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FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

January 23, 1997

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

FROM: DIVISION OF COMMUNICATIONS (SHELPER, REITH, NORTON) *WJH/RTM*
 DIVISION OF LEGAL SERVICES (BROWN, KEATING) *MCB WCK*

RE: DOCKET NO. 961230-TL - PETITION BY MCI TELECOMMUNICATIONS CORPORATION FOR ARBITRATION WITH UNITED TELEPHONE COMPANY OF FLORIDA AND CENTRAL TELEPHONE COMPANY OF FLORIDA CONCERNING INTERCONNECTION RATES, TERMS AND CONDITIONS PURSUANT TO THE FEDERAL TELECOMMUNICATIONS ACT OF 1996.

AGENDA: FEBRUARY 4, 1997 - REGULAR AGENDA - POST HEARING DECISION
 - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: FEBRUARY 6, 1997 - 9 MONTHS REVIEW PERIOD ENDS PURSUANT TO THE ACT

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CASE BACKGROUND

Part II of the Federal Telecommunications Act of 1996 (Act) sets forth provisions controlling the development of competitive markets in the telecommunications industry. Section 251 of the Act regards interconnection with the incumbent local exchange carrier and Section 252 sets forth the procedures for negotiation, arbitration, and approval of agreements.

Section 252(b) addresses agreements arrived at through compulsory arbitration. Specifically, Section 252(b)(1) states:

(1) Arbitration. - During the period from the 135th to 160th day (inclusive) after the date on which an incumbent local exchange carrier receives a request for negotiation under this section, the carrier or any other party to the negotiation may petition a State commission to arbitrate any open issues.

Section 252(b)(4)(C) states that the State commission shall resolve each issue set forth in the petition and response, if any, by imposing the appropriate conditions as required. This section requires this Commission to conclude the resolution of any unresolved issues not later than 9 months after the date on which the local exchange carrier received the request under this section.

On May 6, 1996, MCI Telecommunications Corporation, individually and on behalf of its affiliates, including MCImetro Access Transmission Services, Inc. (collectively, MCI), formally requested negotiations with United Telephone Company of Florida and Central Telephone Company of Florida (collectively, Sprint), under Section 251 of the Telecommunications Act of 1996 (the Act). On October 11, 1996, MCI filed with this Commission a Petition for Arbitration Under the Telecommunications Act of 1996.

By the date of the hearing, December 18, 1996, MCI and Sprint had reached agreement resolving most of the issues in MCI's arbitration petition. As a result of the agreement, the only issues left for arbitration are Issues 2, 3b, 3c, 7, 9, 21, and 23.

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EXECUTIVE SUMMARY

Issue 2 addresses the compensation mechanism for the exchange of local traffic between MCI and Sprint. Staff is recommending permanent, geographically deaveraged, reciprocal, per minute rates for end office termination for the central offices that Sprint provided cost data. For the central offices that Sprint did not provide end office termination cost data or geographic deaveraged zones, staff recommends using the rates in Zone 1 in the interim. The rates for end office termination are listed in Table 2A. Staff recommends an interim, reciprocal per minute rate for transport of \$.000255 and a permanent, reciprocal per minute rate of \$.00275 for tandem switching. Sprint should not compensate MCI for transport and tandem switching unless MCI actually performs each function.

In addition staff is recommending that Sprint file TSLRIC cost studies for end office switching and transport, for all rates that are designated interim, 90 days from the date of the order.

Issue 3b addresses the cost methodology for setting the price of each of the following unbundled network elements: network interface device, unbundled loop, loop distribution, local switching, operator systems (DA service/911 service), multiplexing/digital cross-connect, dedicated transport, common transport, tandem switching, signaling link transport, signal transfer points, and service control points/databases. Staff is recommending that the appropriate cost methodology for setting rates for Unbundled Network Elements is Total Service Long Run Incremental Cost (TSLRIC). The cost studies submitted by the parties in this case, as filed, do not conform to this standard. Staff has made adjustments to the results as discussed in the staff analysis that reflect more reasonable costs upon which to set interim rates. TSLRIC estimates should be filed within 90 days from the issue date of the order to set permanent rates.

Issue 3c addresses the price of each of the items listed in Issue 3b above. Staff's recommended rates are set forth in the staff analysis of this issue. Recommended interim rates are marked with an asterisk.

Issue 7 addresses the scope of Sprint's obligation, if any, to resell voice mail and inside wire maintenance. Staff is recommending that Sprint should be required to resale voice mail since it is a telecommunication service offered to end user customers who are not telecommunications carriers. Sprint should not be required to resale inside wire maintenance since it is not a telecommunication service.

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Issue 9 addresses the appropriate methodology to determine the avoided cost amounts to be applied to Sprint's retail rates when MCI purchases such services for resale. Staff is recommending that the wholesale discounts rates listed in Table 9A be applied to the appropriate retail service category.

In addition, Sprint should translate the percentage discounts into a fixed dollar amount based on the rates in effect at the time the order from this docket is issued. Sprint file the fixed dollar amounts in its agreement.

Issue 21 addresses whether or not Sprint should be prohibited from placing any limitations on the interconnection between two carriers collocated on Sprint's premises, or on the types of equipment that can be collocated, and or on the types of users and availability of the collocated space. Staff is recommending that Sprint be permitted to impose those limitations as provided in § 51.323 of the FCC's rules on collocation. Sprint should not be required to allow MCI to collocate switching equipment or equipment used to provide enhanced services.

Issue 23 addresses what capacity, engineering and related information should be provided by Sprint regarding its poles, ducts, conduits, and rights-of-way. In addition, what compensation, if any, is appropriate? Staff is recommending that Sprint should be allowed to charge MCI for any special work associated with making engineering records available to MCI. If any special work is required, Sprint should charge the loaded labor rate of the person preparing the documents for MCI's review.

Issue 24 addresses whether or not this docket should be closed. Staff is recommending that this docket should remain open until permanent rates are established for all interim rates.

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ISSUE 2: What should be the compensation mechanism for the exchange of local traffic between MCI and Sprint? (**SHELFER**)

RECOMMENDATION: Staff recommends permanent, geographically deaveraged, reciprocal, per minute rates for end office termination for those central offices for which Sprint provided cost data. For the central offices that Sprint did not provide end office termination cost data, staff recommends using the rates in Zone 1 in the interim. The rates for end office termination are listed in Table 2A. Staff recommends an interim reciprocal per minute rate for transport of \$.000255 and a permanent, reciprocal per minute rate of \$.00275 for tandem switching. Sprint should not compensate MCI for transport and tandem switching unless MCI actually performs each function.

TABLE 2A

ELEMENT	PROPOSED RATES
End Office Termination -	
Zone 1	\$.002081
Zone 2	.002983
Zone 3	.003471
Zone 4	.004286
Zone 5	.005073
Zone 6	.006313
Zone 7	.007766

Sprint should file TSLRIC cost studies for the end office switches for which it did not provide cost data. Sprint should also file TSLRIC cost studies for transport. These cost studies should be filed within 60 days from the date of the order.

POSITION OF PARTIES

MCI: The compensation mechanism should use symmetrical rates for transport and termination set in accordance with total element long run incremental cost principles. The Hatfield Model produces costs calculated in accordance with these principles for tandem switching, local switching and transport.

SPRINT: Call termination compensation should be reciprocal and symmetrical. Sprint should not, however, be required to pay MCI the tandem switching and transport rate elements if MCI interconnects at the Sprint tandem and MCI does not provide the equivalent tandem switching and transport functions.

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STAFF ANALYSIS: This issue is two-fold. The first aspect involves setting the appropriate rates for tandem switching, transport and end office switching. The second aspect is whether these rates should be reciprocal if MCI does not provide the equivalent tandem switching and transport function. For simplicity staff will address each aspect separately.

CALL TERMINATION RATES

Sprint proposes permanent rates for tandem and end office switching, but proposes to use the interstate tariff rates on an interim basis for transport. (Hunsucker TR 410)

Sprint believes TELRIC is the appropriate cost methodology for determining the prices for interconnection elements. Sprint's witness Farrar states that TSLRIC and TELRIC costing methodologies are the same. He contends their differences are related to the item being costed, not the method of developing the costs. Witness Farrar suggests that TSLRIC studies determine the forward-looking, long run incremental cost of network elements. (Farrar TR 456-458)

Sprint's witness Hunsucker states that the call termination is a function of the application of end office switching, local tandem switching and transport. Sprint proposes seven rate bands for end office switching. Sprint states that its goal in deaveraging is to price in proximity to cost. Witness Hunsucker contends this would supply an economically efficient price to new competitors to decide whether to use Sprint or an alternative switching arrangement. Sprint states it established a rate design by sorting the end office switching costs for each office studied from the lowest to the highest. Witness Hunsucker contends that the rate bands were derived by stratifying the end office costs and setting its rates within each band such that no rate differs from any of the end office costs in that band by more than approximately 10 percent. Sprint contends that urban areas have lower switching costs within a grouping due to their higher usage volume and larger average number of lines in each switch. (TR 411-412)

Sprint proposes to use its interstate access tariffed rates, without application of the residual interconnection charge, as proxy rates for transport. Witness Hunsucker states that the interstate access tariff for Florida is arranged in three geographic rate zones. Sprint advocates that these rates are appropriate until such time as detailed TELRIC cost studies can be developed and presented to the Commission. (TR 409) Witness Hunsucker contends that these transport rates are currently priced very close to the cost of providing that service and are close to what will be produced by the TELRIC. In his testimony he indicated

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that in most states interstate rates tend to be lower than some of the intrastate rates. (Hunsucker TR 431)

MCI's concerns regarding Sprint's TSLRIC cost are discussed in Issue 3B; however, MCI's witness Cabe did argue that ILEC cost studies must comply with the requirements for forward-looking cost studies. (Cabe, TR 182) In its brief, MCI stated that the Hatfield Model produces costs for tandem switching, local switching and transport in accordance with TELRIC cost principles. (BR, p. 4) MCI also stated in its brief that,

[T]he parties appear to agree that the reciprocal compensation mechanism should be based on Sprint's forward looking economic costs of providing transport and termination... The parties agree on how "symmetrical" charges are measured when MCI employs a different network architecture than Sprint to perform the same transport and termination function. (BR, p. 5)

As discussed at length in Issue 3b, staff does not believe MCI's Hatfield Model is suitable to use in this proceeding; therefore, staff does not consider its costs appropriate.

