll through customers dialing 10XXX, the caller is still experiencing an inconvenience. We believe that dialing parity is of great importance in the transition to a competitive environment.

In addition to choice, the IXCs contend that based on the results of competition in the interLATA toll market, the implementation of intraLATA presubscription will bring about the same type of benefits to consumers. These benefits include: 1) the initiative to offer additional service options, 2) movement of prices towards cost, 3) introduction of technological innovations, 4) greater operating efficiency of the providers, and 5) increased responsiveness to customer needs.

ALLTEL, Centel and United also support the notion that the introduction of intraLATA presubscription should bring more cost based rates to the end user and should provide more options to the end user in terms of increased services. However, these companies' support for intraLATA presubscription is conditioned on the creation of an equal competitive footing with the IXCs, principally the same pricing and packaging flexibility as the IXCs. GTEFL's witness Menard acknowledged that IXCs would be able to formulate innovative packages offering price reductions for combining interLATA and intraLATA toll if intraLATA presubscription is implemented. FPTA asserts that based on the results of the benefits from interLATA competition, in addition to lower rates and more new services, it is reasonable to expect that intraLATA presubscription will force the LECs to be more efficient competitors.

Southern Bell argues that the introduction of intraLATA presubscription to end users could theoretically result in a change in toll rates, introduction of new services, and the construction of new facilities. Southern Bell also acknowledges that if intraLATA toll rates are reduced as a result of intraLATA presubscription, the pressure for extended area service (EAS) in Florida would possibly be reduced. However, based on the results since the elimination of toll transmission monopoly areas, Southern Bell argues there is no evidence that further opening of the LATA to facilities-based competition will provide any of these benefits.

GTEFL and Southern Bell argue that the IXCs have failed to support their claims of lower prices and increased services; in support, they point to comparisons with the interLATA market. The IXCs touted increased service options and reduced rates as major benefits of intraLATA presubscription. However, other than six second billing and account code billing as discussed by FIXCA's witness Gillan, no party promised specific price reductions or identified specific new services to be introduced upon entering the intraLATA market. Even the LECs who say they will compete actively to retain intraLATA toll did not commit in advance to reduce their toll prices, and could not identify specific new services that they expect to offer.

One of the principal difficulties in this case is accurate prognostication. We must balance the weak predictions of the LECs against the rose-colored beliefs of the IXCs. It is impossible to predict the future, and neither IXCs nor LECs can know exactly what services, features or other benefits may develop. We note that at the time of divestiture no party was able to predict exactly what new services would be available. Today, MCI, ATT-C, and Sprint combined offer at least 23 different service plans. As discussed further below, the IXCs point out that intraLATA competition will bring just as many benefits to consumers as interLATA competition has. They argue that, as a result of competition in the interLATA market, prices have decreased, customers' usage has increased, and the number of services available to customers has increased.

We agree with the IXCs that the criterion should be whether benefits will accrue over the long term. If 10 years of experience with interEAEA and interLATA competition provides any example, the general financial health of the LECs, development of new products and services by LECs and IXCs, as well as the reductions in both local and toll rates since divestiture, indicate that there is a reasonable chance that the introduction of full intraLATA competition will provide similar benefits to the ratepayers of Florida. As we stated in a prior episode of our journey to competition:

> We again point out that a pristine purely competitive environment simply does not exist in the current intraLATA toll market. This is not to minimize the desirability of the potential benefits but to acknowledge that achievement of them will not be immediate no matter when we eliminate TMAs. We generally agree with Dr. Cornell that it will take time for these benefits to work their way into the competitive arena. (See Order No. 23450)

2. <u>InterLATA Prohibitions</u>

Southern Bell and GTEFL continue to argue that intraLATA presubscription should not be allowed until other legal restraints are removed. These legal restraints include Southern Bell's Modification of Final Judgment (MFJ) and GTEFL's Consent Decree which, respectively, prohibit these companies from providing interLATA service. Both companies argue that these constraints place them at a competitive disadvantage because the IXCs have a tremendous marketing advantage due to the IXCs' ability to combine interLATA and intraLATA toll traffic into a single package. Southern Bell further states that there is activity nationally and in Florida that may affect this area and argues we should not take any action pending the outcome of those events.

In response, the IXCs predictably argue that we should not delay. They note that the MFJ restrictions were put into place as part of an antitrust settlement at the federal level, and GTEFL's Consent Decree was adopted so that it could enter the interLATA market through acquisition of an interest in Sprint. While the ability to offer volume-sensitive plans for combined interLATA and intraLATA traffic is an advantage that Southern Bell and GTEFL do not have, the IXCs argue that customers' choice of intraLATA carrier should not be delayed because certain participants may be regulated to a different degree.

We believe it is reasonable to expect that the introduction of competition will result in the displacement of some traffic among the participants. However, as MCI points out, any company in a competitive market has unique advantages and disadvantages not shared by its competitors. In this instance, the LECs are the first point of contact for every customer in their territory who wants to subscribe to telephone service. The LECs bill every customer in their respective service territories on a monthly basis and have the ability to advertise through inexpensive bill inserts. The LECs will continue to receive access charges on every intraLATA toll call carried by an IXC through 1+ dialing. In addition, because there will be no presubscription balloting, the LECs will start the competitive process with 100 percent of the 1+ market. The burden to garner customers in the market place falls on the IXCs. As witness Nelson states, customers must perceive that there is a benefit before they will switch carriers. It is this situation that generates the IXCs' expectation that intraLATA presubscription will bring about rate reductions that in turn will benefit all end users who make intraLATA toll calls.

We are aware of the potentially adverse effect on Southern Bell and GTEFL because of their interLATA restrictions. However, we disagree with the LECs' arguments that the playing field is not sufficiently level unless they can compete in the interLATA market. We have previously rejected the argument that federal restrictions on Southern Bell or GTEFL should limit our actions to transition to competition. As we stated in Order No. 23540:

> We disagree that the elimination of TMAs should be held in limbo due to the interLATA prohibitions. We have been cognizant of the interLATA prohibition since the inception of TMAs and it has not factored into our decision to create them nor to eliminate them. The prohibition is beyond our control. The issue for us is whether, based on all relevant criteria, the public interest is best served by the further retention of TMAs.

We again conclude that the federally imposed interLATA limitations should not in and of themselves impede the implementation of intraLATA presubscription. Moreover, we are not persuaded that the LECs, particularly Southern Bell and GTEFL, will not be able to compete effectively despite the restrictions. Southern Bell and GTEFL have amply demonstrated that they are able competitors under current conditions.

3. Local Rates and Universal Service

Another major concern raised by the LECs is that, while high-volume toll end users could benefit from lower toll rates if there is sufficient competition, other customers may experience local service rate increases. The LECs asserted that with the potential pressure to decrease intraLATA toll rates that could occur in a competitive environment, any loss in revenues may place upward pressure on local rates; therefore, the implementation of intraLATA presubscription is not in the public interest. Southern Bell contends that intraLATA toll revenues have been used as a major source of subsidy to support universal service and if that subsidy is lost, additional support for universal service may be needed.

Witness Eudy states that ALLTEL may find it necessary to exit the intraLATA toll business, leaving them solely as an access provider. According to ALLTEL, because it does not have facilities throughout the LATA and will be required to pay access charges on the terminating end of a call, it will be unable to compete. ALLTEL further argues that its ability to recover any foregone revenues from its customers is less than that of the large LECs which generally have a larger customer base and more services over which to spread any foregone revenues. In response, ATT-C argues that ALLTEL's argument of insufficient facilities is meaningless and points out that, if an intraLATA call originates in an exchange within ALLTEL's territory and terminates in an exchange within Southern Bell's territory, ATT-C would have to pay access charges on both ends while ALLTEL would only have to pay access charges on one end. ALLTEL retorts that because ATT-C has the benefits of a national scope of usage, ATT-C has more control over its costs and can enter and exit the market at will.

