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May 12, 1993

Mr. Steve C. Tribble, Director
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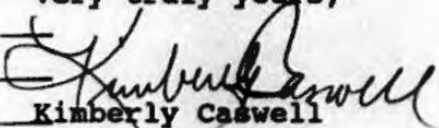
Dear Mr. Tribble:

Re: Docket No. [REDACTED]
In the Matter of the Petition of Intermedia
Communications of Florida, Inc. for Expanded
Interconnection for AAVs within LEC Central Offices

Please find enclosed for filing an original and fifteen copies
of GTE Florida Incorporated's White Paper in the above refer-
enced matter.

ACK If there are any questions with regard to this matter, please
AFA 1 contact the undersigned at 813-228-3094.

APP Very truly yours,

CAF
(CM) 
CTR Kimberly Caswell

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LEG 1 Enclosures

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FPSC-RECORDS/REPORTING

INTERCONNECTION ISSUES AND RESPONSES:
POLICY DIRECTIONS FOR A COMPETITIVE MARKETPLACE

Submitted by GTE Florida Incorporated
in
Florida PSC Docket No. [REDACTED] TP
Petition of Intermedia Communications
of Florida for Expanded
Interconnection for AAVs
Within LEC Central Offices

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FPSC-RECORDS/REPORTING

EXECUTIVE SUMMARY

At the April 8, 1993, workshop in this docket, Commission Staff called for papers that would help educate it about the issues associated with expanded interconnection with the local exchange network. This discussion responds to that request. While the paper will address the questions Staff posed in its March 23 memorandum, it will not use a question and answer format. Instead, because many of the issues presented are closely interrelated, GTEFL has employed a more integrated approach that will enable a cohesive discussion of the policy directions necessary to satisfy the complex concerns this docket raises.

With the onset of competition in the local exchange market, the Florida Public Service Commission ("Commission") must comprehensively address the issues facing all telecommunications providers and consumers in Florida. However, GTEFL agrees with the Staff that complex and significant issues such as collocation, unbundling and elimination of resale restrictions and their associated impact on pricing levels and structures should not be handled through a single proceeding.

While all of these various interconnection issues are interrelated and need to be recognized as such, implementation of competition in the local market should be approached incrementally. The successful transition to a more open, competitive marketplace requires careful balance and timing of activities. The worst possible alternative is to proceed along an "all or nothing" path and implement flash-cut measures only to arrive at an undefined competitive environment with undetermined consequences. To prevent

this outcome, GTEFL urges the Commission to take a series of steps to fully investigate the impact of competition upon local exchange carriers ("LECs"), alternative access vendors ("AAV"), other service providers and certainly the impact on consumers. Specifically, GTEFL recommends that the Commission address the competitive impacts attendant Intermedia's petition as follows:

1. Address intrastate special access interconnection first. This is appropriate given the progress that has already been made by the FCC. With the exception of the physical collocation mandate, the GTE companies believe that the FCC requirements can be mirrored by the Florida Public Service Commission for intrastate purposes. As explained below, GTEFL strongly believes that the FCC mandate of physical collocation should be eliminated.

2. Address the restructuring of switched transport. The FCC is also in the process of restructuring switched transport. See Transport Rate and Structure Pricing, Report and Order, CC Docket No. 91-213 (October 16, 1992). GTEFL recommends that the Commission adopt a policy consistent with the interstate dedicated/common transport rules and orders adopted by the FCC.

3. Address Costing and Pricing Issues. GTEFL urges the Commission to support the direction which GTEFL recommended in the Commission's cross-subsidy docket to establish a set of costing procedures to more effectively serve the broad issues introduced by the Intermedia Petition. At some point after a decision has been reached in the cross-subsidy docket, a pricing project should be initiated addressing pricing issues as well as tariff and resale restrictions. GTEFL suggests a full scale investigation of these issues. Completion of these workshops would not need to delay implementation of either expanded interconnection for special access services or restructuring of dedicated/common transport.

4. Address issues of general unbundling. A restructuring of dedicated/common transport and resolution of the costing/pricing issues are logical foundations for initiating the unbundling phase. Because unbundling involves a fundamental restructuring of all LEC services and raises a myriad of public policy issues, a full scale evidentiary proceeding will be necessary to adequately review all related issues and determine the benefits and costs of unbundling.

