

## BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Investigation of methodology to	)	DOCKET NO. 900708-TL
account for access charges in local	)	ORDER NO. 24859
exchange company (LEC) toll pricing	)	ISSUED: 7/29/91
	)	

The following Commissioners participated in the disposition of this matter:

J. TERRY DEASON  
 BETTY EASLEY  
 GERALD L. GUNTER  
 MICHAEL MCK. WILSON

NOTICE OF PROPOSED AGENCY ACTION

ORDER ESTABLISHING PARAMETERS FOR LOCAL  
EXCHANGE COMPANY TOLL PRICING

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are adversely affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

On May 23, 1990, Southern Bell Telephone and Telegraph Company (Southern Bell) filed a tariff proposing an optional toll calling plan entitled "Saver Service." The plan would permit customers to purchase a block of time at a flat monthly rate for intraLATA long distance message toll service (MTS). Saver Service includes three separate pricing options directed to specific market segments: residential, business, and high volume users. The tariff also includes a band of rates for each Saver Service option. Banded rates would allow the Company to file new Saver Service rates within the bands with only thirty days' notice rather than the standard sixty-day notice period. See Order No. 18326.

The Florida Interexchange Carrier Association (FIXCA) filed a Petition for Rejection of Southern Bell's proposed Saver Service Tariff on June 22, 1990, arguing that Southern Bell's rates failed to cover access charges in the aggregate. On July 13, 1990, Southern Bell filed revised tariff pages for Saver Service to delete the high volume toll option. On July 18, 1990, FIXCA filed an Alternate Request suggesting guidelines for the imputation of access charges for Southern Bell's toll services. FIXCA also requested a hearing prior to implementation of the Saver Service tariff.

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FPSC-RECORDS/REPORTING

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By Order No. 23418, issued in Docket No. 900522, the Commission approved the Saver Service tariff. We also declined to adopt FIXCA's guidelines, finding it more appropriate to initiate this proceeding to consider, on a generic basis, FIXCA's proposed guidelines for establishing the competitive price floor for LEC toll services.

On October 17, 1990, a workshop was conducted to allow all interested persons to discuss the issue of an appropriate methodology for determining the price floor for LEC toll services. The following parties participated in the workshop: ALLTEL, Centel, Florida, GTEFL, Gulf, Indiantown, Quincy, St. Joseph, Southland, United, Vista-United, Northeast, Southern Bell, MCI, US SPRINT, and ATT-C. Six guidelines were presented by FIXCA during the workshop.

The six proposed guidelines are as follows:

1. Toll revenues should cover aggregate access charges for the business and residential market segments individually.
2. Access charges should be calculated with originating access charges applied to non-conversation time.
3. Access charges should reflect the time-of-day distribution of the market under consideration.
4. The Busy Hour Minute of Capacity (BHMOC) should be the average BHMOC/Minute of use rate realized using the most recent monthly data available.
5. Access costs should be calculated using effective tariffed rates that apply to actual LEC network configurations.
6. LEC toll services must be priced to recover all other relevant costs in addition to those associated with the LEC's imputation of access costs.

FIXCA's proposed guidelines were discussed extensively during the workshop. Subsequently, all parties were allowed to file written comments on the proposed guidelines.

As discussed in greater detail below, we adopt the first four guidelines and modify the fifth and sixth. With respect to the first four guidelines, it appears that there is general agreement among the parties. The Commission has generally followed these in

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the past. Accordingly, we find it appropriate to adopt guidelines one through four as set forth below.

The guidelines we approve are as follows:

GUIDELINE 1: Toll revenues should cover aggregate access charges by service and for the business and residential market segments individually within a service. Where toll products are separately targeted at business and residential markets, revenues in each market should cover that market's aggregate access costs. Note that under this guideline, the test is aggregate access charges within each market segment.

GUIDELINE 2: Access charges should be calculated with originating access including a non-conversation time factor that accounts for holding time. The non-conversation factor accounts for access charges that accrue while the call is ringing but not yet answered and for uncompleted calls. Simple comparisons of access and toll prices are not appropriate since the typical base of comparison, for example, conversation minutes-of-use, does not accurately capture all originating access minutes. Appropriate access comparisons should include an adjustment to recognize that average originating access minutes are larger than average conversation minutes.

