

930
/m

LAW OFFICES
BRYANT, MILLER AND OLIVE, P.A.
201 South Monroe Street
Suite 500
Tallahassee, Florida 32301
(904) 222-8811

FAX: (904) 224-1544
(904) 224-0044

Barnett Plaza
Suite 1265
101 East Kennedy Boulevard
Tampa, Florida 33602
(813) 273-8677
FAX: (813) 223-2705

5825 Glenridge Drive
Building 3
Suite 101
Atlanta, Georgia 30328
(404) 705-8433
FAX: (404) 705-8437

April 5, 1996

BY HAND DELIVERY

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Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, Florida 32399-0850

Re: Resolution of Petition to Establish Non-Discriminatory Rates, Terms and Conditions for Resale Involving Local Exchange Companies and Alternative Local Exchange Companies pursuant to Section 364.161, Florida Statutes; Docket No. 950984-TP

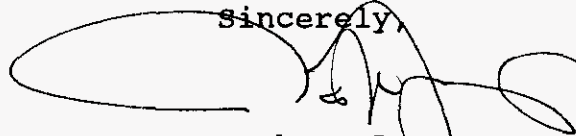
Dear Ms. Bayo:

Enclosed for filing in the above-styled docket are the original and fifteen (15) copies of AT&T's Post-Hearing Brief. A copy of the brief in WordPerfect 5.1 format is also included.

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 this matter.

Sincerely,



Mark K. Logan

- BOK
- BEA
- APP
- CAF
- CMU *Chen*
- CTR
- EAG
- LEG MKL/ddj
- LIN Enclosures
- OPC
- RCH
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- WAS

cc: All parties of record

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CERTIFICATE OF SERVICE

DOCKET NO. 950984-TP

I HEREBY CERTIFY that a true copy of the foregoing has been furnished by next day express mail, U. S. Mail or hand-delivery to the following parties of record this 5th day of April, 1996.

Robin D. Dunson, Esq.
AT&T
Promenade I, Rm 4038
1200 Peachtree St., NE
Tallahassee, FL 30309

Floyd R. Self, Esq.
Messer Vickers et al
215 S. Monroe St., Ste 701
Tallahassee, FL 32301

Lee Willis, Esq.
Jeffrey Wahlen, Esq.
MacFarlane Ausley et al.
228 S. Calhoun St.
Tallahassee, Fl 32301

Anthony P. Gillman, Esq.
Kimberly Caswell, Esq.
GTE Florida, Inc.
201 N. Franklin St.
Tampa, Fl 33601

Phillip Carver
c/o Nancy H. Sims
BellSouth Telecommunications
150 S. Monroe St., Ste 400
Tallahassee, FL 32301

Donna Canzano, Esq.
Florida Public Service Comm.
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Richard D. Melson, Esq.
Hopping Green Sams & Smith
123 S. Calhoun Street
Tallahassee, FL 32301

Patrick K. Wiggins, Esq.
Wiggins & Villacorta, P.A.
P O Drawer 1657
Tallahassee, Fl 32302-1657

Brian Sulmonetti
LDDS WorldCom Communications
Suite 400
1515 S. Federal Highway
Boca Raton, FL 33432

Michael J. Henry, Esq.
MCI Telecommunications
780 Johnson Ferry Road #700
Atlanta, GA 30342

Kenneth Hoffman, Esq.
Rutledge Ecenia et al
215 S. Monroe St., Suite 420
Tallahassee, FL 32301

Charles Beck, Esq.
Office of the Public Counsel
c/o The Florida Legislature
111 West Madison St., Rm 812
Tallahassee, FL 32399-1400

Peter M. Dunbar, Esq.
Robert S. Cohen, Esq.
Pennington, Culpepper et al
215 S. Monroe St., 2nd Floor
Tallahassee, FL 32301

Patricia Kurlin, Esq.
Intermedia Communications
3625 Queen Palm Drive
Tampa, FL 33619

Timothy Devine
MFS Communications Co., Inc.
Six Concourse Pkwy., Ste 2100
Atlanta, GA 30328

Benjamin Fincher, Esq.
Sprint Communications Co.
3065 Cumberland Cr.
Atlanta, GA 30339

