**FLORIDA PUBLIC SERVICE COMMISSION**

 **Fletcher Building**

 **101 East Gaines Street**

 **Tallahassee, Florida 32399-0850**

 **M E M O R A N D U M**

 **July 22, 1993**

**TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING**

**FROM : DIVISION OF COMMUNICATIONS [BOYD]**

 **DIVISION OF LEGAL SERVICES [KURLIN]**

**RE : DOCKET NO. 930615-TL: PROPOSED TARIFF FILING TO WAIVE SOME NON-RECURRING CHARGES (NRC) FOR SERVICE REARRANGEMENTS FOR IXCs TO RECONFIGURE THEIR SWITCHED ACCESS TRANSPORT FACILITIES BY GTE FLORIDA, INCORPORATED (T-93-349, FILED 6/17/93)**

**AGENDA: AUGUST 3, 1993 - CONTROVERSIAL - PARTIES MAY PARTICIPATE**

 **ISSUE 2 IS PROPOSED AGENCY ACTION**

**CRITICAL DATES: 60 DAYS EXPIRES 8/16/93**

**SPECIAL INSTRUCTIONS: I:PSC\CMU\WP\930615.RCM**

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 **CASE BACKGROUND**

 One of the switched access pricing requirements that the AT&T antitrust consent decree mandated was that Bell Operating Companies' (BOCs) charges for transport traffic were to be "equal, per unit of traffic delivered or received, for all IXCs." The "equal charge" requirement was put into place to promote IXC competition by keeping AT&T from receiving deeply discounted access rates because of its much higher traffic volume. Basically, all IXCs were to pay the same rate (given equal mileage) whether the call went through a tandem office or via a direct trunk.

 The Federal Communications Commission (FCC), however, found that the "equal charge" regime had "significant negative implications for both efficient use of the network and the possibility of local access competition."

 In its Report and Order and Further Notice of Proposed Rulemaking in CC Docket No. 91-213, adopted on September 17, 1992, the FCC initiated an interim cost-based rate structure for LEC transport charges. The FCC decided that a cautious approach in this area would be best to ensure that all IXCs could adapt to the new rate structure.

 Under the interim rate structure for interstate access, the FCC allows the LECs to "break-up" the transport element and charge different distance-sensitive rates for entrance facilities, direct-trunked transport, and tandem-switched transport. Now, a call going through a tandem office (given equal mileage) may be more (or less) expensive than a call being transported via a direct trunk. (Attachment 1 defines entrance facilities, direct-trunked transport, and tandem-switched transport.)

 Because of the disparity in rates, GTEFL contends that the IXCs will, because of economic reasons, move some of their tandem switched traffic to direct-trunked transport (or vice-versa). While any trunk is used to transport both intrastate and interstate traffic, trunks are separated between intrastate and interstate for pricing and rate base purposes. The determination of interstate and intrastate trunks is made by an IXC's reporting its percent interstate usage (PIU). As a result, an IXC will most likely have a greater amount of interstate trunks than intrastate. This explains why, of the approximately 17,000 trunks that GTEFL has linked to IXCs, only 987 intrastate trunks are forecasted to be reconfigured.

 Fundamental to this interim cost-based rate structure approach is a companion docket where the FCC has proposed rules for expanded interconnection for switched transport. Expanded interconnection (referred to also as collocation) will facilitate the ability of alternative access vendors (AAVs) to compete with the LECs in the provision of switched transport. The FCC decision to "break-up" the transport element stems from the competitive pressures the LECs will face from the AAVs via expanded interconnection.

 In Order No. 93-0484, this Commission approved Southern Bell's proposed tariff filing allowing IXCs to reconfigure their switched transport facilities without incurring a Service Rearrangement Charge. This tariff filing mirrors SBT's filing, eliminating the $125.41 non-recurring Rearrangement Charge to the IXCs by GTEFL.

  **DISCUSSION OF ISSUES**

**ISSUE 1:** Should GTEFL's tariff proposal to waive some non-recurring charges (NRCs) for service rearrangements to permit IXCs to reconfigure their switched access transport facilities be approved?

