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October 22, 1993

BY HAND DELIVERY

Mr. Steven C. Tribble, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: Petition of Intermedia Communications of Florida, Inc. for Expanded Interconnection for AAVs within LEC Central Offices
Docket No. 921074-TP

Dear Mr. Tribble:

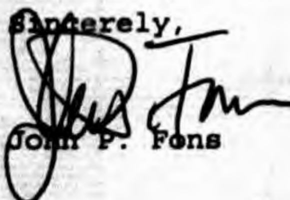
Enclosed herewith for filing in the above-styled docket are the original and fifteen (15) copies of Joint Post-Hearing Statement and Brief of United Telephone Company of Florida and Central Telephone Company of Florida.

We are also submitting the Post-Hearing Statement and Brief on the enclosed 5", high-density diskette generated on a DOS computer in Word Perfect 5.1 format.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in connection with this matter.

Sincerely,



John P. Fons

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cc: All Parties of Record (w/encl.)

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition of Intermedia Communications of Florida, Inc. for Expanded Interconnection for AAVs within LEC Central Offices

DOCKET NO. 921074-TP
Filed: October 22, 1993

FILE COPY

JOINT POST-HEARING STATEMENT AND BRIEF
OF UNITED TELEPHONE COMPANY OF FLORIDA
AND CENTRAL TELEPHONE COMPANY OF FLORIDA

Pursuant to Rule 25-22.056(3)(a), Florida Administrative Code, and Order No. PSC-93-0811-PCO-TP (Order Establishing Procedure 5/26/93), United Telephone Company of Florida ("United" or the "Company") and Central Telephone Company of Florida ("Centel" or the "Company") (where appropriate, both companies will be jointly referred to as "the Companies") jointly submit this Post-Hearing Statement and Brief.

Post-Hearing Statement

On July 8, 1993, United filed its Prehearing Statement in which it furnished its position on the Issues identified in the Commission's Order Establishing Procedure (Order No. PSC-93-0811-PCO-TP, issued May 26, 1993). On July 13, 1993, Centel filed its Request for Leave to File its Prehearing Statement and its Prehearing Statement. At the Prehearing Conference held on August 11, 1993, Commissioner Johnson, the prehearing officer, granted Centel's request for leave and accepted its Prehearing Statement. Centel's Prehearing Statement adopted Untied's statement of basic position and United's position on each of the issues identified in

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the Order on Prehearing Procedure. In this Post-Hearing Statement, the Companies now affirm United's position on the issues reflected in the Prehearing Order (Order No. PSC-93-1274-PHO-TP, issued 9/1/93). It should be noted, however, that Issues 2, 3, 9, 10 and 19 have been stipulated by the parties and the stipulation has been accepted by the Commission. For each of the non-stipulated issues, the Companies set forth their discussion of the issues in Attachment A hereto with appropriate record citations.[1]

Several of United's positions originally taken in its Prehearing Statement exceed the "fifty words or less" limitation imposed on positions on issues in Post-Hearing Statements (i.e., Issues 1, 4, 5, 12, 15 and 18). After careful review of each of the positions which exceed fifty words, the Companies are convinced that the stated positions are as concise as proper language usage will permit, and any effort arbitrarily to reduce the number of words to the mandatory "less than fifty words" would only do damage to the overall sense of the stated position. The Companies therefore request a waiver of the Commission's Rule 25-22.056(3)(a), to the extent that, and in those instances where, the Companies' positions on the issues exceed fifty words.

Post-Hearing Brief

The purpose of this Post-Hearing Brief is to discuss the following fundamental concerns that must be addressed by the

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[1] In this Post-Hearing Statement, citations to the record will be to the hearing transcripts of September 13 and 14, 1993, with witness identification where appropriate.

Commission as it deliberates the public interest aspects of granting expanded interconnection:

1. The interrelationship between special access and switched access pricing.
2. The impact of switched access pricing policies on alternative access activities.
3. The potential for uneconomically driven, adverse consequences on basic local exchange service prices from expanding interconnection without addressing the underlying pricing anomalies.
4. The need for LEC pricing flexibility to meet competitive alternatives if benefits of increased competition are to flow to end user customers.

These concerns can be ameliorated by the Commission addressing expanded interconnection in terms of its real implications and not in a vacuum. Expanded interconnection may be viewed by some simply as a small, incremental step to increase customer alternatives with regard to special access and private line services. It is, alas, a much more dramatic step having enormous ramifications on universal service pricing. The Companies are not here arguing against granting expanded interconnection as requested by Intermedia and already required in the interstate jurisdiction. What is being urged, however, is that the Commission, in granting expanded interconnection, do two things; namely,

1. Grant the LECs pricing flexibility to meet special access and private line competitors in the marketplace; and

2. Begin the process of repricing switched access service to reduce the pressure and incentives to bypass switched access services.

A. The Companies Must be Granted Pricing Flexibility to Meet Special Access and Private Line Competition

The granting of expanded interconnection (whether on a physical collocation or a virtual collocation basis) will allow interexchange carriers (IXCs), alternative access vendors (AAVs) and end users (collectively "the interconnectors") the opportunity to provide special access and private line services making use of the Companies' local exchange network facilities. The principal reason the interconnectors want expanded interconnection is that it allows them to use facilities that the interconnectors do not wish to provide themselves because it is too costly for them to do so. (Canis, Tr. 158.) This has been a common practice in telecommunications as selective competition has been introduced. The net result in each instance has been added pressure on residential and single-line business local exchange service prices. (Poag, Tr. 488.)