The IXCs universally criticized the LECs' claims that local rates and universal service may be adversely affected by the implementation of intraLATA presubscription. Citing a 1990 study by three academic economists, David Kaserman, John Mayo, and Joseph Flynn, titled, Cross-subsidization in Telecommunications; Beyond the Universal Service Fairy Tale, MCI argues that there is no relationship between LEC toll revenues and local exchange rates. MCI's witness Gates asserts that even if the LECs' revenues were insufficient, there are other services, such as high contribution vertical services or other toll-type services, that could be considered for increases instead of local rates. FIXCA's witness Gillan points out that no LEC provided any analysis which suggests that its expected revenue loss would place pressure on any of these other vertical service rates. Moreover, all of the IXCs argue that, as long as the intraLATA toll market continues to grow, the LECs can lose market share to the IXCs without necessarily experiencing declining traffic volumes or revenues. According to the IXCs, if the market share erosion is less than the growth in the overall market, then the LECs' revenues and traffic volumes will continue to increase, without attempting to reduce rates in response to competition. In support of this proposition, ATT-C's witness Mertz states that although ATT-C's market share declined due to interLATA toll competition, in no year from 1984 through 1993 have the company's revenues fallen below its 1984 levels. This occurred while prices were decreasing in the industry, and competitors were making major inroads into the market.

Southern Bell's witness Smith acknowledges that Southern Bell's intraLATA minutes of use have not declined from 1992 to present due to 10XXX dialing. Southern Bell indicates that its originating intraLATA minutes of use have grown over the past three years. Notwithstanding, GTEFL and Southern Bell argue that their losses will be similar to those that ATT-C experienced in the interLATA market.

We note that, since the parties have stipulated that there would be no presubscription balloting, the implementation of intraLATA presubscription is far less likely to result in the market share erosion that ATT-C experienced, where balloting occurred. In addition, if the LECs' contribution from intraLATA toll that exists today is eliminated and upward pressure is placed on local rates, the record in this proceeding indicates that the customers' concerns for their total bill may outweigh their concern for the cost of local rates.

ALLTEL, Centel and United assert that customers are more concerned over their total bill amount than the charges for individual service segments. Based on a customer's calling patterns and communications needs, the price of interLATA and intraLATA toll calling may be more important than the price of local service. MCI and ATT-C also contend that it is important to look at the total cost of telecommunications for the consumer, not just the cost of local service, and that competition in the intraLATA market will bring portions of the customer's bill down.

We agree that the implementation of intraLATA presubscription may potentially lower a customer's total bill; however, we note that this is dependent on each customer's desired overall level and mix of usage between local, intraLATA long distance, and interLATA long distance calls. We further note that Centel/United's witness Merkle testified that approximately 50 percent of its local customers do not make intraLATA toll calls.

We are persuaded by the IXCs' that a decline in market share does not necessarily equate to a decline in revenues or contribution. Florida is currently experiencing rapid growth in the entire toll market. The LECs may, and we believe will, experience the same phenomenon as ATT-C, who lost market share but experienced increased revenues.

4. Regulatory Flexibility

One of the last concerns cited by the LECs is the need to have regulatory flexibility. Various forms of regulatory flexibility were emphasized by the LECs. These included toll pricing flexibility, freedom to set access charges, elimination of imputation standards, tariffing and customer notification requirements, and geographic deaveraging of toll rates to compete with the IXCs.

United and Centel cite regulatory flexibility as their only requirement in order to be able to compete in the intraLATA market. Centel/United's witness Merkle asserts that in order for the LECs to operate in a fair competitive environment, they must be given the same degree of flexibility that the IXCs have today, such as the ability to reprice toll service. GTEFL's witness Menard contends that a level playing field among competitors is essential if intraLATA presubscription is implemented. Southern Bell's witness Hendrix argues that in order to level the playing field, Southern Bell must be able to set its own access charges, and the current imputation standards should be eliminated. ALLTEL and Northeast stated they too need flexibility in order to compete fairly if intraLATA presubscription is implemented.

The IXCs do not dispute the LECs' claims regarding the need for some sort of regulatory flexibility. ATT-C's witness Mertz states that the LECs should have pricing flexibility for intraLATA toll equivalent to what other competitors have. MCI states it does not object to some increased pricing flexibility for LEC toll services when full intraLATA competition is introduced, such as tariffs that are presumptively valid as long as they cover imputed access charges. FIXCA's witness Gillan asserts that fewer tariff approval requirements may be appropriate.

We conclude that regulatory flexibility for the LECs should not be a prerequisite for intraLATA presubscription. The issue of regulatory flexibility has not been the focus of this proceeding. There is not a sufficient basis in this record to implement any such changes. Moreover, these issues and other related issues are the subject of other ongoing investigations.

E. Conclusion

Upon consideration of the evidence and the arguments of the parties, we are persuaded, on balance, that intraLATA presubscription is in the public interest and should be implemented. IntraLATA presubscription is another important step towards full competition. The lack of dialing parity is a competitive barrier that should be removed. In the long run, dialing parity will bring many benefits to consumers and the industry. With competitive entry, carriers will have an incentive to provide new and innovative services. In the intraLATA market this means primarily that intraLATA customers will now be able to enjoy the same dialing parity that exists in the interLATA market.

Based on our experience of the benefits gained through the provision of interEAEA and interLATA competition over the past 10 years, we believe that the introduction of intraLATA competition will provide similar benefits to the ratepayers of Florida. Those benefits include increased service offerings at reduced prices, greater operating efficiency as the market becomes more competitive, technological innovation, and increased responsiveness to customer needs.

The record indicates that changes in market share from intraLATA presubscription competition will occur gradually. In addition, it appears that market stimulation and the associated increase in demand for access will mitigate any possible negative impact on local rates and universal service resulting from intraLATA competition. Moreover, we have adequate tools to address any revenue problems that may arise from intraLATA presubscription.

Regulatory flexibility may well be appropriate for the LECs. However, it shall not be a prerequisite for intraLATA presubscription and moving forward with the transition to competition. Given a reasonable plan of implementation, it does not appear that either local rates or the revenues of LECs will be significantly adversely affected, nor does it appear that our goal of universal service will be adversely affected. Moreover, many of the benefits of competition may actually help reduce customers' total telephone bills. In addition, the LECs are left with significant advantages in terms of easy direct access to all the customers in their respective territories and the fact that they begin the race with 100 percent of the market.

IV. IMPLEMENTATION OF INTRALATA PRESUBSCRIPTION

As discussed above, we have determined that intraLATA presubscription will be implemented. The implementation of intraLATA presubscription involves several issues regarding the appropriate timeframe, recovery of the costs and the potential for lost revenue. Each of these is discussed in detail below. In addition, certain issues regarding the manner in which intraLATA presubscription will be implemented were resolved by stipulation of the parties.

