

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition by MCI ) DOCKET NO. 961230-TP  
Telecommunications Corporation ) ORDER NO. PSC-97-0294-FOF-TP  
for arbitration with United ) ISSUED: MARCH 14, 1997  
Telephone Company of Florida and )  
Central Telephone Company of )  
Florida concerning )  
interconnection rates, terms, )  
and conditions, pursuant to the )  
Federal Telecommunications Act )  
of 1996. )

The following Commissioners participated in the disposition of this matter:

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FINAL ORDER ON ARBITRATION

BY THE COMMISSION:

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I. BACKGROUND

Part II of the Federal Telecommunications Act of 1996 (Act) provides for the development of competitive markets in the telecommunications industry. Section 251 of the Act concerns interconnection with the incumbent local exchange carrier, and Section 252 sets forth the procedures for negotiation, arbitration, and approval of interconnection 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 for negotiations under this section.

On May 6, 1996, MCI Telecommunications Corporation, individually and on behalf of its affiliates, including MCI Metro 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 252 of the Act. On October 11, 1996, MCI filed with this Commission a Petition for Arbitration Under the Telecommunications Act of 1996. Docket No. 961230-TP was established for MCI's petition.

On August 8, 1996, the Federal Communications Commission (FCC) released its First Report and Order 96-325 in CC Docket No. 96-98 (Order). The Order established the FCC's rules and requirements for interconnection, unbundling, and resale based on its interpretation of the 1996 Act. This Commission appealed certain portions of the FCC's rules and Order, and requested a stay pending that appeal. On October 15, 1996, the Eight Circuit Court of Appeals granted a stay of those portions of the FCC's rules and Order implementing Section 252(i) and the pricing provisions of the Act.

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On December 11, 1996, MCI and Sprint executed a Stipulation and Agreement (the Stipulation) in order to resolve certain issues that remained between the parties. The Stipulation was presented to this Commission as a preliminary issue at the evidentiary hearing for this docket on December 18, 1996, and received our approval. The Stipulation is attached hereto as Attachment A and is incorporated herein by reference.

On December 18, 1996, we conducted an evidentiary hearing for this docket. At our February 4, 1997, Agenda Conference, we made our decision on the following matters: compensation for exchange of local traffic; costing of and rates for unbundled network elements; services available for resale; the wholesale discount for retail services; limitations on collocation; and compensation for provision of engineering records. Having considered the evidence presented at hearing, the posthearing briefs of the parties, and the recommendations of our staff, our arbitration decision made at the February 4, 1997, Agenda Conference is set forth below.

## II. COMPENSATION FOR EXCHANGE OF LOCAL TRAFFIC

At issue between the parties is the determination of the appropriate compensation mechanism for the exchange of local traffic between MCI and Sprint. We will consider this issue in two parts. The first part concerns setting the appropriate rates for tandem switching, transport, and end office switching. The second part concerns whether these rates should be reciprocal if MCI does not provide the equivalent tandem switching and transport function.

### Call Termination Rates

Sprint witness Hunsucker testified that Sprint proposes permanent rates for tandem and end office switching, but proposes to use its interstate tariff rates on an interim basis for transport.

Sprint believes that Total Element Long Run Incremental Cost (TELRIC) is the appropriate cost methodology for determining the prices for elements involved in call termination. Sprint witness Farrar stated that TELRIC and Total Service Long Run Incremental Cost (TSLRIC) methodologies are basically the same. He contended that their differences are related to the item being costed, not the method of developing the costs. Witness Farrar stated that TSLRIC studies determine the forward-looking, long run incremental cost of services, while TELRIC studies determine the forward-looking long run incremental cost of network elements.

Sprint witness Hunsucker stated that 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 contended that this would supply an economically efficient price to new competitors to decide whether to use Sprint or an alternative switching arrangement.

Witness Hunsucker stated that Sprint established a rate design by sorting the end office switching costs from lowest to highest for each office studied. He explained that the rate bands were derived by stratifying end office costs and setting rates within each band so that no rate differed from any of the end office costs in that band by more than approximately 10 percent. He contended 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.

Witness Hunsucker testified that Sprint proposes to use its interstate access tariffed rates, without application of the residual interconnection charge, as interim proxy rates for transport until the Commission sets permanent rates. He stated that the interstate access tariff for Florida is arranged in three geographic rate zones. He maintained that these rates are appropriate until such time as detailed TELRIC cost studies can be developed and presented to the Commission. Witness Hunsucker contended 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 cost studies. In his testimony he indicated that, in most states, interstate rates tend to be lower than some intrastate rates.

MCI's concerns regarding Sprint's TSLRIC costs are discussed in Section II.A. of this Order, which addresses the appropriate cost methodology for unbundled elements. MCI witness Cabe argued that incumbent local exchange company (ILEC) cost studies must comply with the requirements for forward-looking cost studies. In its brief, MCI stated that the Hatfield Model produces costs for tandem switching, local switching, and transport in accordance with TELRIC cost principles. 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.

As discussed at length in Section II.A., we do not believe that MCI's Hatfield Model is suitable for use in this proceeding, and we therefore find that the costs produced by the model are inappropriate.

After review of Sprint's cost study for end office switching, we find that Sprint's proposed, deaveraged, per minute rates are also not appropriate. As discussed in Section II.A., we find that Sprint's rates include excess contribution; we do not believe that an additional 14.58% for common costs is reasonable.

We find that the permanent rates provided in Table 1, below, are appropriate and shall be applied. These rates reflect adjustments made to offset the excess contribution to common costs discussed above. For the offices for which Sprint did not provide cost data, we find that the end office rates for Zone 1 shall apply in the interim. We believe this is reasonable since Sprint did not provide any information to determine the appropriate rates or zones for the remaining end offices. Sprint shall provide TSLRIC cost studies on the remaining end office switches so permanent rates can be set.

TABLE 1

ELEMENT	APPROVED 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

We find that 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.

As with end office switching, Sprint did not provide cost information for all of its tandem switches. Since, however, the cost data provided did encompass the majority of the tandem switches, we do not believe that additional cost data on the few remaining tandems would change the outcome. We find that the cost information provided is sufficient to set permanent tandem switching rates; however, as stated above, we find that the 14.58% added by Sprint for common costs is unnecessary. After adjustment to eliminate unnecessary contributions to common costs, we find that a permanent rate of \$.00275 for tandem switching is appropriate and shall apply.

We are not persuaded by Sprint's proposal to use interstate tariffed rates for transport until it files TELRIC cost studies. Witness Hunsucker stated that interstate rates tend to be lower than intrastate rates, but he admitted that he had not looked at Florida's rates. We note that Florida's intrastate tariffed rates are lower than Sprint's proposed interstate rates. We also note that Florida's intrastate rates are still priced substantially above costs. We find it inappropriate to set transport rates, even in the interim, based on rates that we know are well above costs. We find that an interim, reciprocal, per minute transport rate of \$.000255 is appropriate and shall apply. We determined this rate by using TSLRIC cost information provided by Sprint in Docket No. 950985-TP and made a part of this record.

We have ordered separate rates for end office switching, tandem switching, and transport because alternative local exchange companies (ALECs) may use one or both switches to terminate a call. This is appropriate since a call terminated at an access tandem, as opposed to a call terminated at an end office, may require additional switching and transport. The tandem rate includes only costs to terminate at the tandem; therefore, if an ALEC terminates through both a tandem and end office switch, Sprint may charge tandem, transport, and end office rates.