The expanded interconnection scenario being addressed here is no exception to that practice. Indeed, it is a dramatic example of network piece-out in which current levels of common cost support from access services will be reduced. But not allowing the Companies to compete effectively will not only result in reduced contribution levels, all contribution levels will be lost and there will be stranded investments to boot. (Poag, Tr. 488-89.)

It is, therefore, critical that the Companies be granted additional pricing flexibility to meet special access competition. The Commission should continue to permit the Companies the contract service arrangements (CSAs) previously granted, and add zone density pricing as has been granted by the Federal Communications Commission on the interstate level.

The CSAs are an important tool in meeting competitive special access situations, but CSAs have had limited application to date because of Commission-imposed restrictions, the most restrictive of which is the requirement that the customer must first have been presented with a competitive proposal. In most cases, the customer never thinks to call the Companies to seek a counter offer when a competitive situation arises. (Poag, Tr. 576.) That situation may be changing, and may be changed, so that CSAs can play a larger and more meaningful role in meeting competition. However, CSAs should be just one weapon in the Companies' arsenal of competitive responses.

A better weapon to deal with competition from the special access and private line vendors - including the end user himself - is zone density pricing. (Poag, Tr. 494-95.) The principal improvement over CSAs is the fact that zone density pricing is a standard, tariffed offering that allows quicker response to competitive situations. Unlike CSAs, which require customer-specific cost studies, zone density pricing is based upon zone-specific pricing studies that are applicable across a broad spectrum of competitive situations. Nonetheless, just because zone

density pricing has more universal application, there will be competitive situations where a CSA application may be more appropriate because of unique customer cost characteristics. (Poag, Tr. 654-57.)

Under zone density pricing, as permitted by the FCC, the Companies' rates for special access will be averaged within each zone, but may differ between zones. Also, the Companies will establish a number of density pricing zones (up to three zones without further justification) within each existing study area, assigning each of the central offices to one of the zones. The assignment of central offices to a zone will reflect cost-related characteristics, such as traffic density, although geographic contiguity may also be considered. (Poag, Tr. 494-95.)

On February 16, 1993, zone density pricing plans were filed with the FCC by Centel Corporation and United Telephone Companies. Thereafter, on August 4, 1993, the FCC approved these plans and the Companies were granted authority to file tariff revisions to implement their zone density pricing plans on not less than 31 days' notice. A copy of FCC Order DA 93-869, released August 4, 1993, is appended to this Joint Post-Hearing Statement as Attachment B. In view of the fact that zone density pricing plans are available to the Companies in the interstate jurisdiction, it would be unfortunate for the Companies and their customers if such plans were not also available to respond to intrastate competitive special access and private line situations.

B. The Commission Must Begin the Process of Repricing Switched Access Service

Granting expanded interconnection for special access and private line services without also beginning the process of reducing switched access prices only exacerbates the competitive problems facing the Companies and their customers. Because switched access service is priced thirteen hundred percent above its incremental cost (1¢ vs. 14¢ per minute) and special access service is a direct substitute for high-volume switched access, allowing other providers to furnish special access on an unregulated basis at reduced prices without also reducing switched access prices will create greater pressure for customers to migrate from switched access to special access. (Canis, Tr. 156-57; Poag, Tr. 484.) The principal damage to the Companies and their customers from this replacement of switched access service with special access is the loss of the substantial contribution made by switched access services to common costs and other public policy objectives. (Poag, Tr. 491.)

Permitting special access expanded interconnection at the Companies' central offices will add impetus and opportunity for uneconomic bypass of the switched network. (Poag, Tr. 486.) There long has been an incentive for customers either to facility bypass or to service bypass switched access. However, until expanded interconnection is implemented, the opportunities for marketing facility bypass as a line of business are limited. With expanded interconnection, which gives the interconnectors an aura of permanence and respectability, greater pressure will be placed on

access customers to take advantage of these bypass opportunities. (Canis, Tr. 70; Poag, Tr. 559-61.) Unfortunately, as noted earlier, most bypass opportunities are uneconomic bypass because the opportunities are not based on lower cost, but only lower price. (Poag, Tr. 486.)

To be sure, granting the Companies special access pricing flexibility will help to preserve some access revenue, but it will be at the expense of the Companies' switched access revenues and the contribution these revenues make. (Poag, Tr. 487.) Indeed, if both interstate and intrastate switched access service prices were reduced to their economic cost, the magnitude of the issue of expanded interconnection would be de minimus; there would be little incentive or market for either network or service bypass. One way or the other, expended interconnection stimulates and accelerates the process by which switched access service contribution of over $60 million a year for United will be lost. (Poag, Tr. 491-92.) Ultimately, this process assures that basic local exchange customers will have to bear a greater portion of the cost of local exchange service. If, however, the Commission continues to ignore the clear warning signals and persists in overpricing switched access, significant business users will leave the network for alternative providers that exist and profit because of uneconomic pricing policies.

Obviously, reducing switched access prices and realigning the Companies' other service prices to achieve revenue neutrality cannot be undertaken in this phase of this proceeding.

Nonetheless, discovery undertaken in this proceeding has provided the magnitude of the revenue realignment required and the impact on residential local exchange rates if intrastate switched access prices are reduced to the interstate switched access price levels. For example, United has indicated that the annual revenue amount to be reassigned is $60 million, which equates to approximately $3.20 per month per residential access line on average. (Poag, Tr. 492.) Similarly, Centel's amount would be $19.2 million in annual revenues to be reassigned, which equates to about $4.75 per month per average residential access line. (Ex. 35, p. 9.)