A. Implementation Timeframe

Implementation of intraLATA presubscription requires the purchase and installation of the requisite software for each switch as well as modification of the LECs' administrative systems. While the technical capability will be available by the end of 1997, we must consider the most economic and efficient timing for implementation of intraLATA presubscription. Moreover, there are some stark contrasts which justify disparate treatment for intraLATA presubscription between the large LECs and the small LECs. First, the four large LECs, Southern Bell, GTEFL, Centel and United, have 310 host switches serving 8.9 million access lines to be equipped for intraLATA presubscription. The nine small LECs have a total of 28 host switches serving 132,610 access lines, or only 1.46 percent of the total access lines in Florida. Second, only two small LECs presented witnesses in this proceeding and the data from the other seven is very limited in its application.

1. Large LECs

United/Centel's witness Merkle states that the Company's Northern Telecom and AT&T switches could be modified by early 1997, with initial conversions beginning in 1995. GTEFL states that it can modify some switches in 1994, but that 75 percent of its network is serviced by AGCS GTD5 switches. IntraLATA presubscription capability for that switch will not be available until the fourth quarter of 1995 or the first quarter of 1996. Southern Bell states that it can modify 70 percent of its switches by the end of 1995.

With respect to modification of administrative systems and processes, Southern Bell indicates that nine months will be required. GTEFL and United/Centel indicate that twelve to eighteen months will be required. GTEFL's witness Menard states that GTEFL could possibly complete the modifications of the support systems in twelve months and based on a December 1994 order date, that would allow implementation to begin in January 1996. United/Centel's witness Merkle testified that modification to the billing and administrative software systems cannot begin until the design requirements and PIC options are established by this Commission.

In addition, all four LECs argue that any switch modifications for intraLATA presubscription should be performed in the course of normal upgrades and other work in the central offices.

ATT-C's witness Mertz argues that the LECs should be required to implement intraLATA presubscription in every switch within six months of the order date or show the Commission why they cannot. ATT-C did not contest the LECs' arguments that they needed more than six months to modify their support systems. MCI's witness Gates proposes a plan similar to the ATT-C proposal, calling for a deadline one year from the order and requiring the LECs to secure waivers on switches that cannot be converted before January 1, 1996.

Sprint's witness Nelson argues that intraLATA presubscription should be implemented in switches within 18 to 24 months of a bona fide request. For switches that could not meet the deadline, the LEC could request a waiver. FIXCA's witness Gillan does not state a specific date for implementing intraLATA presubscription, but proposes that it be done as soon as technically feasible.

In response to the LECs' proposal, ATT-C argues that the LECs will "drag their feet" and delay implementation of intraLATA presubscription if allowed to set schedules on current plans. Notwithstanding, ATT-C argues that there are several ways to discourage the LECs from delaying implementation. First, ATT-C argues that the LECs have "an inherent incentive to delay changes and upgrades and thereby delay the implementation of intraLATA presubscription." ATT-C also argues that the time frame proposed by the LECs for implementation is nebulous. To avoid any "foot-dragging" on the part of the LECS, ATT-C suggests that the Commission require the LECs to convert certain percentages of access lines by specific dates certain and to submit a plan for conversion for Commission review. Another approach proposed by ATT-C is to require the LECs to give a 55 percent discount on access charges for unconverted switches. This discount would terminate when intraLATA presubscription becomes available in a given office.

Upon consideration, we find that the large LECs should be allowed to modify switches for intraLATA presubscription consistent with current planned upgrade projects. This appears to be the most economic and efficient means to accomplish intraLATA presubscription. We agree with Public Counsel's position that sufficient time should be given to change software and make other required changes so that no precipitous costs are incurred by the LECs. We disagree with the IXCs' arguments that the LECs should be forced to accelerate the implementation of intraLATA presubscription. This could be very costly. For example, AT&T has no plans to develop intraLATA presubscription software for 2B-ESS analog switches. Southern Bell will have 7 of these switches in service at the end of 1994, but has current plans to replace all seven in the 1995-1997 period. If these replacements were accelerated to provide intraLATA presubscription at an earlier date, it would be very costly.

Accordingly, we find that the four largest LECs shall implement intraLATA presubscription throughout their respective service areas, by December 31, 1997. As indicated by the record, the four large LECs should complete modifications to both their operating systems and support systems, such as billing, in an orderly manner within nine to twelve months from the date of issuance of this order. This is the target date for the initial availability of intraLATA presubscription.

Our decision to allow the four large LECs to schedule intraLATA presubscription software with presently planned switch upgrade projects is subject to the following two caveats:

1) The software for each switch should be ordered for inclusion on the first equipment project after the software becomes available from the vendor.

2) Implementation should be scheduled as soon as practicable after the support systems modification is completed.

In order to monitor the implementation of intraLATA presubscription the LECs shall furnish a detailed schedule for the various systems and provide a quarterly progress report, as part of the report on cost recovery as set forth below in Section IV(B)(4) of this Order. These schedules and reports should include itemized systems with descriptions of the modifications to be done, along with start and completion dates and percent complete.

In addition, we will, at a later date, require the filing of schedules which shall include the following information for each switch to be modified:

Switch identification
Type of equipment
Software order date
Equipment replacement plans (if replacement is required)

Proposed implementation date
Explanation for any implementation date that is later than December 31, 1996.

2. Small LECs

As previously mentioned, only two of the nine small LECs presented witnesses in this proceeding, ALLTEL and Northeast. Information furnished by the other seven was limited and unclear in some cases and could not be clarified during the hearing.

The record does indicate that for all of the small LECs' switches, except for St. Joseph's Blountstown switch, the software required for implementation of intraLATA presubscription is available now. The Blountstown switch is scheduled for replacement in 1996 with a Northern Telecom switch, which will have intraLATA presubscription capability. It is interesting to note that the small LECs are more technically capable of providing intraLATA presubscription than the large LECs.

ALLTEL's witness Eudy argues that the Company's ability to recover foregone revenues is less than that of the large LECs, which generally have large numbers of business and residential customers and a wide variety of vertical services over which to spread any losses. Additionally, she states that small LECs such as ALLTEL do not have LATA-wide network facilities or a large customer base over which to average costs.

Witness Eudy states that the revenue impact on ALLTEL could not be quantified due to a need to estimate market share, rate levels and the extent of competition. She later stated that ALLTEL had estimated a potential net revenue loss of approximately $865,000. This amount assumes a 100 percent loss of toll revenue, net of access charges. She also states that unless appropriate safeguards are in place and some mechanism is developed to assure continuation of universal service goals, intraLATA presubscription is not in the public interest. Additionally, if intraLATA presubscription is ordered, Ms. Eudy states that ALLTEL may find it necessary to get out of the intraLATA toll business. If this happens, present toll calls then would generate revenue from only access charges. Moreover, there is pressure to reduce access charges, which would further reduce the contribution to local service.

Northeast's witness Carroll estimates that his Company's annual net toll loss will be $300,000. He also states that this revenue loss should be recovered. Northeast's witness Carroll further states, "As the Commission knows, $300,000 is a lot of money to a company the size of Northeast."

ALLTEL also argues that before authorizing intraLATA presubscription, the Commission should consider changing the modified access based compensation (MABC) plan to allow small rural LECs to become access providers in a presubscribed intraLATA market. The present MABC plan requires all LECs to be intraLATA toll providers regardless of their network, service area or cost characteristics. Witness Eudy argues that the current MABC plan should be changed to a voluntary primary carrier agreement with carrier of last resort responsibilities falling to the LEC with the most extensive LATA-wide network facilities and customer base over which to average its costs. However, witness Eudy did not elaborate on how this would be accomplished, particularly where a number of LECs have territory within the same LATA. She also did not address why it would be beneficial to the small LECs to give up all of their toll revenues and accept less revenue as access providers only.