Sprint shall file TSLRIC cost studies for the end office switches for which it did not provide cost data. Sprint shall also file TSLRIC cost studies for transport. These cost studies shall be filed within 60 days of the date of this Order. Requiring TSLRIC cost studies is consistent with our directive in Docket No. 960847-TP.

#### 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 witness

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Hunsucker argued that an ILEC should not be required to pay a competitive local exchange company (CLEC) the tandem switching and transport rate element if the CLEC does not provide equivalent tandem switching and transport functions. MCI witness Cabe contended that reciprocal compensation should be based on the functionality provided rather than the network architecture employed.

Section 251(b)(5) of the Act requires ILECs to establish reciprocal compensation arrangements for the transport and termination of telecommunications. Section 252(d)(2)(A) of the Act provides:

For the purposes of compliance by an incumbent local exchange carrier with section 251(b)(5), 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

(ii) 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 make arguments referring to portions of the FCC Rules and Order that have been stayed, specifically Sections 51.701(c) and (d). In addition, Sprint cites Order No. PSC-96-1532-FOF-TP, issued December 16, 1996, in Docket No. 960838-TP (arbitration between MFS Communications Company, Inc. (MFS) and Sprint), which referred to stayed portions of the FCC Rules and Order. While we did discuss the merits of the FCC Rules and Order in our decision in the MFS/Sprint arbitration, they were not a basis for our decision. In this docket we will not rely on these stayed portions of the FCC Rules and Order as a basis for our decision.

Sprint contends that the Commission previously determined this same issue in the MFS/Sprint arbitration, Docket No. 960838-TP. There, we decided that MFS could not charge Sprint for transport because MFS did not actually perform this function. (Order No.



PSC-96-1532-FOF-TP, issued December 16, 1996, p. 6) We found that the Act does not contemplate that compensation for transport and termination of local traffic will be symmetrical when one party does not actually use the network facility for which it seeks compensation.

In its brief, Sprint argues that the issue of whether it must reciprocally compensate MCI for tandem switching and transport turns on whether MCI performs a tandem switching and transport function. Sprint contends that MCI has not established how many switches it will provide in Florida or how many switches will be tandem switches, if any. Sprint witness Murphy stated that MCI was unable to say unequivocally that the remote digital line unit (RDLU) is a switch or that a Sprint-originated, local call terminated on MCI's network will be switched twice, once at the tandem switch and once at the RDLU. Witness Murphy asserted that MCI could not state that its switch performs a tandem switching function.

Sprint witness Hunsucker stated that, unless MCI performs both tandem and end office functionality, Sprint should not be required to provide compensation for the tandem switching and transport elements of call termination. He contended that the burden of proof should be on MCI to demonstrate to this Commission and Sprint where such tandem and end office functionality exists in its network. Witness Hunsucker stated that Sprint does not oppose reciprocal compensation where both CLEC and ILEC provide the same or equivalent termination functionality. 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 Rules and Order.

In its brief, MCI argues that regardless of how transport and termination are priced with reference to Sprint's existing network, MCI is entitled to full compensation when it provides the same function as Sprint, irrespective of the network facilities it uses. MCI argues that the FCC Rules on pricing for transport and termination of local traffic, although stayed and not binding on this Commission, are a reasonable interpretation of the "reciprocal compensation" requirements of the Act. MCI submits in its brief that these rules provide useful direction as we determine the appropriate compensation under the Act for the exchange of local traffic.

MCI contends in its brief that Sprint witness Hunsucker distorted the concept of reciprocal compensation based on equivalent functionality by maintaining that "equivalent call termination functionality" means that a CLEC must provide "the

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equivalent tandem switching and transport functions" before the ILEC can be required to pay the CLEC the tandem switching and transport rate elements. MCI asserts that Sprint's interpretation of the Rules, which would require Sprint 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.

MCI argues in its brief that we 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. MCI witness Murphy contended that each carrier should be entitled to the same compensation if each carrier is using "equivalent facilities" to provide the same function.

MCI witness Cabe asserted 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. 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.

We believe that the Act is clear regarding reciprocal compensation. 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 "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 . . . ."

We find that the Act does not intend for carriers such as MCI to be compensated for a function they do not 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 associated with them. Upon consideration, we therefore conclude that MCI is not entitled to compensation for transport and tandem switching unless it actually performs each function.

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III. UNBUNDLED NETWORK ELEMENTS

A. **Cost Methodology**

Both MCI and Sprint advocate the use of TELRIC principles to develop costs for unbundled network elements, despite the fact that the relevant portion of the rules contained in the FCC's Interconnection Order is currently under a stay. MCI offers the Hatfield Model, Version 2, Release 2 (Hatfield) as the TELRIC costing model that we should apply, while Sprint proposes that we use the Benchmark Cost Model, Version 2 (BCM2) for loops. Both parties argue that their respective models constitute the best approach to developing appropriate TELRIC estimates.

Pricing Requirements Pursuant To The Act

Section 252(d) of the Act contains the pricing standards for unbundled network elements, providing that:

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.

We read this section of the Act as stating that prices for unbundled elements should be based on cost and may include a reasonable profit; accordingly, we believe that the appropriate cost methodology is an approximation of TSLRIC.

Pricing Pursuant To The FCC's Order (TELRIC vs. TSLRIC)

In Order 96-325, the FCC defines TELRIC as:

... 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. 47 C.F.R. §51.505(b).

As discussed below, it is our belief 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." (Order 96-325, at ¶678) It should be noted, however, that the methodology used by the FCC 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 we have adopted in our state proceedings a TSLRIC approach using efficient technology. The difference between these methodologies is that the scorched node approach considers only the current location of central offices and ignores 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 purposes of our decision in this Order, we define TSLRIC 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 reoptimize its input mix and facilities when a service is added to (or removed from) the existing product mix. That is, TSLRIC, in

this Order, 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 TELRIC, and will include a reasonable allocation of forward-looking joint and common costs. (Order 96-325, at ¶672) The FCC adopted Section 51.505(a) of its rules, which states:

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).

We do not disagree with the general approach of the FCC's pricing methodology. However, neither TSLRIC nor TELRIC methodologies include forward-looking joint and common costs. The rates that we are imposing in this Order are based as closely as possible 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 services. That is, certain costs can be directly assigned on an element level, whereas at the service level, they would be considered shared costs. The effect is that under TELRIC, more costs would be directly assigned, leaving fewer costs to be defined as shared.

#### Analysis of Cost Studies

As previously stated, the cost information presented by the parties consists of two types. MCI proposes we 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. Sprint provided BCM2 for loops, and TELRIC studies for other unbundled network elements.

#### Hatfield Study

The Hatfield Model was developed by Hatfield and Associates, Inc., at the request of AT&T and MCI. Version 2.2, Release 2, was presented in this proceeding. The model was designed to estimate TELRIC costs of unbundled network elements and to estimate the cost of basic local exchange telephone service. Hatfield is a "scorched node" model that assumes all network facilities would be designed and built from scratch, constrained only by the current location of

central offices. The model does not represent any one specific local exchange company (LEC) network, but was designed to be adaptable to any LEC or geographic area. Hatfield models the loop, including the network interface device (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.

Hatfield contains six functional modules that 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. This file is used 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 model adjusts the household data by converting it to access lines and by 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. A brief explanation of each module is provided below.

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

Data Module. This 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. 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. This 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. This 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. This 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.