The Companies recognize that any revenue realignment between switched access services and the Companies' other services will not be without controversy and resistance. (Poag, Tr. 565-66.) Yet, it is an action that can no longer be avoided. Either the Commission does it or the marketplace will do it. But, if the marketplace performs the realignment, the local exchange customers will be worse off than if the Commission does it. Because if the Commission does it, large customers and the IXCs will continue to use the Companies' local networks, thereby providing long-term, positive benefits to the local exchange customers in the form of network upgrades and technological improvements which will permit more economically efficient operation of the network. In addition, any increase in local exchange service prices will be offset with reduced toll rates. (Poag, Tr. 561-63.) This will occur because the IXCs will be the greatest beneficiaries of reduced switched access prices, and they will flow-through these reductions to their

toll users who also happen to be the Companies' local exchange customers. (Poag. Tr. 562-63.)

DATED this 22nd day of October, 1993.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail or hand delivery (*) this 22nd day of October, 1993, to the following:

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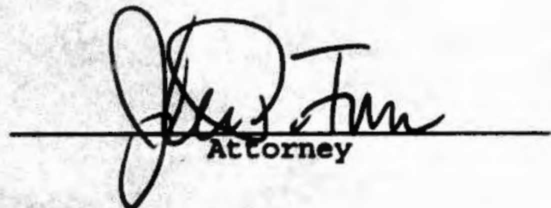

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ATTACHMENT A

Joint Post-Hearing Statement of United Telephone Company of Florida and Central Telephone Company of Florida

- Position on Issues -

STATEMENT OF BASIC POSITION:

United Telephone Company of Florida supports expanded interconnection for special access and private line services, provided (1) all parties are given the same opportunities to compete on the basis of price, quality and technology, and (2) there is no mandatory requirement for any particular form of collocation. In addition, it is important to understand that expanded interconnection will not take place in a vacuum and the true economic benefits of competition will not be realized if pricing supports for basic residential services are not removed and all competitors are not allowed to price based on relevant economic costs.

DISCUSSION:

Please see the Companies' Post-Hearing Brief for a further discussion of equal opportunities to compete, and the need for the Commission to address underlying pricing anomalies. Please see the Companies' Discussion of Issue 6 on the question of mandatory collocation.

ISSUE 1: Is expanded interconnection for special access and/or private line in the public interest?

POSITION: Yes. In the long run, United Telephone agrees that the competitive provisioning of local private line and special access transport services (and, in the future, switched access services) will provide customer benefits of product innovation, higher quality service, network diversity, and lower prices. However, United Telephone's customers, especially residential customers and single-line business customers, will be disadvantaged if the Company is not granted the pricing flexibility needed to meet the competition fostered by expanded interconnection.

DISCUSSION: Even though expanded interconnection will accelerate competition in the local exchange market and thereby create pressure for significant changes in regulatory policy relative to local exchange pricing, the Companies are not opposed to expanded interconnection provided all parties are given the same opportunities to compete on the basis of price, quality and technology. (Poag, Tr. 481.)

The dilemma that results when competition is introduced for services which historically have been priced to provide contributions that support below-cost basic residential service. The true benefits of competition will not be realized if (1) pricing supports are not removed, and (2) all competitors are not allowed to price based on relative economic costs. (Poag, Tr. 483.) Without pricing flexibility, the Commission-imposed,

artificially high access rates serve as a pricing umbrella for inefficient producers to enter the market and be profitable at the expense of the consumers (Poag, Tr. 483.)

To give some order of magnitude to the potential revenue losses from implementing expanded interconnection, United Telephone had $197 million in interstate access revenues during 1992. Of this amount, $103 million is switched access, $29 million is transport, $13 million is special access, and $52 million comes from end user charges. Similarly, United Telephone's intrastate access revenues for 1992 were $118 million. Of this amount, $5 million came from special access, while $20 million came from transport, and $93 million came from other switched access. What is significant about this is the revenue impact of implementing expanded interconnection is not limited just to United Telephone's special access revenues. Because of the cross-elasticity of the services, all of the Company's transport and switched access revenues are subject to increased competition and associated revenue reductions. (Poag, Tr. 490-91.)

ISSUE 2: How does the FCC's order on expanded interconnection impact the Commission's ability to impose forms and conditions of expanded interconnection that are different from those imposed by the FCC's order?

STIPULATED POSITION: The FCC's Order on expanded interconnection does not restrict the FPSC's ability to impose forms and conditions of expanded interconnection that are different from those imposed by the FCC's Order. Expanded interconnection for intrastate special access/private line falls under the FPSC's jurisdiction, and the Commission is not bound by any interstate policy.

DISCUSSION: In its Order FCC 92-440 in CC Docket No. 91-141 and CC Docket No. 92-222, released October 19, 1992, the FCC concluded that there is no need for preemption of existing state programs in order to permit initial implementation of expanded interconnection for interstate special access. (Para. 253.)

ISSUE 3: Under what circumstances should the Commission impose different forms and conditions of expanded interconnection?

STIPULATED POSITION: Issue 3 is deleted from further consideration in this proceeding.

ISSUE 4: Does Chapter 364, Florida Statutes, allow the Commission to require expanded interconnection?

POSITION: Although the original enactment of Chapter 364, Florida Statutes, and any of its subsequent amendments, could not have contemplated expanded interconnection, it does appear that Chapter 364 allows the FPSC to require expanded interconnection. See Section 364.16, Florida Statutes. However, the Commission's authority is limited, in any event, to requiring expanded interconnection only for the provision of point-to-point or point-to-multipoint service dedicated to the exclusive use of an end user for the transmission of any public telecommunications service. See Section 364.335, Florida Statutes.

DISCUSSION: This is a legal issue, and the Companies' position does not need further discussion or elaboration.