Upon inquiry from FIXCA regarding whether ALLTEL's concerns would be alleviated if the Commission chose to implement intraLATA presubscription for the large LECs and held any decision on the small LECs until after it had a year's experience with the large ones, witness Eudy indicates that she is not sure of the time interval, but that now is the wrong time. Public Counsel states that a more gradual implementation schedule may be appropriate. We agree that if the implementation of intraLATA presubscription is delayed for the small LECs, valuable data could be gathered from the experience of the large LECs.

In apparent acknowledgement of the potential problems of the small LECs, MCI's witness Gates states that MCI supports the use of a bona fide request (BFR) process similar to that used for interLATA equal access. Under this process the IXCs file a BFR with the LECs for conversion of specific end offices to intraLATA presubscription.

Upon consideration, we find that the small LECs shall be allowed to delay the implementation of intraLATA presubscription. With the limited amount of data from the small LECs, we are not comfortable with the notion that they be required to provide intraLATA presubscription on an as soon as feasible basis. Since the small LECs serve only 1.46 percent of Florida's total access lines, it would not be any significant set back to intraLATA competition if they were allowed to delay implementation. Furthermore, the parties do not object to delaying implementation by the small LECs. Moreover, a delay for the small LECs will allow us to gather valuable data from the experience of the large LECs.

We also find it appropriate to adopt MCI's proposed BFR process. To allow us the time to gain experience from the implementation of intraLATA presubscription by the large LECs, the small LECs shall not be required to entertain a bona fide request until January 1, 1997. After that time, the small LECs shall not be required to provide intraLATA presubscription until a bona fide request is received. At that time, they will implement intraLATA presubscription within a reasonable time period to be negotiated by the parties, with any disputes that arise being referred to the Commission for resolution.

B. Implementation Cost Recovery

Each of the parties, except the FPTA, support some form of recovery for the LECs' cost of implementation. The disagreements swirl around which parties should pay and the recovery methodology to be employed.

1. Source of Recovery

The proposals for "who should pay" the costs for intraLATA presubscription fall into four categories: all intraLATA toll users, only the LECs, only the IXCs, and all should pay. With the exception of United/Centel, the LECs argue that the IXCs should pay the costs. MCI, FIXCA, Sprint, and United/Centel believe all participants should contribute to recovering the costs. ATT-C argues that LEC access changes are so far above costs, that the LECs can absorb the costs without contribution from other carriers.

The question of who should pay the costs of intraLATA presubscription cannot be divorced from the underlying question of what party stands to benefit most monetarily from intraLATA presubscription. ATT-C's witness Mertz would not concede that IXCs will benefit from intraLATA presubscription. However, he finally acknowledged that the IXCs' market share gains would be a loss to the LECs.

GTEFL's witness Menard states that "the primary beneficiaries of intraLATA presubscription will be the IXCs." She also states "the LECs should not be required to absorb the cost of intraLATA equal access conversion, nor should they be forced to participate in a plan that shares these costs between the IXCs and the LECs." Southern Bell's witness Denton echoes the inequities of requiring the LECs to pay a portion of the costs. In a similar vein, ALLTEL's witness Eudy believes ALLTEL should not have to pay any of the costs because it would not benefit from intraLATA presubscription. Northeast's witness Carroll believes his company should not be included in the cost recovery mechanism. He states, "this [intraLATA presubscription] is giving the IXC an opportunity to get into another market that they're not in today. And I don't think we should be paying in order to give up traffic."

Of those parties advocating cost recovery from all participants, MCI's witness Gates acknowledges that the IXCs will benefit from intraLATA presubscription. As he states, "We wouldn't go after the business if we didn't think it would be a benefit." However, witness Gates does not agree with the idea that those that benefit most from presubscription should be the only contributors. He states:

> I think it would be a big mistake to charge all of these costs to the interexchange carriers who have been hamstrung for ten years without this equal access. It's like penalizing us for not having had equal access all these years. Now you're going to add to it and make us pay for eliminating this barrier to competition.

FIXCA argues that the parties receiving the most benefit from 1+ intraLATA presubscription will be the residential and small business users. Although not articulating his reasons, witness Gillan states that the implementation costs should be recovered from all providers, LECs and IXCs alike.

Sprint's witness Nelson argues that all participating carriers should pay the costs of intraLATA presubscription. His reasoning is:

> [P]lacing all the costs on one particular market segment...frustrates the Commission's public interest intraLATA competition objectives. Forcing all costs on the interexchange carriers and the resellers puts those carriers at a competitive disadvantage versus LECs while, at the same time, the Commission is encouraging competition in the intraLATA market. The interexchange carriers and resellers will be immediately placed at a cost disadvantage. Allowing one group to avoid the costs...would hamper the development of a competitive market and therefore, is not in the public interest.

United/Centel argues that all parties should contribute. When asked who would benefit from intraLATA presubscription, the Company stated the switch vendors and IXCs would benefit. Also, end users may benefit from lower toll prices and volume discounts. Upon cross examination, witness Merkle was asked whether the Company's willingness "to go to presubscription" might be explained by the relationship between United, Centel and Sprint; witness Merkle responded that he did not know.

Upon consideration, we find that the implementation costs should be recovered from the IXCs. Setting aside the issue of stimulation of revenues, intraLATA presubscription is a zero-sum game. Any customers the IXCs gain, will come at the expense of the LECs. The LECs currently have 100 percent of the 1+ intraLATA market. As MCI indicates, "it is irrational not to expect that the introduction of competition will result in some displacement of traffic among the participants." Those that stand to benefit, the IXCs, should pay for the opportunity; those that will lose, the LECs, should not.

We disagree with Sprint's argument that failure to include the LECs in cost recovery places the IXCs at a cost disadvantage or that it contradicts the Commission's efforts to promote competition. First, we agree that the IXCs will have additional costs that the LECs will not have. However, Sprint ignores the fact that if 1+ intraLATA presubscription is approved, the IXCs will now be able to compete in the intraLATA market with dialing parity. Sprint notes that this dialing parity is needed for fair competition to occur. Second, we are not convinced that any disadvantage the IXCs incur is significant. As discussed below, the costs for intraLATA presubscription will be small and not likely to impact rates. Third, the cost recovery time period is not infinite. Any disadvantage will be experienced for a limited period of time.

2. Cost Recovery Methods

The methods offered by the parties for recovery of the costs of implementing intraLATA presubscription fall into three categories: current access charges with no additional elements or charges, presubscribed lines, and minutes of use (MOUs). Under the first option, no additional charge or element would be implemented and the LEC would absorb all costs. Using presubscribed lines, costs would be allocated based on the percentage of the total number of access lines presubscribed to a carrier for intraLATA toll calls. Under the MOU scenario, either a separate rate element would be included in access charges or an existing access rate element would include the additional charge.

a. Current access charge levels

ATT-C and FPTA argue that access charges are already well above cost and, because of this, cost recovery will be forthcoming through the disparity between the rate and the cost. ATT-C argues that the LECs' access charges provide enough revenues so that the LECs should absorb the costs of implementing intraLATA presubscription without any additional charges.

ATT-C's Witness Mertz also suggests that the actual volume of calls may increase with the advent of intraLATA presubscription. In light of the stimulation in calling, the LECs' revenues could actually increase due to increases in access revenues. He noted ATT-C's experience following divestiture where, up through 1993, toll revenues never dropped below the 1984 levels despite decreases in market share. Witness Mertz attributes this to increases in calling volumes.

b. Presubscribed lines

Sprint advocates using presubscribed lines as the basis for cost recovery. Sprint witness Nelson states that he believes using intraLATA presubscribed lines to be best because it is a "workable, measurable, and equitable means of recovering costs."

c. Separate rate element using minutes of use

Applying a separate rate element developed by dividing the costs for intraLATA presubscription by access minutes of use (MOU) is proposed by several companies. This is sometimes referred to as the MOU approach.