Sprint raised several criticisms of the results generated by Hatfield. Sprint witness Dunbar concluded that there are a "number of serious flaws" that make Hatfield "unusable for pricing unbundled elements." Among Sprint's criticisms are the following:

1. The outside plant cost assumptions are inconsistent with the loop plant design, and the costs are understated since the single cable cost curve used in Hatfield is not consistent with the model's long loop design.
2. The larger feeder and distribution cables used in underground loops must be 26 gauge, but the Hatfield Model uses only 24 gauge.
3. Hatfield does not account for the fact that long loops also require load coils and line amplifiers to maintain the quality of the signal and to achieve dial tone.
4. Loop materials costs used in the Hatfield Model are less than what is required to cover the cost of cable, electronics, and loop treatment.
5. 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 carrier terminal equipment. It omits costs necessary to make the terminals functional.
6. 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.

7. The total length of distribution cable in the Hatfield Model is insufficient to reach all subscribers in some CBGs.
8. Hatfield understates the cost of supporting structures such as poles and conduit systems.
9. 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.
10. 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.
11. 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 stated that, in most areas, cable placements must follow roads, rights-of-way, and utility easements.

MCI witness Wood responded that Hatfield 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 stated that although Hatfield's assumptions may not reflect those of a network planner, the purpose of the model is not to produce a specific loop cost but to develop the total dollar amount required for loop investment for each CBG. The specific calculations required would therefore yield some results that are overstated and some that are understated.

According to witness Wood, the vast majority of the data used in the model is Sprint or Florida-specific. He also stated that 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. According to the Model's description, the default



input values represent the best judgments of the model's developers. These inputs are variable, however, and users can model directly any desired alternative.

Hatfield's use of a "structure sharing factor" was discussed at length in this proceeding. 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. He testified, however, that some structure sharing exists as demonstrated by simply making visual inspection of aerial poles. 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. According to witness Wood, 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.

Upon review, we believe that, while the record shows that some structure sharing exists in Sprint's Florida network, excluding 2/3 of the structure investment as recoverable from other entities is not reasonable. Accordingly, we find that MCI's loop estimates are understated to that extent.

#### BCM2 Study

Sprint witnesses Hunsucker and Farrar emphasized Sprint's position that the same cost standard should be applied to all Florida ILECs because different pricing standards will produce non-competitive costs and prices among ILECs, disadvantaging some while benefitting others.

According to Sprint, the purpose of the BCM2 model is to "estimate a benchmark cost of providing basic local telephone service for both business and residence customers in small geographic areas for the entire U.S. and its territories." 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 the previous version of the Benchmark Cost Model only included the major cost drivers.

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 of this data becomes input for the BCM2.

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 file 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 must be developed. Finally, the switching costs are developed by CBG.

The major basic assumptions used 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 are used; the type used depends 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 uses 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 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 sizes of 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 adjustable. Default values were set based on levels that Sprint feels best represent "forward-looking practices for deployment of basic local telephone services."

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. For still others, Sprint did not conduct cost studies but has proposed to employ current tariffed rates, both intrastate and interstate, as an interim measure. For these latter elements, MCI states in its brief that it has supplied the only cost support in this proceeding.

Sprint witness Farrar testified that in order to develop its TELRIC estimates, Sprint 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. In order to derive its proposed rates, Sprint 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 cost studies. With respect to Sprint's TELRIC estimates for the loop and port combination, tandem switching, SS7 signaling interconnection, LIDB, 911 ports, and Directory Assistance database services, MCI witness Cabe argued that the "black box" approach used by these studies makes them unavailable for critical review. According to witness Cabe, although the BCM2 approach used to develop loop costs is a more open process, Sprint does not incorporate forward-looking economic costing principles, instead relying heavily on historical, embedded data. He also stated that Sprint's studies handle shared and common costs similarly to a fully distributed cost study.

Specifically, MCI argues in its brief that Sprint's Annual Charge Factors are overstated. Referring to Sprint witness Farrar's testimony, MCI points out that calculated investment amounts are multiplied by annual charge factors to derive an annual cost, which then can be converted to a monthly cost. Sprint calculated Annual Charge Factors of approximately 30%, thus affecting a substantial portion of each TELRIC estimate.

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

#### Conclusion

Upon review of the record, we find that the appropriate cost methodology for setting rates for unbundled network elements is TSLRIC, recognizing existing network configurations and utilizing forward-looking costs. The cost studies submitted by the parties in this case do not conform to this standard. Accordingly, we decline to adopt the proposed rates derived from either study as filed.

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We choose not to use Hatfield results for various reasons. First, unlike the cost methodology that we find appropriate, Hatfield incorporates a "scorched node" approach to cost development. Second, we believe that Hatfield understates costs. Third, the proposed rate structure is so bundled in some instances that it does not, in our opinion, adequately reflect cost causation. Examples include rates for dedicated transport that are based simply on DS-0 equivalents with no distance component, and rates for Operator Services that are proposed to consist of a single lump sum annual charge for all Directory Assistance and 911 services.

Although Sprint's BCM2 and TELRIC studies more closely mirror the appropriate cost methodology, they are also flawed. Where Sprint has supplied TELRIC estimates, we find that its annual charge factors are overstated. However, this overstatement, with respect to the cost of capital, maintenance factors, and embedded expenses, is sufficient to provide an adequate contribution to common costs; we therefore find that Sprint's additional 14.58% for common costs is unnecessary. Where possible, we have made adjustments to BCM2 and Sprint's TELRIC workpapers accordingly to reflect more reasonable results upon which to set rates. We find our adjustments appropriate and reasonable.

Where Sprint has proposed to use current interstate tariffed rates, we find that, where noted, these rates shall be used as interim rates. Sprint shall submit appropriate TSLRIC estimates so that we may set permanent rates for these elements. We find it appropriate, however, to set permanent rates, where possible, based on relevant TSLRIC data obtained in other proceedings before this Commission and made a part of this record.

For unbundled loops, both MCI and Sprint have proposed the use of deaveraged pricing based on cost differences associated with density. The Hatfield's rate bands are based on the number of access lines per square mile. Sprint, on the other hand, has derived the BCM2 rate bands by stratifying the loop costs and setting bands so that at least 80% of the loops fall within \$5.00 of the weighted average TELRIC. Upon review, we have determined that both methods are essentially cost-driven, but the resulting rates are not comparable.

For interim purposes, we find that a single averaged unbundled loop rate is appropriate. TSLRIC estimates for the entire unbundled loop and loop distribution shall be filed to assist in the determination of permanent rates. This finding is based on several factors. As previously stated, Hatfield and BCM2 loop costs are based on a "scorched node" approach that we find

inappropriate. In addition, Hatfield estimates are too low for sufficient cost recovery and BCM2 annual charge factors are overstated, as previously discussed. Unlike most TELRIC studies, the information provided by these cost studies made it impossible for us to adjust the costs to eliminate understatements and overstatements. The use of multiple bands added considerable complexity. Finally, we did not have sufficient time to become familiar with the BCM2 program, because it was submitted very shortly before hearing.

With respect to the 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. According to Sprint witness Hunsucker, Sprint has proposed this structure (versus the more common flat port plus per minute usage rate) because it cannot measure originating and terminating usage on a switching port at this time. Sprint has also proposed that switching features such as Caller ID, Call Waiting, and Centrex, normally included in unbundled local switching, be priced separately at 22% of retail rates. We disagree with this approach and find that no separate prices shall be approved for switching features. Rather, the features shall be incorporated into the unbundled switching rate itself, as required by the Act. For this reason, we find that the banded port/usage surrogate rates proposed by Sprint shall be applied on an interim basis. These rates shall include all associated features with no separate charges added.