ISSUE 5: Does a physical collocation mandate raise federal and/or state constitutional questions about the taking or confiscation of LEC property?

POSITION: Yes. In fact, several LECs, including BellSouth, GTE, Bell Atlantic, Pacific Telesis, Cincinnati Bell and Southwestern Bell, have appealed the FCC's decision on this issue to the U.S. Circuit Court of Appeals for the District of Columbia. The appeal is still pending. The basis for this appeal is that mandatory physical collocation constitutes a taking of the LEC's property requiring just compensation. Only courts, not regulatory agencies, have the authority to determine just compensation. This deficiency is equally applicable to Florida because the Florida Public Service Commission is a legislative agency, and it lacks the authority to require or effectuate such a taking which meets the required constitutional protection.

DISCUSSION: This is a legal issue, and the Companies' position does not need further discussion or elaboration.

ISSUE 6: Should the Commission require physical and/or virtual collocation?

POSITION: The Florida Commission should not mandate any particular form of collocation. As set forth in the Company's position on Issue 3, the LECs and interconnectors should be able to negotiate physical or virtual collocation on a case-by-case basis, with the same terms and conditions available to all interconnectors.

DISCUSSION: The Companies are not opposed to providing physical collocation to any qualified entity when it is demonstratively appropriate to do so. The Companies are, however, opposed to being unconditionally required to provide any specific form of collocation, either physical or virtual. Moreover, the FCC's imposition of mandatory physical collocation is currently on appeal on the basis of an unconstitutional taking of the LEC's property. Until that appeal has been concluded, the imposition of mandatory physical collocation is still an open issue. (Poag, Tr. 496-97.)

In any event, the Companies believe that physical and virtual collocation can be treated as a line of business. Today, United Telephone has customers/IXCs physically collocated in a number of its central offices. These collocations were negotiated on an arms-length basis with terms and conditions which are mutually beneficial to both parties. Based on this experience, the Company believes that rather than mandating any form of collocation, the Commission ought to adopt rules and regulations which permit and encourage the parties to negotiate physical or virtual collocation

arrangements on a case-by-case basis with the same terms and conditions available to all interconnectors. (Poag, Tr. 497.)

ISSUE 7: What LECs, if any, should be required to provide expanded interconnection?

POSITION: At this time, only Tier 1 LECs should be required to offer expanded interconnection. United Telephone concurs with the FCC in its Order FCC 92-440, paragraphs 56-58. In addition, any potential interconnector should be subject to the same set of rules and requirements. See the Company's position on Issue 12.

DISCUSSION: No further discussion of this issue is required.

ISSUE 8: Where should expanded interconnection be offered?

POSITION: To avoid unnecessary administration and cost, expanded interconnection should only be tariffed for those central offices where it is likely to occur. If additional locations are requested, they can be added. For consistency, the intrastate serving wire centers should match those approved for interstate expanded interconnection.

DISCUSSION: No further discussion of this issue is required.

ISSUE 9: **Who should be allowed to interconnect?**

STIPULATED POSITION: Any entity should be allowed to interconnect on an intrastate basis its own basic transmission facilities associated with terminating equipment and multiplexers except entities restricted pursuant to Commission rules and regulations.

DISCUSSION: No further discussion of this issue is required.

ISSUE 10: Should the same terms and conditions of expanded interconnection apply to AT&T as apply to other interconnectors?

STIPULATED POSITION: AT&T should be allowed to interconnect intrastate Special Access Arrangements to the same extent as other parties, subject to the requirements adopted by the FCC in CC Docket 91-141 regarding preexisting collocated facilities.

DISCUSSION: No further discussion of this issue is required.

ISSUE 11: Should the Commission require standards for physical and/or virtual collocation? If so, what should they be?

POSITION: Yes. The Florida Commission should require standards for collocation which are the same as those imposed by the FCC, except for mandatory physical collocation.

DISCUSSION: No further discussion of this issue is required.

ISSUE 12: Should collocators be required to allow LECs and other parties to interconnect with their networks?

POSITION: Yes. The same rules and requirements should be applied to all potential interconnectors. It is essential that consumers have full accessibility to the telecommunications network, regardless of the provider. All interconnectors should be willing to offer access to their networks on terms and conditions that are similar for similar types of customers.

DISCUSSION: It is worth noting that at least two AAVs have agreed in this proceeding to offer access to their networks to the LECs and other parties, (Canis, Tr. 114; Kouroupas, Tr. 262), because it will make good business sense for the AAVs to do so. Whether it is a good business judgment to allow reciprocal interconnection, the fact is this Commission can, pursuant to Section 364.16, Florida Statutes, require reciprocal interconnection and should require it so as to bring the benefits of interconnection to the largest number of end users.

ISSUE 13: What standards should be established for the LECs to allocate space for collocators?

POSITION: The LECs should not be required to reserve or allocate space. In those central offices where interconnectors want space, it should be furnished, if available, on a first-come, first-served basis.

DISCUSSION: By way of further elaboration on the Companies' position on Issue 13, the Companies should not be required to purchase additional land or buildings, relinquish building space forecasted for their own use, or undertake the construction of new buildings or expansion of existing buildings in order to satisfy an interconnector's request for expanded interconnection. (Ex. 30, p. 5.)

<u>ISSUE 14:</u> Should the Commission allow expanded interconnection for non-fiber optic technology?

<u>POSITION:</u> Although the Commission should not require expanded interconnection for non-fiber optic facilities, United Telephone should be allowed the option to offer expanded interconnection to non-fiber technology if it so chooses.

<u>DISCUSSION</u>: No further discussion of this issue is required.