GTEFL urges the Commission to be prudent and exercise caution; too aggressive an agenda, trying to do everything at once, will only jeopardize the areas where immediate attention is most needed, special access interconnection and dedicated/common restructuring. Technology is increasing at such a pace that competition in telecommunications is thriving without unbundling and expanded interconnection. It is not correct to view these activities as necessary for competition. However, in order for unbundling, interconnection and removal of tariff restrictions to contribute to the development of a competitive market, GTEFL believes that these actions must be done in a coordinated manner and only after a full investigation of all the facts.

BACKGROUND

The petition brought by Intermedia Communications of Florida, Inc. ("ICI") is a direct consequence of the FCC's Expanded Interconnection Order released on October 19, 1992. Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, Amendment of the Part 69 Allocation of General Support Facilities, CC Docket No. 92-222, Report and Order and Notice of Proposed Rulemaking. That Order mandates that Tier 1 local exchange companies, including GTEFL, permit interested parties to collocate and interconnect their special access transmission facilities within the LEC's central offices. There are only two potential exceptions to this directive: (1) a formal state regulatory or legislative policy decision in favor of virtual collocation for expanded interconnection, or allowing LECs to

choose which form of collocation to use for such interconnection; or (2) a demonstration by the LEC that a particular central office lacks sufficient space to permit physical collocation. Expanded Interconnection Order at para. 41.

It is the FCC's opinion that physical collocation will promote competition resulting in new services, reduced rates, and increased efficiency within the access market. The term physical collocation is defined by the FCC as a situation where the "interconnecting party pays for LEC central office space in which to locate the equipment necessary to terminate its transmission links, and has physical access to the LEC central office to install, maintain, and repair this equipment." Expanded Interconnection Order at para. 39. Under the FCC's virtual collocation guidelines, interconnection will occur at a specified point close to the LEC's central office. Interconnectors would designate the central office equipment dedicated to their use and monitor and control their circuits terminating in the LEC's facilities. Id. at para. 44. The interconnector's equipment would thus be located in the LEC's central office under either a physical or virtual collocation scenario. The FCC's virtual collocation scheme requires technical interconnection arrangements comparable to those anticipated with physical collocation. The only significant distinction is in which entity--the LEC or the interconnector--will maintain and repair the equipment associated with interconnection.

In its Order, the FCC required LECs to file physical collocation tariffs within one hundred and twenty (120) days of the

release of the Order, which was accomplished by GTE on February 16, 1993 with an effective date ninety (90) days following, or May 17, 1993. Included in this tariffing requirement are prices for floor space, installation non-recurring charges ("NRCs"), power and lighting and use of duct and riser space, etc.

The Expanded Interconnection Order itself was issued notwithstanding separate statements from Chairman Sikes and Commissioner Quello, both indicating serious reservations about mandatory physical collocation. In his dissent, Chairman Sikes expressed both legal and policy objections to mandatory physical collocation. He noted that mandatory physical collocation raises serious questions about a "taking" or confiscation of local exchange carrier property in violation of the Fifth Amendment and leaves unclear what problems the FCC is attempting to resolve by forcing LECs to offer physical collocation, especially when the Order itself acknowledges that some parties might prefer virtual interconnection arrangements. Similarly, Commissioner Quello in his separate statement aptly noted that "the only real difference between physical collocation and virtual collocation is whether the local exchange carrier or the interconnector installs, maintains, and repairs the interconnector's equipment."

The FCC's Order did not preempt the states. While the Order does, in practical terms, guide the development of state interconnection policies, this Commission still retains significant latitude to formulate rules in accordance with state-specific conditions and concerns. This independent effort is essential

since the implementation of special access interconnection greatly accelerates competition for local exchange services. Further, the long-run impacts at the local and state level are likely to be much larger than the impacts at the federal level.

DISCUSSION

- I. The benefits of expanded interconnection are concentrated with those parties seeking it and their customers. The costs are diffused over the general body of ratepayers and the local exchange company.

