

# April 11, 2002

via Overnight Mail

Ms. Blanca Bayó, Director Division of the Commission Clerk & Administrative Services Florida Public Service Commission 2540 Shumard Oak Blvd. Tallahassee, FL 32399-0850

Re: Docket No. 990649B-TP – Investigation into Pricing of Unbundled Network Elements (Verizon/Sprint Track)

Dear Ms. Bayó,

Please find enclosed for filing in the above docket an original and seven (7) copies of Florida Digital Network, Inc.'s Prehearing Statement. Please note that this Prehearing Statement pertains only to the Sprint portion of the docket. Florida Digital Network has submitted a joint Prehearing Statement with AT&T and MCI relative to the Verizon portion of the docket.

Also enclosed is a diskette containing a Word version of the document filed.

If you have any questions regarding the enclosed, please call me at 407-835-0460.

Sincerely Mart Matthew Feil

Florida Digital Network General Counsel

C: All parties

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# **BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

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In re: Investigation into pricing of unbundled network elements Docket No. 990649B-TP

Filed: April 12, 2002

# PREHEARING STATEMENT OF FLORIDA DIGITAL NETWORK, INC.

Florida Digital Network, Inc. ("FDN"), through its undersigned counsel, submits this

prehearing statement. FDN notes that this prehearing statement pertains solely to the Sprint

portion of the docket. FDN will file a separate prehearing statement in conjunction with AT&T

and WorldCom regarding their positions for the Verizon portion of the docket.

# A. APPEARANCES

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Attorneys for Florida Digital Network, Inc.

## **B. WITNESSES**

FDN has not prefiled the testimony of any witnesses. It is FDN's understanding that

Staff of the Florida Public Service Commission proposes stipulating into the record as exhibits

the transcripts of the depositions of Sprint witnesses Talmage Cox, Jimmy Davis, Kent Dickerson, Michael Hunsucker, and Brian Staihr. FDN supports that stipulation, and assuming the stipulation is accepted, will not call any witnesses.

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## **C. EXHIBITS**

FDN has not prefiled testimony or exhibits. FDN reserves the right to identify and introduce exhibits during cross-examination of the other parties' witnesses and, to the extent permitted by Commission rules and the Florida Rules of Civil Procedure, to identify, and introduce the depositions of other parties' agents, officers and employees. In addition to the deposition transcripts identified above, FDN proposes stipulating the following discovery responses as exhibits:

Sprint Responses to Florida Digital Network, Inc. Interrogatory Nos. 1-15.

Sprint Response to Florida Digital Network, Inc. Request for Production of Document No. 2.

Sprint Responses to Staff Interrogatory Nos. 42, 43, 47, 67, 80, 81, 83, 85, 86, 87, 88, 89, 106, 109, 111, 113, 115, 116, 117, 118, 122, 128, 129, 132, 134, 135, 137, 138, 139, 140, 144, 143, 145, 148, 149, 150, 164, 166, 172, 177, 183, 184, 188, 190, 192, 207, 208 and 209.

Sprint Responses to Staff Request for Production of Documents Nos. 19, 22, 28, and 34.

#### **D. BASIC POSITION**

It is vital in setting rates for unbundled network elements ("UNEs") that the Commission

ensure that all areas of Florida are able to experience the benefits of competition. The

Commission should not allow the time and effort it has devoted to setting UNE rates in the

BellSouth region to be undermined by the allowance of excessive UNE rates in Sprint's region. Sprint proposes two-wire analog loop rates of \$21.22 in Band 1, \$34.52 in Band 2, and \$68.81 in Band 3.<sup>1</sup> This far exceeds what Sprint currently charges and what BellSouth is allowed to charge. While Sprint would like to ascribe these cost differences to differences in scale and geographic markets, a significant cause of the inflated costs is rooted in Sprint's cost models.

While Sprint purports to utilize forward-looking network design assumptions in accord with FCC pricing principles, its cost studies deviate in significant respects from forward-looking TELRIC principles and pricing approaches adopted by the FCC. For instance, Sprint's Loop Cost Model (SLCM) uses a grid approach to customer locating and grouping customers that overstates loop costs. Sprint also fails to use forward-looking fill factors for distribution and feeder cable and digital loop carriers, thus, failing to take advantage of the efficiencies provided by least cost, forward looking technology. Sprint's nonrecurring charges are also based on its embedded network design and fail to utilize efficient practices. In addition, for some loops, such as those served by remote switches, Sprint does not propose a UNE rate at all. Instead, Sprint utilizes individual case basis pricing for those loops which fails to ensure that such rates will be just, reasonable, and forward-looking. The exorbitant nature of the ICB rates will preclude the ability of a competitor to service that customer. In addition, the ICB approach inserts unwarranted uncertainty and unnecessary delay into the ALEC's efforts to serve customers.