Southern Bell's witness Denton supports the use of presubscribed lines because this method was used by the FCC and it is more directly related to costs. We note that Witness Denton's use of the phrase "presubscribed lines" in this context is somewhat confusing, because the FCC used the NECA method which includes a separate MOU rate element. However, witness Denton also indicates "market share," which is based on presubscribed lines, as a basis for recovery.

United/Centel's witness Merkle proposes that:

> [A]n appropriate basis for allocating cost recovery is the percentage of the total intrastate, intra and interLATA usage by the participants, based on FGB and FGD minutes of use for the IXCs and equivalent access minutes for the LEC intraLATA toll. A uniform surcharge should

be established and applied to all originating End Office Local Switching access minutes for cost recovery.

Initially, GTEFL supported using presubscribed lines. However, witness Menard later testified that the Company switched to supporting the MOU approach. The minutes would be all "competitor initiated intrastate, intraLATA and interLATA equal access minutes." However, witness Menard does not offer a detailed explanation of how a MOU method would be implemented.

ALLTEL proposes that the costs be recovered using the National Exchange Carrier Association's (NECA) interstate procedural guidelines. Other than noting the method relied on a rate element, witness Eudy could not fully elaborate on the method. She did state that the rate element should be separate, and not included in an existing element. Although she thought the NECA method used interstate minutes, she was unsure if this was originating or terminating MOUs. She implies the rate element is company-specific, as opposed to statewide. The method provides for the recovery of costs over an eight-year period using total intrastate MOUs.

MCI's witness Gates argues that, similar to ALLTEL's proposal, "cost recovery should track cost recovery for interLATA presubscription. Costs associated with implementation of intraLATA presubscription should be identified pursuant to existing federal guidelines." He goes on to state, "costs associated with conversion to intraLATA presubscription should be limited to those incremental costs actually incurred to add this limited capability to a converted end office."

Witness Gates argues that the MOUs should include total intrastate MOUs, both interLATA and intraLATA, as this will further reduce the size of the rate element. This also has the effect of reducing the impact on the party beginning with the largest share of the 1+ intraLATA traffic, the LEC. In support of his proposition he states:

> [I]t's really a compromise position. We wanted to include inter- and intraLATA because...it really makes the cost much, much smaller for new entrants. And it also takes a lot of the weight off the local exchange companies because when you include interLATA minutes,...the local exchange company isn't participating there so they're not paying those costs. So it's really a concession to the local exchange companies to minimize the burden initially.

Upon consideration, we find that the cost of implementation of intraLATA presubscription shall be recovered through a separate rate element that is LEC-specific and applicable to all originating interLATA FGD access MOUs. As a separate element, it can be more easily monitored and adjusted. Application to only interLATA FGD access MOUs ensures that the LECs will not pay any portion of the cost. Since the rate element is company-specific, it can be set at a level consistent with each LEC's respective costs.

We disagree with using a uniform element as proposed by MCI. A uniform statewide average rate would demand pooling. Pooling requires that all providers charge the same rate. This may be appropriate in a monopoly environment where revenues are distributed among providers. In a competitive environment, having uniform rates defeats competition because rates can not be changed within specific territories to align more closely with costs or to respond to competitors' prices. We recognized this when we approved elimination of pooling for private line revenues, access charges and for LEC toll. Although we recognize that the LECs do not currently have direct competition for switched access, we believe this will change.

With respect to applying the rate element to only FGD interLATA MOUs, this is to ensure that there is no incentive for carriers to delay participation in intraLATA presubscription until the rate element is eliminated. It is for this reason we also reject the use of intraLATA MOUs.

We disagree with witness Merkle's proposal to include FGB MOUs in calculations of the rate element. Using FGB is inappropriate because it is not equal access and is, therefore, not subject to presubscription. In addition, the majority of the traffic will use FGD as pointed out by FIXCA's witness Gillan.

3. <u>Cost Recovery Period</u>

The time frames proposed for cost recovery range from three years to eight years. GTEFL's witness Menard states the costs "associated with intraLATA presubscription should be amortized over a three-year period." Southern Bell's witness Denton does not advance a specific time frame for cost recovery, but argues that it should be consistent with the implementation period. FIXCA's witness Gillan states that 3 to 5 years is appropriate.

Centel/United's witness Merkle initially stated that 5 years would be "an equitable manner" to recover the costs. However, he later added that 3 to 5 years would be an acceptable time frame. Sprint's witness Nelson states that he had no specific number of years in mind, but long enough that the result was a small per minute rate. MCI's witness Gates and ALLTEL's witness Eudy support an eight year recovery period.

Upon consideration, we find that three years is an appropriate time period for cost recovery. First, this will provide for cost recovery roughly coincident with implementation of intraLATA presubscription as discussed above. This time period will also allow for more accurate adjustments to the recovery rate element to decrease the chance of over-recovery or under-recovery.

Second, while a shorter time period increases the rate element, the size of the element will still be fairly small. The likelihood of the IXCs passing on the very small increase in access charges to their end users is reduced if the increase in charges is insignificant. In addition, a smaller rate element minimizes any pricing disadvantage the IXCs may experience.

Third, any disadvantage to the IXCs will not be prolonged. Sprint argues that a cost differential between itself and the LECs will put it at a disadvantage. Any such discrepancy will be experienced for a shorter time period. We acknowledge that those end users choosing to presubscribe to an IXC for their intraLATA traffic may experience higher rates. However, the higher rates will be for a shorter period of time.

4. Requirements For Implementation

The implementation of intraLATA presubscription necessitates that the LECs file tariffs to establish recovery rate elements and other items. In addition, certain information will be needed to monitor the progress of the implementation. These matters are discussed below.

a. Tariffs

In keeping with our decision to limit the initial implementation of intraLATA presubscription to the four large LECs, the requirements here apply only to the large LECs. However, the same general procedure should be followed for the small LECs when they implement intraLATA presubscription. Variations in the following requirements may occur due to such changes as shortened time frames and changes in estimated costs. In order to provide for the implementation in an efficient manner the large LECs shall file tariffs consistent with the following:

1) Although the capability for intraLATA presubscription for the 4 large LECs may begin January 1, 1995, it is

impractical for any rate element to be formulated and in place by that time. Therefore, tariffs shall be filed by July 1, 1995, with an anticipated effective date of September 1, 1995. Cost recovery shall begin at that time. The LECs' proposed tariffs shall include detailed support for all the rate calculations.

2) The calculation of the MOUs shall be based on the amount of interLATA originating FGD access MOUs over the most recent 12 month period. This may result in a somewhat larger rate element due to ignoring growth. However, if this does occur, the recovery period could be shortened. This historic data shall also be included with the proposed filing.

3) All cost estimates are to be included in the filing. A detailed discussion supporting the estimates shall be included.