The costs and benefits associated with expanded interconnection cannot simply be stated in terms ascribing the theoretical benefits usually associated with more competitive marketplaces, for the type of competition being introduced has atypical characteristics. Consider for a moment that under current authorizations in Florida, an AAV can construct facilities to any location for which right of way can be obtained. Furthermore, with only limited constraints, the AAV can provide a variety of services over those facilities to any customer it might secure. AAVs or other providers of telecommunications services can build, purchase, lease, or rent real estate assets to house their terminating network equipment or any other facilities they might desire, subject only to zoning restrictions and market conditions. At any time, the AAV can purchase interconnection to the LEC network on the basis of filed access tariffs of Florida LECs. Expanded interconnection changes none of these, save that under the terms of the FCC's Order, the LEC is now compelled to enter the real estate business and make space available in its central offices to any party desiring such space. This action, of course, requires both

a degree of unbundling and repricing of LEC services. A more accurate term might simply be "cheaper interconnection to the LEC network by non-LEC providers".

The situation that arises is very similar to a gas station operator with a very desirable geographic location. Due to the volume of traffic which passes his store on the nearby highways, the station operator does a large volume of business. A new entrant would certainly find such a location to be very desirable to locate his gas station. Unfortunately, the spot is already taken. In traditional markets, the response would be for the new firm to either find a different location to open his business or to offer the current location owner a sufficiently high price to induce the current owner of the location to vacate and allow the new owner to assume use of the property. That is not the approach in the expanded interconnection context. In the expanded interconnection context, the existing station owner is required to make a portion of his facilities available to the new entrant thereby allowing the new entrant to compete with him at the same location. Certainly, this is not the typical form of geographic competition. The FCC's order ignores the effects of geography in an effort to spur what it believes is fair. Aside from the unique circumstances attendant the FCC decision, however, expanded interconnection increases the scope of competition in the local exchange market.

Interconnectors themselves will stand to benefit the most from expanded interconnection. Depending upon the relative price elasticities in the market for special access services, those firms

such as AAVs taking expanded interconnection may pass a portion of the savings along to their customers. Those customers are typically large business customers located in the larger metropolitan areas. The impact upon LECs, small business customers and residential customers will depend on the manner in which specific interconnection arrangements are structured and the degree to which LECs are allowed to respond to increasing competition by interconnectors. The broad consumer benefits usually associated with competition will not occur in a marketplace where some competitors are handicapped by unduly restrictive regulations. Indeed, as explained below, interconnection, especially with the mandate of physical collocation, may serve to harm LECs and their rural and residential customers.

- A. Physical collocation provides no additional competitive benefits, but will increase costs on several levels.

Although expanded interconnection, properly implemented, may offer some benefits by encouraging competition, there are no additional benefits created by the physical collocation mandate. In fact, it is difficult to construct any rational or logical argument that physical collocation provides additional competitive benefits that are not already available under virtual collocation. On the contrary, given the highly prescriptive nature of the FCC's Expanded Interconnection Order, any anticipated benefits to consumers as a result of expanded interconnection have been substantially diminished by restricting parties' ability to negotiate effectively.

Indeed, the real economic consumer welfare benefit of a competitive market for a service is that mutually advantageous voluntary trades among parties are maximized. By mandating physical collocation, at least one of the parties may be forced to enter into a trade it would not elect to enter on a voluntary basis. Such compulsion violates the very spirit of competition the FCC was attempting to create through expanded interconnection. This aspect was recognized by Chairman Sikes, who stated:

The highly regulatory and inflexible approach the Commission has adopted seems likely to create more concrete problems than the illusory ones it seeks to resolve.

Expanded Interconnection Order, Separate Statement of Chairman Alfred C. Sikes [emphasis added].

This lack of flexibility engendered by a physical collocation requirement severely thwarts one party, the LEC, from adequately representing its own interest, negotiating effectively and fulfilling its other service obligations.

Mandatory physical collocation will also subject LEC operations to several levels of ongoing disruptions that will compromise its ability to maintain, improve and expand service in the most efficient way. Space allocation and exhaustion problems are an inevitable consequence of a physical collocation mandate. The FCC's scheme requires the LEC to provide space to interconnectors until space is "exhausted." Expanded Interconnection Order at para. 80 and Appendix B, rule 64.1401(b). The Order fails to make any explicit allowance for a LEC to deny physical collocation when space remains in the central office. If central office space is

allocated to capacity to interconnectors, the LEC may be forced to acquire new space for equipment to meet the state's telecommunications needs. The result may well be increased rates for the average telephone subscriber.