If the Commission makes needed corrections to Sprint's cost inputs and outside plant investment algorithms, and applies geographic deaveraging not only to loops, but also to

<sup>&</sup>lt;sup>1</sup> In the Supplemental Direct Testimony of Michael Hunsucker, filed April 10, 2002, Sprint modifies its proposed rates to \$18.58, \$30.26, and \$66.91 respectively for zones one to three.

subloops and dedicated transport, ALECs should have more reasonable UNE prices to choose

from when crafting competitive entry plans.

## **E. ISSUES AND POSITIONS**

**ISSUE 1:** What factors should the Commission consider in establishing rates and charges for UNEs (including deaveraged UNEs and UNE combinations)?

## **FDN'S Position:**

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The SLCM does not model the least-cost, most-efficient network design and cannot be used to produce UNE rates that comply with the FCC's pricing rules or this Commission's previous UNE pricing decisions. While stating that it utilizes forwardlooking network assumptions, Sprint instead relies on its embedded operations. Sprint fails to make the necessary adjustments to its cost studies to bring it in accord with forward-looking TELRIC principles.

**<u>ISSUE 2:</u>** (a) What is the appropriate methodology to deaverage UNEs and what is the appropriate rate structure for deaveraged UNEs?

## FDN'S Position:

The Commission should adopt Sprint's geographic deaveraging proposal for the UNE loop costs in Sprint's service territory. No wire center-level loop cost should exceed (or fall short of) the average loop rate within a zone by more than 20%. This results in 9 zones for a 2-wire loop. The modifications that FDN proposes to Sprint's UNE cost studies may affect the number of zones and the wire center breakdown. Sprint should be required to rerun its deaveraging methodology after final UNE costs are determined.

Sprint admits that there is geographic cost variation not only for loops, but subloops and dedicated transport as well. Sprint should be required to apply its 20% rate banding methodology to all rate elements individually, such as 4-wire loops, DS0 loops and interoffice facilities, and DS1 loops and interoffice facilities. Under this approach each of the above rate elements would have a different number of rate bands based on the rate element's cost, and not the 2-wire loop center costs.

At a minimum, the Commission should require geographic deaveraging of UNE loop rates similar to what the Commission adopted in Docket No. 990649A-TP, regarding BellSouth's UNE rates. However, in any case, the Commission must not

approve the application of a deaveraging methodology where only a limited number of geographic areas have the lowest UNE prices available and competitive activity is not economically viable for ALECs seeking to serve outside those small areas.

- (b) For which of the following UNEs should the Commission set deaveraged rates?
  - (1) loops (all);

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- (2) local switching;
- (3) interoffice transport (dedicated and shared);
- (4) other (including combinations).
- **FDN'S Position:** As noted above, all loops, subloops, interoffice transport and UNE combinations containing loops, subloops and/or transport should be deaveraged, because there are cost differences between different geographic areas for those UNEs.
- **ISSUE 3:** (a) What are xDSL capable loops?

(b) Should a cost study for xDSL-capable loops make distinctions based on loop length and/or the particular DSL technology to be deployed?

- **FDN'S Position:** xDSL-capable loops are loops that are capable of providing xDSL services over both copper, fiber and mixed copper/fiber facilities without any modification. FDN's position is that a cost study should not make any distinction based on loop length and/or the particular DSL technology to be deployed.
- **<u>ISSUE 4:</u>** (a) Which subloop elements, if any, should be unbundled in this proceeding, and how should prices be set?

(b) How should access to such subloop elements be provided, and how should prices be set?

- **FDN'S Position:** Per the discussion in Issue 2, subloop rates should be geographically deaveraged. Sprint should be required to provide the same subloop elements that the Commission required BellSouth to provide in Docket No. 990649A-TP.
- **ISSUE 5:** For which signaling networks and call-related databases should rates be set?

**FDN'S Position:** No position at this time. However, any cost study for signaling networks and call-related databases, as well as for any UNE, should be based on the FCC's pricing rules, which assume the most-efficient telecommunications technology currently available and lowest-cost network configuration.

