

FLORIDA PUBLIC SERVICE COMMISSION  
Capital Circle Office Center • 2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

M E M O R A N D U M

APRIL 4, 1996

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO) *ALM*

FROM: DIVISION OF COMMUNICATIONS (WILLIAMS, WIGGINS) *WJW*  
DIVISION OF AUDITING & FINANCIAL ANALYSIS (JONES) *JW*  
DIVISION OF LEGAL SERVICES (EDMONDS) *SE R APC*

RE: DOCKET NO. 960187-TX; APPLICATION FOR CERTIFICATE TO  
PROVIDE ALTERNATIVE LOCAL EXCHANGE TELECOMMUNICATIONS  
SERVICE BY LCI INTERNATIONAL TELECOM CORP.

AGENDA: 04/16/96 - REGULAR AGENDA - PROPOSED AGENCY ACTION -  
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: I:\PSC\CMU\WP\960187TX.RCM

CASE BACKGROUND

Section 364.337(1), Florida Statutes, reads as follows:

(1) Upon this act becoming a law, a party may file an application for a certificate as an alternative local exchange telecommunications company before January 1, 1996, and the commission shall conduct its review of the application and take all actions necessary to process the application. However, an application shall become effective no sooner than January 1, 1996. The commission shall grant a certificate of authority to provide alternative local exchange service upon a showing that the applicant has sufficient technical, financial, and managerial capability to provide such service in the geographic area proposed to be served. In no event may an alternative local exchange telecommunications company offer basic local telecommunications services within the territory served by a company subject to Chapter 364.052,

DOCUMENT NUMBER-DATE

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PSC-RECORDS/REPORTING

DOCKET NO. 960187-TX  
DATE: April 4, 1996

Florida Statutes, prior to January 1, 2001, unless the small local exchange telecommunications company elects to be regulated under Chapter 364.051, Florida Statutes, or provides cable television programming services directly or as video dialtone applications authorized under 47 U.S.C., Chapter 214, except as provided for in compliance with part II of this chapter. It is the intent of the Legislature that the commission act expeditiously to grant certificates of authority under this section and that the grant of certificates not be affected by the application of any criteria other than that specifically enumerated in this subsection.

#### STAFF DISCUSSION

**ISSUE 1:** Should the Commission grant LCI INTERNATIONAL TELECOM CORP. (LCI) a certificate to provide statewide alternative local exchange telecommunications service within the State of Florida as provided by Section 364.337(1), Florida Statutes?

**RECOMMENDATION :** Yes, LCI should be granted:

**Florida Public Service Commission Certificate No. 4440**

**STAFF ANALYSIS:** Pursuant to Section 364.337 (1), Florida Statutes (effective July 1, 1995), LCI filed an appropriate application with this Commission on February 16, 1996.

LCI's exhibit of managerial qualifications reflects qualified employees in telecommunications management, marketing and service (pages 5-6). In regard to technical capability, LCI's exhibit (pages 7-9) indicates that LCI possesses the technical expertise to provide a high quality of service. Also, LCI will rely on the network operation and management of its underlying carrier(s).

The Division of Auditing and Financial Analysis reviewed LCI's financial statements to determine the company's financial viability (pages 10-11). Based on the information provided by LCI, the financial capability of the company appears adequate.

DOCKET NO. 960187-TX  
DATE: April 4, 1996

**ISSUE 2:** Should the Commission require LCI INTERNATIONAL TELECOM CORP. (LCI) to provide access to 911 service effective on the date the company begins to provide basic local telecommunications service at a level equivalent to the 911 access services of the LEC serving in the same area?

**RECOMMENDATION:** Yes.

**STAFF ANALYSIS:** To ensure that Florida end users are allowed high quality access to emergency services, Section 364.337(2) provides that each alternative local exchange telecommunications company that provides basic local telecommunications service must provide access to 911 services.

The Commission has no specific rules on what a LEC or an ALEC must provide in terms of 911 service access. Section 364.337(2), F.S., requires that an ALEC must include access to 911 in its basic service but does not define what type of 911 services must be provided. This could result in an ALEC offering access to 911 service which is inferior in some way to the 911 service access provided by the LEC in that same area. For example, a LEC might provide both automatic number identification (telephone number) and automatic location (address) information to the public safety answering point while the ALEC might only provide the telephone number of the calling party.

