

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Request for approval of) DOCKET NO. 950892-TL
tariff filing to provide) ORDER NO. PSC-95-1138-FOF-TL
contract service arrangements) ISSUED: September 12, 1995
for IntraLATA Toll Service for)
large customers by GTE Florida)
Incorporated. (T-95-456 filed)
7/20/95))
_____)

The following Commissioners participated in the disposition of this matter:

SUSAN F. CLARK, Chairman
J. TERRY DEASON
JOE GARCIA
JULIA L. JOHNSON
DIANE K. KIESLING

ORDER APPROVING TARIFF

BY THE COMMISSION:

I. Background

Contract Service Arrangements (CSAs) were introduced for the first time in August, 1984. By Order No. 13603, issued August 20, 1984, we granted BellSouth Telecommunication, Inc. d/b/a Southern Bell Telephone and Telegraph Company (Southern Bell) CSA authority for Private Line, Special Access facilities, and WATS access lines. We also allowed other local exchange companies (LECs) to request CSA authority for their private line and WATS services. See Order 13830. We have granted CSA authority to other LECs since 1984.

When economical, CSAs may be furnished instead of existing tariff offerings provided there is reasonable potential for uneconomical bypass of the company's services. Uneconomic bypass occurs when an alternative service arrangement is used, instead of company services, at prices below the company's rates but above the company's incremental costs.

On May 9, 1995 GTE Florida Incorporated (GTEFL or Company) filed a tariff to provide CSA authority for customers with a minimum of 5,000 aggregated minutes of usage per month. This tariff was denied at the July 18, 1995 agenda conference because the Company's filing did not meet the imputation guidelines defined

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in Docket No. 900708-TL, Order No. PSC-92-0146-FOF-TL, issued April 1, 1992.

Currently, GTEFL proposes to provide CSAs for intraLATA toll service for large business customers with a minimum of 11,820 aggregated minutes of usage per month. The Company asserts that the proposal complies with our imputation guidelines.

II. Description of Present Tariff

GTEFL's current tariff does not allow contract service arrangements (CSAs) for any toll customer segment. GTEFL asserts that the lack of contract arrangements does not permit it to compete effectively for high-volume business toll users and that CSAs are necessary to meet existing competition in the intraLATA toll market. GTEFL believes that the IXC's have more latitude in creating favorable pricing arrangements because of their ability to package interLATA and intraLATA service, and to offer large customers nationwide contracts. GTEFL argues that since the IXC's are capable of offering discounts on total toll usage, intraLATA minutes are therefore discounted the same as interLATA minutes even if the majority of the large customers' toll minutes are on the interLATA side. GTEFL believes it is disadvantaged because of this ability by the IXC's. The Company asserts that not only is it restricted from providing interLATA service, but it cannot offer intraLATA contract discounts. Although the Company understands that we have no control over its federal restrictions, GTEFL believes that we have the authority to grant additional pricing flexibility that would eliminate some of the artificial competitive disparity between the LECs and the IXC's.

GTEFL asserts that its present toll tariffs were approved with the expectation that the LECs would remain the only provider of 1+ intraLATA toll in each of their respective serving regions. However, with the approval of intraLATA presubscription, GTEFL believes that the present tariff is outdated and does not allow for the vast changes that lie ahead. The Company states that it, like the IXC's, must begin preparing for these changes now.

III. Description of Proposed Tariff

GTEFL proposes to add CSAs for intraLATA toll service for large business customers with a minimum of 11,820 aggregated minutes of usage per month. These arrangements would be offered to customers in lieu of standard tariff offerings, on a case-by-case basis, at contractual rates. The Company proposes that the toll contracts be treated like other CSAs, which require no prior Commission approval once the authority is granted for a given

service. However, the toll contracts would appear on the Company's quarterly CSA report and would be available for our review upon request.

The price floor for services available through CSAs is normally based on a company's long run incremental costs. However, in Order No. 24859, issued July 29, 1991, we developed imputation guidelines for establishing the competitive price floor for LEC toll services. Imputation is a measure to ensure that the Company's rates are covering its access rates. GTEFL asserts that its proposed CSA would comply with our imputation guidelines.