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- **ISSUE 6:** Under what circumstances, if any, is it appropriate to recover non-recurring costs through recurring rates?
- **FDN'S Position:** Generally, recovery of one-time costs should be through non-recurring costs. High NRCs are significant barriers to entry, most of which can be avoided by proper rate design. If the Commission finds high NRCs after application of proper rate design, they may be recovered over a reasonable period or in several installments.

**ISSUE 7:** What are the appropriate assumptions and inputs for the following items to be used in the forward-looking recurring UNE cost studies?

(a) network design (including customer location assumptions);

## **FDN'S Position:**

The SLCM utilizes a grid approach that does not account for actual grouping of customers. As a result, grid boundaries may cut across natural population clusters. Under this approach, serving areas based on grids may require separate facilities to serve customers that are in close proximity, but that happen to fall in different grids. Thus, a gridding approach cannot reflect the most cost-effective method of distributing customers into serving areas. The Commission should require Sprint to use a clustering methodology, rather than a grid-based methodology, to determine serving areas.

Sprint also models its recurring cost study for stand-alone UNE loops based on 100% use of universal digital loop carrier while its retail loop rates presume use of integrated digital loop carrier. The use of UDLC drives up the cost of loops by requiring digital to analog conversions in the central office as well as use of manual cross connects. Sprint models its rates for UNE-P on use of IDLC and should be required to do the same for stand-alone unbundled loops.

(b) depreciation;

## **FDN'S Position:**

Sprint proposes two sets of depreciation lives. One is a set that it has calculated and the other are the depreciation lives the Commission approved for BellSouth in Docket No. 990649A-TP. The Commission should use the depreciation lives it adopted for BellSouth.

(c) cost of capital;

## **FDN'S Position:**

The Commission should reject Sprint's use of a 12.26% cost of capital and should require Sprint to re-run its cost studies using a cost of capital no higher than the 10.24% approved for BellSouth and no lower than the 8.82% cost of capital recently ordered by the New Jersey Board of Public Utilities and the 8.42% cost of capital the New Hampshire Public Service Commission requested of Verizon as a condition to providing a favorable 271 recommendation to the FCC. A 12.26% cost of capital is not reflective of the current economic climate. The Commission should require that equity comprise no more than 60% of Sprint's capital structure.

(d) tax rates;

FDN'S Position: No position at this time.

- (e) structure sharing;
- **FDN'S Position:** Sprint assumes that 90% of underground and buried feeder and distribution cables will be assigned to Sprint and only 10% assigned to other utilities. For the plowing construction technique used for placing buried feeder and distribution cables, Sprint states that 100% will be dedicated to Sprint and its customers because when plowing, the trench is closed over during the placement of the cable, thus eliminating the possibility of other entities placing cable in the same trench. For poles, Sprint assumes that 31% of structure is assigned to Sprint, and 69% assigned to other utilities.

The FCC determined that the following structure sharing percentages were appropriate for USF determination (¶241, 243 USF Inputs Order):

We adopt the following structure sharing percentages that represent what we find is a reasonable share of structure costs to be incurred by the telephone company. For aerial structure, we assign 50 percent of structure cost in density zones 1-6 and 35 percent of the costs in density zones 7-9 to the telephone company. For underground and buried structure, we assign 100 percent of the cost in density zones 1-2, 85 percent of the cost in density zone 3, 65 percent of the cost in density zones 4-6, and 55 percent of the cost in density zones 7-9 to the telephone company.

The Commission should apply the FCC's structure sharing percentages. Understating the structure sharing percentages increases the investment cost in the model since the telephone company bears more than its forward-looking share of the structure costs.

(f) structure costs;

FDN'S Position: No position at this time.

(g) fill factors;

## **FDN'S Position:**

Sprint's fill factors are generally too low and do not reflect a forwardlooking, least-cost network built for a reasonable projection of actual demand. Sprint has included large amounts of spare facilities to accommodate anticipated growth in demand by future customers, which is inappropriate in a TELRIC setting. Use of digital loop carrier and fiber feeder allow for carriers to better manage capacity eliminating the need for excess spare capacity. The Commission should find the fill factors to be no lower than 90%. Sprint also assumes use of two residential lines per household and six business lines per business which far exceed current levels of demand.

(h) manholes;

FDN'S Position: No position at this time.