After review of Sprint's cost study for end office switching, staff believes that Sprint's proposed deaveraged, per minute rates are not appropriate. As discussed in Issue 3B, staff believes Sprint's rates include excess contribution. Therefore, we do not believe that the additional 14.58% for common costs, which Sprint has added, is necessary. With the adjustment of common cost, staff proposes interim rates as stated in Table 2A. For the offices that Sprint did not provide cost data, staff recommends that the end office rates for Zone 1 should apply in the interim. Staff believes this is reasonable since Sprint did not provide any information to determine the appropriate rates or zones for the remaining end offices. Sprint should provide TSLRIC cost studies on the remaining end office switches so permanent rates can be set.

Staff believes Sprint has provided adequate cost data to support deaveraged rates for end office switching. As suggested by Sprint, this will price end offices in proximity to their cost. Since urban areas tend to have lower switching costs due to their higher usage volumes and larger average number of lines in each switch, it is appropriate that such offices should have lower rates. (Hunsucker TR 411-412)

As with end office switching, Sprint did not provide cost information for all of its tandem switches. (EXH 24, p. 37) However, since the cost data provided did encompass the majority of

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the tandem switches, staff does not believe that additional cost data on the few remaining tandems would change the outcome. Staff believes the cost information provided is sufficient to set permanent tandem switching rates; however, as stated above, staff does not believe the additional 14.58% which Sprint has added for common costs is necessary. Therefore, we believe the resulting rate for tandem switching of \$.00275 is appropriate.

Staff disagrees with Sprint's proposal to use interstate tariffed rates for transport until its TELRIC cost studies can be filed. Witness Hunsucker stated that interstate rates tend to be lower than intrastate rates, but he had not looked at Florida. (Hunsucker TR 431) Florida intrastate tariffed rates; however, are lower than the Sprint's proposed interstate rates. Florida's intrastate rates are still priced substantially above costs. Staff does not believe it is appropriate to set transport rates even in the interim using rates that we know are well above costs. Staff proposes an interim reciprocal, per minute transport rate of \$.000255. This rate was determined using TSLRIC cost information provided by Sprint in Docket No. 950985-TP (Interconnection). (EXH 7)

Staff has developed separate rates for end office switching, tandem switching and transport because the ALECs may use one or both switches to terminate a call. Staff believes this is appropriate since a call terminated at an access tandem may require additional switching and transport than a call terminated at an end office. The tandem rate only includes costs to terminate at the tandem; therefore, if an ALEC terminates through both a tandem and end office switch, Sprint will charge tandem, transport and end office rates.

Sprint should file TSLRIC cost studies for the end office switches for which it did not provide cost data. Sprint should also file TSLRIC cost studies for transport. These cost studies should be filed within 60 days from the date of the order. Requiring TSLRIC cost studies, is consistent with the Commission's directive in Docket No. 960847-TP.

In summary, staff recommends permanent, geographically deaveraged, reciprocal, per minute rates for end office termination for those central offices for which Sprint provided cost data. For the central offices that Sprint did not provide end office termination cost data, staff recommends using the rates in Zone 1 in the interim. The rates for end office termination are listed in Table 2A. Staff recommends a reciprocal per minute rate for transport of \$.000255 and \$.00275 for tandem switching.

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RECIPROCAL COMPENSATION

The parties agree that compensation should be reciprocal and symmetrical. The parties disagree on whether MCI performs the same or equivalent call termination function as Sprint. Sprint argues that the ILEC should not be required to pay the CLEC the tandem switching and transport rate element if the CLEC does not provide the equivalent tandem switching and transport functions. (Hunsucker TR 389) MCI contends that reciprocal compensation should be based on the functionality provided rather than the network architecture employed. (Cabe TR 208-209)

Section 251(b)(5) of the Act requires the ILECs to establish reciprocal compensation arrangements for the transport and termination of telecommunications. Section 252(d)(1)(A) requires it shall be-

- (i) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable), and
- (ii) nondiscriminatory...

Section 252(d)(2)(A)(I) requires that a state commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless-

- (i) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier; and
- (2) such terms and conditions determine such costs on the basis of a reasonable approximation of the additional cost of terminating such calls.

Sprint and MCI have arguments that reference the portions of the FCC Rules and Order which have been stayed, specifically Section 51.701(c) and (d). Sprint has also cited Order No. PSC-96-1532-FOF-TP, in Docket No. 960838-TP (Arbitration of MFS/Sprint), issued December 16, 1996, which referenced stayed portions of the FCC Rules and Order. Staff would point out that the stayed portions of the FCC Rules and Order were not considered in this recommendation.

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Sprint contends that the Commission has already determined this very same issue in a previous arbitration proceeding between MFS and Sprint (Docket No. 960838-TP). The Commission concluded that MFS should not charge Sprint for transport because MFS does not actually perform this function. (Order No. PSC-96-1532-FOF-TP, issued December 16, 1996, p. 6) The Commission determined that the Act does not contemplate that the compensation for transport and termination of local traffic should be symmetrical when one party does not actually use the network facility for which it seeks compensation.

Sprint argues that the issue of whether Sprint must reciprocally compensate MCI for tandem switching and transport again turns on whether MCI performs a tandem switching and transport function. (Hunsucker TR 389-390; BR, p. 6) Sprint contends in its brief that MCI has not established how many switches it will provide in Florida, or how many switches will be tandem switches, if any. (BR, p.6) Sprint states that MCI was unable to state unequivocally that the remote dial line unit (RDLU) is a switch or that a Sprint-oriented, local call terminated on MCI's network will be switched twice: one at the tandem switch and once at the RDLU. (Murphy TR 136-137; 144-145) Sprint asserts that MCI could not state that its switch performs a tandem switching function. (Murphy TR 137-138)

Sprint's witness Hunsucker states that unless MCI is performing both tandem and end office functionality, Sprint should not be required to provide compensation on the tandem switching and transport elements of call termination. He contends that the burden of proof should be on MCI to certify to this Commission and/or Sprint where such tandem and end office functionality exists in their network. (Hunsucker TR 390) Witness Hunsucker states that Sprint does not oppose reciprocal compensation where both CLEC and ILEC provide the same or equivalent termination functionality. (TR 389) Sprint argues in its brief that MCI has not demonstrated that it will perform the tandem and transport functions contemplated by the Act and the FCC's Rules and Order.

MCI argues that regardless of how transport and termination are priced with reference to Sprint's existing network, MCI is entitled to full compensation, irrespective of the network facilities it uses, when it provides the same function as Sprint. (Cabe TR 208; BR, p. 5) MCI argues that although stayed, and thus not binding on the Commission, the FCC Rules on pricing for transport and termination of local traffic are a reasonable interpretation of the "reciprocal compensation" requirements of the Act. MCI submits in its brief that these rules provide useful

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direction as the Commission determines the appropriate compensation under the Act for the exchange of local traffic. (BR, p. 6)

MCI contends that Sprint's witness Hunsucker distorts the concept of reciprocal compensation based on equivalent functionality by maintaining that "equivalent call termination functionality" means that a CLEC must provide "the equivalent tandem switching and transport functions" before the ILEC can be required to pay the CLEC the tandem switching and transport rate elements. (Hunsucker TR 389) MCI asserts that Sprint's interpretation of the Rules requiring MCI to compensate MCI on a symmetrical basis for both transport and termination (i.e. at the tandem interconnection rate) only where MCI has deployed both tandem and end office switches in its new local network would punish MCI for using the most efficient technology. (Hunsucker TR 389-390)

MCI argues in its brief that the Commission should focus on the similarity of the functionality provided, not on the configuration of the physical facilities used to provide that functionality. MCI asserts that in the old ILEC network architecture, the purpose and function of tandem switches is to distribute calls to any switch which serves any end user within the tandem serving area. (BR, p. 8) MCI's witness Murphy contends that each carrier should be entitled to the same compensation if each carrier is using "equivalent facilities" to provide the same function. (Murphy TR 124-125)

MCI's witness Cabe asserts that MCI performs the same function when it terminates a local call for Sprint as Sprint will perform when it terminates a local call for MCI. (Cabe TR 218-219) MCI argues in its brief that because the function is equivalent, symmetrical compensation rates should apply. MCI contends that the appropriate rate for termination of local calls is Sprint's tandem rate, including tandem switching, shared transport and termination, in situations where MCI's geographic scope is comparable to the geographic scope covered by Sprint's tandem network. (BR, p. 9)

Since the pricing portion of the FCC Rules and Order has been stayed for transport and termination, staff does not believe the arguments regarding these Rules and the Order should be considered. While it is true that the Commission did discuss the merits of the Rules and Order in its decision in Docket No. 960838-TP (Arbitration between MFS and Sprint), the Commission did not base its decision on the FCC Rules and Order.

Staff believes the Act is clear regarding reciprocal compensation. Section 252(d)(2)(A)(i) requires that this

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Commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless

(i) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier;

Staff does not believe the Act intends for MCI or any other carrier to be compensated for a function it does not literally perform. Even though MCI argues that its network performs "equivalent functionalities" as Sprint in terminating a call, MCI has not proven that it actually deploys both tandem and end office switches in its network. If these functions are not actually performed, then there cannot be a cost and a charge.

While staff understands MCI's concern that this interpretation of the Act may discourage CLECs from building the most efficient, modern network in order to receive compensation, the Act is clear. Therefore, based on Section 252(d)(2)(A)(i) of the Act, MCI is not entitled to compensation for transport and tandem switching unless it actually performs each function.