ISSUE 15: If the Commission permits expanded interconnection, what pricing flexibility should the LECs be granted for special access and private line services?

POSITION: Because of the cross-elasticity between switched and special access services, pricing flexibility should not be limited to special access and private line services. In order to allow the Company to compete based on its economic costs, switched access reductions and pricing flexibility, in the form of geographically deaveraged intrastate local private line and switched and special access rates, are necessary when expanded interconnection is approved.

United Telephone's intrastate switched access rates are substantially higher than its interstate rates. Because of the cross-elasticity between switched and special access services, drastic price reductions and pricing flexibility are necessary if the Company is to be allowed to compete effectively and to avoid uneconomic resource allocations. Both access price reductions and deaveraged prices are necessary if the benefits of competition are to be realized fully.

DISCUSSION: By way of further elaboration, please see the Companies' Post-Hearing Brief, pages 4 through 6. In addition, it should be noted that in CC Docket No. 91-141, the FCC acknowledges that "non-cost-based restrictions on LEC responses to competition would create a pricing umbrella for the CAPS, potentially fostering uneconomic investment, and depriving customers of the benefits of

LEC rate reductions." (Ex. 30, p. 10.) Although the FCC recognized in its Order the need for additional LEC pricing flexibility, the degree of flexibility the FCC granted is insufficient to meet the demands of a competitive market. Under the FCC's plan, the speed with which LECs may adjust their special access prices to reflect the actual cost of providing service in a particular zone is overly restrictive. Additionally, the FCC is requiring that averaged rates remain in place until expanded interconnection is operational, rather than allowing LECs to be proactive in preparing for competition. (Ex. 30, pp. 10-11.)

ISSUE 16: If the Commission permits collocation, what rates, terms, and conditions should be tariffed by the LEC?

POSITION: For consistency, ease of administration, and increased customer understanding, the tariffs for intrastate expanded interconnection should mirror those approved by the FCC for United Telephone.

DISCUSSION: The FCC ordered that all Tier 1 LECs file a tariff covering all terms of interconnection, including uniform terms and conditions for the use of central office space for physical collocation by all interconnectors in a particular central office. The Companies have filed tariffs for expanded interconnection for interstate services. These tariffs were approved by the FCC and became effective June 16, 1993. (See Attachment B.) With the exception of mandatory physical collocation, the Companies are in general agreement with the rates, terms and conditions embodied in the approved interstate tariff.

Although the FCC's Order does not preempt or preclude the Florida Commission's ability to establish different forms and conditions of expanded interconnection as a practical matter, little will be gained by having different interstate and intrastate approaches because special access facilities carry both interstate and intrastate traffic. The same terms and conditions should be applicable for intrastate purposes as approved for interstate. (Poag, Tr. 495-96; Ex. 30, pp. 11-12.)

ISSUE 17: Should all special access and private line providers be required to file tariffs?

POSITION: **No.**

DISCUSSION: The Companies are in favor of less regulation. not more regulation, as its markets become more and more competitive. These same freedoms shall be extended to the Companies and other LECs. (Ex. 30, p. 1.)

ISSUE 18: What separations impact will expanded interconnection have on the LECs?

POSITION: The central office investment used in the provision of local switching is allocated in the jurisdictional separations process using a usage sensitive factor (Dial Equipment Minutes). As the toll/access minutes are moved from the switched network to dedicated special access, the local allocation of these investments and related expenses will increase, putting upward pressure on local service rates.

DISCUSSION: No further discussion of this issue is required.

ISSUE 19: Should expanded interconnection be subject to a "net revenue test" requirement in order to avoid possible cross-subsidy concerns?

STIPULATED POSITION: Issue 19 is deleted from further consideration in this proceeding.

ISSUE 20: How would ratepayers be financially affected by expanded interconnection?

POSITION: Special and switched access services and private line services provide a substantial contribution. Those end users that are able to take advantage of the price benefits of expanded interconnection alternatives will pay less, while those customers who do not qualify for expanded interconnection alternatives will have to pay more for their same service.

DISCUSSION: Please see the Companies' discussion of this issue in their Post-Hearing Brief, pages 6 through 9. Additionally, the Companies believe that, in the long run, the benefits flowing from the competitive provisioning of local private line and special access transport services will be extended to a larger set of customers than just the "large volume" customers exploring these alternatives today. End users that are able to take advantage of the price benefits of extended interconnection alternatives will pay less, while those customers who do not qualify for expanded interconnection alternatives may pay more for their same service. (Ex. 30, p. 4.)

The Companies' concerns revolve around the amount of revenues at risk due to expanded interconnection as proposed, both special and switched access. For example, United has some $315 million of revenues, or approximately 45% of total revenues, in interstate and intrastate special and switched access services. Special access accounts for $18 million of this amount, with the majority, $13

million, being interstate in nature. However, much more than $5 million of intrastate special access revenues are at risk. Due to the cross-elasticity between switched and special access, reductions in special access will cause additional migration from switched access, aggravating the Companies' revenue losses. Migration to the Companies' special access services (service bypass) or loss of customers altogether (facilities bypass) is more likely with expanded interconnection. In addition, when a customer uses special access for toll traffic, fewer access lines or PBX trunks are required. (Ex. 30, p. 4-5.)

These revenue losses will place upward price pressure on the Companies' other services, notably local exchange service rates, and may impact the Companies' longer term financial viability and their plans to continue with planned infrastructure improvements. The Companies' customers, especially residential and single line business customers, will be disadvantaged if the Companies are not granted the pricing flexibility needed to meet the competition fostered by expanded interconnection. (Ex. 30, p. 5.)