The FCC's physical collocation scheme imposed upon LECs the additional burden of considering possible interconnector demands for space when remodeling or building central offices. Expanded Interconnection Order at para. 79. This expectation is wholly unfair. The LEC's capital planning process continues to be rendered increasingly more difficult as the critical need for cost-cutting measures has grown along with competition in LEC business sectors. The FCC directive to anticipate physical collocation requests introduces an additional and unreasonable element of risk into the LEC's capital planning efforts. Ultimately, ratepayers will be forced to bear the increased expense flowing from this unwarranted competitive disadvantage for the LEC.

The space constraint problems associated with physical collocation will also likely lead to future unnecessary conflicts. If, for example, mandatory physical collocation within the central office is believed to confer some advantage, and not all parties can be accommodated, then some will feel that the LEC conferred an advantage to those parties obtaining physical collocation over those who did not.

Further, mandatory physical collocation may lead to service arrangements which create an inefficient use of LEC central office space for any given level of demand. The measures necessary to

accommodate interconnectors will directly affect LEC costs and productivity. LECs will need to set aside separate space within the central office and then provide secure access to that space. Significant new construction may be required, depending on the existing central office configurations. LECs will also be required to arrange for interconnectors' heat, air conditioning, electricity and other such services. Further, the LEC, which must accommodate each interconnector with separate transmission cable, will be unable to promote efficiency by sharing cables and equipment among customers.

In addition to the LEC's direct costs of accommodating interconnectors in its facilities, a physical collocation rule will force the LEC to bear increased administrative expenses. Employees will need to develop charges and file tariffs to cover space rental and associated services (heating, power, etc.). As noted earlier, LECs will be required to undertake the likely futile effort of incorporating potential future space demands in their long-range expansion and remodeling plans. Forecasts will thus need to be revised--and additional costs incurred--as interconnectors' plans become known.

All of the costs flowing from a physical collocation mandate can never be recovered. Many of the most substantial, ongoing costs will remain unquantifiable because they derive from injection of inefficiencies into the day-to-day operations of the LEC. Among other things, LEC employees must suffer construction intrusions every time the office needs to be reconfigured to accommodate

interconnectors. LEC personnel will lose immediate unrestricted access to all parts of their facilities, as well as the ability to freely exchange information about LEC plans and operations.

Additionally, mandatory physical collocation will remove the LEC's ability to insure network security and reliability, as Chairman Sikes recognized in his dissent from the FCC's physical collocation rule. See Expanded Interconnection Order, Separate Statement of Chairman Alfred E. Sikes. Today, the LEC's chief means of guarding against harm to the network is its complete discretion to control entry to its central offices. Without this authority, the potential for both inadvertent and intentional interference with LEC operations increases dramatically.

A more subtle, but no less important, threat arising from presence of non-LEC personnel is the potential for leakage of sensitive information about LEC operations, expansion plans, service difficulties, and the like. Collocation in LEC facilities will tip off competitors to LEC network upgrades and technology deployment before these efforts are publicly disclosed. Simply by conducting its own business, the LEC will thus be compelled to confer undue advantages upon its competitors.

Finally, safety hazards in collocators' spaces could affect the entire central office. The LEC will have little authority over the interconnectors' activities, equipment and installation methods. Because interconnectors' areas will be locked, the ability of LEC employees to quickly and effectively respond to emergencies will be substantially diminished.

Although virtual collocation arrangements may be the most efficient in many circumstances, GTEFL is not advocating a virtual collocation mandate any more than it is advocating one for physical collocation. Rather, GTEFL is only asking for an equal right to negotiate an expanded interconnection arrangement with its customers. GTEFL desires to maintain its property rights in its structural assets as well as to manage its businesses and fulfill its obligations to customers and stockholders, without being compelled by regulatory authority to accommodate architectural and rate design imperatives which impose inefficiencies in network design, provisioning and administration. With a physical collocation mandate, the LEC has no choice; it must provide physical collocation regardless of the inefficiencies or disruptions created.

Although the interconnectors may argue that increased inefficiencies is a price to be paid for competition, the number of disruptions and degree of inefficiency can be decreased with virtual collocation arrangements without an appreciable negative impact upon interconnectors.

B. Physical collocation harms smaller LECs and customers.

As a broader issue, at present it is far from clear that any benefits will accrue to consumers on the whole because of physical collocation. Clearly any benefits ascribed to expanded interconnection will accrue directly to requesting interconnectors who, unlike LECs, can customize service offerings and price beneath the LECs' tariffed rate umbrella. Likewise, the interconnectors'

customers, who are typically large urban businesses with the market influence to attract competitive service vendors, will also benefit.