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ISSUE 3b: What is the appropriate cost methodology for setting the price of each of the following unbundled network elements?

Network Interface Device
Unbundled Loop
Loop Distribution
Local Switching
Operator Systems (DA Service/911 Service)
Multiplexing/Digital Cross-Connect
Dedicated Transport
Common Transport
Tandem Switching
Signaling Link Transport
Signal Transfer Points
Service Control Points/Databases (NORTON)

RECOMMENDATION: The appropriate cost methodology for setting rates for Unbundled Network Elements is Total Service Long Run Incremental Cost (TSLRIC). The cost studies submitted by the parties in this case, as filed, do not conform to this standard. Staff has made adjustments to the results as discussed in the staff analysis that reflect more reasonable costs upon which to set interim rates. Sprint should be required to file TSLRIC estimates for the NID, Loop Distribution, and Unbundled Loops in order to set permanent rates. TSLRIC estimates should also be filed for those elements for which interim rates are approved. TSLRIC studies should be filed no later than 90 days following the issuance of the order in this proceeding.

POSITION OF PARTIES

MCI: The price of unbundled elements should be based on the forward-looking, long-run economic costs, calculated in accordance with TELRIC principles, that a wholesale-only LEC would incur to produce the entire range of unbundled network elements. These costs are calculated by the Hatfield Model.

SPRINT: In general, the Commission should employ the TELRIC standard, notwithstanding the Court's stay.

STAFF ANALYSIS: Both parties advocate the use of TELRIC principles to develop costs for unbundled network elements, despite the fact that this portion of the rules contained in the FCC's Interconnection Order, FCC 96-325, released August 8, 1996 (the Order), is currently under a stay. MCI offers the Hatfield model, Version 2, Release 2 (Hatfield), and Sprint has proposed use of the Benchmark Cost Model, Version 2 (BCM2) for loops. Both parties

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argue that their respective models constitute the best approach to developing appropriate TELRIC estimates.

Pricing Requirements Pursuant To The Act

The Act, in Section 252(d), contains the pricing standards for unbundled network elements. Section 252(d)(1), Interconnection and Network Element Charges, states:

Determinations by a State commission of the just and reasonable rate for the interconnection of facilities and equipment for purposes of subsection (c)(2) of section 251, and the just and reasonable rate for network elements for purposes of subsection (c)(3) of such section--

- (A) shall be-
 - (i) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the interconnection or network element (whichever is applicable), and
 - (ii) nondiscriminatory, and
- (B) may include a reasonable profit.

Staff interprets this Section of the Act to require the prices for unbundled elements to be based on cost and may include a reasonable profit. Based on the Act, staff believes that the appropriate cost methodology is an approximation of TSLRIC. This policy was adopted by the Commission in Order No. PSC-96-0811-FOF-TP, issued June 24, 1996, in Docket No. 950984-TP (Motion for stay and an appeal have been filed), in Order No. PSC-96-1579-FOF-TP, issued December 31, 1996 in DN 960833-TP, and in Order No. PSC-97-0064-FOF-TP, issued January 17, 1997 in DN 960847-TP.

Staff believes that the Act can be read to allow geographic deaveraging of unbundled elements; however, staff does not interpret the Act to require geographic deaveraging.

Pricing Pursuant To The FCC's Order

TELRIC vs. TSLRIC

The FCC, in its Order 96-325, released August 8, 1996, defines TELRIC as:

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... the forward-looking cost over the long run of the total quantity of the facilities and functions that are directly attributable to, or reasonably identifiable as incremental to, such element, calculated taking as a given the incumbent LEC's provision of other elements.

(1) Efficient network configuration. The total element long-run incremental cost of an element should be measured based on the use of the most efficient telecommunications technology currently available and the lowest cost network configuration, given the existing location of the incumbent LEC's wire centers.

(2) Forward-looking cost of capital. The forward-looking cost of capital shall be used in calculating the total element long-run incremental cost of an element.

(3) Depreciation rates. The depreciation rates used in calculating forward-looking economic costs of elements shall be economic depreciation rates. (FCC Rules, 51.505(b))

Staff believes that there should not be a substantial difference between the TSLRIC cost of a network element and the TELRIC cost of a network element. In fact, the FCC states that, "while we are adopting a version of the methodology commonly referred to as the TSLRIC as the basis for pricing interconnection and unbundled elements, we are coining the term "total element long run incremental cost" (TELRIC) to describe our version of this methodology." (FCC 96-325, ¶678) However, it should be noted that the methodology the FCC uses to implement TELRIC would not necessarily be used by this Commission in determining TSLRIC costs. For example, the FCC's TELRIC definition uses a scorched node approach, whereas the Commission has used in its state proceedings a TSLRIC approach using efficient technology. The difference between these methodologies is that the scorched node only considers the current location of central offices and not the existing technology or physical architecture deployed by the carrier in either the central office or outside plant. The TSLRIC based forward-looking approach considers the current architecture and the future replacement technology.

For the purpose of this recommendation, TSLRIC will be defined as the costs to the firm, both volume sensitive and volume insensitive, that will be avoided by discontinuing, or incurred by offering, an entire product or service, holding all other products or services offered by the firm constant. This definition should not be construed as requiring or assuming that the firm would

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reoptimize its input mix and facilities when a service is added to (or removed from) the existing product mix. That is, TSLRIC, in this recommendation, does not presume a "scorched earth" or "scorched node" analysis.

The FCC states that prices should be based on the TSLRIC of the network element, which will be called the Total Element Long Run Incremental Cost (TELRIC), and will include a reasonable allocation of forward-looking joint and common costs. (FCC 96-325, ¶672) In addition, the FCC adopted in its rules, Section 51.505(a), the following language:

In general. The forward-looking economic cost of an element equals the sum of: (1) the total element long run incremental cost of the element, as described in paragraph (b); and (2) a reasonable allocation of forward-looking common costs, as described in paragraph (c).

Staff believes that the FCC did make a distinction between TSLRIC and TELRIC for the purposes of setting prices. However, neither TSLRIC nor TELRIC costs include forward-looking joint and common costs. Staff does not disagree with the FCC's pricing methodology; in fact, staff is recommending as closely as possible, rates that are based on TSLRIC estimates plus some contribution to joint and common costs.

According to Sprint witness Farrar, the difference between TELRIC and TSLRIC is the focus on elements rather than on service. That is, certain costs can be directly assigned on an element level whereas at the service level, they would be considered shared costs. (Farrar TR 457) The effect is that under TELRIC, more costs would be directly assigned, leaving fewer costs to be defined as shared.

Analysis of Cost Studies

The cost information presented by the parties consists of two types. MCI proposes the Commission use the results of its Hatfield Model. MCI claims that the Hatfield Model provides results that are consistent with the FCC's TELRIC pricing standard. (TR). Sprint provided a version of the Benchmark Cost Model (BCM2) for loops, and other TELRIC studies for unbundled network elements. This Commission established a policy in Docket Nos. 950984-TP, 950985-TP, 960833-TP, and 960847-TP of using TSLRIC as a cost basis for setting rates.

Hatfield Model Study

The Hatfield Model was developed by Hatfield and Associates, Inc. at the request of AT&T and MCI. The model has been updated several times since its inception. The version used in this proceeding is Version 2.2, Release 2. The model was designed to estimate the TELRIC costs of the unbundled network elements and to estimate the cost of basic local exchange telephone service. The Hatfield Model is a "scorched node" model, in that it assumes all network facilities would be designed and built from scratch, constrained only by the current location of central offices. The developers purport that the model develops forward-looking network investments and costs for unbundled network elements and basic local exchange service. The model does not represent any one specific LEC network, but was designed to be adaptable to any LEC or geographic area. Hatfield models the loop, including the NID, the drop, the block terminal, distribution cable, and feeder facilities. It also models the interoffice network, including wire center physical plant, end office switching, tandem switching, signal transfer points, service switching points, and service control points. (EXH 12)

The Hatfield Model contains six functional modules which contain the information and methodology used to calculate estimated plant investment and expenses. A primary data source used by the Model is the BCM-PLUS input data file. The BCM-PLUS input data file is used within the Hatfield Model as the first step in developing the investment level associated with the feeder and distribution elements of the local loop. This file contains 1995 estimates of households per Census Block Group (CBG), data regarding the size of each CBG, and other CBG-specific data. The Hatfield Model adjusts the household data, converting it to access lines and accounting for multi-line residences, business, payphone and special access lines. BCM-PLUS was derived from part of the Benchmark Cost Model (the BCM1 version) which was developed by US WEST, NYNEX, MCI and Sprint. (EXH 12) A brief explanation of each module is provided below.

Line Converter Module. This module transforms the census data from the BCM-PLUS data input files into a total line count per customer type. This line count is used in the calculation of costs per line.

Data Module. The Data Module computes the quantity and length of distribution and feeder cables per CBG.

Loop Module. This module estimates cable investments by determining the size and type of cable required to serve each CBG.

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The module then takes the distribution and feeder lengths calculated in the Data Module and using cable price information, calculates the total loop investment necessary for each CBG.

Wire Center Module. The Wire Center Module calculates investments in wire centers, switching, signaling and interoffice transmission facilities. The module also determines switching and interoffice capacity to meet the service demand in the area being studied.

Convergence Module. The Convergence Module combines the loop investment calculated in the Loop Module with the results of the Wire Center Module. This module also calculates the cost to install poles and conduits considering terrain and population density conditions. The module produces output containing total investment for all plant categories by density range.

Expense Module. The Expense Module uses the output from the Convergence Module to generate monthly costs for unbundled network elements and basic local exchange service. These costs include annual capital carrying costs, operations and maintenance expenses and other per-line expenses incurred to provide local service. (EXH 12)

Sprint raised several criticisms concerning the results generated by the Hatfield model. Sprint witness Dunbar concludes that there are a "number of serious flaws" that make the Hatfield model "unusable for pricing unbundled elements." (TR 588)

First, he states that the outside plant cost assumptions are inconsistent with the loop plant design, and the costs are understated since the single cable cost curve that is used in Hatfield is not consistent with the model's long loop design.