For the common transport element, Sprint proposed to use interstate tariffed rates. As stated in our analysis of call termination rates in Section II of this Order, we believe that Sprint's proposed rates are well above costs. Upon consideration, we order the interim application of a rate combining the mileage and termination components and based on TSLRIC costs obtained in Docket No. 950985-TP and made a part of this record.

Sprint is required to file TSLRIC estimates for loop distribution and unbundled loops to assist us in setting permanent rates for those elements. TSLRIC estimates shall also be filed for those elements for which interim rates are approved in this Order. All TSLRIC studies shall be filed no later than 60 days following the issuance of this Order.

#### **B. Rates**

Sprint's proposed rates in this proceeding are based on individual TELRIC 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

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studies. Sprint used the BCM2 to derive only the local loop investments.

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.

Upon consideration, we establish the rates for unbundled network elements set forth in Table 2, attached hereto as Attachment B and incorporated herein by reference. As discussed above in our analysis of cost methodologies, the rates that we have established reflect adjustments, where possible, to the cost data provided. We find that these adjustments lead to more reasonable results. Where noted, we order that interim rates be set. We believe that the rates established in this Order allow Sprint to sufficiently recover TSLRIC plus some contribution to shared and common costs.

Along with the rates established by this Order, MCI's and Sprint's proposed rates are set forth in Table 2. The interim rates that we have established are identified by an asterisk.

#### IV. RESALE

##### A. **Voice Mail and Inside Wire Maintenance**

Section 251(c)(4) of 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. This is further clarified in the FCC Order. (Order 96-325, at ¶ 871) The dispute in this proceeding is whether voice mail and inside wire maintenance are telecommunication services that must be made available for resale under the Act.

In its brief, 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. Sprint states that whether it must make these products available to MCI for resale turns on the definition of "telecommunications service." 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.

In its brief, Sprint states that voice mail is a store and forward technology in its network which allows a caller to leave a

message, like a telephone answering machine on the end user's premises. Sprint, citing FCC Final Decision, Docket No. 20828, released May 2, 1980, ¶¶ 95-98, 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. Sprint argues that the distinguishing feature is that transmission in a telecommunications service context is "real time" transmission as opposed to store and forward.

Sprint witness Hunsucker contended that inside wire maintenance is not a telecommunications service. The witness stated 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. He argued that since Sprint does not own the inside wire, it would be difficult to resell. In its brief, Sprint reiterates that inside wire maintenance does not provide a transmission path but only the repair of facilities owned by the customer.

Sprint asserts that MCI has failed to demonstrate that voice mail and inside wire maintenance are "telecommunications services." Sprint argues in its brief that MCI witness Darnell stated that he is not contending that voice mail and inside wire are telecommunications services from the standpoint of the Act.

MCI witness Darnell contended that under the Act no retail telecommunications service should be excluded from resale. In its brief, MCI argues that by applying the definition of telecommunications and telecommunications services to voice mail and inside wire maintenance, it is apparent that voice mail and inside wire maintenance fall within the confines of the statute.

MCI states in its brief 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. 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 telephone), without change in the form or content of the information as sent or received (the message that customer A leaves customer B on voice



mail is identical from the standpoint of what was sent and what was received).

In its brief, MCI argues that inside wire maintenance also meets the Act's definition. 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. Thus, MCI argues, 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 that 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 is accidentally cut, the telephone call will be interrupted and the wire must be repaired. 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 that 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 this service as those customers of Sprint.

MCI anticipated Sprint's arguments that since voice mail service has been classified by the FCC as an "enhanced service" 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 in its brief 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.

MCI witness Darnell stated that in order for an ILEC to withdraw a certain service completely from resale, it must prove that the service is not a telecommunications service or that the telecommunications service is not provided to subscribers who are not telecommunications carriers.

MCI witness Darnell argued 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 contended that if any of these services are found not to be telecommunications services subject to resale, a decision should be made as to whether these items are available at retail rates to CLECs. He also stated that this Commission should carefully evaluate whether an ILEC should be permitted to refuse to resell its services to a CLEC.

Section 3(51) of the Act defines "telecommunications service" as

...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 our interpretation of Sections 3(51) and 3(48) of the Act, we believe that voice mail meets the definitions of "telecommunications" and "telecommunications service" under the Act. Voice mail is a transmission between or among points specified by the user. The transmitted information is of the sender's choosing and does not change in form or content when sent or received. Accordingly, Sprint is required to offer voice mail for resale to MCI.

We do not agree 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. The FCC's decision was made prior to the enactment of the operative definitions used to establish resale obligations under the Act. Therefore, we believe that the requirements and definitions provided by the Act are the standards to be used in determining whether voice mail is subject to resale.

We do not believe that the Act requires the resale of inside wire maintenance. Inside wire maintenance is a warranty service offered by Sprint that may be purchased by a customer. Inside wire maintenance does not provide a transmission path. We find that inside wire maintenance does not fall under the definition of

"telecommunications services" as provided by the Act, and accordingly we find that Sprint should not be required to offer inside wire maintenance to MCI for resale.

**B. Wholesale Rates of Retail Services Offered for Resale**

The Act directs state commissions to determine the appropriate methodology for LECs to set wholesale discount rates for retail services. Section 252(d)(3) of the Act provides:

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 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 that the FCC did not adopt as presumptively correct any avoided cost model. (Order 96-325, at ¶909) We note again that the FCC's pricing rules and the pricing portion of its Order have been stayed.

The second area of disagreement is the treatment of overhead costs. Sprint witness Farrar testified that these costs are not avoidable. MCI witness Darnell contended that they are common expenses which are not associated with any individual product and, therefore, should be treated as avoided costs.

The third area of disagreement is whether the denominator in the calculation of the discount percentage should represent expenses or revenues. Sprint contends that the denominator should represent revenues; this position is consistent with past Commission decisions. MCI asserts that the denominator should represent expenses.

Analysis of MCI's Avoided Cost Study

MCI proposes a wholesale discount rate of 20.49% for Sprint-United and 21.37% for Sprint-Centel. MCI witness Darnell stated that the FCC's Order establishes minimum criteria for the avoided cost methodology based broadly on the MCI study. The witness stated that the methodology MCI uses to establish a wholesale discount rate follows the conservative approach suggested by the FCC. 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 were 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.

Witness Darnell testified that the wholesale discount should be set at a level that does not include any Sprint retail costs. He contended that this approach captures Sprint's retailing margin and uses that margin as a surrogate for retail inefficiency. The witness testified 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.

Witness Darnell stated that the fundamental feature of MCI's avoided cost calculation is the determination and exclusion of the total amount of Sprint's retailing costs in calculating the wholesale discount. In its brief, MCI contends that it leaves in the wholesale price for only those costs that are incurred in the provision of the service at wholesale.

Witness Darnell stated that MCI's avoided cost model divides total avoided costs by total expenses. The witness contended that this is the correct method to use for the analysis, because expenses are not directly related to revenues. Witness Darnell testified that this is contrary to Sprint's methodology, which takes total avoided expense and divides it by total revenue.

MCI treats account 6221 (Operator Services) and account 6622 (Number Services-directory assistance) as 100% avoided. Witness Darnell contended that if resellers provide their own operator services, Sprint will not be providing operator service to resellers' customers, and the cost of providing operator service will be avoided. The witness stated 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 part of Sprint's operator service expense through an inappropriately low wholesale discount percentage.

Witness Darnell stated that MCI assumes uncollectibles are avoided in proportion to the avoided direct expenses, in line with the FCC's methodology. He contended that failing to include uncollectibles in the calculation of avoided expense means that the numerator of the wholesale discount percentage will be too small.