ISSUE 21: Should the Commission grant ICI's petition?

POSITION: Yes. ICI's petition should be granted on the condition that the Commission adopt United Telephone's recommendations embodied in its position on these issues and in the testimony of its witness F. Ben Poag.

DISCUSSION: No further discussion of this issue is required.

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

DA 93-869

In the Matter of	)
	)
Bell Atlantic Telephone Companies	)
Contel Telephone Company	)
Southwestern Bell Telephone Company	)
United Telephone Companies	)
	)
Zone Density Pricing Plans	)

ORDER

Adopted: August 4, 1993 ; Released: August 4, 1993

By the Acting Chief, Common Carrier Bureau:

I. INTRODUCTION

1. By this Order, we approve zone density pricing plans filed by the above-captioned local exchange carriers (LECs).[1] As discussed further below, we find that the filed plans, as supplemented, reasonably implement the density pricing authorized by the Commission in the Special Access Order.[2] These four LECs may now file tariff revisions, to be effective on not less than 31 days' notice, to implement their zone density pricing plans.

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[1] On February 16, 1993, zone density pricing plans were filed by Bell Atlantic Telephone Companies (Bell Atlantic), Contel Corporation (Contel), Southwestern Bell Telephone Company (SWB), and United Telephone Companies (United). On March 12, 1993, the filing LECs each submitted additional supporting information requested by the Common Carrier Bureau. After further examination of the plans, the Bureau requested, and received, clarification from Bell Atlantic and Contel/United.

[2] Expanded Interconnection with Local Telephone Company Facilities, CC Docket No. 91-141, and Amendment of the Part 69 Allocation of General Support Facility Costs, CC Docket No. 92-222, Report and Order and Notice of Proposed Rulemaking, 7 FCC Rcd 7369 (1992)(Special Access Order), recon., 8 FCC Rcd 127 (1992), pets. for recon. pending, appeal pending sub nom. Bell Atlantic Corp. v. FCC, No. 92-1619 (D.C. Cir., filed Nov. 25, 1992).

II. BACKGROUND

A. Commission Requirements

2. In the Special Access Order, the Commission granted all Tier I LECs, except those companies which remain in the National Exchange Carrier Association pool, additional pricing flexibility in order to bring their special access rates more in line with their costs.[3] To implement this additional pricing flexibility, the Commission permitted each affected LEC to establish, subject to Commission approval, zones within each study area and required each central office to be assigned to one of the zones. Once plans are approved, LECs may file tariffs establishing different rates in each zone. The Commission required the LECs to show they assigned each central office to a zone using criteria reflecting cost-related characteristics, although geographic contiguity could, under certain conditions, be a secondary, less important consideration.[4] On June 18, 1993, the Common Carrier Bureau released an order approving the zone density plans filed by six LECs.[5] In this order, we approve the plans of four more LECs.

B. The Zone Density Plans

3. As a general matter, these four LECs followed a three step procedure to develop their zone plans. First, they ranked their wire centers in order of decreasing traffic density. Next, they divided their rank-ordered offices into three groups. These groups were designated zone one, two, and three, where zone one contains the rank-ordered wire center group having the highest traffic density. Finally, most of the LECs adjusted the zone assignments for reasons of geographic contiguity or community of interest between the areas served by the end offices.

4. The LECs used a variety of methodologies to rank their central offices. All four LECs used both interstate and intrastate traffic on the theory that using total traffic volume reflects traffic costs more accurately than interstate traffic volume alone. Bell Atlantic and SWB initially ranked offices according to their levels of switched and special access traffic before developing a single rank order. Contel and United converted switched and special access traffic levels into equivalent DS1s, by which the offices were then ranked from most dense to least dense. Contel, SWB and United used state-specific rankings, while Bell Atlantic used a region-wide ranking method.

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[3] See Special Access Order, 7 FCC Rcd at 7373.

[4] See Section 61.38(b)(4) of the Commission's Rules, 47 C.F.R. § 61.38(b)(4); see also Special Access Order, 7 FCC Rcd at 7455 and n.415.

[5] BellSouth Telecommunications, Inc., GTE Service Corporation, Lincoln Telephone and Telegraph Co., NYNEX Telephone Companies, Pacific Bell, and Rochester Telephone Corporation Zone Density Pricing Plans, DA 93-726 (rel. June 18, 1993)(First Zone Density Order).

5. Once Bell Atlantic, SWB and United ranked their offices, they assigned them to one of three zones. Centel generally used three zones, but created only two zones in North Carolina. To create the zones, the carriers selected breakpoints between zones which would roughly equalize the traffic among the zones. Bell Atlantic, for example, selected breakpoints to distribute its switched traffic volume evenly among three zones. SWB used breakpoints that placed equal volumes of traffic into each of the three zones for each of its switched and special rankings. It then combined the two using a rank sum method.[6]

6. Finally, Bell Atlantic, SWB and United adjusted end office zone assignments to reflect factors such as geographic contiguity or community of interest between the areas served by the end offices. Bell Atlantic moved one office, and SWB moved two offices, from zone two to zone one for contiguity or community of interest reasons. Bell Atlantic, SWB, and United moved thirty-five, eighteen and three offices, respectively, from zone three to zone two for contiguity or community of interest reasons. Bell Atlantic also moved one office from zone two to zone one in order to have at least one office in each of its study areas classified in zone one.