Second, he states that the larger feeder and distribution cables used in underground loops must be 26 gauge and that the Hatfield model only uses 24 gauge.

Third, long loops also require load coils and line amplifiers to maintain the quality of the signal and to achieve dial tone.

Fourth, the loop materials costs are less than required to cover the cost of cable, electronics, and loop treatment.

Fifth, Hatfield does not calculate the correct number of fibers needed to carry the Digital Loop Carrier (DLC) to its correct maximum capacity, nor does it correctly configure the

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carrier terminal equipment. It omits costs necessary to make the terminals functional.

Sixth, Hatfield assumes that an AFC carrier system is used. The AFC carrier system can have multiple terminal locations on four fibers up to a total of 672 lines. It cannot support 2016 lines as indicated in the model. The model omits the cost for the AFC Local Exchange Terminal, as well as the cost for the fiber optic termination frame.

Seventh, the total length of distribution cable in the Hatfield model is insufficient to reach all subscribers in some CBGs.

Eighth, Hatfield understates the cost of supporting structures such as poles and conduit systems.

Ninth, Hatfield assumes that 67% of the placement costs of conduit will be recovered from non-telephone services such as electric and TV cable, on the presumption that these facilities would simultaneously be placed in the same trench used for the telephone duct.

Tenth, Hatfield understates all aerial facility costs by the cost of at least one pole. Hatfield prices aerial distances less than the distance between poles with just one pole. Thus, it does not recognize the first pole required; no aerial facility can use just one pole.

Eleventh, Hatfield ignores the effect of terrain on the cost of cable placement by simply assuming longer cable lengths to go around difficult terrain. Witness Dunbar states that in most areas, cable placements must follow roads, rights-of-way, and utility easements. (Dunbar TR 588-599)

MCI witness Wood responded that the Hatfield model is not intended to be an engineering model, and that while it relies on some engineering principles and practices, its objective is to develop the cost of serving an entire area. Witness Wood states that Hatfield's assumptions may not reflect those of a network planner; however, he emphasized that the purpose of the model is not to produce a specific loop cost, but rather to develop the total dollar amount required for loop investment for each CBG. (TR 296-297; 303) The specific calculations required would therefore yield some results that are overstated and some that are understated. (TR 303-304)

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According to witness Wood, the vast majority of the data used in the model is Sprint or Florida-specific. (TR 293) The model methodology is "transparent" and allows an open and public process for developing costs. It calculates forward-looking economic costs that an efficient provider of unbundled network services providing those services or elements on a wholesale basis would incur. (TR 292) Finally, according to the Model description, the default input values represent the best judgments of the model's developers. However, these inputs are variable, and thus users can model directly any desired alternative. (EXH 18)

In this proceeding, the Hatfield Model's use of a "structure sharing factor" was discussed at length. As noted, structures include the costs of trenching, conduit, and telephone poles, which are associated with the installation of buried, underground, and aerial cable, respectively. The model assumes that supporting structures will be "shared" with other firms -- typically, a cable company and an electric utility. In order for the costs of trenching to be shared, a LEC needs to coordinate its efforts with such other utilities. Witness Wood admitted during cross-examination that he did not know what percentage of Sprint's conduits and telephone poles are shared with other providers. However, he testified that some structure sharing exists as demonstrated by simply making visual inspection of aerial poles. (TR 344-345) The default values for the structure sharing factors in the Hatfield model are set at .33; the effect of applying these .33 values is to exclude 2/3 of the investment in supporting structures initially computed from the final cost outputs. If these values are set to 1.0 (which assumes no structure sharing at all) total loop costs derived by the model increase by \$4.29. (TR 337). Staff believes that while the record shows that some structure sharing exists in Sprint's Florida network, that to exclude 2/3 of the structure investment as recoverable from other entities, is not reasonable. We believe that MCI's loop estimates are understated to that extent.

Sprint's BCM2 Cost Studies

Sprint emphasizes that it is imperative that the same cost standard be applied to all Florida ILECs, that different pricing standards will produce non-competitive costs and prices among ILECs, disadvantaging some while benefitting others. (Hunsucker TR 358-359; Farrar TR 454)

According to Sprint, the purpose of the BCM2 model is to "estimate a benchmark cost of providing basic local telephone

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service for both business and residence customers in small geographic areas for the entire U.S. and its territories." (EXH 28) BCM2 incorporates several "enhancements" designed to more accurately reflect actual engineering practices in developing a local exchange network. One major change, according to Sprint, is that BCM2 includes all costs of basic local telephone service, while BCM only included the major cost drivers. (EXH 28)

According to Sprint, BCM2 is a geographically based high level engineering model of a hypothetical local network. The basic units used by the model are Census Block Groups (CBGs), as defined by the U.S. Bureau of the Census, including the physical boundaries of the CBG, the geographic center of the CBG, and the number of households. In addition, terrain data is developed by CBG. The number of business lines is estimated using a Dun & Bradstreet data base of the number of employees by CBG. Existing central offices are obtained from Bellcore's Local Exchange Routing Guide (LERG). All these characteristics are input into BCM2. (EXH 28)

Sprint witness Dunbar described the three major steps in the BCM2 process. First, the data input file to be used in the model must be built. This consists primarily of CBG-related information. Second, the appropriate feeder and distribution plant must be determined for the relative locations of the CBGs, and the placement costs developed. Finally, the switching costs are developed by CBG.

The major basic assumptions utilized in the development of the loop investments under the BCM2 methodology are discussed below.

Loop Technology. Feeder cable is placed using either copper or fiber depending on the total loop length. Distribution cable is placed using analog copper technology for voice grade loops; fiber loop technology or digital carrier on copper is used when the terminations are made at the DS1 signal level for a percentage of the business lines. Two different kinds of Digital Loop Carrier (DLC) equipment is used depending on the number of lines needed at remote terminal locations.

Feeder Plant Architecture. Four main feeder routes are assumed for each central office. The design of the copper and fiber feeder cables utilizes varying sizes depending on the distance from the central office. Feeder plant costs include materials costs of cable and electronics, as well as splicing and engineering costs.

Distribution Plant Architecture. BCM2 assumes that all households are uniformly distributed within a CBG. Distribution

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cable extends from the end of the feeder cable to each of the customer premises. Fiber distribution cable and DS-1 terminations are used in very densely populated CBGs to reflect characteristics of businesses. Distribution plant costs include material costs of cable and structures, Network Interface Devices (NIDs), drop wire, pedestal, in-line terminals, digital terminals, splicing and engineering. Distribution cable sizes vary from 12 pair to 3600 pair cable.

Switch Technology. BCM2 uses five different size generic digital switches for calculating switch investments. Each switch size has its own start up and per line costs. Start up costs include central processor frames, billing and data recording equipment, power and backup power equipment, the main distribution frame, frames for testing, and basic software.

Terrain Assumptions. Terrain data by CBG is included as inputs: water table depth, depth to bedrock, hardness of the bedrock, and surface soil texture. These terrain characteristics affect the placement and cost of telephone plant. Each CBG is placed in one of four placement cost levels depending on the mix of terrain characteristics in the CBG.

Algorithms. Various calculations are made to determine the following:

- Feeder Plant Distance
- Shared Feeder Plant Distance
- Cable Capacity & Material Investments for Shared Feeder Plant
- Distribution Plant Distances
- Cable Capacity & Material Investments for Distribution Plant
- Structure and Placement Costs
- Switch Equipment Investments
- Circuit Equipment Investments
- Annual Cost Factors

According to Sprint, nearly all the variables in BCM2 are user adjustable. Default values were set based on levels Sprint feels best represent "forward-looking practices for deployment of basic local telephone services." (EXH 28)

Sprint used the BCM2 model only to develop loop costs. It employed other TELRIC studies to develop costs for certain of the other unbundled network elements. (EXH 21) For still others, Sprint did not conduct cost studies but has instead proposed to employ current tariffed rates, both intrastate and interstate, as an interim measure. (Hunsucker TR 406, 409) MCI states that it

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has supplied the only cost support in this proceeding for these elements. (Brief p. 17)

In order to develop its TELRIC estimates, Sprint has included a varying percentage (approximately 3-27% depending on the type of investment), called Other Direct Operating Expense, in its Annual Charge Factors to incorporate estimates of shared costs for various investment categories. (Farrar TR 533-534) In order to derive its proposed rates, it then applied an additional factor of 14.58% to the "TELRIC" estimate to incorporate common costs.

MCI raised objections to certain aspects of Sprint's proposals. With respect to Sprint's TELRIC estimates for the loop and port combination, tandem switching, SS7 signaling interconnection, LIDB, 911 ports, and Directory Assistance data base services, MCI witness Cabe argues that these studies use a "black box" approach, and are not available for critical review. (Cabe TR 181-182) According to witness Cabe, although the BCM2 approach used to develop loop costs is a more open process, Sprint nevertheless does not incorporate forward-looking economic costing principles; it relies heavily on historical, embedded data; and it handles shared and common costs similarly to a fully distributed cost study. (Cabe TR 210, 212)

Specifically, MCI argues that Sprint's Annual Charge Factors are overstated. Calculated investment amounts are multiplied by annual charge factors to derive an annual cost, which then can be converted to a monthly cost. (Farrar TR 531) Sprint calculated Annual Charge Factors of approximately 30%, thus affecting a substantial portion of each TELRIC estimate. (Farrar TR 539)

In support of its contention, MCI notes that Sprint has utilized a cost of capital of 11.25%, which includes a cost of equity of 15.81% which MCI terms "generous." (MCI BR, p. 18) MCI also took issue with Sprint's maintenance factors, noting that different maintenance factors were used for the same item at various points in the study. (Farrar TR 542-547) In addition, MCI notes that Sprint used historical maintenance expense in conjunction with a forward-looking loop investment to develop the maintenance factors. (TR 547) Finally, for the shared cost factor, called the Other Direct Operating Expense factor, Sprint also used historical 1995 costs, and made no adjustment to make them forward-looking. (TR 549) The result, MCI argues, is that all the embedded shared and common costs of the firm are either allocated back to unbundled elements or to retail services, thus making this in effect, an embedded study.