GTEFL believes, however, that the benefits realized by the large players will be at the expense of the smaller ones, the rural and residential customers. If the large urban business customers discontinue LEC tariffed services and substitute interconnectors' services, inherent contributions/subsidies which benefit rural and residential customers will be lost. These subsidies are inherent in the requirement that the LECs charge statewide averaged tariffed rates for their services despite the fact that service costs vary as a function of terrain, traffic and household density. These subsidies generally support residential and rural customers, who are charged prices for service provisioning that are lower than related costs, using revenues obtained from business and urban customers, who are charged prices higher than their causally related costs.

Any potential benefit to the rural customer is likely to be deferred to the indefinite future, due to the alternative provider's complete discretion regarding its customer selection. By contrast, the loss of the contribution and the resulting increase in rates is a very real possibility. Any proceeding which fails to fully consider the impact upon all contribution and support mechanisms could seriously deteriorate the quality and availability of service presently enjoyed by the more rural citizens of Florida.

Even more so than the case of expanded interconnection for special access, expanded interconnection for switched access is likely to place a very significant strain on the overall support flows in the industry, due to the current pricing mechanisms. Current pricing arrangements rely on the continued flow of contribution from switched access services and intraLATA toll services to allow GTEFL to retain a lower than average basic residential service price. As other service providers attempt to capture a larger share of the transport market for switched services (including the provision of loops), the contribution contained in the prices will be eroded. Expanded interconnection for switched access accelerates the competitive erosion.

- II. Only Tier 1 LECs should be required to offer expanded interconnection, along with a reciprocity agreement for those parties purchasing it. The effects are not, however, limited to just the larger LECs.

The FCC's order limits tariffing requirements to expanded interconnection for special access services of Tier 1 LECs only. GTEFL believes that such a limitation is fully appropriate in Florida as well. Many small LECs concur in tariffs developed and maintained by the National Exchange Carrier Association ("NECA"), which has not been required to file expanded interconnection tariffs on behalf of its member companies.

Even though the expanded interconnection requirement applies only to larger LECs, the impact of such interconnection is not, however, limited to such LECs. Expanded interconnection for intraLATA services will affect smaller LECs through the compensa-

tion arrangements that exist between large and small LECs. These arrangements specify how LECs involved in jointly providing services will be compensated for the portion of the service they have provided. Expanded interconnection allows for non-LEC interconnectors to provide portions of these services. Current arrangements do not reflect this possibility or its impact. The consequences of expanded interconnection to smaller LECs cannot be limited or controlled by applying the interconnection requirement to only the larger LECs.

Finally, GTEFL believes that any interconnection requirement imposed on the LEC should recognize the LEC's right to obtain comparable interconnection with interconnectors' facilities. Only through this reciprocity entitlement will full and fair competition develop, along with maximum consumer benefits.

III. The Florida PSC is not compelled by law to follow the FCC for intrastate services. However, as a practical matter, many decisions have already been forced upon it.

The FCC's Order does not compel this Commission to adopt the same requirements for intrastate interconnection as those at the interstate level. For the most part, however, GTEFL believes that interconnection for intrastate special access services should follow interconnection for interstate special access services. As a practical matter, separate intrastate and interstate interconnection regimes would prove unworkable and unnecessarily duplicative. For example, the existence of two different schemes presents the potential for two different charges for the same product--e.g.,

floor space. A company acting in its own self-interest will simply take the lower price for the product or service.

With regard to collocation, however, GTEFL strongly believes that the Commission should decide for itself whether it is in the public interest of all Florida consumers to force physical collocation on LECs. The FCC has allowed the states to express their views on this subject. If a state commission has approved a policy favoring virtual interconnection or LEC choice for interconnection, the LECs operating in that state can seek an exception to mandatory physical collocation requirement on the basis of that policy. Although the states were ostensibly required to take appropriate action by February 16, 1993, this Commission, along with NARUC and commissions from several other states, have requested an extension of that deadline. No action has yet been taken on those filings.

In addition, a number of local exchange providers, including the GTE companies, have appealed the FCC's Order mandating physical collocation. The Bell Atlantic Telephone Companies et al. v. FCC, Petition for Review, No. 92-1619 (D.C. Cir. filed Nov. 25, 1992). Given the uncertainty associated with the FCC's physical collocation rule, GTEFL urges the Commission to develop and be prepared to implement its own collocation policy. Only in this way can the Commission actively ensure protection of state-specific interests.