As previously stated, MCI includes overhead costs in its avoided cost model. Witness Darnell contended 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 stated that if the direct cost of a service falls, then the functions needed to support that service should also fall. He also stated 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.

Sprint disagrees with MCI's treatment of operator expenses. Sprint witness Farrar stated that if Sprint is reselling operator services, those expenses are not avoidable. In its brief, 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. Sprint also contends that because it will be retailing and wholesaling operator services, these expenses will not be avoided in a competitive wholesale environment.

As previously stated, Sprint disagrees with MCI's position that overhead costs are avoidable. Witness Farrar stated that these costs, by definition, are common expenses which are not associated with any individual product. The witness asserted that whether you resell or retail a particular product, those activities will not have any effect upon corporate overhead costs.

In its brief, Sprint disagrees with MCI's position that in the calculation of the discount percentage the denominator should be total expenses. Sprint states that MCI concedes it would be difficult to determine which investment would be avoided. Sprint argues that, in the MCI/BellSouth arbitration proceeding, we determined 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.

We believe that MCI's avoided cost model presents wholesale discounts that have been calculated based 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, we find it unreasonable to assume that Sprint will only perform wholesale functions.

We note that MCI's study only included those accounts that the FCC established as presumed avoided. MCI witness Darnell agreed that MCI was not attempting to prove that any other cost accounts are avoided. MCI witness Darnell stated that MCI did not assume Sprint would operate only as a wholesale provider; however, if this is true, MCI's cost study does not accurately reflect the appropriate avoided costs. Other than reference to the criteria identified in the FCC Order, MCI has not provided any independent evidence to substantiate the costs it claims will be avoided.

We find that costs associated with operator and directory assistance services should not be 100% avoided, because resellers may be providing their own customers with these services. We do not believe that 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 requires that any retail service offered to customers be made available for resale. If MCI wants to purchase pieces of services, it should buy unbundled elements instead and package them to meet its needs.

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

MCI witness Darnell stated that MCI proposed a single discount rate because of data limitations. Since the revenues and costs vary between types of services, we find that separate discount levels would more accurately reflect this relationship.

For the reasons stated above, we decline to use MCI's avoided cost study in the calculation of appropriate wholesale discount rates.

#### 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 are assigned to a service group based on the actual activity that creates or drives a specific type of expense, rather than an arbitrary assignment based on investment or revenue. 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 stated that to the extent 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.

Sprint contends that while it has segregated its services into five service groups, there are many individual services within each service group. Witness Farrar stated that the appropriate avoided expense was applied to each of Sprint's retail rates to determine a service-specific wholesale rate.

The five groups into which Sprint has segregated its retail services include: (1) Simple Access, such as individual residential and business line services; (2) Complex Access, consisting of multiple access lines services, such as Key and PBX trunks and Centrex; (3) Features, such as custom calling, ExpressTouch (CLASS), and Centrex features; (4) Operator and Directory Assistance; and (5) all other retail services. For these service groups, Sprint proposes percentage discounts of 16.10%, 10.49%, 30.35%, 10.00%, and 10.58%, respectively.

Witness Farrar stated that in developing its 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.

Sprint witness Farrar stated 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 asserted 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.

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

Witness Farrar contended that uncollectibles (account 5301) are avoided expenses if the ILEC will no longer incur lost revenues in a wholesale environment. He stated that evidence indicates this will not be the case. The witness argued that Sprint's experience in the long distance market indicates that problems with revenue collection will still exist when dealing with resellers. He asserted that these conditions are similar to the rate of uncollectibles experienced by Sprint's local telecommunications division.

Sprint also proposes to translate its percentage discounts for each service group into a dollar amount, and then establish that dollar amount as the appropriate discount. Witness Farrar argued that the dollar amount of avoided expenses is independent of the retail price. He contended that as retail prices are increased or decreased, there is no reason that the dollar amount of avoided expenses should change. Witness Farrar stated that, therefore, the wholesale dollar discount amount should remain constant over time, independent of any retail price changes. For example, if the retail price 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 price changes. The resulting wholesale price is \$8.10. The resulting wholesale price will change as the retail price changes, with the difference reflecting the constant wholesale dollar discount. 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 contended that the discount has nothing to do with rates but is a function of the service. Therefore, rates may increase or decrease, but the avoided cost is still the same.

In its brief, MCI argues that Sprint's approach to calculating the wholesale discount understates the discount percentages. MCI contends that there are three major problems with Sprint's proposal. First, Sprint treats operator services as totally unavaoided. Witness Darnell contended that 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. MCI's second concern is Sprint's claim that uncollectibles will not be avoided. Witness Darnell asserted that end user uncollectibles will be completely eliminated, because resellers will absorb the bad debt associated with those customers. Third, MCI disagrees with Sprint's position that overhead costs are not avoidable. Witness Darnell contended that Sprint's position does not make sense; if the direct cost of



a service falls, the functions needed to support that service will likewise fall.

#### Conclusion

We believe that Sprint's activity-based cost methodology for the determination of avoided expenses for five retail service groups is the more appropriate option. We find that wholesale discounts associated with each retail services group will more accurately reflect the cost associated with providing services. This methodology should reduce the possibility of overstating or understating the discount, since the revenues and cost vary between services. We note that Sprint's proposal to establish five retail service groups was not rebutted.

We also find 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 contended that these costs should be minimal. Based on Sprint's support data, we find that Sprint's incremental wholesale expense is reasonable.

We believe that Sprint's proposal to translate its 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. We believe the ALECs will benefit from this approach, because the fixed dollar amount will remain constant over time, independent of any retail price change. In the event that retail rates decline, ALECs would still receive the fixed dollar discount. Application of the dollar discount would result in lower rates than application of a percentage discount.

We disagree with MCI's position 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, we believe that Sprint will continue to perform these functions. Therefore, these costs will not be avoided if an ALEC resells a LEC's retail service.

We find that Sprint's avoided cost study is in compliance with the Act and, on balance, is the most reasonable option. While we find that Sprint's treatment of key accounts has been adequately supported and is appropriate, one adjustment is warranted. We find that indirect or shared costs, such as general overhead costs, support all of the ILECs functions, including marketing, sales, billing and collection, and other avoided retail functions. In order to determine an appropriate wholesale discount, indirect costs must be considered, since it is reasonable that some

reduction in overhead costs will occur 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) of the Act.

We find that wholesale discounts shall be set for five retail service groups at the rates specified in Table 3. These rates reflect our adjustments for indirect costs, including uncollectibles.

TABLE 3

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

We find that Sprint shall translate the approved wholesale discount rates in Table 3 into fixed dollar discount amounts based on the rates in effect at the time this Order is issued. Sprint should include the fixed dollar discount amounts in its agreement when it is filed with the Commission.

V. COLLOCATION

MCI requests that it be allowed to collocate remote digital line units (RDLUs) in Sprint's central offices. MCI witness Murphy explained that an RDLU is a device that can perform loop concentration and switching functions. Witness Murphy stated that in many cases an RDLU is the most efficient means of providing loop concentration. In addition, he stated that 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.

Witness Murphy argued that, as a general matter, collocators should not be subject to arbitrary restrictions on telecommunications equipment that can be placed in a collocation space. He argued that if a collocator complies with reasonable restrictions 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, he asserted, Sprint will be able to control MCI's ability to deploy the most efficient network using the modern technology.