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Conclusion and Recommendation

Our review leads us to conclude that the Hatfield Model appears to understate costs whereas the BCM2 overstates them. Moreover, both TELRIC models incorporate a "scorched node" approach to cost development. Accordingly, staff recommends that the Commission not adopt the proposed rates derived from either study as filed.

The appropriate cost methodology for setting rates for Unbundled Network Elements is Total Service Long Run Incremental Cost (TSLRIC), recognizing existing network configurations and utilizing forward-looking costs. The cost studies submitted by the parties in this case, as filed, do not conform to this standard. Staff has, where possible, made adjustments to the BCM2 and Sprint's TELRIC workpapers to reflect more reasonable results upon which to set rates.

We chose not to use adjusted Hatfield results for various reasons. In some instances, the proposed rate structure was so bundled that it did not, in our opinion, adequately reflect cost causation. Examples included rates for dedicated transport that are based simply on DS-0 equivalents with no distance component, and Operator Services which was proposed to be a single lump sum annual charge for all Directory Assistance and 911 services.

Where possible, staff has adjusted Sprint's TELRIC estimates to derive more reasonable rates for unbundled elements. Where Sprint has supplied TELRIC estimates, we have, for the most part, considered the overstatement of its annual charge factors with respect to the cost of capital, maintenance factors, and embedded expenses to be sufficient to provide an adequate contribution to common costs. Therefore, we do not believe that the additional 14.58% for common costs which Sprint has added is necessary. With these adjustments, we believe the resulting rates may be considered reasonable.

Where Sprint has proposed to use current interstate tariffed rates, staff recommends that, where noted, these be used as interim measures, and appropriate TSLRIC estimates be submitted. Where possible, however, staff has utilized other TSLRIC data obtained in our state proceedings, and made a part of this record, to set permanent rates.

For unbundled loops, both MCI and Sprint have proposed the use of deaveraged pricing based on cost differences associated with density. (Wood TR 340) The Hatfield's rate bands are based on the number of access lines per square mile. Sprint, on the other hand,

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has derived the BCM2 rate bands by stratifying the loop costs and setting bands such that at least 80% of the loops fall within \$5.00 of the weighted average TELRIC. (Hunsucker TR 400) We believe that both methods are essentially cost-driven but the resulting rates are not comparable at all.

For interim purposes, we have recommended a single averaged unbundled loop rate and that TSLRIC estimates be filed. This was done for several reasons. First, both Hatfield and BCM2 loop costs are based on a hypothetical, "scorched node" network. We believe that the Hatfield estimates are too low for sufficient cost recovery, and that BCM2 annual charge factors are overstated. Second, unlike other TELRIC studies, it was not possible, with the information provided, to adjust the costs to eliminate the overstatements. The multiple bands made it more complex. Finally, staff has not had sufficient time to familiarize itself with the BCM2 program as it was submitted very shortly before hearing. Therefore, we have recommended a single unbundled loop rate for interim purposes. TSLRIC estimates should be filed for the entire unbundled loop as well as Loop Distribution.

With respect to the unbundled local switching element, Sprint has proposed the use of six bands and a flat rate that includes both the port and a flat rate surrogate for usage. They have proposed this structure (versus the more common flat port plus per minute usage rate) because they cannot measure originating and terminating usage on a switching port at this time. (Hunsucker TR 403) Sprint has also proposed that the switching features such as Caller ID, Call Waiting and Centrex features, that are normally included in unbundled local switching, be priced separately at 22% of retail rates. (TR 406) Staff disagrees with this approach and recommends that no separate prices be approved for switching features. Rather, the features should be, as required by the Act, incorporated within the unbundled switching rate itself. For this reason, we have recommended, as an interim measure, approval of the banded port/usage surrogate rates as proposed by Sprint. However, these rates are to include all associated features with no separate charges added.

For the Common Transport element, Sprint proposed to use interstate tariffed rates. We have recommended, as an interim measure, a rate that combines the mileage and termination components, and which is based on TSLRIC costs obtained in DN 950985-TP. (EXH 7)

Sprint should be required to file TSLRIC estimates for the NID, Loop Distribution, and Unbundled Loops in order to set permanent rates. TSLRIC estimates should also be filed for those

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elements for which interim rates are approved. TSLRIC studies should be filed no later than 90 days following the issuance of the order in this proceeding.

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ISSUE 3c: What should be the price of each of the items listed in Issue 3b above? (NORTON)

RECOMMENDATION: Staff recommends that the Commission set rates as set forth in the staff analysis below. Recommended interim rates are marked with an asterisk.

POSITION OF PARTIES

MCI: The appropriate prices for the major unbundled network elements are set forth in the direct testimony of Mr. Wood.

SPRINT: The price of each unbundled element should be based on the TELRIC of each element plus a contribution to common costs. The Commission should adopt the prices set forth in Exhibit 19 (MRH-6). The prices for geographically deaveraged unbundled loops should be based on investments developed in the Benchmark cost Model ("BCM-2"). The Hatfield model is flawed and should not be used.

STAFF ANALYSIS: Sprint's proposed rates in this proceeding are based on individual TELRIC-based studies for some unbundled network elements, and interstate tariffed rates for other elements. Sprint has proposed that the interstate rates be used until it has completed TELRIC studies. Sprint used the BCM2 only to derive the local loop investments. (BR, p. 9)

MCI's proposed rates are all derived from the Hatfield model. In many instances, MCI's proposed rate structure differs substantially from that of Sprint's.

Staff's recommended rates in this proceeding are based on the record provided. As discussed in Issue 3b above, we have adjusted cost data where possible to reflect more reasonable results, and have recommended rates based on the adjusted data. Where noted, we are recommending interim rates be set.

The following table is a comparison of MCI's and Sprint's proposed recurring rates and staff's recommended rates. Staff's recommended rates sufficiently recover Sprint's TSLRIC plus provide some contribution to shared and common costs. Recommended interim rates are shown with an asterisk.

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TABLE 3-A
 RECURRING RATES

NETWORK ELEMENT	MCI	SPRINT	STAFF
NID			
	0-5 lines/sq.mi. \$0.56	1 line - \$.91	\$0.79
	5-20000 0.56	2 line - \$1.09	0.95
	200-650 0.53	Smart Talk - \$14.17	12.37
	650-850 0.58	HDSLRT - \$28.44	24.82
	850-2550 0.54		
	> 2550 0.44		
	Average \$0.52		
TOTAL LOOP			
		2-WIRE	
	0-5 lines/sq.mi. \$71.38	Band 8 \$78.51	
	5-20000 25.35	Band 7 54.78	
	200-650 12.86	Band 6 41.63	
	650-850 10.72	Band 5 33.58	
	850-2550 9.77	Band 4 27.67	
	> 2550 8.79	Band 3 22.18	
	Average \$13.85	Band 2 17.07	
		Band 1 10.16	
		Average \$28.40	\$15.00*

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NETWORK ELEMENT	MCI	SPRINT		STAFF	
LOCAL SWITCHING					
Port, per line	\$1.05	Band 1	\$5.82	(2) \$5.82*	
		Band 2	7.72	7.72	
		Band 3	8.99	8.99	
		Band 4	10.08	10.08	
		Band 5	11.66	11.66	
		Band 6	13.83	13.83	
Usage, per MOU	\$0.0023	None proposed at this time			
SIGNALING NETWORK ELEMENTS					
			Fixed	Per Mile	
Link	\$27.57	56kbps(1)	\$82.00	\$4.80	*Use Sprint
		1.544mbps(1)	93.00	20.00	rates as
		Multiplexing	\$318.00/mo	\$142.00 NRC	interim.
Signal Transfer Pts.	\$0.00018, per msg.	STP Port	\$498.97/MO.		*Use Sprint
		STP Switching	1.08/DS-1 equivalent		rates as
					interim.
Service Control Pts.	\$0.00119, per msg.	None proposed			\$0.00119*
LIDB Administration Serv.	None	\$0.056 per Access Line			\$0.0489
LIDB Access Service	None	\$0.0166 per Query Transport			\$0.0166*
		\$0.0366 per Database Query			\$0.0366*
Toll Free Code Access(1)		Access service database, per query	\$0.08498		\$0.08498*
		DB optional service features, per query	\$0.001419		\$0.001419*

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NETWORK ELEMENT	MCI	SPRINT		STAFF	
TRANSPORT					
Dedicated Transport			Fixed(1)	Per Mile(1)	
	\$3.76, per DSO equivalent	VG	\$60.00	\$2.40	*Use Sprint
		DS-1, Zone 1	79.00	17.00	rates as
		DS-1, Zone 2	93.00	20.00	interim.
		DS-1, Zone 3	98.00	21.00	
		DS-3, Zone 1	\$468.00	\$168.00	*Use Sprint
		DS-3, Zone 2	550.00	198.00	rates as
		DS-3, Zone 3	578.00	208.00	interim.
Tandem Transport					
			Fixed(4)	Per Mile(1)	
Common, per MOU, per LEG	\$0.00063	Zone 1, per mou	\$0.000247	\$0.000056	\$0.000255, per MOU*
		Zone 2	0.00029	0.000066	
		Zone 3	0.000305	0.000069	
Switching, per MOU	\$0.0025		\$0.00315		\$0.00275

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NETWORK ELEMENT	MCI	SPRINT	STAFF
OPERATOR SYSTEMS			
	DA Service 911 Service \$2,347,959/yr.	Directory Assistance Services Listing/update service, per list \$0.055 Query service, per call \$0.0246	\$0.048* \$0.0215*
		Toll & Local Operator Services Per call \$0.446	\$0.389*
		Directory Assistance Operator Services Per call \$0.389	\$0.339*
		911 Tandem Port and Lines Service Per DS-0 \$19.50 Trunk Interstate Rates	\$17.02* *Use Sprint rates as interim.
CROSS CONNECTS			
DS-0	None	\$0.97	\$0.84
DS-1	Proposed	3.02	2.64
DS-3	.	26.62	23.23

Sources: MRH-6; RGF-3; DJW-3

- (1) Current interstate rates
- (2) Staff recommended rate include switching features
- * Indicates interim rates

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ISSUE 7: What is the scope of Sprint's obligation, if any, to resell voice mail and inside wire maintenance? (SHELFER)

RECOMMENDATION: Sprint should be required to offer voice mail for resale to MCI since it is a telecommunications service offered to end user customers who are not telecommunications carriers. Sprint should not be required to resell inside wire maintenance since it is not a telecommunications service.