C. Everett Boyd, Jr., Esq.
Ervin Varn Jacobs & Odom
305 S. Gadsden St.
Tallahassee, FL 32301

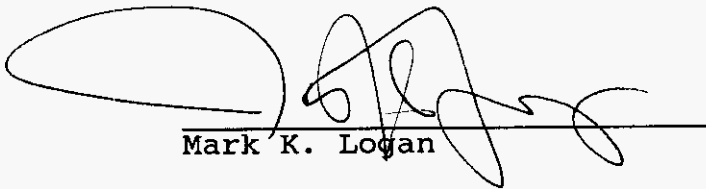
James C. Falvey, Esq.
Richard M. Rindler, Esq.
Swidler & Berlin
3000 K. St., NW, Ste 300
Washington, D.C. 20007

David B. Erwin, Esq.
Young, VanAssenderp, Varnadoe
225 S. Adams St., Ste 200
Tallahassee, FL 32301

Laura Wilson, Esq.
Florida Cable
310 N. Monroe Street
Tallahassee, FL 32301

Lynn B. Hall
Vista-United
3100 Bonnett Creek Parkway
Lake Buena Vista, FL 32830

William B. Graham, Esq.
Bateman Graham
300 East Park Avenue
Tallahassee, Florida 32301



Mark K. Logan

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Resolution of Petitions)
to Establish Nondiscriminatory)
Rates, Terms, and Conditions for) DOCKET NO. 950984-TP
Resale Involving Local Exchange)
Companies and Alternative Local) FILED: April 5, 1996
Exchange Companies Pursuant to)
Section 364.161, Florida)
Statutes.)
_____)

POST-HEARING BRIEF OF AT&T COMMUNICATIONS OF THE
SOUTHERN STATES, INC.

AT&T Communications of the Southern States, Inc. ("AT&T"), submits its post-hearing brief and respectfully requests that the Commission order GTE of Florida, Incorporated ("GTE") and Central Telephone Company of Florida and United Telephone Company of Florida ("Sprint-United/Centel") (collectively, "Local Exchange Companies" or "LECs") to: (1) unbundle its services into underlying Basic Network Functions ("BNFs"); (2) offer such BNFs to new entrants into the local exchange market under the same basic arrangements and with the same technical capabilities as they are used by the LECs in the provision of its services; and (3) price such unbundled elements for sale to Alternative Local Exchange Companies ("ALEC") at the Total Service Long Run Incremental Cost ("TSLRIC") incurred by the LECs in providing each element.

SUMMARY

AT&T is not a petitioner in this docket. However, as an interexchange carrier ("IXC"), AT&T does have a substantial interest in the issues before the Commission because AT&T must

DOCUMENT NUMBER-DATE

04009 APR-5 8

FPSC-RECORDS/REPORTING

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use the services of LECs and ALECs in order to originate and terminate interexchange calls. Because of this substantial interest, AT&T has intervened on behalf of MFS's request for unbundling and resale of Sprint-United/Centel and GTE services.

Unbundling of LEC network features, functions and capabilities is an absolute prerequisite for effective, meaningful competition on the local exchange level. Actual access to the customer, often known as the "last mile", has remained the exclusive province of the LECs. (Guedel, T 303; Devine, T 78-9) The LEC networks were built under government-approved monopoly conditions with all the appurtenant advantages of access to rights-of-way, favorable tax treatment, access to buildings, and, most importantly, absolute protection against competition. (Devine, T 32)

In 1995, the Florida Legislature abandoned this government-sanctioned monopoly on local exchange services in favor of robust and meaningful competition. Section 364.01, Florida Statutes (1995) formally declared that the competitive provision of telecommunications services, including local exchange telecommunications service to be in the public interest and directed this Commission to promote completion by encouraging new entrants to the telecommunications markets. The Legislature also recognized the substantial barriers to competition that exist as a result of the LECs operating pursuant to their historical government-sanctioned exclusive franchises. Section 364.01(3)(d) provides that there must be a period of "transition" where new

market entrants are subjected to a lesser level of regulatory oversight than LECs.

Section 364.161, Florida Statutes (1995), which mandates unbundling of LEC services, provides the blueprint for meaningful entry into the local exchange market by ALECs. That provision requires LECs to unbundle all of their network features, functions and capabilities including access to signaling databases, systems and routing processes. The price for unbundled services shall not be set below the LEC's cost, but may not be set at a level that acts as a barrier to competition. Section 364.161(1); 364.162(5), Florida Statutes (1995).

