**FLORIDA PUBLIC SERVICE COMMISSION**

**Fletcher Building**

**101 East Gaines Street**

**Tallahassee, Florida 32399-0850**

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

**DECEMBER 20, 1993**

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

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

**DIVISION OF LEGAL SERVICES [MURPHY]**

**RE : DOCKET NO. 931153-TL: PROPOSED TARIFF FILING TO WAIVE SOME NON-RECURRING CHARGES (NRC) FOR SERVICE REARRANGEMENTS FOR IXCS TO RECONFIGURE THEIR SWITCHED ACCESS TRANSPORT FACILITIES BY CENTRAL TELEPHONE COMPANY OF FLORIDA (T-93-663, FILED 11/15/93)**

**RE : DOCKET NO. 931151-TL: PROPOSED TARIFF FILING TO WAIVE SOME NON-RECURRING CHARGES (NRC) FOR SERVICE REARRANGEMENTS FOR IXCS TO RECONFIGURE THEIR SWITCHED ACCESS TRANSPORT FACILITIES BY UNITED TELEPHONE COMPANY OF FLORIDA (T-93-667, FILED 11/15/93)**

**AGENDA: JANUARY 4, 1994 - CONTROVERSIAL - PARTIES MAY PARTICIPATE**

**CRITICAL DATES: 60 DAYS EXPIRES 01/14/94**

**SPECIAL INSTRUCTIONS: I:PSC\CMU\WP\931153.RCM**

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**Summary of Proposals**

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 to be implemented December 31, 1993, the FCC will allow the LECs to "break-up" the transport element and charge different 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.

Because of the disparity in tandem switched and direct-trunked rates, United and Centel contend that the IXCs will, because of economic reasons, move some of their tandem switched traffic to direct-trunked transport (or vice-versa). By waiving the non-recurring charge associated with such a move, United and Centel are allowing the IXCs to make a decision based strictly on ongoing price considerations, not a one-time charge.

While any trunk can be 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 of its percent interstate usage (PIU). As a result, an IXC will most likely have a greater amount of interstate trunks than intrastate. This is appears true, as only 2% of United and Centel's intrastate trunks are forecasted to be affected.

In Order No. 93-0484 and Order No. 93-1257, this Commission approved, respectively, Southern Bell's (SBT) and GTEFL's tariff filings to allow IXCs to reconfigure their switched transport facilities without incurring a non-recurring (NRC) Service Rearrangement Charge. The revenue impact for SBT and GTEFL was forecasted to be $4,473 and $5,267, respectively. By Order No.

93-1257, the Commission provided that any NRC waiver tariff filed by October 1, 1993 which mirrored the SBT and GTEFL filings, could be approved administratively. Although the proposed tariffs by United and Centel were not filed prior to October 1, 1993, the proposed tariffs do mirror SBT's and GTEFL's filings.

**DISCUSSION OF ISSUES**

**ISSUE 1:** Should Central Telephone Company of Florida'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, Central Telephone Company of Florida'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:** 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 non-recurring (NRC) rearrangement charge of $300. The IXCs will be exempt from this non-recurring charge until July 1, 1994.

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. Centel's forecasted intrastate trunk changes appear to be small as a percentage of total intrastate trunks. According to Centel's forecast, 63 intrastate trunks of a total of 3,722 (2%) intrastate trunks will be reconfigured.

Using the total number of in-service quantities of intrastate trunks and the estimated number of service rearrangements to be requested by the IXCs by July 1, 1994 (63 of 3,722 trunks), Centel's foregone revenue is estimated to be $18,900. Although Centel forecasts a $18,900 loss due to this waiver, with current competition in special access, and possible competition in switched transport, staff believes the revenue loss to Centel in the long-run would be greater without the waiver.

Staff believes that Centel'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. Centel is also preparing to file its intrastate local transport restructure tariff with this Commission which, if adopted, will mirror its transport structure at the federal level. Staff believes Centel's waiver of

this NRC will foster more economic utilization of the network which will improve Centel's competitive positioning. Centel will be better able to retain local transport business in the face of increased competition from AAVs and IXCs potentially collocating in Centel end offices. Retention of local transport business is important to the general body of ratepayers as this helps hold down basic local rates. Therefore, staff recommends approval of this tariff.

**ISSUE 2:** Should United Telephone Company of Florida'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, United Telephone Company of Florida'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:** The impact on United's intrastate trunks from IXCs moving from tandem switched transport to direct-trunked transport, or vice-versa, appear to be small. According to United, the IXCs are expected to rearrange a small percentage (2%) of their switched access trunks to take advantage of possible cost savings associated with this reconfiguration. Like Centel, United also has a $300 non-recurring charge (NRC) for IXCs changing from tandem switched to direct-trunked, or vice-versa. With the passing of this proposal, this NRC waiver would be effective until July 1, 1994.

Using the total number of in-service quantities of intrastate trunks and the estimated number of service rearrangements to be requested by the IXCs (218 of 12,848 trunks), the United's foregone revenue is estimated to be $65,400.

United is also preparing to file its intrastate local transport tariff with this Commission which, if adopted, will mirror its transport structure at the federal level. United's non-recurring charge waiver has a minimal revenue effect and will foster more economic utilization of the network which will improve United's competitive positioning. United will be better able to retain local transport business in the face of increased competition from AAVs and IXCs potentially collocating in United end offices. Retention of local transport business is important to the general body of ratepayers as this helps hold down basic local rates. Therefore, staff recommends approval of this tariff.

**ISSUE 3:** Should these dockets be closed?

**RECOMMENDATION:** Yes, if Issues 1 and 2 are approved these tariffs should become effective on January 15, 1994. If a timely protest is filed, these tariffs should remain in effect with any increase in revenues held subject to refund pending resolution of the protest. If no timely protest is filed, these dockets should be closed. A protest to one docket should not preclude the approval of the other docket.

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