GUIDELINE 3: Originating access charges should reflect the time-of-day distribution of the service or market segment under consideration. This guideline relates to the first guideline concerning market segments. Optional pricing plans designed for the business market should reflect the proportionally higher access charges of serving day-time traffic loads. This should not be artificially diluted by using traffic distributions that include the off-peak calling of residential customers which are not part of the target market.

GUIDELINE 4: The BHMOC rate should be the average BHMOC per minute of use rate realized using the most recent annual data available. This rate will be LEC-specific and can be approximated by dividing LEC BHMOC revenues

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(adjusted for known rate changes) by aggregate intrastate local transport access minutes.

We note that, with respect to Guideline One, parties have previously suggested that each mileage band and rate period be priced above switched access charges. We decline to adopt this suggestion because it allows the LECs too little pricing flexibility compared to their IXC competitors.

Guideline Five, as proposed, would require each LEC to impute access tariff rates for the technical access configuration actually provided by the LEC. Typically, this would require a LEC to impute switched access rates at each end of a call. This is in contrast to the IXCs that typically utilize special access on one end for large users.

Guideline Five has generated by far the most controversy. As issued, the parties are split along partisan lines; the LECs are on one side led by Southern Bell, and the IXCs are on the other led by FIXCA.

Southern Bell argues that its actual network configuration should not be used when calculating the aggregate access charges. According to Southern Bell, high volume customers have economic incentives to use special access on one end of a call and switched access on the other end. In addition, those customers can also use special access for intraLATA, interLATA and interstate calls. Because of this, Southern Bell argues that, for competitive pricing for its toll services, it should be allowed to impute the access rates equivalent to the most economic technical configuration. According to the Company, the critical factor is the effective toll rate the customer will pay, not the method of provisioning the service.

Southern Bell proposes a cross-point approach to determine the level of access rates equivalent to the high volume customer's most economic configuration. The cross-point methodology calculates the appropriate point to change from imputating switched access rate on both ends to special access on one end and switched on the other for purposes of determining the relevant access rates to be covered. The determining factor is the point where a customer would make a business decision to purchase a special access line instead of using switched access, based on the number of hours of toll calls that customer anticipates making per month.

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The formula for determining the cross-point is premised on the utilization of special access for originating traffic and switched access for terminating traffic. According to the Company, the cross-over point is approximately 113 hours. The cross-point formula originally advanced by Southern Bell contains the following assumptions:

1. Current tariffed switched access rates utilizing the business time-of-day factor to reflect the appropriate twenty-four hour weighting.
2. Special access usage per voice grade equivalent channel of 6000 minutes.
3. Special access loop length of one mile for local channels.
4. Special transport at current tariffed rates assuming a ten-mile transport distance.
5. 100% fill factor on 24 voice grade channels.

In support of its proposed access imputation methodology, Southern Bell argues that switched and special access services are sufficiently similar as to permit the imputation of special access on the originating end. It further argues that it would not be able to compete for large volume users if it is required to impute switched access on both ends. Southern Bell also argues that IXCs have better positioned themselves by aggregating all of a customer's traffic including intra- and interLATA as well as interstate traffic. As a result, the customer gets the benefits of the economies of using the special access line.

FIXCA and the other IXCs support FIXCA's originally proposed guidelines, arguing that these guidelines represent the relevant costs to Southern Bell for its toll service. FIXCA, as well as the IXCs, argue that Southern Bell should not be allowed to impute a rate for access that is inconsistent with the actual access service provided to a customer. According to FIXCA, Southern Bell's approach enables the Company to utilize its monopoly switched access service at rates significantly lower than at charges its rivals. FIXCA suggests that this violates the fundamental goal for an access pricing standard that necessary monopoly inputs are made available to the LEC's rivals at comparable terms and prices as the LEC "charges" to itself. MCI and the other IXCs echo this complaint. As MCI states, Southern Bell would effectively be allowed "to sell themselves switched access at special access prices."



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MCI also disputes Southern Bell's claim of similarity between special and switched access. According to MCI, switched access allows a customer two-way local and toll calling over the same access line, does not require installation or PBX programming, has no non-recurring charge associated with the installation of the special access line, and allows a customer relative ease in changing from one interLATA carrier to another. In contrast, MCI argues that special access requires separate inbound and outbound access lines, separate access for local calling, coordination of installation and programming of CPE. In addition, MCI claims that non-recurring charges for special access lines are substantial, limiting the customer's ability to change interLATA carriers.