**RECOMMENDATION:** Yes, GTEFL's tariff proposal to waive some NRCs for service rearrangements to permit IXCs to reconfigure their switched access transport facilities, should be approved.

**STAFF ANALYSIS:** On September 17, 1992, the FCC initiated an interim LEC transport rate structure and pricing plan. (All LECs are required to implement this new rate structure on or about November 1, 1993 - the same time that the FCC hopes to have established rules for expanded interconnection. This interim rate structure is to be in effect until November 1, 1995).

 Under the interim rate structure, the LECs will be permitted to "break-up" and charge distance-sensitive rates for entrance facilities, direct-trunked transport, and tandem-switched transport. By "breaking-up" transport and allowing LECs to charge a flat rate for the direct-trunked option, the FCC is positioning the IXCs and LECs for expanded interconnection and promoting a more efficient use of the LEC network.

 Unlike the current "equal charge per minute" rate structure, the interim rate structure will allow the IXCs to decide, based on economics and traffic volumes, whether direct-trunked transport or tandem-switched transport is more feasible. If an IXC determines that the disparity in rates and the traffic volumes warrant a change, then with the passing of this tariff, IXCs will be allowed to make that change without incurring a Service Rearrangement Charge of $125.41. The IXCs will be exempt from this non-recurring charge until April 30, 1994. The IXCs will still incur a Design Change Charge of $34.14 per Service Rearrangement, per occurrence.

 Due to the separations process, the changes mentioned above can affect the intrastate arena. To the extent direct-trunking is used in lieu of tandem switched transport, or vice-versa, the intrastate portion of these trunks will be subject to intrastate rearrangement charges. The intrastate changes appear to be small if, according to GTEFL's forecast, only 987 trunks will be reconfigured.

 According to GTEFL, the IXCs are expected to rearrange a small percentage of their switched access trunks to take advantage of possible cost savings associated with this reconfiguration. Using in-service quantities of Feature Group D trunks (FGD) and the estimated number of service rearrangements to be requested by the IXCs (987 of 16,864 trunks), the revenue foregone is estimated to be $5,267.22.

 Staff believes that GTEFL's filing is reasonable considering the FCC's long-term rate structure and pricing approach with regard to expanded interconnection and the accompanying increasingly competitive environment in the transport arena. This non-recurring charge waiver has a minimal revenue effect and will foster more economic utilization of the network which will improve GTEFL's competitive positioning. GTEFL will be better able to retain local transport business in the face of increased competition from AAVs and IXCs collocating in GTEFL end offices. Retention of local transport business is important to the general body of ratepayers as this helps hold down basic local rates.

**ISSUE 2:** Should tariff filings from other LECs that mirror this filing by GTEFL be allowed to be approved administratively by staff?

**RECOMMENDATION:** Staff recommends future tariff filings by the LECs until October 1, 1993, that mirror this filing should be approved administratively by staff. Such filings should be approved within 30 days of this Commission receiving the filing, or by a later date specified by the LEC.

**STAFF ANALYSIS:** The LECs waiver of non-recurring charges (NRCs) for service rearrangements to permit IXCs to reconfigure their switched access transport facilities is mandated by the FCC.

Unlike the current "equal charge per minute" rate structure, the interim rate structure will allow the IXCs to decide, based on economics and traffic volumes, whether direct-trunked transport or tandem-switched transport is more feasible. The FCC has ruled that the IXCs will be allowed to make that change without incurring a Service Rearrangement Charge until May 1, 1994.

Staff believes any future tariff filings by the LECs until October 1, 1993, which waive only the NRC for service re-arrangements, should be done administratively.

**ISSUE 3:** Should this docket be closed?

**RECOMMENDATION:** Yes, if Issue 1 is approved this tariff should become effective on August 3, 1993. If a timely protest is filed, this tariff should remain in effect with any increase in revenues held subject to refund pending resolution of the protest. If no timely protest is filed, this docket should be closed.

**STAFF ANALYSIS:** At the conclusion of the protest period, if no protest is filed, this docket should be closed.

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