IV. A Florida decision on switched access connection should be coordinated with and await transport rate structure reform.

While the FCC has already acted on the question of special access expanded interconnection, it has not yet adopted switched access rules. Given this situation, GTEFL believes that no Florida interconnection policy addressing switched access services should be developed prior to the implementation of both interstate special access interconnection and the "interim" local transport rate restructuring ordered by the FCC in its Transport Order. See Transport Rate and Structure Pricing, Report and Order, CC Docket No. 91-213 (October 16, 1992).

The Commission should take measured steps in contemplating and then implementing expanded interconnection for any service, switched or special. The special access proceedings before the FCC provide ample justification and practical experience for a cautious and thorough examination of factual information and all parties' positions. It is important to note that many issues relating to special access interconnection remain unresolved and that many details surrounding implementation are still being developed and refined. The FCC segmented its expanded interconnection proceedings between special and switched access specifically in recognition of the fact that special access involves a much smaller customer set--and revenue exposure--than does switched access. As the FCC's own record regarding switched access interconnection is, as yet, not complete, it would be imprudent to now include

provisions for expanded interconnection of these service offerings in this Commission's policies.

Issues related to special access interconnection are much closer to being resolved than the many issues related to switched access interconnection, unbundling and resale restrictions. GTEFL feels that the practical effect of attempting to enact a policy which seeks to hastily introduce expanded interconnection for all access services at once may, in fact, delay implementation of any expanded interconnection in Florida. GTEFL believes that expanded interconnection for services other than special access cannot properly be implemented until issues specific to those services, unbundling and resale restrictions, are resolved. While these issues are being resolved, implementation of expanded interconnection for special access service will be delayed. Therefore, GTEFL recommends an incremental approach as undertaken by the FCC.

- V. To implement expanded interconnection for special access, some limited unbundling of services is required. Far more extensive unbundling will be required for implementation of switched access interconnection.

While some limited unbundling may be necessary to ensure effective interconnection of special access, a fundamental unbundling of all LEC services and functionalities is not needed. The rate elements for special access services are already unbundled into loop, transport and termination elements and the FCC explicitly determined that unbundling, beyond the establishment of the interconnection charge and the "real estate" rate elements, was not needed to implement expanded interconnection.

Indeed, unbundling is not something that should be pursued simply for its own sake. Many significant issues exist, such as the effect on existing subsidy flows and local residential rates. Services should only be unbundled following a determination by the Commission that unbundling is an effective and necessary means of promoting fair and efficient competition. Following such a determination, specific unbundling decisions should be guided by criteria of economic and technical feasibility. The application of these criteria will ensure that LECs are capable of offering the specific network functionality on an unbundled basis and that sufficient demand exists at a price which covers the relevant incremental costs and contributes to the common overhead costs of the LEC.

As a matter of timing, unbundling beyond that necessary to ensure effective interconnection of special access should not be addressed until the implementation of expanded interconnection is complete. The unbundling of local exchange services should be addressed in a separate proceeding (or at least a separate phase of this proceeding), as competition for basic local exchange services continues to develop.

VI. Resale and sharing restrictions will ultimately have to be addressed to fully implement expanded interconnection, since LECs do not know the identity of the customer ultimately being served.

As currently filed, interstate access tariffs do not contain resale or sharing restrictions and therefore, these matters need not be addressed solely with respect to these tariffs. However, local tariffs do contain resale and sharing prohibitions. These

restrictions exist because the local tariffs contain rate structures and rate levels which are, to a large degree, dependent on customer identity, rather than the volume of service purchased by customers. The use of resale and sharing restrictions has allowed social and public policy goals to be introduced into the rate design for LEC services. While it may be desirable as a long-term policy goal, the elimination of these restrictions must be preceded by a comprehensive review and restructure of all affected services.

VII. Expanded interconnection would have potentially significant effects on the jurisdictional separation of LEC costs.

Switching equipment at LEC end offices and tandem offices is used jointly for local, extended area service ("EAS"), intraLATA toll, and interLATA switched access services. The total cost (or revenue requirement) of this equipment is allocated to the various services, based upon their relative minutes of use.