In addition to FIXCA's and the IXCs' opposition to Southern Bell's proposal for imputation of special access, they also criticized Southern Bell's proposed crossover calculations. MCI argues that Southern Bell's crossover formula contains overly aggressive assumptions regarding assumed usage, length of transport and channel utilization in order to produce a low minute of use equivalent for imputation purposes. MCI also claims that Southern Bell's formula ignores some significant relevant costs such as the nonrecurring charges for special access.

With respect to the assumptions in the formula, Sprint and ATT-C argue that Southern Bell's assumption 6,000 per voice grade channel is too high. ATT-C argues that 750 to 1,000 minutes per voice grade line is more accurate. Sprint argues that Southern Bell should be required to determine and use the actual average usage per channel in its formula.

In addition, Sprint argues that Southern Bell's average transport assumption of ten miles is also inappropriate. Sprint states that the Southern Bell should be required to calculate its actual average transport distance and utilize this amount in the formula.

ATT-C contends that because of the existing inter- and intrastate jurisdictional contamination rules, carriers utilizing special access services would generally use interstate services as opposed to intrastate services. Using interstate rates, the cost of purchasing the suggested DS1 would be approximately \$725.00, as opposed to Southern Bell's estimate of \$403.65.

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Upon consideration of the information before us, we find it appropriate to allow Southern Bell to impute the most economic configuration for a customer for establishing a toll price floor. We note initially that there are inherent differences between the LECs and the IXCs regarding the provision of toll service that preclude them being equally situated. Facially, it would appear inequitable to allow the LECs to impute special access when they actually utilize switched access. However, the technical advantage of the LEC's ability to use switched access is offset by the IXCs' ability to obtain a lower effective rate for access charges by combining the significantly less expensive interstate access minutes with intrastate access minutes. Since Southern Bell may only carry intraLATA intrastate toll traffic, only intrastate access rates are relevant to the Company. The Company cannot take advantage of a blended interstate/intrastate effective rate. Likewise, the use of special access is more economically efficient for large volume customers of IXCs.

Currently, combined intrastate originating and terminating access is priced at approximately \$.1312 per minute in Southern Bell's territory. Corresponding interstate access is priced at approximately \$.0627. The ability of the IXCs to take advantage of a lower blended effective rate is illustrated by the State of Florida's Invitation to Bid (RFP) for the intraLATA portion of the State's SUNCOM System. Section 3.6 (a) of the RFP states:

It should be noted that the state shall not renew at a rate higher than that which is in effect at the time of bid opening. The current provider is ATC/Microtel. Their current rate is \$ .08 per minute.

This clearly demonstrates that the IXCs are providing service at rates much lower than the rates which the LECs would be required charge by imputing switched access on both ends. In focusing on the narrow technical configuration of the LEC's provision of toll service as the basis for the establishing a competitive price test for LEC toll rates, the IXCs would have us impose a price floor on LECs that would effectively exclude the LECs from competition in the high toll volume market segment. We find this inappropriate. We shall not require Southern Bell to impute switched access rates for both originating and terminating access in its formula.

Notwithstanding our approval of Southern Bell's proposal to impute special access in its formula, we agree with the IXCs to the

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extent that certain of the assumptions are inappropriate. Accordingly, we find that the certain changes to the formula should be made. We find that Southern Bell's assumption of 6,000 minutes is too high and that 5,000 minutes is more appropriate. This is an industry-wide assumed usage that is utilized in FCC Docket No. 87-339 to monitor the impact of Federal Joint Board decisions. We also find that Southern Bell's assumption of 100 percent usage of 24 voice grade channels is too high. We find that an 80 percent fill factor is more appropriate. This fill factor has been used in the FCC's Bypass Monitoring Report. We note that this fill factor is also generally consistent with the FCC's April 1990 Bypass Report which stated fill factors for various companies as follows: 80% for GTE, 83% for BellSouth, 80% for U.S. West, 75% of Atlantic Bell and 70% for Pacific/Nevada Bell.

We accept the other assumptions utilized by Southern Bell in the formula. The rate for local channel elements as well as the special transport element are reflected in current tariffs. The formula includes an assumption of 10 miles for switched access transport. According to Southern Bell, 54.7% of transport minutes is within 0-8 miles, 18.5% is within 16 miles and 12.75% is within 16-25 miles. Since approximately 73 percent of transport minutes is within 0-16 miles, an assumed 10 mile transport distance appears reasonable.