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

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

Witness Hunsucker also referenced 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 issued January 17, 1997. There, we stated that an ILEC shall not be required to permit collocation of switching equipment or equipment used to provide enhanced services.

We note that Section 51.323 of the FCC rules permits collocation of equipment used for interconnection or access to unbundled network elements. This includes optical terminating equipment, multiplexers, and other transmission equipment.

Upon consideration, we find that Sprint shall be permitted to impose the limitations provided in Section 51.323 of the FCC's rules on collocation. Because we believe that RDLUs constitute switching equipment as contemplated by Section 51.323, we find that Sprint shall not be required to allow MCI to collocate RDLUs in Sprint collocation areas.

VI. COMPENSATION FOR CAPACITY, ENGINEERING, AND RELATED INFORMATION

Sprint has agreed to provide MCI with access to its engineering records regarding poles, ducts, conduits, and rights of way. Compensation for access to these records remains disputed.

MCI and Sprint agree that if Sprint only has to make engineering records available for inspection, then there will be no charge. Sprint asserts, however, that if any special work must be performed to accommodate MCI's request, Sprint should be compensated based on the loaded labor rate of the individual actually performing the function. Sprint witness Hunsucker provided as an example of special work, the preparation of documents to prevent disclosure of proprietary information.

MCI states that in the event additional work is needed, Sprint should be permitted to recover no more than the TELRIC cost for the

additional work performed. While this proposal appears in MCI's brief, we find no support for this approach in the record.

Upon consideration, we find that Sprint's proposal to charge MCI for any special work associated with making engineering records available for inspection is appropriate. We therefore hold that Sprint shall be allowed to charge MCI for any special work associated with making engineering records available for inspection. If any special work is required, Sprint shall be allowed to charge the loaded labor rate of the person preparing the documents for MCI's review.

#### VII. CONCLUSION

We have conducted the arbitration of the unresolved issues in this proceeding pursuant to the directives and criteria of 47 U.S.C. §§ 251 and 252. We believe our decision is consistent with the terms of Section 251, the provisions of the FCC's implementing rules that have not been stayed pending appeal, and the applicable provisions of Chapter 364, Florida Statutes.

Pursuant to the terms of Section 252(e) of the Act, we find it appropriate to require the parties to submit a written agreement memorializing and implementing our decision here within 30 days of the issuance of this arbitration order. We will review the submitted agreements pursuant to the standards in Section 252(e)(2)(B) of the Act within 30 days after the agreements are submitted.

If the parties cannot agree to the language of the agreement, each party should submit its version of the agreement within 30 days after the issuance of this arbitration order. We will decide on the language that best incorporates the substance of our decision.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that each and all of the specific findings herein are approved in every respect. It is further

ORDERED that the Stipulation and Agreement attached hereto as Attachment A is approved and is incorporated by reference into this Order. It is further

ORDERED that MCI Telecommunications Corporation (MCI) and United Telephone Company of Florida and Central Telephone Company

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of Florida (Sprint) shall provide reciprocal compensation for the exchange of local traffic at the rates and to the extent discussed in the body of this Order. It is further

ORDERED that the appropriate cost methodology for setting rates for unbundled network elements is Total Service Long Run Incremental Cost, recognizing existing network configurations and using forward looking costs. To the extent that the cost studies submitted do not conform to this standard, the results of those studies are adjusted, where possible, to reflect more reasonable costs upon which to set interim rates. It is further

ORDERED that Sprint shall provide to MCI network interface devices, unbundled loops, loop distribution, operator systems, multiplexing/digital cross-connect, dedicated transport, common transport, tandem switching, signaling link transport, signal transfer points, and service control points/databases, at the rates set forth in Table 2, attached hereto as Attachment B and incorporated by reference into this Order. It is further

ORDERED that Sprint shall offer voice mail services for resale to MCI but shall not be required to offer inside wire maintenance for resale to MCI. It is further

ORDERED that Sprint shall offer retail services for resale to MCI at the wholesale discount rates set forth in Table 3 in the body of this Order. Sprint shall translate these percentage discounts into fixed dollar discount amounts based on the rates in effect at the time this Order is issued. The fixed dollar discount amounts shall be included in the agreement to be filed with this Commission. It is further

ORDERED that Sprint shall be permitted, to the extent discussed in the body of this Order, to place limitations on the collocation of MCI equipment in Sprint's central offices. It is further

ORDERED that Sprint shall be permitted to charge MCI, for any special work associated with making engineering records available for inspection, the loaded labor rate of the person preparing the documents for MCI's review. It is further

ORDERED that Sprint shall provide this Commission with TSLRIC studies for its unbundled loop, loop distribution, local switching, transport, signaling network elements, operator systems, and end office switches for which it did not provide cost data, as provided in the body of this Order, no later than 60 days from the issuance of this Order. It is further

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ORDERED that the parties shall submit a written agreement memorializing and implementing our decision in this proceeding within 30 days of the date this Order is issued as set forth in the body of this Order. If the parties cannot agree to the language of the agreement, each party shall submit its version, and the Commission will decide on the language that best incorporates the substance of this arbitration decision. It is further

ORDERED that this docket shall remain open.

By ORDER of the Florida Public Service Commission, this 14th day of March, 1997.

BLANCA S. BAYÓ, Director  
Division of Records and Reporting

by: Kay Flynn  
Chief, Bureau of Records

( S E A L )  
WCK

NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), 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.

Any party adversely affected by the Commission's final action in this matter may request: 1) reconsideration of the decision by filing a motion for reconsideration with the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, within fifteen (15) days of the issuance of this order in the form prescribed by Rule 25-22.060, Florida Administrative Code; or 2) judicial review in Federal district court pursuant to the Federal Telecommunications Act of 1996, 47 U.S.C. § 252(e)(6).

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### STIPULATION AND AGREEMENT

This Stipulation and Agreement (Stipulation) is entered into this \_\_\_\_ day of December, 1996, by and among MCI Telecommunications Corporation and MCI Metro Access Transmission Services, Inc. (collectively, MCI) and United Telephone Company of Florida and Central Telephone Company of Florida (collectively, Sprint).

WHEREAS, MCI and Sprint have been engaged in negotiations under the Telecommunications Act of 1996 (Act) since May, 1996, regarding the prices, terms and conditions of a comprehensive agreement to govern local interconnection, purchase of unbundled network elements, resale of telecommunications services, and other related matters; and

WHEREAS, on October 11, 1996, MCI filed a petition with the Florida Public Service Commission (FPSC) for arbitration, pursuant to Section 252 of the Act, of unresolved issues between the parties, which petition was assigned Docket No. 961230-TP and set for hearing on December 18-19, 1996; and

WHEREAS, in accordance with FPSC procedures, MCI and Sprint identified a list of the major issues to be arbitrated (Issues), a copy of which is attached to this Stipulation as Exhibit A; and

WHEREAS, on December 2, 1996, the FPSC made its decisions on a number of issues in arbitration proceedings between MCI and BellSouth Telecommunications, Inc. in Docket No. 960847-TP and between MCI and General Telephone Company of Florida in Docket No. 960980-TP which are similar or identical to the Issues identified for resolution in Docket No. 961230-TP; and

WHEREAS, the FPSC will reduce these decisions to writing in final orders to be issued in Docket No. 960847-TP (BST Order) and in Docket No. 960980-TP (GTE Order), respectively; and

WHEREAS, in order to minimize the time and expense of further litigation, the parties are willing to accept the decisions of the FPSC contained in the BST Order and/or the GTE Order (as such decisions may be modified by any subsequent appellate ruling), on a number of issues as a resolution of Issues in Docket No. 961230-TP between MCI and Sprint, subject to the conditions and limitations set forth below; and

WHEREAS, based on the current status of negotiations and the procedures established by the FPSC in Docket Nos. 960847-TP and 960980-TP for the post-decision submission for approval of arbitrated agreements or competing proposals for agreements, MCI and Sprint have identified a number of additional Issues which they no longer wish to have the FPSC resolve in the order to be

issued as a result of the December 18-19, 1996 hearings, subject to the conditions and limitations set forth below.