4) The element shall be constructed by dividing the estimated costs by the historic originating FGD interLATA access MOUs.

b. Reporting requirements

The period for cost recovery shall be 3 years. Therefore, in keeping with the estimated implementation time, recovery is estimated to begin September 1, 1995 and end August 30, 1998, or earlier if all costs are recovered before August 30, 1998. During the 3-year period, reports shall be filed by the LECs. Beginning at the end of the first quarter following the beginning of cost recovery, and for each subsequent quarter that costs are recovered, the LECs shall file quarterly reports with the Commission. Each report shall be filed by 30 days following the end of the quarterly period. A final report shall be filed at the conclusion of the cost recovery period showing that all costs were fully recovered. These reports will be used to monitor the recovery of costs. The report shall contain information directly attributable to the costs applicable to intraLATA presubscription and the revenues derived from the rate element. Specifically, the report shall contain the following:

1) The report shall contain the interLATA FGD access MOUs for each month of the preceding quarter. It shall also show the cumulative revenues and MOUs for that quarter and all previous quarters.

2) The report shall contain the actual implementation costs incurred to date. These costs shall be both monthly and summed with all previous quarters.

3) Detailed information shall be provided showing that these costs were actually money spent in covering the cost of intraLATA presubscription. These expenditures shall be both monthly and summed with all previous quarters.

4) An estimate of the remaining costs shall be provided. A description of how the estimate was arrived at shall be provided along with a detailed explanation supporting the estimate.

In the event a LEC fully recovers its costs prior to the end of the three year period, it shall file a tariff eliminating the rate element. Any over-recovery is to be returned to the IXCs, via a one-time reduction in access charges, within three months of full cost recovery.

After December 31, 1997, each small LEC must begin implementation after it receives a bona fide request from an IXC; the parties should negotiate the specifics of implementation. The specific period of time over which recovery occurs should be determined on a case-by-case basis. However, given the likely magnitude of the costs, and the small number of switches to be converted, recovery could be expected to be complete in 6 to 12 months. Regardless, the LEC shall recover the full cost of implementing intraLATA presubscription. If the parties are unable to reach an agreement, they should bring the dispute to the Commission for resolution.

As a final note, GTEFL is in a unique situation in terms of the costs it will incur. The estimated development cost for the GTD-5 software is $7.25 million. This is to be a one-time cost levied on the first state to implement 1+ intraLATA presubscription. As other states implement intraLATA presubscription, the first state will be credited some portion of the original expense. However, the amount of the credit is not known. This makes calculating a rate element for GTEFL troublesome. If a rate is designed to recover all these costs, and other states subsequently implement intraLATA presubscription, GTEFL could potentially double its cost recovery. If a rate element is designed to recover a portion of the costs, and no other state implements intraLATA presubscription, GTEFL would under-recover. These problems will be addressed again when the tariffs are filed and more information is available.

C. Implementation Stipulations

Notwithstanding the debate over whether intraLATA presubscription is appropriate and should be implemented, the parties agreed that if intraLATA presubscription was approved by the Commission, certain of the issues regarding the form that intraLATA presubscription could be stipulated. The parties to this proceeding agreed to the following:

> If intraLATA presubscription is in the public interest, the full 2 PIC method should be implemented. This enables customers to select an intraLATA carrier (the LEC or an IXC) that may be different from its interLATA carrier.
>
> If intraLATA presubscription is in the public interest, balloting should not be required. However, central offices converting to interLATA equal access and intraLATA equal access at the same time should be balloted at the same time. In addition, when new customers sign up for service they should be made aware of their options of intraLATA carriers in the same fashion as for interLATA carriers. If balloting is required, participation should not be mandatory.

In addition, since the parties agreed that there would be no balloting, the issue in this proceeding regarding the costs of balloting for intraLATA presubscription and the associated issue of recovery of the costs of balloting are moot. The stipulations above were previously approved by us at the beginning of the hearing in this case. We reiterate here our approval.

D. Recovery of Revenue Loss

The issue of the recovery of revenues that the LECs may lose from the implementation of intraLATA presubscription and the increased level of competition for intraLATA toll was strenuously contested. Sprint argues that revenue recovery should not be automatic, but instead should be handled on a case by case basis consistent with current rate case procedures.

ATT-C argues that, based on past experience, it is extremely unlikely that intraLATA presubscription will result in lost revenues for the LECs. However, if losses do occur, ATT-C argues that they should be dealt with only in the context of LEC earnings investigations.

FIXCA argues that any revenue loss projected by the LECs is purely speculative and that the Commission should make no provision for the recovery of so-called "revenue loss." According to witness Gillan, if and when any LEC can demonstrate to the Commission's satisfaction that it is earning below its authorized rate of return and is, therefore, entitled to a rate increase, the Commission can then decide how any such rate increase should be apportioned.

MCI argues that as a matter of principle, LEC revenue losses from intraLATA presubscription should not be recovered. Any automatic recovery mechanism rests on the erroneous assumption that the LECs have a vested right to 100% of the intraLATA toll market. MCI further argues that the concepts of "revenue replacement" and "revenue neutrality" have no place in a competitive environment. To guarantee the LECs a revenue stream would eliminate several of the incentives associated with competitive entry -- the incentives to attract and keep customers, to control and reduce costs, to innovate and develop new services, and to better understand and respond to customers' needs.

Southern Bell estimates net revenue losses ranging from $24 million to $79 million. These figures compare to $25 million of unallocated annual revenue reductions in 1995, and approximately $48 million of unallocated annual revenue reductions in 1996, that Southern Bell is obligated to make by the Commission order approving its last rate case stipulation. See Order No. PSC-94-0172-FOF-TL. Further, Southern Bell's witness Denton does not ask that this revenue loss be offset by increased local rates, but only that the revenue effect be treated as an "exogenous factor" and placed "in the box" to be netted for sharing purposes against rate increases that the Company may choose to make in other services. There is insufficient information in this record to determine how Southern Bell would calculate the amount to include as an exogenous factor. However, we agree that Southern Bell may include the revenue effect as an exogenous factor for surveillance report purposes. The final determination on the proper treatment shall be made in an earnings proceeding.

GTEFL argues that if its revenue losses are high enough, it will request rate relief from the Commission. We note that GTEFL predicted net revenue losses of $16.7 million and $11.3 million for 1992 and 1993, respectively, from its ECS proposal. See Order No. 25708. GTEFL did not seek, and the Commission did not approve, rate increases to offset those projected revenue losses, leaving that matter instead to be considered in the context of any future rate proceedings. See Order No. 25708. Moreover, GTEFL's rate case subsequent to the ECS case included the ECS plan as part of the test period. We note that this rate case resulted in an overall revenue requirement decrease.

Upon consideration, we find that no recovery mechanism shall be put in place at this time. If there are losses from intraLATA presubscription, such losses will be addressed through Commission proceedings as appropriate.

V. DIALING PATTERNS

The principal focus of this case has been intraLATA presubscription. However, certain related issues regarding other dialing patterns were also included for consideration in this proceeding.

The primary dialing patterns considered here are 1+, 0-, 0+, and the N11 codes. As set forth above, intraLATA presubscription has been found to be in the public interest; accordingly, all 1+ customers', traffic, interLATA and intraLATA, will be carried by presubscribed carrier(s). The remaining patterns are discussed below.

A. 0- Calls

When one places an 0- call, the end-user seeks assistance from a live operator. Most of the parties agree that 0- traffic should continue to be reserved for the LECs. Witnesses for ATT-C, MCI and Sprint as well as for Southern Bell, United Centel, GTEFL, ALLTEL and Northeast support LEC retention of 0- dialed traffic. The testimony for LEC retention of 0- calls is principally directed to the use of the 0- dialing pattern to reach emergency services. As GTEFL's witness Menard states, "zero minus is recognized as the universal access to LEC operators in the North American Numbering Plan guidelines and LECs have no other access code for live operator contact." Southern Bell also argues that 0- should go to the LECs because they are the only ones capable of performing "busy line verification, emergency interrupt and other dialing needs of the public in general." ALLTEL's witness Eudy also notes the LECs are the only ones with the capability to perform these functions.