AT&T suggests that the appropriate price level which covers the LEC's costs and does not act as a barrier to competition is the Total Service Long Run Incremental Cost ("TSLRIC"). TSLRIC is the actual cost the LEC incurs in providing the unbundled element, either to itself or the new entrant. (Guedel, T 310) Thus, TSLRIC is competitively neutral and will not act as a barrier to competition by causing a price squeeze. (Guedel, T 310; Cornell, T 234-36)

Unbundling, in and of itself, will not guarantee competition in the LEC markets, but the successful implementation of unbundling will mitigate a major barrier to market entry by ALECs, thus fostering the potential for meaningful competition. (Guedel, T 305) Unbundling and resale of LEC services will allow potential competitors to begin providing limited local service arrangements without the expense of duplicating the LEC's

ubiquitous network. A new entrant, for example, could begin providing service within a geographic area by installing local switching capability and purchasing unbundled loops (or links) from a LEC. This arrangement provides the advantages of being less capital intensive, allowing competition to develop faster, and bringing the benefits of competition to a much larger group of customers than the alternative of requiring each ALEC to construct a complete network of its own facilities. (Devine, T 032) These are the primary reasons that the legislature enacted the unbundling and resale provisions of Section 364.161, Florida Statutes (1995).

With a proper mix of reasonable unbundling and resale policies, the local exchange market may also become effectively competitive. However, unreasonable restrictions on unbundling and resale will invariably lead to a stagnant local exchange market, with consumers enjoying few, if any, choices. Coupled with the price regulation provisions of Section 364.051, Florida Statutes, the results could be disastrous for consumers. The local exchange market will remain an essential monopoly with the incumbent LEC having virtually unfettered ability to exercise monopoly power by raising prices for "non-basic" services as much as 20% per year. Consequently, the Commission must exercise its full statutory authority to remove whatever barriers to entry may be presented by the dominant LECs who have every incentive to delay effective competition as long as possible. The protection of the consuming public in the new local exchange environment

demands that such action be taken.

STIPULATED ISSUES

GTE of Florida, Inc. ("GTE") and Metropolitan Fiber Systems of Florida, Inc. ("MFS") entered into a stipulation with respect to Issues 1 and 2 which was approved by the Commission. (T 13). The Commission also reiterated its decision with respect to Issue 5 which was rendered as part of Docket No. 950985. Pursuant to that decision stipulated issues between two parties are not binding upon any party not a signatory to the stipulation. (T 14)

ISSUE-BY-ISSUE ANALYSIS

ISSUE 1: What elements should be made available by Sprint-United/Centel to MFS on an unbundled basis (e.g. link elements, port elements, loop concentration, loop transport)?

The LECs should be required to unbundle local loops and switching ports as requested by MFS.

Sprint-United/Centel should unbundle its network into Basic Network Functions ("BNFs") which are the single elements of a local exchange network that can be individually provided, costed, priced, and interconnected. AT&T has identified 11 BNF components associated with local exchange service. These include: loop distribution, loop concentration, loop feeder, switching, operator systems, dedicated transport links, common transport links, tandem switching, signaling links, signal transfer points and signal control points. (Guedel, T 301) Other BNF's may continue to be identified as telecommunications technology evolves and the Commission should not preclude future

consideration of additional functional elements. (Guedel, T 302)

Sprint-United/Centel only proposes to offer the services currently available in its Special Access tariff. (Khazraee, T 499) Similarly, Sprint-United/Centel suggests it can only provide for virtual collocation because that is all the Special Access tariff addresses. (Khazraee, T 500) However, Section 364.161(1) cannot be read as contemplating the offering of existing services as unbundled network elements. Order Establishing Provisions for the Resale of Services Provided By BellSouth Telecommunications, Inc., FPSC Order No. 96-0444-FOF-TP, (March 29, 1996) at p. 4.

Therefore Sprint-United/Centel must comply with the express language contained in the statute that requires the unbundling of all network features, functions and capabilities, including access to signalling databases, system and routing processes, not just those that bear some resemblance to functions found in Sprint-United Centel's Special Access tariff.