POSITION OF PARTIES

MCI: Section 251(c)(4) of the Act requires Sprint to offer for resale any telecommunications service that it provides at retail to end use customers who are not telecommunications carriers. Thus no retail services should be excluded from resale. Specifically, voice mail service and inside wire maintenance service must be made available for resale.

SPRINT: Voice mail and inside wire maintenance are not telecommunication services under the Act and thus are not required to be offered by Sprint for resale.

STAFF ANALYSIS: Section 251(c)(4) of the Act requires local exchange companies (LECs) to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers. This is further clarified in the FCC Order. (Order at ¶ 871) The dispute in this proceeding is whether voice mail and inside wire maintenance are telecommunication services.

Sprint contends that voice mail and inside wire maintenance are not telecommunications services under the definition contained in the Act and thus are not required to be offered by ILECs for resale. (Hunsucker TR 373-374) Sprint states that whether it must make these products available to MCI for resale turns on the definition of a "telecommunications service." Section 3(51) of the Act defines "Telecommunications service" as "the offering of telecommunications for a fee directly to the public...". Section 3(48) of the Act defines "telecommunications" to mean "the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." Sprint argues that because neither of these offerings meet the definition of "telecommunications" and "telecommunications service," these offerings are not within the purview of Section 251(c)(4)(A) of the Act. (BR p. 20; Hunsucker TR 421)

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In its brief Sprint states that voice mail is a store and forward technology in the Sprint network which allows a caller to leave a message, like a telephone answering machine on the end user's premises. Sprint contends that the FCC, in differentiating between "telecommunications services" and "enhanced services," found that voice mail is an enhanced service and not a telecommunications service. FCC Final Decision, Docket No. 20828, released May 2, 1980, ¶¶ 95-98. Sprint argues that the distinguishing feature is that transmission in a telecommunications service context is "real time" transmission as opposed to store and forward. (BR p. 21)

Witness Hunsucker contends that inside wire maintenance is not a telecommunications service. (Hunsucker TR 425) The witness states that inside wire maintenance has nothing to do with the transmission path of a call as suggested by MCI, but instead is simply a warranty product available to Sprint's customers. (TR 424) Sprint argues that since it does not own the inside wire, it would be difficult to resell it. (TR 425) Sprint points out that inside wire maintenance does not provide a transmission path but only the repair of facilities owned by the customer. (BR, p. 21)

Sprint asserts that MCI has failed to demonstrate that voice mail and inside wire maintenance are "telecommunications services." Sprint argues that MCI's witness Darnell stated that he is not contending that voice mail and inside wire are telecommunications services from the standpoint of the Act. (Darnell TR 262; EXH 11, p. 18)

MCI contends that under the Act no retail telecommunications service should be excluded from resale. (Darnell TR 244) MCI argues that by applying the definition of telecommunications and telecommunications services to voice mail and inside wire maintenance, it is apparent the voice mail and inside wire maintenance fall within the confines of the statute. (BR, p. 22)

MCI states that the manner in which voice mail operates illustrates this point. MCI suggests that if customer A calls customer B, who is not at home, customer A can be transferred to the voice mail unit, where she can leave a voice message that can be retrieved when customer B returns home. The message customer B receives will be exactly the same as the message left by customer A, i.e., her voice saying the words of the message she intended to deliver. (Hunsucker TR 423-424) MCI argues that this precisely fits the definition of "telecommunications." MCI contends that the information of the sender's (customer A's) choosing is transmitted between or among points specified by the user (from customer A's telephone to the voice mail unit to customer B's

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telephone), without change in the form or content of the information as sent or received, in that the message that customer A leaves customer B on voice mail is identical from the standpoint of what was sent and what was received. (MCI, BR pp. 22-23)

MCI argues that inside wire maintenance has a similar result. MCI contends that if the wire from the NID to the serving area interface is somehow cut, the transmission path of a telephone call will be interrupted and must be repaired. (Hunsucker TR 424) MCI states that thus the physical facility over which communications are transmitted is an integral part of the telecommunications service, and its proper maintenance and repair is vital to the proper provisioning of that service. MCI argues the same is true for the physical facility between the NID and the customer's telephone equipment. If the wire from inside the home to the NID were accidentally cut, the telephone call will be interrupted and the wire must be repaired. (Hunsucker TR 424) MCI asserts that in both cases, the telephone call is transmitted between or among points specified by the user, except that the call is cut short by a break in the transmission path. Inside wire maintenance service repairs the wire inside the home to restore the transmission path. MCI states this is a service marketed and sold by Sprint which should be made available for resale to CLECs who are likely to have customers as desirous of these service as those customers of Sprint. (MCI, BR p. 23)

MCI anticipated that Sprint would argue that since voice mail service has been classified by the FCC as an "enhanced service" that it is not subject to regulation under the Communications Act of 1934, and since the FCC has deregulated the provision of inside wire and inside wire maintenance, these services are excluded from the definition of "telecommunications" under the Act. MCI contends that the operative definitions used to establish Sprint's resale obligations under the Act were added to the federal telecommunications statute by Section 3(a) of the Act. MCI states that these definitions did not exist at the time the FCC made its determinations under the Communications Act of 1934 as to the regulatory status of voice mail and inside wire. MCI argues that nothing in the Act changes the regulatory status of these services; conversely, nothing in the prior law dictates whether they are the types of retail services which must be made available for resale. (BR, p. 24)

MCI's witness Darnell states that in order for an ILEC to withdraw a certain service completely from resale it must prove the service is not a telecommunications service, or that the telecommunication service is not provided to subscribers who are not telecommunications carriers. (Darnell TR 245)

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MCI argues that Sprint has not proven that these services are not telecommunications services provided to end users; therefore, all of these services must be made available for resale at wholesale rates. Witness Darnell contends that if it is found that any of these services are not telecommunications services provided to end users, a decision will be needed as to whether these items are available at retail rates to CLECs. MCI states that this Commission should carefully evaluate whether an ILEC should be permitted to refuse to resell its services to a CLEC. (Darnell TR 245)

The Act requires LECs to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers. Section 3(51) of the Act defines "telecommunications service" to mean

...the offering of telecommunications for a fee directly to the public, or to such classes of users as to be effectively available to the public, regardless of the facilities used.

Section 3(48) defines "telecommunications" as

...the transmission between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information sent and received.

Based on the interpretation of Sections 3(51) and 3(48) of the Act, staff believes voice mail should be resold. As argued by MCI, voice mail is a transmission between or among points specified by the user. Staff agrees with MCI that the information of the sender's choosing does not change in form or content from the information sent or received. Voice mail is also offered for a fee to the public by Sprint.

While Sprint argues that the FCC's classification of voice mail as an "enhanced service" and not a "telecommunication service" should be used as guidance in this docket, staff disagrees. The FCC's decision was made prior to the inclusion of the operative definitions used to establish resale obligations under the Act. Therefore, staff would argue that the requirements and definitions as provided by the Act are the standards to be used in determining whether voice mail should be resold. Staff concludes that voice mail is subject to resale based on the Act.

Staff does not believe the Act requires the resale of inside wire maintenance. It is staff's belief that inside wire

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maintenance is a warranty service that is offered by Sprint that may be purchased by a customer. Inside wire maintenance does not provide a transmission path; therefore, staff does not believe it is a telecommunication service that must be resold.

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ISSUE 9: What is the appropriate methodology to determine the avoided cost amounts to be applied to Sprint's retail rates when MCI purchases such services for resale? (SHELFER)

RECOMMENDATION: Staff recommends that the wholesale discount rates listed in Table 9A be applied to the appropriate retail service category.

TABLE 9A

WHOLESALE DISCOUNT RATES				
Simple Access	Complex Access	Features	Operator/DA	Other
19.41%	12.65%	36.60%	12.06%	12.76%

Sprint should translate the percentage discounts into fixed dollar discount amounts based on the rates in effect at the time the order from this docket is issued. Sprint should include the fixed discount dollar amounts in the agreement when it is filed with the Commission.

POSITION OF PARTIES

MCI: Section 252(d)(3) of the Act requires wholesale rates to be based on the retail rates for the service less costs that are avoided by Sprint as a result of offering the service on a wholesale basis. The application of this standard produces wholesale rates for Sprint-United that are 20.49% below the current retail rates and for Sprint-Centel that are 21.37% below the current retail rates.

SPRINT: The appropriate avoided cost methodology for retail wholesale discounts is one that is consistent with Section 252(d)(3) of the Act. The avoided cost methodology described in Sprint's testimony meets that test. Sprint's methodology differs from MCI's in two principal areas; treatment of operator services and overhead.

STAFF ANALYSIS: The Act directed state commissions to determine the appropriate methodology for local exchange companies to set wholesale discount rates for retail services. Section 252(d)(3) of the Act requires:

For the purpose of section 251(c)(4), a State commission shall determine wholesale rates on the basis of retail rates charged to subscribers for the telecommunications

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service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier.