FIXCA and FPTA argue that there is no reason to change 0- dialing patterns or to conclude that this dialing pattern should be reserved to the LECs. In support, FPTA argues that several witnesses state that carriers other than the LECs could provide emergency services so long as there is sufficient cooperation and exchange of data to enable these other companies to handle emergency calls.

Upon consideration we find that 0- dialed calls shall continue to be reserved to the LECs. We agree with the majority of the parties that due to the use of 0- for emergency purposes, the special capabilities the LEC possesses, and the lack of other access code for reaching a LEC operator, 0- traffic should be reserved for the LECs. With respect to FPTA's arguments, we note that it may be possible for carriers other than the LECs to provide emergency services but this record shows no more than the idea is possible.

B. 0+ Calls

When one places an 0+ call, the operator services are automated. Typically a 0+ call is placed with a calling card. The principal disagreement concerning 0+ calls revolves around the distinction between 0+ local calls and 0+ intraLATA long distance calls and the entities that should handle these calls.

With a minor exception, the parties generally agree that 0+ local calls should be reserved to the serving local exchange company. MCI's witness Gates states "it is not MCI's position to presubscribe local calls, and to the extent $.25 calls or ECS calls or seven-digit interexchange calls are local, it's not our suggestion that those be presubscribed." Both United/Centel and Southern Bell concur in the 0+ intraexchange distinction made by witness Gates. ATT-C also agrees that 0+ local calls should go to the LEC.

The heart of the controversy is over 0+ intraLATA toll calls. The IXCs predictably want 0+ toll calls to be treated the same as 1+ calls. The LECs each desire to retain 0+ toll. ALLTEL and GTEFL advocate the LECs keeping all 0+ traffic both local and intraLATA toll. In support, ALLTEL's witness Eudy argues that 0+ should be retained by the LECs because the LEC has the ability to keep its switch accurately programmed to recognize local calling plans where what was once a long distance call is now subject to a lesser rate. GTEFL's witness Menard also mentions the potential problem of ECS calls, arguing that "without substantial changes to their billing systems, many IXCs will automatically charge even local calls using their normal toll schedules."

A related dialing problem arises where the caller dials 10XXX before dialing 0+. There is a potential in some LECs' territories for local calls to be carried by an IXC if the caller dials 10XXX 0+. In such cases the IXCs would charge toll rates for what technically is a local call. In support, ATT-C's witness Mertz argues that 0+ local, if 10XXX is dialed first, should go to the IXC because the customer has made the conscious decision to use the

IXC despite being charged higher rates. We note that the same arrangement will work for an end user wishing to use the LEC for a intraLATA call. By dialing a LEC's 10XXX code, a customer will be able to reach the LEC. However, we understand that not all LECs have carrier identification codes that would enable the end user to reach a LEC at a phone presubscribed to an IXC.

From the testimony it appears that at least Southern Bell and GTEFL are able or will be able to block these calls. ATT-C witness Mertz notes 10XXX 0+ local is currently blocked by Southern Bell. GTEFL's witness Menard states that it is her understanding that GTEFL's switches currently recognize 0+ intraLATA toll as belonging to GTEFL. If intraLATA presubscription is authorized, differentiating 0+ local from 0+ intraLATA toll does not appear to be a problem.

Upon consideration we find that 0+ intraLATA toll calls shall be subject to presubscription and 0+ local calls shall remain with the LEC. Local traffic is recognized as belonging to the LEC. As ATT-C witness Mertz points out, "only Southern Bell and GTEFL can provide local exchange service within their respective areas." Regarding other territories, he notes no "competitors have asked for a franchise in these areas to be able to provide local service." Presubscribing 0+ local would not be in keeping with this policy. With respect to 0+ intraLATA calls, 1+ interLATA calls and 0+ interLATA calls are carried to the presubscribed carrier. We find no persuasive arguments to treat intraLATA toll any differently. We note the concern for correctly rating and billing calls as pointed out by GTEFL and ALLTEL. However, witness Menard indicates that GTEFL's switches are capable of distinguishing 0+ local calls. Further, that concern should be alleviated because, with intraLATA presubscription, there will be fewer 10XXX calls. Moreover, we expect the other LECs will institute screening of 0+ local calls to insure retention by the LECs.

C. <u>1-555-1212 Calls</u>

1-555-1212 is "local" long distance directory assistance (DA). This service is currently provided by the LEC. GTEFL's witness Menard asserts that 1-555-1212 should continue to be reserved for the LEC because DA is provided in conjunction with North American Numbering Plan Areas (NPAs) and not LATAs. NPAs are geographical areas where no duplication of a 7-digit number occurs. Calls to foreign NPAs are routed to an IXC, and home NPAs are routed to the LECs DA.

The treatment of 1-555-1212 calls was not extensively addressed in this proceeding nor was it the focus of this case. Because DA is based on NPAs and not on LATA boundaries, we find that no change shall be made to the way 1-555-1212 calls are presently handled.

D. N11 Calls

The N11 dialing pattern is used to eliminate the need of dialing 7 digits. These codes are often used to expedite certain types of calls, such as the use of 911 to reach an emergency service and 411 for local directory assistance.

ATT-C's witness Mertz argues that 0-, 411, 611, and 911 should be reserved for the LEC on the basis that this list of N11 numbers is currently reserved for the LECs and is comprised of those numbers already being used by the LECs. MCI's witness Gate's agrees with ATT-C's list but also notes that the numbers have no "magic" only that they were the ones commonly routed to the LEC for various reasons such as safety, security or repair. Sprint also agrees that 411 and 911 should go to the LEC. GTEFL argues that all N11 codes should be reserved for the LECs.

Southern Bell's witness Denton states, "I'm surprised these questions are being asked, because it seems to me in dealing with long distance docket, all you're dealing with was 0+, 1+, and 0-. And going beyond that, I think, is going beyond the scope of what we're looking at here." FIXCA takes the position that "the issue in this case is 1+ presubscription.... At this time, there is no need to change other dialing patterns or to conclude that they should be reserved for the LEC." FPTA echoes FIXCA's argument.

In Docket 920962-TL, we recognized that all N11 numbers are under the sole jurisdiction of the North American Numbering Plan Administrator. In addition, the FCC, in its Docket No. 92-105, noted its plenary jurisdiction over numbering plan issues and allocation of N11 codes. We note that we have control over the distribution of N11 codes for end use. However, this is another issue not extensively addressed or within the focus of this case. Accordingly, we make no change regarding N11 dialing patterns.