Sprint-United/Centel also suggests it not be required to offer MFS sub-loop unbundling, including the loop concentration function. Again, this is violative of Section 364.161 as these are clearly definable BNFs that can be priced, costed and interconnected. (Guedel, T 301,306-7) Sprint-United/Centel claims it has limited ability to provide for loop concentration. (Khazraee, T 501) However, as witness Devine testified, there is no question as to the technological and economic feasibility of unbundling loop concentration. (Devine, T 100-1) Moreover loop

concentration allows for the economical transport to the switch. (Guedel, T 306; Devine, T 99) Accordingly, in order to facilitate effective competition, loop concentration must be offered as an unbundled function available for resale.

The loop transport function provides for the actual transportation of concentrated loops between the incumbent LEC's central office and the location where the ALEC has the switch on which it wants to terminate those loops. (Cornell, T 232) The LEC is typically the only entity with the facilities in place to provide this function. Therefore, the function acts as a monopoly input and must be unbundled for resale to ALECs. (Cornell, T 232)

Sprint-United/Centel does not plan to offer the connection of unbundled loops to unbundled ports. (Khazraee, T 500) The combining of unbundled loops with unbundled ports is critical to the ALEC's ability to compete for local traffic. Loop and port facilities are not currently tariffed, flat-rated services; therefore the combination or connection of these facilities does not run afoul of the Section 364.162(2) , Florida Statutes prohibition on reselling tariffed, flat-rated services. See Order Establishing Provisions for the Resale of Services Provided By BellSouth Telecommunications, Inc., FPSC Order No. 96-0444-FOF-TP, (March 29, 1996) at p. 14-15.

ISSUE 2: What are the appropriate technical arrangements for the provision of unbundled elements?

*Technical arrangements used to connect the unbundled elements to a new entrant's network

should be equal to those currently used to connect the elements within the LEC's own network.*

The principal guideline adopted by the Commission should be to require the provision of unbundled elements in such a manner as to not inhibit the new entrant from providing the same quality of service as the incumbent LEC. That means that the technical arrangements used to connect unbundled elements to a new entrant's network should be equal to those currently used to connect elements within the LEC's own network. (Guedel, T 309) New entrants should have cooperatively engineered interconnection arrangements, equal service quality or performance parity, and the opportunity to interconnect at the same points or virtually the same points (where practicable) as the incumbent LEC. (Guedel, T 309)

ISSUE 3: What are the appropriate financial arrangements for each such unbundled element?

The target price for the unbundled elements should be the Total Service Long Run Incremental Cost (hereinafter "TSLRIC") that the LEC incurs in providing them.

The removal of barriers to competition is critical to the ability of local exchange customers to enjoy the fruits of market entry by ALECs. Of course both LEC and ALEC customers will benefit from such real competition. To achieve the statutory directives of fostering competition set forth in Section 364.01, Florida Statutes (1995), the target price for unbundled elements or BNFs should be set at the TSLRIC that the LEC incurs in providing them. Pricing at the TSLRIC will simultaneously ensure

that the incumbent LEC recovers all of the costs that it incurs in providing the unbundled element(s) (including cost of money), while it encourages the potential development of competition by offering the unbundled element(s) in a competitively neutral manner. (Guedel, T 310) As witness Guedel testified, only the TSLRIC cost is competitively neutral between the LEC and ALEC as both incur the same cost with respect to the BNF. (Guedel, T 311) The cost that the LEC incurs is the exact same cost the ALEC pays the LEC for that BNF. Neither the LEC nor the new entrant is disadvantaged and thus can compete.

However, if the LEC is allowed to set its price above the TSLRIC cost, the LEC then enjoys a competitive advantage because the ALEC's retail costs must cover all of its costs including the price charged by the LEC for unbundled services. The result is a price squeeze. (Cornell, T 235). A price squeeze prevents an equally efficient ALEC from competing with the incumbent monopoly LEC. The ALEC cannot cover the costs at the price set by the monopoly LEC for the end users service, and, therefore cannot enter the market. (Cornell, T 235-6)

Sprint-United/Centel suggests that the provision of unbundled loops at TSLRIC is discriminatory and will negatively impact the incumbent LEC (Poag, T 519-20) However, this ignores the fact that unbundled loops are essential monopoly input functions. Unless they are supplied at cost, there is an artificial barrier to market entry which will stymie any chance for competition to develop. (Cornell, T 240) Sprint-

United/Centel's claim of discrimination is hollow in that the LEC's position would effectively discriminate ALEC's from ever entering the marketplace. That result would, of course, negatively impact the end-use consumer contrary to the competition directives contained in Section 364.01, Florida Statutes.