Inferior 911 access could result in loss of life which is not something that can be corrected at a later date. The issue of 911 access was to some extent addressed in the number portability docket and the individual local interconnection agreements. If that issue is ultimately resolved, we may be able to remove this provision, but for now, it should be a specific requirement of the order that the ALEC's 911 service be at a level equivalent to that provided by the LEC serving that same area.

DOCKET NO. 960187-TX  
DATE: April 4, 1996

ISSUE 3: Should this docket be closed?

RECOMMENDATION: Yes, if no person whose substantial interests are affected by the Commission's Proposed Agency Action files a protest within 21 days of the issuance date of the order.

STAFF ANALYSIS: Accordingly, this docket should be closed if no person whose substantial interests are affected by the Commission's Proposed Agency Action files a protest within 21 days of the issuance date of the order.

## LITEL TELECOMMUNICATIONS CORPORATION

## OFFICERS

<u>Name and Address</u>	<u>Home Address</u>
Lawrence A. McLernon Chief Executive Officer LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	8489 Glenalmond Court Dublin, Ohio 43017
Thomas J. Byrnes President and Chief Operating Officer LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	4879 Tuttle Road Dublin, Ohio 43017
Larry E. Wolfe Senior Vice President - Finance and Administration, Chief Financial Officer, Secretary and Treasurer LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	278 Glen Village Court Powell, Ohio 43065
Michael R. McCoy Senior Vice President - Business Development LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	7292 Chaparral Drive Worthington, Ohio 43235
James D. Heflinger Vice President and Assistant Secretary LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	5801 Berkshire Court Dublin, Ohio 43017
Robert H. Rice Assistant Treasurer LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	404 Pittsfield Drive Worthington, Ohio 43085
Patrick S. Miller Assistant Secretary LITEL TELECOMMUNICATIONS CORPORATION 200 Old Wilson Bridge Road Worthington, Ohio 43085	179 Baranof East Westerville, Ohio 43081

LITEL TELECOMMUNICATIONS CORPORATION  
BOARD OF DIRECTORS

<u>Name and Address</u>	<u>Home Address</u>
James T. Bartlett Managing Partner PRIMUS VENTURE PARTNERS 1375 East Ninth Street Suite 2140, Cleveland Ctr. Cleveland, Ohio 44114	22401 McCauley Road Shaker Heights, Ohio 44122
Stephen W. Fillo Managing Director E. M. WARBURG, PINCUS & CO. 466 Lexington Avenue New York, New York 10017-3147	10 West 66th St., Apt. 24F New York, New York 10023
Lawrence A. McLernon Chief Executive Officer LCI COMMUNICATIONS, INC. 200 Old Wilson Bridge Road Worthington, Ohio 43085	3489 Glenalmond Court Dublin, Ohio 43017
Adam Solomon Managing Director E. M. WARBURG, PINCUS & CO. 466 Lexington Avenue New York, New York 10017-3147	19 Kenilworth Drive Short Hills, New Jersey 07078

16. Please provide all available documentation demonstrating that the applicant has the following capabilities to provide alternative local exchange service in Florida.

- A. Financial capability.
- B. Managerial capability.
- C. Technical capability.

LCI has been providing interexchange service since 1984. In 1989, this Commission granted LCI authority to operate as a provider of interexchange service. Thus, LCI has previously demonstrated to the Commission that it possesses the requisite technical, financial and managerial capabilities to operate as an interexchange carrier ("IXC"). Since then, LCI has grown substantially, thereby improving upon its already considerable these capabilities.