- (i) fiber cable (material and placement costs);
- **FDN'S Position:** If the Commission declines to adjust the fill factors for dark fiber, then the Commission must reduce the material and placement costs for fiber cable in the recurring loop and interoffice facility (IOF) cost studies to preclude double recovery for Sprint. Also Sprint weighs its feeder plant mix too much towards higher cost underground and buried cable.
  - (j) copper cable (material and placement costs);
- **FDN'S Position:** Sprint's copper cable costs are overstated because Sprint assumes that there will be two distribution pairs per residence both fully wired back to the SAI. Sprint weighs its feeder plant mix too much towards higher cost underground and buried cable.

(k) drops;

## FDN'S Position:

No position at this time.

(l) network interface devices;

FDN'S Position: No position at this time.

(m)digital loop carrier costs;

## **FDN'S Position:**

Sprint states that its DLC inputs are appropriately modified to reflect a lower cost GR-303 Integrated DLC (IDLC) configuration. Sprint does not model its stand alone UNE loop model on such a configuration and instead uses a much more expensive UDLC configuration.

(n) terminal costs;

FDN'S Position: No position at this time.

(o) switching costs and associated variables;

## **FDN'S Position:**

No position at this time.

(p) traffic data;

FDN'S Position: No position at this time.

(q) signaling system costs;

FDN'S Position: No position at this time.

(r) transport system costs and associated variables;

FDN'S Position: No position at this time.

(s) loadings;

FDN'S Position: No position at this time.

(t) expenses;

# FDN'S Position:

Sprint has overstated the maintenance and support factors for recurring UNE costs by overstating operating expenses using a "top-down" methodology. The Commission should require Sprint to derive forward-looking expenses through a "bottom up" determination of the expenses needed to operate and support a forward-looking network. Sprint's maintenance expense component also does not properly reflect annual productivity increases.

(u) common costs;

# **FDN'S Position:**

No position at this time.

(v) other.

FDN'S Position: No position at this time regarding EELs.

**ISSUE 8:** What are the appropriate assumptions and inputs for the following items to be used in the forward-looking non-recurring UNE cost studies?

- (a) network design;
- (b) OSS design;

(c) labor rates;

- (d) required activities;
- (e) mix of manual versus electronic activities;
- (f) other.

#### FDN'S Position:

NRCs should be based on forward-looking, least-cost network design and processes and exclude the need for expensive labor-intensive manual intervention. Sprint's assumption of use of 100% UDLC for stand alone UNE loops significantly increases the non-recurring costs for such loops by requiring use of manual cross connects.

Sprint admits that its OSS is not fully automated and asserts that it is holding back on full automation due to a lack of demand. Clearly Sprint's cost study is not reflecting use of least cost, forward-looking technology. As a result, there is an excessive amount of manual intervention. Sprint assumes that an excessive amount of orders will not flow through, thus significantly overstating NRCs.

Sprint's work times used in support of its NRCs were based on a combination of subject matter expert ("SME") input and observation. The SME input was based on informal input from SMEs. No formal instructions were given to the SMEs nor were they required to assume use of efficient practices. No adjustments were made to the work times to reflect possible bias or use of forward-looking processes. No statistical or third party review of the work times was conducted.

What Sprint characterizes as "time and motion studies" was unstructured observation of technicians completing certain tasks. The observations were ancillary to review of other aspects of technicians' work such as safety practices. Furthermore, no effort was made to discern whether the work times reflected use of forward-looking, efficient practices.

The Commission should adjust Sprint's NRCs to reflect forward-looking network design assumptions and processes. Sprint's NRCs should also be adjusted to reflect greater use of dedicated outside plant and dedicated central office plant.

# **ISSUE 9:** (a) What are the appropriate recurring rates (averaged or deaveraged as the case may be) and non-recurring charges for each of the following UNEs?

- (1) 2-wire voice grade loop;
- (2) 4-wire analog loop;
- (3) 2-wire ISDN/IDSL loop;
- (4) 2-wire xDSL-capable loop;
- (5) 4-wire xDSL-capable loop;
- (6) 4-wire 56 kbps loop;
- (7) 4-wire 64 kbps loop;

- (8) DS-1 loop;
- (9) high capacity loops (DS3 and above);
- (10) dark fiber loop;
- (11) subloop elements (to the extent required by the Commission in Issue 4);
- (12) network interface devices;
- (13) circuit switching (where required);
- (14) packet switching (where required);
- (15) shared interoffice transmission;
- (16) dedicated interoffice transmission;
- (17) dark fiber interoffice facilities;
- (18) signaling networks and call-related databases;
- (19) OS/DA (where required).

## FDN'S Position:

The Commission should adjust Sprint's recurring UNE rates and nonrecurring UNE rates to correct for the errors noted above.