C. Pleadings

7. On March 26, 1993, seven parties[7] filed comments concerning these LECs' zone plans.[8] Each of the LECs replied on April 16.[9] Generally, the commenters object to the methodologies employed by the LECs to develop the plans.[10] They contend that the plans do not comply with the Commission's requirement that central offices be

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[6] Bell Atlantic Supplemental Plan at Att. 3; SWB Plan at 2-3. See also Centel/United zone plans. To select breakpoints for its special access traffic, Bell Atlantic grouped the wire centers according to the types and capacities of carrier systems the central offices contained. Bell Atlantic Supplemental Plan at Att. 3.

[7] MCI Communications Corporation (MCI) and MFS Communications Company, Inc. (MFS) protested the Bell Atlantic, Centel, SWB and United plans. Ad Hoc Telecommunications Committee (Ad Hoc); Competitive Telecommunications Association (CompTel); and WilTel, Inc. (WilTel) protested only the Bell Atlantic, Centel and United plans. Sprint Communications Co. (Sprint) and Teleport Communications Group, Inc. (Teleport) did not object to specific plans, but offered general observations concerning all the plans.

[8] On March 23, 1993, MFS filed an Emergency Petition to Hold Proceedings in Abeyance. On June 21, it filed a Supplemental Petition. In those petitions, MFS seeks deferral of the approval of the LECs' zone density plans until the Common Carrier Bureau completes its inquiry into the reasonableness of LEC special access volume and term discounts. The Bureau denied the MFS Petition insofar is it related to the zone plans approved in that Order. See First Zone Density Order at ¶ 36 and n. 15. We deny MFS' petition insofar as it relates to the instant zone plans for the same reasons stated in that Order.

[9] Centel and United filed a joint reply.

[10] See, e.g., MFS Comments at 5-7. See also CompTel Comments at 6 n.6; MFS Comments at 6; WilTel Comments at 7-8 and n.10; Bell Atlantic Reply at 3; SWB Reply at 4.

assigned to zones in a way that reflects their cost-related characteristics.[11] The LECs reply that their zone plans conform to the requirements set forth in the Special Access Order.

8. Specific challenges to the Bell Atlantic, Centel, SWB and United zone plans, and the LECs' responses, are discussed in further detail in the next section. As noted above, the commenters also challenged the plans on broad bases that apply to more than one plan. These more general issues were addressed and resolved in the First Zone Density Order (see ¶¶ 11-23). By reference, we are incorporating our previous discussion of those generic issues in this Order.

III. DISCUSSION

9. In this section, we address the commenters' specific challenges to the four plans and the LECs' responses. We have reviewed these challenges, and the related pleadings at issue in this Order. We conclude that the zone plans reflect cost-related characteristics based on traffic density, as the Commission intended in the Special Access Order. Accordingly, we approve the plans, as supplemented. The LECs may proceed to file tariffs implementing the zone plans on 31 days' notice.[12]

10. Bell Atlantic. Several commenters complain that Bell Atlantic ranked switched and special access traffic separately, even though the Commission directed the LECs to consider a combined measure of switched and special access traffic.[13] We are not persuaded by these commenters' objections to the Bell Atlantic methodology. The Commission required LECs to consider both switched and special access traffic, but did not require the LECs to use a particular method to account for each type of traffic. Bell Atlantic ranked offices according to their levels of switched and special access traffic separately and assigned offices to one of three groups. It then assigned each office to the most dense zone if either the separate switched or special access traffic rankings justified such a result.[14] We note that, in any event, combining switched and special access traffic to rank wire centers would have had no impact on office rankings. Accordingly, we reject the petitioners' challenge on this basis.

[11] See, e.g., Ad Hoc Comments at 8-9; CompTel Comments at 8-9; MFS Comments at 8; WilTel Comments at 6-7.

[12] LECs should not file zone pricing tariffs until such time as they believe expanded interconnection will be operational within 31 days. Special Access Order, 7 FCC Rcd at 7456. The tariffs shall contain provisions setting forth the rates, terms and conditions applicable to interoffice links. See Section 69.123(d)(1) of the Commission's Rules, 47 C.F.R. § 69.123(d)(1).

[13] See, e.g., Ad Hoc Comments at 13; MCI Comments at 7; WilTel Comments at 10.

[14] For example, an office in zone one for switched and zone two for special access was assigned to zone one.

11. We also reject the MCI argument that Bell Atlantic should not be permitted to assign offices to zone one in states previously lacking offices in that zone because such moves are not cost based.[15] These adjustments to the zone rankings simply recognize potential state-related cost differences.

12. Centel/United.[16] MFS argues that the Centel and United plans relied on vague, subjective factors to assign wire centers to zones, do not specify which study areas are affected or what break-points were used, and do not explain how distributing traffic evenly across zones relates to office cost characteristics.[17] Centel/United reply that they used the exchange area, contiguity, and community of interest standards allowed in the Special Access Order to move offices among zones. They claim that the Commission required a volume-of-traffic showing, but did not require all zones to have identical density characteristics.[18]

13. Centel/United ranked their offices on a state-by-state basis and then examined the office rankings and their traffic volumes to determine a logical breakpoint that also roughly equalized the traffic among zones. Except in Florida, Nevada, North Carolina, and Ohio, Centel/United used three DS3s as the breakpoint between zones one and two, and one DS3 as the breakpoint between zones two and three. For the reasons stated in the First Zone Density Order, the equalization of traffic among zones is an acceptable consideration when establishing zone breakpoints.[19] We have reviewed the office assignments and find that the zone breakpoints selected by Centel/United exhibit a reasonable division that groups offices in zones with common cost-related characteristics based on traffic density rankings. Centel/United's supplemental filings listed the office codes of all the offices it placed in each zone, and specified the breakpoints that it used in each state.[20] Finally, we address United's office classification in the Johnson City, Tennessee, exchange. United generally assigned offices to the same zone if they were in the same exchange. United states, however, that it did not assign the two Johnson City offices to the same zone, as the offices are not proximately located. In that exchange, United placed one central office in zone one and one central office in zone two. The exchange is only one part of a larger urban area. That area has other offices similar in size to the smaller Johnson City office, all of which were assigned to zone two. Thus, we find United's classification to be reasonable. Accordingly, we approve the Centel/United plans, as supplemented.