LCI is not only among the nation's largest interexchange carriers, but it is also one of the fastest growing in the industry. LCI's robust growth is primarily due to its innovative marketing strategies, as developed by the Company's experienced and highly skilled management team. As a result of its unique marketing approach, LCI has achieved substantial increases in traffic volume, as measured in minutes of use ("MOU"). LCI's MOU growth has resulted in substantial revenue growth. In 1994, LCI's gross operating revenue grew over 30 percent, increasing to \$453

million.<sup>2</sup> In conjunction with effective financial and operational measures, LCI's net income has also grown significantly, increasing to over \$17 million in 1994. This strong performance clearly indicates that LCI possesses both the financial and managerial qualifications required to operate as a reseller of local exchange resale service.<sup>3</sup>

LCI has also demonstrated that it possesses the technical capability to provide local service on a resale basis. LCI currently offers a wide range of interexchange services on a statewide basis in Florida. LCI has been providing consistently high quality service to both residential and business customers in Florida for nearly seven years. Further, LCI presently provides this same high quality service to consumers in all 50 states.

LCI's interexchange network is entirely digital. LCI meets or exceeds all federal guidelines regarding service quality. LCI is deploying Signaling System 7 ("SS7") across the United States and anticipates that deployment will exceed 90 percent by the end

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<sup>2</sup> LCI's financial statements for the calendar year 1995 have not yet been released. The Company's 1994 financial statements are attached hereto as Exhibit B.

<sup>3</sup> Detailed information regarding LCI's officers and directors, as well as information pertaining to the strong performance of LCI, and LCI International, Inc. ("LCII"), its corporate parent, is contained in LCII's 1994 Annual Report to Shareholders, 1994 SEC Form 10-K, and 1994 Proxy Statement, attached hereto as C, D and E, respectively. LCI's financials are not externally reported; instead, this information is incorporated into the financials of LCII.



of 1996. As a result of SS7 deployment, interexchange calls are completing within five seconds after dialing is completed.

Moreover, LCI proposes to operate as a reseller of local exchange service. LCI's local traffic will be routed entirely over the networks of its underlying local carriers. Consequently, the quality of service that LCI's local exchange customers receive will be equivalent to that provided by the incumbent LECs.

As the foregoing illustrates, LCI possesses considerable technical, financial and managerial capabilities. The Company has demonstrated its expertise in the provision of interexchange and toll services and in providing the customer service associated with these services. Accordingly, LCI is well-qualified to provide alternative local exchange telecommunications service in Florida.



# Public Service Commission

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

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**DATE:** February 19, 1996  
**TO:** Tom Williams, Division of Communications  
**FROM:** Sonja Jones, Division of Auditing and Financial Analysis *sw*  
**RE:** Docket No. 960187-TX, LCI International Telecom Corp., Financial Analysis for Certificate Application for Local Exchange Telecommunications Service

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*ALM*  
*AP*  
*[Handwritten initials]*

Section 364.337 (1), Florida Statutes, requires the following:

The commission shall grant a certificate of authority to provide alternative local exchange service upon a showing that the applicant has sufficient technical, financial, and managerial capability to provide such service in the geographic area proposed to be served.

Also Section 364.01 (3) and (4) states that:

- (3) The Legislature finds that the competitive provision of telecommunications service, including local exchange telecommunications service, is in the public interest.
- and
- (4)(d) The Commission shall exercise its exclusive jurisdiction in order to: (d) Promote competition by encouraging new entrants into telecommunications markets

Regarding the showing of financial capability, the Finance staff has analyzed the audited financial statements of LCI International Telecom Corp. (LCI) for the period ending December 31, 1994. As the attached schedule shows, LCI has minimal liquidity, but adequate ownership equity and profitability.

In this matter, LCI is asking for a certificate to provide local exchange telecommunications service. Staff notes the limited nature of the application and that no customer provided funds are at risk. Under the minimal requirements of the statute, the application appears adequate.

cc: Division of Legal Services  
Division of Records and Reporting

DOCKET NO. 960187-TX  
LCI INTERNATIONAL TELECOM CORP.  
LEC CERTIFICATE  
FINANCIAL ANALYSIS

FROM AUDITED FINANCIAL STATEMENTS

	AS OF 12/31/94
CURRENT ASSETS	\$98,665,000
CURRENT LIABILITIES	150,476,000
CURRENT RATIO	0.66
CASH	0
COMMON EQUITY	27,772,000
TOTAL DEBT	35,916,000
NET INVESTOR CAPITAL	63,688,000
COMMON EQUITY RATIO	44%
NET INCOME (LOSS)	17,394,000
RETURN ON EQUITY	63%