LEC costs associated with interoffice trunking facilities are likewise allocated to the above services plus private line and special access based upon relative use, expressed in terms of trunks, circuits, and miles. The costs allocated to each service drive the jurisdictional allocation of LEC costs.

As interexchange carriers begin to interconnect at the LECs' central offices and abandon existing LEC access connection facilities, the total LEC investment in these joint facilities will not disappear; rather, this investment will be reallocated among the services and jurisdictions which remain, based on the usage

that remains on these facilities. As the interLATA access usage declines, more of the interoffice transport facility costs will be allocated to the remaining EAS and intraLATA toll services. The impact of special access interconnection will therefore result in a decrease in the cost of special access and an increase in the cost of all other LEC services.

If and when switched interconnection is adopted, jointly used facilities will see a decrease in switched access minutes, both state and interstate, and a corresponding increase in costs allocated to all other services, including EAS and local. The jurisdictional impact of switched interconnection will be much greater than the impact of special interconnection, both because of the sheer volume, and because switched interconnection will likely result in carriers interconnecting at each end office, bypassing the tandem altogether. As the interLATA switched access minutes decline because IXCs bypass LEC tandem switches, more of the jointly used switching and exchange trunking facility costs will be allocated to intraLATA toll, EAS, and local services.

VIII. The Commission must grant LECs increased pricing flexibility, both in terms of geographic deaveraging and the ability to employ volume discounts. In addition, the ability to employ contracts with customers must be allowed.

In terms of pricing flexibility, there is a need to deaverage prices both on a volume basis and geographically; there will need to be a rebalancing between switched and special and between state and interstate jurisdictions, the latter as a result of the separations impacts. There are consequences beyond the narrowly

defined impacts on access services, due to the contribution mechanisms embodied in LEC prices. Both the separations rules and the marketplace dictate these actions. If the service is competitive, and by the Federal Communications Commission's own language-- "Competitive Access Providers"--it is and is becoming ever more so, then the service should be deregulated or at least detariffed. If it is not competitive everywhere and that is the rationalization for not deregulating or detariffing, then GTEFL suggests that this is an implicit recognition that geography does make a difference and that difference should be recognized in pricing flexibility granted to LECs. This will be especially true for switched access services under expanded interconnection, but is no less valid for special access interconnection.

IX. Space in a LEC central office is not a telecommunications service, but a real estate asset. No matter what market power a LEC or other party may have in telecommunications services, it has no market power in the real estate market. Thus, market forces can be relied upon to establish rental prices for LEC floor space.

A legitimate argument can be made by LEC rivals that GTEFL and other LECs have market power in the provision of loops, including special access lines to end users, but not monopoly power; there are very legitimate and cost-effective loop substitutes available today and even more will be available in the future. However, whatever degree of market power that a LEC has in the provision of loops, it certainly does not have any market power in the provision of real estate or commercial/industrial floor space. Accordingly, the market can be allowed to work very efficiently in the pricing

of floor space, should the Commission be interested in pursuing such a policy.

To the extent that a LEC has space available in its central offices and wishes to make that space available to third parties, rental rates can be established based on market conditions in the area for equivalent kinds of space. To the extent that central office space is differentiated from other floor space, some premium can potentially be extracted. Consider the consequences if the Commission pursues this course of action. First, the LEC would be effectively replacing the Cost Allocation Manual ("CAM") with a market-based transaction price. If there is no effective demand for the rental space made available, then the price will be quite low, approximating the marginal cost of the floor space.

Suppose a market price is established, even for the sake of argument including pure economic rent, and the demand for the space exceeds the quantity of space available. The first market action in response to this excess demand is to raise the price of the floor space until the quantity demanded is in balance with the quantity available. Of course, competitors will utilize the regulatory process to complain that the price is too high. If a firm making the allegation of "price gouging" is not happy with the LEC price for floor space, the firm can simply locate elsewhere and face no competitive harm in the terms of interconnection pricing, since the pricing policy of virtual collocation would still apply. Appeals to the regulatory process for relief from the pricing of

floor space should immediately be dismissed by the Commission as an arbitrary attempt to use the process to force delay on the LEC.

- X. To assure maximum customer benefits and promote competition, the Commission must allow LECs the freedom to compete prior to adopting expanded interconnection.