Sprint-United/Centel also appears to want the benefits of competition provided by Chapter 364, without any of the attendant risks. Witness Poag states that it is appropriate to recover overhead and other costs above TSLRIC as part of the provision of unbundled services. (Poag, T 519) Interestingly, Sprint-United/Centel's attorney queried AT&T witness Guedel on "How can United/Centel ("Sprint/United") make more money over time if it is required to price its unbundled loops to the ALECs at TSLRIC?" (T 331-2) Sprint-United/Centel elected to opt out of rate-of-return regulation in order to compete in the market place. (Poag, T 545) Accordingly, it must recognize that Chapter 364, while allowing for Sprint-United/Centel to recover the cost of unbundling, must not impede the development of competition. TSLRIC is the only pricing level for unbundled services that does not erect a barrier to market entry by the ALECs. Further, pricing unbundled loops at TSLRIC will not preclude Sprint-United/Centel from recovering its argued overhead and other costs. Such pricing will only require Sprint-United/Centel to recover those costs in a competitively neutral manner. When loops are priced at TSLRIC, both LEC and ALEC incur the same loop

cost, the both the ALECs and the incumbent will have equal opportunity to recover their joint and common costs as a function of the retail services (Guedel T. 320). If Sprint-United/Centel is concerned with its ability to compete in the local exchange marketplace, then maybe it should revisit its decision to opt out of rate of return regulation.

GTE takes a similar position with respect to pricing as Sprint-United/Centel. GTE witness Menard suggests that the price for an unbundled loop should be the same as the special access price for the loop. (Menard, T 483) But that price, which exceeds TSLRIC, also creates a price squeeze for use of that loop to serve residential customers. (Cornell, T 237) Again, the price squeeze acts as an absolute barrier to competition contrary to the abundantly clear pro-competition directives contained in Chapter 364.

GTE supports it's proposed pricing of unbundled services via use of the efficient component pricing rule. GTE witness Duncan testified that the Efficient Component Pricing Rule would set the price for an unbundled loop equal to the TSLRIC of providing that loop, plus the lost contribution to margin that GTE would have received had it used the loop in the provision of its own local exchange service plus any wholesaling costs per unit (Duncan, T 457) Duncan further stated that the result of pricing pursuant to the efficient component pricing rule is that the incumbent LEC is indifferent to whether the customer is kept or not. (Duncan, T 445) Competing companies for local exchange customers must be

kept interested in whether or not a customer is served. The only way a LEC will become more efficient, thus benefiting consumers, is if the LEC has to keep in tune with the customer desires, wants and needs. (Cornell, T 263) If the LEC is indifferent to these customer needs, then it is the customer that suffers.

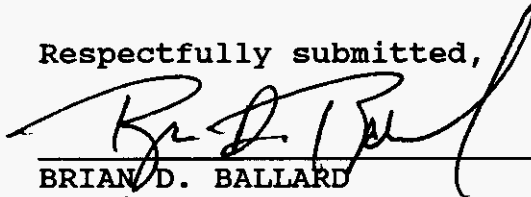
Finally, GTE also suggests that the Commission approve a "competitively neutral" fund to compensate GTE for its deficit in revenues due to losing customers. (Trimble, T 352) As with Sprint-United/Centel, GTE proposes a novel approach; let the LEC have all the benefits of competition that benefit it, without any of the associated risks of competing in the market place. Such a proposal would result in consumers being denied the very benefits that opening markets to competition is supposed to bring.

(Cornell, T 239) The Commission should encourage GTE to be an effective, efficient competitor in the market place by denying this proposal that harkens back to GTE's rate of return regulation days.

ISSUE 4: What arrangements, if any, are necessary to address other operational issues?

AT&T supports the positions of MFS (as set forth in the Prehearing Order - on the United/Centel petition) on this issue.

Respectfully submitted,



BRIAN D. BALLARD
Florida Bar No. 0889156

MARK K. LOGAN
Florida Bar No. 0494208
Bryant, Miller and Olive, P.A.
201 South Monroe Street, Suite 500
Tallahassee, Florida 32301
(904) 222-8611

MICHAEL W. TYE
101 North Monroe Street, Ste. 700
Tallahassee, Florida 32301
(904) 425-6360

ROBIN D. DUNSON
1200 Peachtree St., NE
Promenade I, Room 4038
Atlanta, Georgia 30309
(404) 810-8689