NOW THEREFORE, MCI and Sprint, in consideration of the mutual promises made herein, agree as follows:

1. Resolved by BST and/or GTE Orders. As detailed in subparagraphs (a) to (i), MCI and Sprint agree to accept the decisions of the FPSC set forth in the BST Order and/or the GTE Order on the following Issues as though those decisions were rendered by the FPSC in Docket No. 961230-TP and set forth in full in the final order in that docket. In the event that any party to Docket Nos. 960847-TP or 960980-TP seeks judicial review of any of these decisions, MCI and Sprint agree to be bound by the FPSC's decisions in the BST Order and/or the GTE Order during the pendency of any such review. If any such decisions are modified by a subsequent order of the FPSC or a reviewing court, and such subsequent order has become final and nonappealable, MCI and Sprint at that time will become bound by the decisions as modified in that final, nonappealable order. In the event the final decision is modified in the BST Order or the GTE Order, but not both, MCI and Sprint will attempt to agree on which version shall control and, failing agreement, shall submit the matter to the FPSC for resolution. No evidence will be presented on these Issues during the December 18-19, 1996 hearings. The resolution of these Issues will be treated for all purposes as if that resolution resulted from an arbitrated decision by the FPSC.

(a) The BST Order and the GTE Order shall govern the resolution of Issues 3a, 4, 10, 11, 12, 14, 17, 18, 20, 22, 25, 26, 27, 28, and 29.

(b) The BST Order shall govern the resolution of Issues 5 and 11b.

(c) The GTE Order shall govern the resolution of Issue 6.

(d) The GTE Order shall govern the resolution of Issue 1. MCI and Sprint agree that, with respect to mid-span meets for local interconnection facilities, Sprint will build facilities to its service boundary, or half the distance to MCI's switch, whichever is less.

(e) The BST Order and the GTE Order shall govern the resolution of Issues 7 and 8, except that scope of Sprint's obligation (if any) to resell voice mail service and inside wire maintenance service shall be resolved as set forth in Paragraph 3 of this Stipulation in the event Sprint's Motion for Dismissal is not granted. Sprint agrees that in connection with resold



services, MCI can store in Sprint's LIDB the same line number and PIN previously used by the customer for calling card service.

(f) The BST Order and the GTE Order shall govern the resolution of Issue 13, except that Sprint shall have until February 1, 1997 to take the actions that BellSouth and GTEFL are required to take by January 1, 1997.

(g) The BST Order and the GTE Order shall govern the resolution of Issue 15, except that Sprint shall implement CABS-formatted billing in early third quarter 1997, but no later than the end of third quarter 1997.

(h) The BST Order and the GTE Order shall govern the resolution of Issue 21, except that the scope of Sprint's obligation (if any) to allow collocation of remote digital line units shall be resolved as set forth in Paragraph 3 of this Stipulation.

(i) The BST Order and the GTE Order shall govern the resolution of Issue 23, except that the compensation (if any) to be paid to Sprint for access to engineering and related information shall be resolved as set forth in Paragraph 3 of this Stipulation.

2. To Be Resolved by Negotiation or Submission of Competing Agreements. MCI and Sprint will continue to negotiate Issues 3d, 16, and 19. If the parties are able to resolve these Issues prior to the deadline to submit either a final arbitrated agreement or competing proposed final agreements to the FPSC for approval (i.e. 30 days after the entry of the FPSC's final order on the arbitrated issues), each party will include a proposed resolution of the Issue in its proposed final agreement. These issues will not be submitted to the FPSC for resolution in the order to be issued as a result of the December 18-19, 1996 hearings. Nevertheless, all prefiled testimony and exhibits relating to these issues will be stipulated into the record of those hearings to provide a record basis for the FPSC, if required, to choose one of the parties' competing proposed final agreements.

3. To Be Resolved by Negotiation or Arbitration. MCI and Sprint will continue to negotiate the following Issues or sub-Issues. To the extent the parties are unable to resolve these Issues or sub-Issues prior to the start of the December 18-19, 1996 hearings, they will be arbitrated by the FPSC.

(a) The part of Issues 7 and 8 relating to the scope of Sprint's obligation (if any) to resell voice mail service and inside wire maintenance service.

(b) The part of Issue 21 relating to the scope of Sprint's obligation (if any) to allow collocation of remote digital line units.

(c) The part of Issue 23 relating to the compensation (if any) to be paid to Sprint for access to engineering and related information.

4. To Be Resolved by Arbitration. At this time, the following Issues remain to be arbitrated by the FPSC. Nothing shall preclude the parties from subsequently negotiating a resolution of these issues.

(a) Issues 2, 3b, 3c and 9 remain to be arbitrated in their entirety.

5. Withdrawn From Arbitration. MCI withdraws Issue 24 from arbitration.

6. Approval By Commission. MCI and Sprint will file this Stipulation in Docket No. 961230-TP for approval by the FPSC no later than the start of the December 18-19, 1996 hearings. The parties will request that this Stipulation be attached to, and incorporated by reference in, the final order issued by the FPSC in this docket.

7. Scope of Agreement. This Stipulation is entered into to limit the issues to be heard at the December 18-19, 1996 hearings in Docket No. 961230-TP, and it is not intended to be an agreement pursuant to Section 252 of the Act. It is an agreement that the resolution of various Issues set forth in Paragraph 1 will be included in the final agreement (or the competing proposed final agreements) submitted to the FPSC for approval under Section 252 of the Act at the conclusion of the arbitration proceeding. For ease of reference, a summary of the manner in which the Issues are dealt with by this Stipulation is physically attached hereto as Attachment 1. This attachment is included for informational purposes only and is not a part of the Stipulation.

8. Modification. This Stipulation can be modified only by a subsequent written agreement, including the final agreement submitted to the FPSC for approval under Section 252 of the Act at the conclusion of the arbitration proceeding (Final Agreement). The provisions of Paragraph 1 of this Stipulation will survive the execution of the Final Agreement, except to the extent the Final Agreement specifically states that all or identified portions of Paragraph 1 are superceded by such Final Agreement.

9. Governing Law. This Stipulation will be governed by the laws of the State of Florida.

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Dec. 11. 1996 4:30PM CARRIER & REGULATORY  
To: R MELSON

PAGE 5 OF 10  
No. 7854 P. 1/2

EXECUTED this 11<sup>th</sup> day of December, 1996.

Matthew Miller  
for MCI Telecommunications  
Corporation and MCI Metro  
Access Transmission  
Services, Inc.