There are three key differences among the parties. The first area of disagreement concerns what expense accounts are avoidable and how much will be avoided. The FCC Order identifies six accounts that presumably should be avoided: Product Management (account 6611), Sales (account 6612), Product Advertising (account 6613), Call Completion (account 6621), Number Services (account 6622), and Customer Services (account 6623). The FCC Order, however, provides that its criteria are intended to leave state commissions broad latitude in selecting costing methodologies. It further states that the rules for identifying avoided costs by USOA expense accounts are cast as rebuttable presumptions, and the FCC did not adopt as presumptively correct any avoided cost model. (Order at ¶909) However, the pricing portion of the FCC Order has been stayed.

The second area of concern is the treatment of overheads. Sprint believes that overheads are not avoidable. (Farrar TR 522) On the other hand, MCI contends that overheads are common expenses which are not associated with any individual product; therefore, overheads should be avoided. (Darnell TR 249)

The third area of difference is with respect to whether the denominator in the calculation of the discount percentage is expenses or revenues. Sprint contends that it is revenues, which is consistent with past Commission decisions, and MCI asserts it should be expenses.

Analysis of MCI's Avoided Cost Study

MCI has proposed a wholesale discount rate of 20.49% for Sprint-United and 21.37% for Sprint-Centel. Witness Darnell states that the FCC's Order establishes minimum criteria for the avoided cost methodology based broadly on the MCI study. The witness states that the methodology MCI has used to establish a wholesale discount rate follows the conservative approach suggested by the FCC. (Darnell TR 231, 239) MCI indicates that the costs in certain USOA accounts are identified as directly avoided, while costs in other accounts are treated as indirectly avoided. The avoided indirect costs are calculated by determining the ratio of directly avoided costs to total costs and then applying that proportion to the total indirect costs for the accounts. (TR 237)

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Witness Darnell testified that the wholesale discount should be set at a level that does not include any Sprint retail costs. He contends that by doing this we capture Sprint's retailing margin, and we use that margin as a surrogate for what retail inefficiency is. The witness argues that this definition of avoided cost ensures that the only companies that can enter the local market will be those that are at least as efficient as Sprint at retailing. (Darnell TR 253-254)

MCI states that the fundamental feature of its avoided cost calculation is the determination and exclusion of the total amount of Sprint's retailing costs in calculating the wholesale discount. (Darnell TR 228-233; 237-241; EXH 10) MCI contends that it leaves in the wholesale price for only those costs that are incurred in the provision of the service at wholesale. (BR, p. 26)

MCI's witness Darnell states that its avoided cost model divides total avoided costs by total expenses. (TR 240) The witness contends this is the correct method to do the analysis because expenses are not related to revenues directly. Witness Darnell asserts this is contrary to Sprint's methodology which takes total avoided expense and divides it by total revenue. (TR 254)

MCI treats accounts 6221 (Operator Services) and account 6622 (Number Services-directory assistance) as 100% avoided. Witness Darnell contends that if resellers provide their own operator services, Sprint will not be providing operator service to resellers' customers and as such the cost of providing operator service will be avoided. The witness states that Sprint's approach would force any wholesale companies that want to provide their own operator services to pay for all of their own operator service expense, plus pay for part of Sprint's operator service expense through an inappropriately low wholesale discount percentage. (Darnell TR 248)

In line with the FCC's methodology, MCI states that it assumes uncollectibles are avoided in proportion to the avoided direct expenses. Witness Darnell contends that failing to include uncollectibles in the calculation of avoided expense means that the numerator of the wholesale discount percentage will be too small. (Darnell TR 250-251)

MCI includes overheads in its avoided cost model. Witness Darnell contends that by failing to include avoided common costs and overheads in the calculation of avoided expense, the numerator of the wholesale discount percentage will be too small, resulting in an understated wholesale discount. He argues that it is

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intuitively obvious that if the direct cost of a service falls, then the functions needed to support that service should also fall. MCI asserts that if support services were permitted to remain the same when direct services decline, support resources, such as employees, would be lying idle causing expense but providing no benefit. (Darnell TR 249)

Sprint disagrees with MCI's treatment of operator expenses. Witness Farrar states that if you are reselling operator services, those expenses are not avoidable. Sprint argues that even though MCI may choose to provide its own operator services, other competitors will not and Sprint will provide resold operator services to those competitors as well as to its own retail customers. Consequently, Sprint contends that because Sprint will be retailing and wholesaling operator services, these expenses will not be avoided in a competitive wholesale environment. (Farrar TR 521)

Sprint also disagrees with MCI's position that overheads are avoidable. Witness Farrar states that overheads by definition are common expenses which are not associated with any individual product. The witness asserts that whether you resell or retail a particular product, those activities will not have any effect upon corporate overheads. (TR 522)

Sprint disagrees with MCI's position that in the calculation of the discount percentage the denominator should be total expenses. (Darnell TR 254) Sprint states that MCI concedes it would be difficult to determine which investment would be avoided. (TR 247) Sprint argues that this Commission has previously determined in the MCI/BellSouth Arbitration proceeding that the proper discount calculation includes revenues from services that will be subject to resale in the denominator. See Order No. PSC-96-1579-FOF-TP, Docket Nos. 960833-TP, 960846-TP, issued December 31, 1996, p. 55.

Sprint also disagrees with MCI regarding uncollectibles. Sprint contends that uncollectibles are avoided only if the ILEC will no longer incur lost revenues in a wholesale environment. Witness Farrar states that evidence indicates that this will not be the case. He states that Sprint's experience in the long distance market indicates that problems with revenue collection still exist when dealing with resellers. Witness Farrar asserts that these conditions are similar to the rate of uncollectibles experienced by Sprint's local telecommunications division. (Farrar TR 511)

Although MCI disagrees, staff contends that MCI's avoided cost model presents wholesale discounts that have been calculated based

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on the FCC's assumption that an ILEC will operate in a hypothetical world, only as a wholesale provider of services. Since Sprint will provide both retail and wholesale services, staff believes it is unreasonable to assume that Sprint will only perform wholesale functions.

Staff would note that MCI's study only included those accounts that the FCC established as presumed avoided. MCI's witness Darnell agreed that MCI did not attempt to prove that any other costs accounts are avoided. (EXH 11, pp. 21-23) MCI stated that it did not assume that Sprint would operate only as a wholesale provider; however, MCI's cost study does not accurately reflect the appropriate avoided costs if this is true. (EXH 11, p. 19; Darnell TR 257) Other than referencing the criteria identified in the FCC Order, MCI has not provided any independent evidence to substantiate the costs it claims will be avoided.

Staff believes that costs associated with operator and directory assistance services should not be 100% avoided because resellers may be providing their own customers these services. We do not believe the intent of the Act was to impose on an ILEC the obligation to disaggregate a retail service into more discrete retail services. The Act merely requires that any retail service offered to customers be made available for resale. Staff would argue that if MCI wants to purchase pieces of services, they should buy unbundled elements instead and package these elements in a way to meet its needs.

Staff contends that indirect, or shared costs, such as general overheads, support all of the ILECs functions, including marketing, sales, billing and collection, and other avoided retail functions. Therefore, a portion of the indirect costs should be considered "attributable to cost that will be avoided" pursuant to Section 252(d)(3).

MCI proposed one single discount rate because of data limitations. (Darnell TR 241) Since the revenues and costs vary between types of services, staff believes separate discount levels would more accurately reflect this relationship.

Based on the evidence provided in this docket, staff believes MCI's avoided cost study should be rejected.

Analysis of Sprint's Avoided Cost Study

Sprint states that its avoided cost study uses the most recent expense and revenue data available. These revenues and expenses

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are assigned to a service group based on the actual activity which creates or drives a specific type of expense, rather than an arbitrary assignment based on investment or revenue. (EXH 19, p. 4) For example, if a specific study indicates that a particular expense activity is unrelated to residential services, activity-based costing will assign this avoided expense only to other services. Witness Farrar states that to the extent that an expense can be associated with a service, an increase (or decrease) in the activity drives an increase (or decrease) in the expense associated with that service. (Farrar TR 495)

Sprint contends that while it has segregated its services into five service groups, there are many individual services within each service group. Witness Farrar states that the appropriate avoided expense was applied to each of Sprint's retail rates to determine a service-specific wholesale rate. (Farrar TR 513) The results of the avoided cost study are provided in Table 9B.

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TABLE 9B

SPRINT'S PROPOSED WHOLESALE RATES AND SERVICE GROUPS	
RETAIL SERVICE GROUP	PERCENT DISCOUNT
Simple Access- individual residential and business lines	16.10%
Complex Access Multiple access lines services; e.g., Key and PBX trunks and Centrex	10.49%
Features- Custom calling, ExpressTouch (CLASS) and Centrex features	30.35%
Operator and Directory Assistance- Local and toll operator call completion and local directory assistance services	10.00%
Other- All other retail services	10.58%

Witness Farrar states that in developing the avoided cost study, Sprint evaluated the customer expense categories presumed to be avoided by the FCC Order. Sprint's evaluation indicates that a portion of product management (account 6611), sales (6612), product advertising (6613), call completion (6621), number services (6622), and customer services (6623) expenses will not be avoided in a wholesale environment. (TR 495)

Sprint's witness Farrar states that in developing the net avoided cost associated with providing services on a wholesale basis both the incremental expenses and avoided expenses were calculated. Sprint contends that the net result is a reasonable estimate of avoided expense. Witness Farrar asserts that the net avoided cost for the retail service group is divided by the total revenue for the service group to develop the percent discount applicable to the rates of the individual services included in each retail service group. (TR 495)

Sprint also calculated an incremental wholesale expense in its avoided cost study. Witness Farrar states that this new expense will be incurred in addressing the needs of resellers as customers. He asserts that many of the incremental wholesale functions will be performed at a national level, but these expenses were apportioned

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to the various state and operating company jurisdictions based upon access lines. The total incremental wholesale expenses were allocated to the five retail service groups based upon the avoided expenses in each of the service groups relative to the total avoided expenses. (TR 512)