Based on the foregoing it is,

ORDERED by the Florida Public Service Commission that each and all of the specific findings herein are approved in every respect. It is further

ORDERED that intraLATA presubscription is in the public interest for the reasons set forth in the body of this Order. It is further

ORDERED that Local Exchange Companies are technically capable of completing the implementation of intraLATA presubscription by the end of 1997 as set forth in the body of this Order. It is further

ORDERED that the estimates of the cost of implementation of intraLATA presubscription provided by the LECs are accepted in this proceeding only for purposes of making the public interest determination regarding intraLATA presubscription as set forth in the body of this Order. It is further

ORDERED that the financial impact of the implementation of intraLATA presubscription is unclear from the record in this proceeding as set forth in the body of this Order. It is further

ORDERED that intraLATA toll dialing parity is an important step towards competition and is in the public interest as set forth in the body of this Order. It is further

ORDERED that relief from the federal prohibitions restricting BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company and GTE Florida, Incorporated, from providing interLATA service shall not be a prerequisite for implementation of intraLATA presubscription as set forth in the body of this Order. It is further

ORDERED that the LECs' loss of market share from the implementation does not equate to an automatic decline in the level of toll revenues as set forth in the body of this Order. It is further

ORDERED that regulatory flexibility shall not be a prerequisite for the implementation of intraLATA presubscription as set forth in the body of this Order. It is further

ORDERED that United Telephone Company of Florida, Central Telephone Company of Florida, Southern Bell, GTEFL -- the four large LECs -- shall be allowed to modify switches for intraLATA presubscription consistent with current planned upgrade projects as set forth in the body of this Order. It is further

ORDERED that the four large LECs shall implement intraLATA presubscription throughout their respective service areas by December 31, 1997, as set forth in the body of this Order. It is further

ORDERED that, for the four large LECs, intraLATA presubscription software for each switch shall be ordered for inclusion on the first equipment project after the software becomes available from the vendor as set forth in the body of this Order. It is further

ORDERED that implementation of intraLATA presubscription shall be scheduled as soon as practicable after the support systems modification is completed as set forth in the body of this Order. It is further

ORDERED that the LECs shall furnish implementation and monitoring reports containing the information in and consistent with the requirements of Sections IV(A)(1) and IV(B)(4) of this Order as set forth in the body of this Order. It is further

ORDERED that the small LECs shall implement intraLATA presubscription only after receipt of a bona fide request as set forth in the body of this Order. It is further

ORDERED that the small LECs shall not be required to entertain a bona fide request until after January 1, 1997, as set forth in the body of this Order. It is further

ORDERED that the costs of implementation of intraLATA presubscription shall be recovered from the interexchange carriers as set forth in the body of this Order. It is further

ORDERED that the costs of implementation of intraLATA presubscription shall be recovered through a separate rate element that is LEC-specific and applicable to all originating interLATA FGD access minutes of use as set forth in the body of this Order. It is further

ORDERED that the time period for recovery of the cost of implementation of intraLATA presubscription shall be three years as set forth in the body of this Order. It is further

ORDERED that the LECs shall file tariffs by July 1, 1995, to implement intraLATA presubscription as set forth in the body of this Order. It is further

ORDERED that the stipulations set forth in the body of this Order are approved. It is further

ORDERED that no recovery mechanism for LEC revenue losses associated with the implementation of intraLATA presubscription shall be implemented at this time as set forth in the body of this Order. It is further

ORDERED that 0- dialed calls shall be retained by the LECs as set forth in the body of this Order. It is further

ORDERED that 0+ local calls shall be retained by the LECs as set forth in the body of this Order. It is further

ORDERED that 0+ intraLATA toll calls shall be treated in the same manner as 1+ intraLATA toll calls as set forth in the body of this Order. It is further

ORDERED that no change shall be made in the manner in which 1-555-1212 dialed calls are currently handled as set forth in the body of this Order. It is further

ORDERED that the no change shall be made in the manner in which N11 dialing patterns are currently handled. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 13th day of February, 1995.

Blanca S. Bayó

BLANCA S. BAYÓ, Director
Division of Records and Reporting

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Commissioner Julia L. Johnson concurs with the following statement:

I concur in the overall decision in this case because it is consistent with the direction in which the industry is moving. Technology is evolving so that markets that were once thought of as natural monopolies are now opening for entry by new providers and participants in related industries.

The fundamental reasons for allowing communications monopolies -- because they provide an essential service and because of the belief that duplication of such services did not result in the lowest prices for consumers--have changed. Although communication services are and will always be a vital, merging technology and merging markets may make it possible for consumers to receive better service and lower prices from multiple providers.

I believe that the ultimate beneficiary of a competitive communications market will be the Florida consumer, who will receive more choices as to both services and providers at competitively-based prices. Competition, I believe, is the best manner in which Florida citizens can receive the lowest cost solutions to providing communications services. Equally important is the fact that I believe that competition in communications markets is inevitable. We must not delay the inevitable; we must prepare for it.

Having said that, I understand that increasing competition in a market which is now a monopoly unequivocally means a reduction in market share for the existing company, the incumbent LEC. I also realize that a reduction in a LECs intraLATA market share may impact the LECs earnings. I am mindful of Chairman Deason's stated concern that the Commission was looking at a step which has the potential of reducing some long distance rates on an intraLATA basis, but has the potential of increasing local rates. I, too, am concerned about the impact that this decision may have. I do not believe, however, based on the record in this case, that this decision must necessarily lead to higher local rates.

I am persuaded by the following: (1) the implementation of intraLATA presubscription will occur over time, thus spreading out its impact on the LECs over time. The Commission has required LECs to implement intraLATA presubscription only as central office upgrades occur. Furthermore, the Commission delayed implementation for the small LECs by two years; (2) balloting was not required by the Commission, therefore IXCs will be able to obtain this traffic only by marketing efforts, and this, too, will spread out the impact; (3) market growth and stimulation from lower prices will help offset the revenue losses; (4) LECs will continue to receive access charges on much of the traffic going to the IXCs.

I believe that the above facts will contribute to maintaining reasonable local rate levels. These factors, however, are not long-term solutions for a new competitive market. I believe that an important role for the Commission during the transition to competition will be to insure that there are numerous high-quality, viable competitors, including the LECs, serving the citizens of our state. We will have been successful when all players are operating under similar rules.

Today LECs' intraLATA toll services have restrictions that IXCs do not have. Historically, there have been good reasons for this, and there may continue to be some differences in treatment. In light of our decision today, however, it seems imperative that we examine the current LEC toll restrictions compared to the IXCs so that they, too, can prepare to compete.

Given our recent decisions, it is clear that we have begun the period of transition from monopoly to competition in Florida's communications markets. Such a move requires a change in regulatory philosophy. The entrance of new providers completely changes the nature of monopolistic market's structure and thus should accordingly change the nature of regulation.

Although there was not sufficient time to explore these matters in the instant docket, I believe that we must reexamine our regulatory treatment of LEC toll services. Although we previously found LEC toll services were not effectively competitive due to the lack of dialing parity between the LECs and the IXCs, our decision in this docket may change that. Therefore, I believe we should investigate this again.

As we move towards a more competitive market, we must continue to evaluate the cumulative impact of our decisions on ratepayers and on service providers. This is the only way that we can assure that the competitive market which we are overseeing will provide consumer choices and high quality service at reasonable, competitively based prices.

Commissioners J. Terry Deason and Joe A. Garcia dissent from the Commission's decision that intraLATA presubscription is in the public interest at this time.

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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or the First District Court of Appeal in the case of a water and/or wastewater 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 after the issuance of this order, 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.

TABLE 1-1

FLORIDA HOST SWITCHES

VENDOR	TYPE SWITCH	NO. OF SWITCHES	ACCESS LINES (000)	SOFTWARE AVAILABLE YEAR
AT&T	1A-ESS 2B-ESS 5E-ESS	33 7 87	1,368 76 3,202	1995 Replace 1995
NTI	DMS-10 DMS-100	22 96	64 2,363	1994 1994
ALCATEL	DSS-1210 DSS-1210	17 2	261 11	1994 Replace
AGCS	GTD-5EAX	61	1,521	1996
SIEMENS	DCO EWSD	6 7	27 180	1994 1997
TOTAL		338	9,073	1994-1997