Switched access charges are imputed on both ends for low volume services; however, for high volume services, a company is allowed to impute special access on one end and switched access on the other end. See Order 24859. Specifically, we found it appropriate to use a cross-point approach to determine the level of access rates equivalent to the high volume customer's most economic configuration. The cross-point methodology determines the appropriate point to change from imputing switched access rates on both ends to special access on one end and switched access on the other end for purposes of determining the relevant access rates to be covered. The determining factor is the point where a customer would decide to purchase a special access line instead of using switched access, based on the number of hours of toll calls that a customer anticipates making per month.

We also concluded that the LECs limit their high volume toll services, which meet the cross-point methodology, to access lines which can be used only for those services. In other words, no other service, such as local service, shall be permitted on these lines. Currently, Southern Bell uses this methodology for its high volume Aggregated WatsSaver plans.

GTEFL proposes to use this methodology to provide CSAs for its high volume intraLATA toll customers. The lowest possible aggregated toll rate that a customer could receive under the proposed tariff is \$.07824 per minute, which is GTEFL's current imputation floor. The Company would only be allowed to impute special access on one end for services with qualifying usage greater than the 197 hour high volume cross-point.

IV. Alternative Providers for Toll Service

GTEFL believes that the requested CSA authority would enable it to respond to other IXC strategies for serving large customers. For instance, IXCs may purchase dedicated T1 facilities to run from their points of presence to particular large business customers'

premises. In this scenario, the customer has no need to go through GTEFL's switch to reach its IXC; therefore, the customer would pay high-capacity charges rather than usage. If the customer is substantially large, this arrangement would reduce the Company's effective access charges. GTEFL asserts that it lacks the pricing flexibility needed to compete with the favorable rates the IXCs can offer customers through these kinds of arrangements.

V. Criteria for Granting CSAs

Minimum criteria were established in Docket No. 950112-TL for granting CSAs. The criteria are:

- 1) An alternative provider can legally provide a service that is functionally similar or equivalent from the standpoint of the customer; and
- 2) There is the reasonable potential for economic harm without pricing flexibility. There is a constant threat from both potential and existing rivals.

We acknowledge that competitive alternatives to GTEFL's intraLATA toll service include direct competition from ATT-C, Sprint, and MCI, as well as smaller IXCs certificated in Florida. With the implementation of intraLATA presubscription, the customer has the option of using GTEFL for its intraLATA traffic or presubscribing to an IXC for its intraLATA traffic. Thus, we believe that the customer's ability to choose his carrier, either a LEC or an IXC, for 1+ intraLATA traffic provides an alternative to the customer.

We believe that there is a potential for economic harm to GTEFL because of the existence of functionally equivalent alternatives to the LEC's intraLATA toll service. The IXCs market their intraLATA toll services and would not market these services if their intention were not to gain a larger share of the intraLATA toll market. We believe the existence and marketing of these alternatives by IXCs poses the potential for economic harm to the Company. Thus, we believe that GTEFL's proposed tariff meets the minimum criteria for granting CSAs.

Upon review, we approve GTEFL's tariff to provide CSAs for intraLATA toll services for large customers. GTEFL's price floor for its contract rates shall be based on the imputation of access charges and apply to business customers with a minimum of 11,820 aggregated minutes of use per month. Currently, GTEFL's competitors can provide arrangements that combine interLATA and

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intraLATA rates and services. We believe that the tariff would enhance GTEFL's ability to compete with the IXCs that provide interLATA and intraLATA package discounts. In addition, there appear to be functionally equivalent services for the provision of intraLATA toll as well as the potential for economic harm, thus meeting the minimum criteria for granting CSAs.

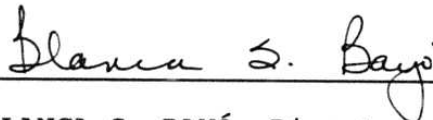
Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that GTE Florida Incorporated's tariff to provide contract service arrangements for intraLATA toll service for large customers is hereby approved as discussed within the body of this Order with an effective date of August 21, 1995. It is further

ORDERED that if a protest is filed in accordance with the requirements set forth below, the tariff shall remain in effect with any increase in revenues held subject to refund pending resolution of the protest. It is further

ORDERED that if no protest is filed in accordance with the requirements set forth below, this docket shall be closed.

By ORDER of the Florida Public Service Commission, this 12th day of September, 1995.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

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