As GTEFL has stated, the asserted benefits of competition will never be achieved if LECs are denied the ability to compete with other entities on an equal basis. Specifically, before expanded interconnection is implemented, the following conditions must be satisfied:

- (1) Security and operational concerns must be addressed.
- (2) The CAM must be revised to reflect the cost allocation process with an explicit pricing mechanism.
- (3) The rental floor space price must be allowed to be determined by the market on a C.O. by C.O. basis.
- (4) Pricing flexibility must be granted to the LECs for their telecommunications services.

As GTEFL has explained, it opposes a physical collocation mandate. Such a rule would be especially ill-advised if conditions number 3 and 4 are not met.

- XI. GTEFL agrees that the concept of expanded interconnection can be a desirable service offering for customers. However, the terms and conditions of that interconnection require significant reforms in the pricing of LEC access services.

LEC special access tariffed services do provide AAVs an effective means of interconnecting their facilities with LEC facilities to provide customers with end-to-end services. The ability to select capacities (e.g., DS 1, DS 3), service segments, and create hubbing arrangements through the use of multiplexing and

cross-connecting features, along with GTEFL's distance sensitive DS3 SAL offering, makes this an attractive possibility. Customers will always prefer a lower price to a higher price, so the Commission should not confuse firms seeking simply lower prices with truly different services. GTEFL agrees that expanded interconnection can be a desirable offering and can promote expanded choices to customers.

Despite this conditional endorsement of the concept of expanded interconnection, GTEFL remains firmly convinced that the current rules associated with tariff rules and applications hinder the ability of the LEC to compete with its non-regulated or lightly regulated competitors. GTEFL strongly believes that access rules and rate structure changes are necessary either concurrently or preferably prior to the availability of expanded interconnection. Such pricing and regulatory reforms must include:

- a) geographic deaveraging of access services pricing;
- b) increased flexibility in the timing of making price adjustments that are timely in the market place;
- c) the ability to put together service packages as end-to-end offers to customers, including the resale of AAV facilities, with the ability to go "off-tariff" to satisfy unique customer demands and service arrangements.
- d) increased flexibility in the range of prices LECs are permitted to charge;
- e) consistent treatment for all competitors in the marketplace by regulatory bodies with recognition that AAVs, ESPs, IXC's, cellular carriers, etc. are potential and actual LEC competitors as well as valued customers;
- f) recognition that a firm can simultaneously be an ESP and an AAV, or an AAV and an IXC. Any rules established by the Commission should be blind to the identity of the

party. The LEC does not have the ability, nor does it want to, perform the duties of telephone police.

This last point, in GTEFL's opinion, is somewhat critical to establishing a focused and consistent telecommunications policy. GTEFL believes that as a matter of general business ethics, the Company should not be put in the position of giving its customers the financial incentive to misrepresent who they are and what they do. Current regulatory requirements place the LECs in this rather uncomfortable position.

In its Order, the FCC proposes that expanded interconnection for special access be made available to all parties, regardless of their possible regulatory classification as IXC, end user, AAV, ESP, or any other label. GTEFL supports this line of reasoning and believes that limiting this service to a given classification of customers is unworkable.

It is virtually impossible to distinguish among customers. How does a LEC know the difference between an ESP and an AAV or an AAV and an IXC, or an IXC and a cellular provider? The LEC doesn't, unless the customer elects to tell it. Some customers can be placed in multiple classifications. An IXC can be an ESP; a cellular provider can be an IXC; an AAV be an IXC and an ESP; a cellular provider can be a co-carrier (LEC?), an ESP, an IXC, an AAV, and also appear to be an end user! Given the ability to resell LEC services, an approved class of customers can act as an agent for any other customer. Thus, any attempt to enforce some arbitrary classification scheme is simply a waste of LEC resources. This reinforces GTEFL's position stated above and also points out

the problems associated with many existing tariff applications. Since this policy confusion crosses both special and switched access services in the Florida jurisdiction and also clearly exists at the federal level, a comprehensive reexamination of FCC as well as Florida rules will be required if the benefits of expanded interconnection are truly to be realized.

CONCLUSION

This paper is intended as a first step in presenting some of the key concerns the Commission will need to address in any interconnection inquiry. GTEFL will be happy to respond to further Staff requests for information. Above all, GTEFL urges the Commission to remain focussed on special access issues at this point and to implement any expanded interconnection scheme in a careful and incremental manner.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of GTE Florida Incorporated's White Paper in Docket No. 921074-TP was sent by U.S. mail on May 12, 1993 to the parties on the attached list.


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