[Signature]  
for United Telephone Company  
of Florida and Central  
Telephone Company of Florida

EXHIBIT A  
TO STIPULATION AND AGREEMENT

1. At what points should MCI be permitted to interconnect with Sprint and what are the appropriate trunking arrangements between MCI and Sprint for local interconnection?
2. What should be the compensation mechanism for the exchange of local traffic between MCI and Sprint?
- 3a. Are the following items [list omitted] considered to be network elements, capabilities or functions? If so, is it technically feasible for Sprint to provide MCI with these elements?
- 3b. What is the appropriate cost methodology for setting the price of each of the items considered to be network elements, capabilities, or functions?
- 3c. What should be the price of each of the items considered to be network elements, capabilities, or functions?
- 3d. What should be the process for identifying and requesting additional unbundled network elements?
4. What intrastate access charges, if any, should be collected on a transitional basis from carriers who purchase Sprint's unbundled local switching element? How long should any transitional period last?
5. Do the provisions of Sections 251 and 252 apply to access to dark fiber? If so, what are the appropriate rates, terms, and conditions?
6. Should MCI be allowed to combine unbundled network elements in any manner it chooses, including recreating existing Sprint services?
7. What services provided by Sprint, if any, should be excluded from resale?
8. Should Sprint be prohibited from imposing restrictions on the resale of Sprint services?
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?
10. Should Sprint be required to provide notice to its wholesale customers of changes to Sprint's services? If so, in what manner and in what timeframe?

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11. When MCI resells Sprint's services, is it technically feasible or otherwise appropriate for Sprint to brand operator services and directory services calls that are initiated from those resold services?
- 11b. When Sprint's employees or agents interact with MCI's customers with respect to a service provided by Sprint on behalf of MCI, what type of branding requirements are technically feasible or otherwise appropriate?
12. When MCI resells Sprint's local exchange service, or purchases unbundled local switching, is it technically feasible or otherwise appropriate to 1) route 0+ and 0-calls to an operator other than Sprint's, 2) to route 411 and 555-1212 directory assistance calls to an operator other than Sprint's, or 3) to route 611 repair calls to a repair center other than Sprint's?
13. Should Sprint be required to provide real-time and interactive access via electronic interfaces as requested by MCI to perform the following [list omitted]:  
  
If the process requires the development of additional capabilities, in what time frame should they be deployed? What are the costs involved, and how should these costs be recovered?
14. What type of customer authorization is required for access to customer account information and transfer of existing services?
15. What billing data format should be used to render bills to MCI for services and elements purchased from Sprint?
16. Where MCI resells a Sprint service, should Sprint be required to provide MCI with the billing information necessary for MCI to bill its customers for collect and third-party calls?
17. What are the appropriate rates, terms and conditions, if any, for rating information services traffic between MCI and Sprint?
18. Should Sprint be required to allow MCI to have an appearance (e.g. logo or name) on the cover of the white and yellow page directories?
19. What are the appropriate arrangements to provide MCI with nondiscriminatory access to white and yellow page directory listings?

20. What should be the cost recovery mechanism for remote call forwarding (RCF) used to provide interim local number portability in light of the FCC's recent order?
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?
22. What are the appropriate rates, terms and conditions for collocation (both physical and virtual)?
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?
24. What are the appropriate rates, terms and conditions related to termination of 611 traffic?
25. What are the appropriate general contractual terms and conditions that should govern the arbitration agreement (e.g. resolution of disputes, performance requirements, and treatment of confidential information)?
26. What are the appropriate contractual provisions for liability and indemnification for failure to meet the requirements contained in the arbitrated agreement?
27. What are the appropriate standards, if any, for performance metrics, service restoration, and quality assurance related to services provided by Sprint for resale and for network elements provided to MCI by Sprint? How should compliance with such standards be monitored and enforced?
28. Should the agreement be approved pursuant to the Telecommunications Act of 1996?
29. What are the appropriate post-hearing procedures for submission and approval of the final arbitrated agreement?

**ATTACHMENT 1**  
 (for informational purposes only -- not part of stipulation)

ISSUE	RESOLUTION
1	Per GTE Order. MCI and Sprint agree that Sprint will construct interconnection facilities to its service boundary, or half the way to MCI's switch, whichever is less.
2	Arbitrate
3a	Per BST/GTE Orders
3b	Arbitrate
3c	Arbitrate
3d	Negotiate and/or Submit Competing Agreements
4	Per BST/GTE Orders
5	Per BST Order
6	Per GTE Order
7	Per BST/GTE Orders. Sprint agrees to allow MCI to store current line number and PIN in Sprint's LIDS. Negotiate or Arbitrate voice mail and inside wire in the event Sprint's Motion to Dismiss is not granted.
8	Per BST/GTE Orders, except Negotiate or Arbitrate voice mail, inside wire, and calling card services
9	Arbitrate
10	Per BST/GTE Orders
11	Per BST/GTE Orders
11b	Per BST Order
12	Per BST/GTE Orders
13	Per BST/GTE Orders, except substitute 2/1/97 for 1/1/97
14	Per BST/GTE Orders
15	Per BST/GTE Orders, except CARS formatted billing by early 3Q 1997 but NLT end of 3Q 1997
16	Negotiate and/or submit competing agreements
17	Per BST/GTE Orders
18	Per BST/GTE Orders
19	Negotiate and/or submit competing agreements
20	Per BST/GTE Orders
21	Per BST/GTE Orders, except Negotiate or arbitrate collocation of remote digital line units
22	Per BST/GTE Orders

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ISSUE	RESOLUTION
23	Per BST/GTE Orders, except Negotiate or arbitrate compensation for access to engineering records
24	Dropped
25	Per BST/GTE Orders
26	Per BST/GTE Orders
27	Per BST/GTE Orders
28	Per BST/GTE Orders
29	Per BST/GTE Orders

Florida Public Utilities Commission  
**RECEIVED**  
DEC 16 1996  
LEGAL DIVISION

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RECURRING RATES

NETWORK ELEMENT	MCI - PROPOSED RATES	SPRINT - PROPOSED RATES	STAFF
<b>NID</b>			
	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 Jack - \$14.17	12.37
	650-850 0.58	HDSLRT - \$28.44	24.82
	850-2550 0.54		
	> 2550 0.44		
	Average \$0.52		
<b>TOTAL LOOP</b>			
		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 - PROPOSED RATES	SPRINT - PROPOSED RATES		STAFF
<b>LOCAL SWITCHING</b>				
Port, per line	\$1.05	Band 1	\$5.82	(2) \$5.82*
		Band 2	7.72	(2) 7.72*
		Band 3	8.99	(2) 8.99*
		Band 4	10.08	(2) 10.08*
		Band 5	11.66	(2) 11.66*
		Band 6	13.83	(2) 13.83*
Usage, per MOU	\$0.0023	None proposed at this time		
<b>SIGNALING NETWORK ELEMENTS</b>				
			Fixed	Per Mile
Link	\$27.57	56kbps(1)	\$82.00	\$4.80
		1.544mbps(1)	93.00	20.00
		Multiplexing(1)	\$318.00/mo	\$142.00 NRC
Signal Transfer Pts.	\$0.00018, per msg.	STP Port	\$498.97/MO.	
		STP Switching	1.08/DS-0 equivalent	
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 (1)		\$0.0166*
		\$0.0366 per Database Query (1)		\$0.0366*
Toll Free Code Access(1)		Access service database, per query (1)	\$0.08498	\$0.08498*
		DB optional service features, per query (1)	\$0.001419	\$0.001419*

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NETWORK ELEMENT	MCI - PROPOSED RATES	SPRINT - PROPOSED RATES		STAFF
<b>TRANSPORT</b>				
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(1) 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 - PROPOSED RATES	SPRINT - PROPOSED RATES	STAFF
<b>OPERATOR SYSTEMS</b>			
	DA Service 911 Service \$2,347,959/yrs.	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 equivalent (port) \$19.50 Trunk Interstate Rates	\$17.02 *Use Sprint rates as interim.
<b>CROSS CONNECTS</b>			
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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