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[15] See MCI Comments at 7-8.

[16] Centel and United filed separate initial plans that reflected common approaches, but filed a joint reply. Accordingly, we are addressing their plans together.

[17] MFS Comments at 12-13; accord Ad Hoc Comments at 4-7.

[18] United/Centel Reply at 7-8.

[19] See First Zone Density Order at ¶¶ 7, 18-19.

[20] See United and Centel Supplemental Plans.

14. SWB. Some commenters argue that SWB considered multiple traffic measurements for each wire center, rather than a combined approach, and used subjective methods to develop a single ranked listing of wire centers.[21] Ad Hoc urges rejecting SWB's method of rank ordering wire centers, contending that, by combining two separate, unweighted rankings of switched and special access traffic for each wire center, the final rank ordering of SWB's wire centers will be skewed.[22] MFS alleges that SWB moved several offices into lower-density zones.[23] MCI asserts that the state-by-state rankings used by SWB should be rejected because offices of equal density in different states would be placed in different zones.[24]

15. SWB replies that the Commission did not direct the LECs to reduce special and switched access usage to a "common denominator," but rather, merely directed the LECs to use a method accounting for both switched and special traffic. It contends that finding a common denominator to calculate combined traffic volumes involving services so different as switched and special access is impossible without employing some form of inherently arbitrary method.[25] SWB also argues that MFS has incorrectly read its plan when it complained that SWB moved several offices into a lower-density zone. Finally, SWB claims that differences between states exist in traffic density and market conditions that justify the use of state-by-state office rankings.[26]

16. We conclude that SWB has used a method that reasonably accounts for both switched and special access traffic. LECs were not required to use a particular method of accounting for the levels of switched and special access traffic. We find that SWB's approach reflects cost-related characteristics based on traffic density. Ad Hoc has not demonstrated how SWB's methodology has skewed its ranking of wire centers. Moreover, SWB's method clearly accounts for both switched and special traffic volume through each of its wire centers as required by the Commission's Order. Accordingly,

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[21] Ad Hoc Comments at 13; MCI Comments at 7; MFS Comments at 4-5, 5 n.5; WilTel Comments at 10.

[22] Ad Hoc Comments at 13. To develop its rankings, SWB first ranked wire centers from highest to lowest density based on switched traffic and special access traffic separately. It then divided the wire centers into three groups containing equal amounts of traffic, giving values of one, two, or three to each grouping in descending order of density. Finally, it combined the lists by computing the rank sums for each wire center. For example, a wire center assigned to group one because of its switched access volume ranking, and assigned to group two because of its special access traffic volume would have a rank sum of three. SWB assigned wire centers with rank sums of less than four into its pricing zone one. It assigned wire centers with rank sums of four into its pricing zone two, and assigned wire centers with a rank sum of five or six into its pricing zone three. See SWB Plan at 2-3.

[23] MFS Comments at 10.

[24] MCI Comments at 8-9; see also Ad Hoc Comments at 12-13.

[25] SWB Reply at 6-7.

[26] SWB Reply at 9-10.

we conclude that SWB's methodology results in a ranking that reasonably reflects the cost-related characteristics of its wire centers.

17. We also note that SWB moved offices into higher, not lower, density zones. The maps supplied by SWB showed that the two offices it moved from zone two to zone one bordered other zone one offices, and that the eighteen offices it moved from zone three to zone two bordered other zone two offices. This movement to a higher-density zone was permitted by the Commission's Order. Accordingly, we find the office reassignments based on contiguity or community of interest to be reasonable and within the scope of the Special Access Order.

18. Finally, we conclude that it was reasonable for SWB to use a state-by-state ranking approach to assign central offices to zones in a study area. The Commission's Rules do not prohibit the LECs' use of a state-by-state ranking approach to implement zone density pricing. Moreover, because traffic density is a surrogate for costs, the cost characteristics of offices in zone one in one state may be different from the cost characteristics of offices in a state without zones, and may be different from a zone one office in a different state. Accordingly, we find that state-by-state office rankings will not, of themselves, lead to unreasonably discriminatory rates.

IV. CONCLUSION

19. We have reviewed the captioned zone density pricing plans as supplemented, the comments thereon, the replies, and the additional supporting materials filed by the parties in this proceeding. We find that the plans reasonably implement the zone density pricing scheme envisioned by the Commission in the Special Access Order. We therefore approve the plans.

V. ORDERING CLAUSES

20. ACCORDINGLY, IT IS ORDERED that, pursuant to Section 4(i) of the Communications Act, 47 U.S.C.§ 154(i), and Section 0.291 of the Commission's Rules, 47 CFR § 0.291, the zone density pricing plans filed by the Bell Atlantic Telephone Companies, Centel Corporation, Southwestern Bell Telephone Company, and United Telephone Companies ARE APPROVED.

21. IT IS FURTHER ORDERED that the Emergency Petition to Hold Proceedings in Abeyance, and the Supplemental Petition, filed by MFS Communications Company, ARE DENIED to the extent they relate to the plans approved by this Order.

FEDERAL COMMUNICATIONS COMMISSION

for Kathleen B. Levitz
Acting Chief
Common Carrier Bureau