Witness Farrar contends that uncollectibles (account 5301) are avoided expenses if the ILEC will no longer incur lost revenues in a wholesale environment. Sprint argues that evidence indicates that this will not be the case. As discussed previously, Sprint states that its experience in the long distance market indicates that problems with revenue collection still exist when dealing with resellers. Witness Farrar asserts that these conditions are similar to the rate of uncollectibles experienced by Sprint's local telecommunications division. (Farrar TR 510-511)

Sprint also proposes to translate the percentage discounts of the five service groups into a dollar amount and then fix that dollar amount. Witness Farrar argues that the dollar amount of avoided expenses is independent of the retail price. He contends that as retail prices are increased or decreased, there is no reason that the dollar amount of avoided expenses should change. Witness Farrar states that, therefore, the dollar wholesale amount should remain constant over time, independent of any retail price changes. Sprint does indicate that as the retail rate changes, the wholesale rate will change. For example, if the retail rate for an R-1 is \$9.65 applying the discount of 16.10% yields a wholesale discount of \$1.55, which will not change as the retail rate changes. The wholesale rate is \$8.10 (TR 513-514)

Sprint argues that the wholesale rate quoted in dollars will eliminate the need to do cost studies every year and refile wholesale tariffs. Witness Farrar contends that the discount has nothing to do with rates. It is a function of the service. Therefore, rates may rise or go down, but the avoided cost is still the same. (TR 561)

MCI argues that Sprint's approach to calculating the wholesale discount understates the discount percentages. MCI contends that there are three major issues with Sprint's proposal. First, Sprint's treats operator services as totally unavaoided. Witness Darnell contends if the resellers provide their own operator services, Sprint will not be providing operator service to the resellers' customers; therefore, the cost of providing this service will be avoided. (Darnell TR 248)

MCI's second concern is Sprint's claim that uncollectibles will not be avoided. Witness Darnell asserts that end user

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uncollectibles will be completely eliminated, because resellers will absorb the bad debt associated with those customers. (Darnell TR 250)

Third, MCI disagrees with Sprint that overheads are not avoidable. Witness Darnell indicates that this does not make sense since if the direct cost of a service falls, then the functions needed to support that service will likewise fall. (Darnell TR 249)

Staff does not oppose Sprint's activity-based cost methodology for the determination of avoided expenses for five retail service groups. In fact, staff believes that wholesale discounts associated with each retail services group will more accurately reflect the cost associated with providing services. This should reduce the possibility of over or understating the discount since the revenues and cost vary between services. Staff would point out that Sprint's proposal to establish five retail service groups was not rebutted.

Staff also believes that Sprint will incur costs associated with certain wholesale functions, and that it is appropriate to net such costs with Sprint's avoided retail costs. MCI agrees; however, witness Darnell contends that these costs should be minimal. (Darnell TR 239) Based on Sprint's support data, staff believes Sprint's incremental wholesale expense is reasonable.

Staff believes Sprint's proposal to translate the percentage discounts into a fixed dollar amount has merit. As argued by witness Farrar, the dollar amount of avoided expenses is independent of the retail price. (Farrar TR 513-514) Because the fixed dollar amount will remain constant over time independent of any retail price change, staff believes the ALECs will benefit. In the event that retail rates decline, ALECs will still receive the fixed dollar discount. This dollar discount would be greater than if a percentage was applied. Staff believes that these fixed dollar discounts should be set based on a specific time. Staff proposes that Sprint set the dollar discounts based on the rates in effect at the time the order from this docket is issued. Sprint should include the fixed discount dollar amounts in its agreement when it is filed with the Commission.

Staff disagrees with MCI that the call completion and number services accounts should be 100% avoided by Sprint, even if MCI provides their own operator services. In a resale environment, staff believes that Sprint will continue to perform these functions; therefore, these costs will not be avoided as a result of an ALEC reselling a LEC's retail service. Staff does not

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believe Section 251(c)(4) of the Act imposes on an ILEC the obligation to disaggregate a retail service into more discrete retail services as requested by MCI. The Act only requires that any retail services offered to customers be made available for resale. It does not require these services to be split. Staff would argue that if MCI wants to purchase pieces of services, they should buy unbundled elements instead and package these elements in a way to meet their company's needs.

Staff believes Sprint's avoided cost study is basically in compliance with the Act, and on balance, is the most reasonable option. However, while staff believes that Sprint's treatment of key accounts has been adequately supported and is appropriate, we believe that two adjustments are warranted.

First, staff contends that indirect or shared costs, such as general overheads, support all of the ILECs functions, including marketing, sales, billing and collection, and other avoided retail functions. Staff believes that in order to determine an appropriate wholesale discount indirect cost must be considered since it is reasonable that there will be some reduction in overhead costs in a wholesale environment. Therefore, a portion of the indirect costs must be considered "attributable to cost that will be avoided" pursuant to Section 252(d)(3).

With the adjustment for indirect costs (including uncollectibles), staff recommends that wholesale discount rates be set for five retail service groups at the rates specified previously in Table 9A.

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ISSUE 21: Should Sprint be prohibited from placing any limitations on the interconnection between two carriers collocated on Sprint's premises, or on the types of equipment that can be collocated, and or on the types of users and availability of the collocated space? (REITH)

RECOMMENDATION: No. Sprint should be permitted to impose those limitations as provided in § 51.323 of the FCC's rules on collocation. Sprint should not be required to allow MCI to collocate switching equipment or equipment used to provide enhanced services.

POSITION OF PARTIES

MCI: Yes, Sprint should be prohibited from placing such limitations. MCI should have the ability to collocated equipment of its choice, including remote digital line units.

SPRINT: Sprint will allow MCI to connect Sprint provided services and unbundled elements to MCI's facilities at an MCI collocation point and to any other party. However, collocation of RDLUs is not required pursuant to the FCC Rules if RDLUs perform a switching function.

STAFF ANALYSIS: MCI is requesting that it be allowed to collocate remote digital line units (RDLUs) in Sprint's central offices. MCI witness Murphy explains that an RDLU is a device that can perform loop concentration and switching functions. (TR 121-122) Witness Murphy states that in many cases a RDLU is the most efficient means of providing loop concentration. In addition, an RDLU can switch calls from an unbundled loop to a specific trunk group, such as a 911 trunk or a trunk to a specific interexchange carrier. (TR 143)

MCI believes that, as a general matter, collocators should not be subject to arbitrary restrictions on telecommunication equipment that can be placed in a collocation space. (TR 121) Witness Murphy believes that if a collocator complies with reasonable restriction such as space, power usage, and heat production limitations, it should be permitted to use the collocation space in the most efficient manner possible. If not, MCI asserts that Sprint will be able to control MCI's ability to deploy the most efficient network using the modern technology. (TR 122)

Sprint asserts that it will not allow MCI to collocate RDLUs. Witness Hunsucker states that RDLUs are switches and that Sprint is under no obligation by the FCC or this Commission to allow switching equipment in its collocated areas. (TR 421-422) Witness Hunsucker cites § 51.323(c) of the FCC rules which states:

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Nothing in this section requires an incumbent LEC to permit collocation of switching equipment or equipment used to provide enhanced services.

Witness Hunsucker also references this Commission's decision in Docket No. 960847-TP, the consolidated ATT, MCI and GTEFL arbitration, memorialized in Order No. PSC-97-0064-FOF-TP released January 17, 1997, where the Commission states that no switching equipment or equipment used to provide enhanced services is required to be collocated. (TR 421-422)

Staff adds that the FCC rules permit collocation of equipment used for interconnection or access to unbundled network elements. This includes optical terminating equipment, multiplexers, and other transmission equipment. (§ 51.323)

Based on the record in this proceeding, and consistent with Commission practice, staff recommends that Sprint be permitted to impose those limitations as provided in § 51.323 of the FCC's rules on collocation. Sprint should not be required to allow MCI to collocate switching equipment or equipment used to provide enhanced services.

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ISSUE 23: What capacity, engineering and related information should be provided by Sprint regarding its poles, ducts, conduits, and rights-of-way? What compensation, if any, is appropriate? (REITH)

RECOMMENDATION: Sprint should be allowed to charge MCI for any special work associated with making engineering records available to MCI. If any special work is required, Sprint should charge the loaded labor rate of the person preparing the documents for MCI's review.

POSITION OF PARTIES

MCI: There should be no compensation for access to engineering and related information except in the unusual circumstance in which Sprint employees must perform additional work in making such documents available to MCI. In that case, Sprint should be entitled to recover no more than the forward looking economic cost (TELRIC) of any additional work required.

SPRINT: Sprint will provide MCI access to detailed engineering records and other plant drawings and will charge MCI an appropriate amount for such access.

STAFF ANALYSIS: Sprint has agreed to provide MCI with access to its engineering records regarding poles, ducts, conduit and rights of way. (Hunsucker TR 422) Compensation for access to engineering records is the only dispute remaining with respect to this issue. MCI and Sprint agree that if Sprint only has to make engineering records available for inspection, then there will be no charge. (MCI BR p.30; Hunsucker TR 422) However, Sprint asserts that if any special work has to be performed to accommodate MCI's request, then Sprint should be compensated based on the loaded labor rate of the individual actually performing the function. Witness Hunsucker explains that an example of special work might be the preparation of documents to prevent disclosure of proprietary information. (TR 422)

MCI states that in the event that additional work is needed then Sprint should be permitted to recover no more than the TELRIC cost for the additional work performed. (BR p. 30) Staff notes that this proposal appears in MCI's brief. However, there is no support in the record for this approach.

Staff believes that given the record in this proceeding, Sprint's proposal for charging MCI for any special work associated with making engineering records available for inspection, is appropriate. Therefore, staff recommends that Sprint be allowed to

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charge MCI for any special work associated with making engineering records available for inspection. If any special work is required, Sprint should charge the loaded labor rate of the person preparing the documents for MCI's review.

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ISSUE 24: Should this docket be closed?

RECOMMENDATION: This docket should remain open until permanent rates are established for all interim rates.