For loops served by Sprint's remote switches, the Commission should require Sprint to charge the applicable UNE loop recurring and nonrecurring rates.

In addition, for fiber interoffice facilities, Sprint's ring network should be modeled on the use of higher capacity OC48 facilities to accommodate base-load traffic, and the deployment of smaller rings to accommodate incremental traffic. Sprint should also be required to assume use of least cost, forward-looking technology. Sprint's fill factors for interoffice facilities should be increased to 85%. Also rates for dark fiber loops and interoffice transport should be reduced to reflect the fact that Sprint is already recovering capacity costs for these facilities via its loop and interoffice facility rates. The fill factor for dark fiber loops and interoffice facilities should be 100%.

- (b) Subject to the standards of the FCC's Third Report and Order, should the Commission require ILECs to unbundle any other elements or combinations of elements? If so, what are they and how should they be priced?
- **FDN'S Position:** The Commission should consider requiring Sprint to provide hybrid fiber/copper and copper/copper loops consistent with the Commission's requirements for BellSouth in Docket No. 990649A-TP.

# **ISSUE 10:** What is the appropriate rate, if any, for customized routing?

**FDN'S Position:** No position at this time.

# ISSUE 11(a):

What is the appropriate rate if any, for line conditioning, and in what situations should the rate apply?

# **FDN'S Position:**

A forward-looking network would not require voice-enhancing devices (i.e., disturbers such as load coils and repeaters) and use of bridged tap on loops. Sprint claims the forward-looking model it bases its cost models on utilizes next generation digital loop carrier with a fiber crossover point at 12,000 feet. Such a network would not require use of inhibitors. Thus, there should be no charge for loop conditioning regardless of loop length. Any cost recovery for line conditioning, including non-recurring costs, must comply with the FCC's TELRIC pricing rules. The forward-looking recurring costs of such loops provide cost recovery for the ILEC, and there is no need to impose a separate nonrecurring rate. If the Commission nevertheless allows a charge for loop conditioning, the charge should be based on the assumption that multiple loops will be conditioned at a time, regardless of loop length. The charge should also be assessed as a recurring charge.

**ISSUE 11(b):** What is the appropriate rate, if any, for loop qualification information, and in what situations should the rate apply?

**FDN'S Position:** Since inhibitors should not be present in a forward-looking network, there would be no need for loop qualification in a forward-looking network. Therefore, Sprint should not be allowed to impose a loop qualification charge. To the extent the Commission permits Sprint to impose any charge for loop qualification, it should reject the inflated charges proposed by Sprint and set any permissible charge for access to Sprint's loop qualification information as if the ALEC were getting full electronic access to databases that would include the information.

- **<u>ISSUE 12:</u>** Without deciding the situations in which such combinations are required, what are the appropriate recurring and non-recurring rates for the following UNE combinations:
  - (1) "UNE platform" consisting of: loop (all), local (including packet, where required) switching (with signaling), and dedicated and shared transport (through and including local termination);

# **FDN'S Position:**

Recurring charges for UNE combinations should be the sum of the recurring charges for the UNE components. The nonrecurring charge for UNE

combinations where the UNE combination already exists in Sprint's network should be zero or at most provide for a nominal service order charge.

- (2) "extended links," consisting of:
  - (1) loop, DSO/1 multiplexing, DS1 interoffice transport;
  - (2) DS1 loop, DS1 interoffice transport;
  - (3) DS1 loop, DS1/3 multiplexing, DS3 interoffice transport.

## FDN'S Position:

Recurring charges for UNE combinations should be the sum of the recurring charges for the UNE components. The nonrecurring charge for UNE combinations where the UNE combination already exists in Sprint's network should be zero or at most provide for a nominal service order charge.

**ISSUE 13:** When should the recurring and non-recurring rates and charges take effect?

#### **FDN'S Position:**

The rates for recurring and non-recurring charges should become effective on the date of the Commission vote.

## F. PROPOSED STIPULATIONS

None at this time as to issues in the case. Proposed stipulated exhibits are noted above.

## **G. PENDING MOTIONS**

None.

#### **H. REQUIREMENTS THAT CANNOT BE COMPLIED WITH**

All requirements of the procedural order have been met by FDN.

Dated, this <u>//</u> day of April, 2002.

Respectfully submitted,

there

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Attorney for Florida Digital Network, Inc.

#### **CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by email on April  $\cancel{//}$ , 2002, and by U.S. Mail or by overnight mail (if designated with a \*) on the same date.

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