A complete example of the formula calculation is as follows:

High Volume Customer Using Special Access (DS1)  
 Appropriate Access Charges

1. ASSUMED USAGE PER VOICE GRADE EQUIVALENT	5,000 MINUTES
2. LOCAL CHANNELS (INCLUDES THE FOLLOWING)	= \$ 136.25
SPECIAL ACCESS ONE MILE ACCESS CONNECTION TWO NETWORK INTERFACES	
3. SPECIAL TRANSPORT - FIXED	= \$ 29.90
4. ASSUMED TRANSPORT - 10 MILES (\$23.75 EACH MILE)	= \$ 237.50
5. TOTAL (LINES 2 + 3 + 4)	= \$ 403.65
6. 19 CHANNELS (\$403.65 DIVIDED BY 19)	= \$ 21.24
7. MINUTE OF USE RATE (LINE 6 DIVIDED BY LINE 1)	= \$ .0042
8. PRICE FLOOR = \$.0719 + \$.0042	= \$ .0761
(originating special access per formula plus terminating switched access; does not include billing and collection)	



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In addition to our modification to certain of the assumptions in the crossover formula, we also find it appropriate to impose certain other restrictions. The LECs shall limit high volume toll services for which the formula test is applied to access lines which can be used only for those services. No other service, such as local service, shall be permitted on these lines. Further, the LECs shall not be allowed to impute the special access rate on one end for services with qualifying usage below the 113-hour high volume threshold. This is appropriate because the IXCs would not use a special access configuration for a customer with toll volume below a certain point.

Based on the foregoing, Guideline Five shall be as follows:

GUIDELINE 5: Access costs may be calculated using the most economic network configuration associated with the targeted market segment. For other than high volume customers, actual network configuration shall be used. For high volume customers with 113 hours of use or more per month, special access may be imputed on the originating end in accordance with the methodology adopted by the Commission.

FIXCA's proposed Guideline Six is the second major area of disagreement. This guideline requires the inclusion of the costs of billing and collection, advertising, marketing, and promotion of the product in setting toll rates.

FIXCA, MCI and Sprint each argue that all relevant costs should be included in setting toll rates. They differ to some degree on how "relevant costs" should be defined. FIXCA argues that the LEC's billing and collection rates are the relevant costs which should be imputed. MCI would add all product advertising expenses and network facilities cost in addition to those covered by access charges. Sprint argues that the costs of billing and collection and advertising be tracked, quantified and included in the rates of individual services in order to prevent anticompetitive shifting of these costs between services. Further, US Sprint states that there is considerable risk of anticompetitive behavior associated with allowing a firm to allocate joint and common costs as it sees fit when the firm has high joint and common costs and both regulated and unregulated or competitive and non-competitive services.

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Southern Bell argues that if billing and collection costs should be imputed in LEC toll pricing, it may be appropriate to impute only the incremental billing and collection costs for bulk billing and collection, not the rate. Southern Bell states that billing and collection is not a monopoly service, noting that may IXCs provide their own billing and collection. Thus, Southern Bell argues that the relevant cost is the LEC's incremental cost, not the tariffed rate.

We find that billing and collection is a relevant cost in providing toll service. However, because billing and collection is not a LEC monopoly service to which IXCs must subscribe, we also find that a LEC's incremental cost is the appropriate relevant cost to be included in setting LEC toll rates. In addition, if a LEC provides bulk billing, it should include the relevant costs of that service. Similarly, if the company uses detailed billing, the appropriate cost to be included in the pricing would cover the incremental cost for detail billing.

With respect to advertising and promotion costs, these vary widely by company, depending on the scope of operation. As a result, it would be extremely difficult to derive any reliable surrogate for these expenses. Therefore, we find it inappropriate to include these costs in LEC toll pricing.

In view of our discussion above, we adopt a modified Guideline 6 as follows:

Guideline 6: The price floor for LEC toll services shall include the LEC's incremental cost of providing billing and collection service.


Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that the Guidelines for establishing the competitive price floor for local exchange company toll services as set forth in the body of this Order are hereby adopted. It is further

ORDERED that this Docket shall be closed if no protest is filed in accordance with the requirements set forth below.

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By ORDER of the Florida Public Service Commission, this  
29th day of JULY, 1991.

  
STEVE TRIBBLE, Director  
Division of Records and Reporting

( S E A L )

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting at his office at 101 East Gaines Street, Tallahassee, Florida 32399-0870, by the close of business on 8/19/91.

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In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party adversely affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or sewer utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.