

FLORIDA PUBLIC SERVICE COMMISSION

Fletcher Building
101 East Gaines Street
Tallahassee, Florida 32399-0850

MEMORANDUM

April 18, 1991

TO : DIRECTOR, DIVISION OF RECORDS AND REPORTING

FROM : DIVISION OF COMMUNICATIONS [CHERRY] *[Handwritten initials]*
DIVISION OF LEGAL SERVICES [HATCH] *[Handwritten initials]*

RE : DOCKET NO.: 900708-TL - INVESTIGATION OF
METHODOLOGY TO ACCOUNT FOR ACCESS CHARGES IN LOCAL
EXCHANGE COMPANY TOLL PRICING AND OTHER RELEVANT
COSTS.

~~DOCKET NO.: 910513-TL - SOUTHERN BELL TELEPHONE
AND TELEGRAPHS PROPOSED TARIFF FILING TO ADD THE
AGGREGATED OPTIONAL CALLING PLAN (T-90-309 FILED
MAY 23, 1990).~~

AGENDA: APRIL 30, 1991 - CONTROVERSIAL - ISSUES 1, 2, AND 3 ARE
PROPOSED AGENCY ACTIONS - PARTIES MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

CASE BACKGROUND

On May 23, 1990, Southern Bell Telephone and Telegraph Company (Southern Bell) filed its General Subscriber Services Tariff to introduce a new optional calling plan entitled Saver Service. The plan would permit customers to purchase a block of time at a flat monthly rate for intraLATA long distance message telecommunications service. Saver Service included three separate pricing options directed to specific market segments (i.e., residential, business, and high volume users). The proposed tariff included a band of rates for each Saver Service option which would allow Southern Bell to file new Saver Service rates within the bands with only thirty days' notice rather than the standard sixty-day notice period. The use of the banded rates and abbreviated approval period is consistent with the banded rates approved for Southern Bell's Custom Calling Service in Order No. 18326.

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

DISCUSSION OF ISSUES

ISSUE 1: Should the Commission adopt the four guidelines outlined below for calculating local exchange carrier (LEC) access charges as a floor for MTS prices?

1. Toll revenues should cover aggregate access charges for the business and residential market segments individually.
2. Access charges should be calculated with originating access charges applied to non-conversation time.
3. Access charges should reflect the time-of-day distribution of the market under consideration.
4. The Busy Hour Minute of Capacity (BHMOC) should be the average BHMOC/Minute of use rate realized using the most recent monthly data available.

RECOMMENDATION: Yes. The Commission should adopt the guidelines for calculating local exchange carrier access charges as listed above. The effective date should be May 22, 1991. These guidelines will become final if no hearing is requested by 21 days from the date of the order in this docket.

STAFF ANALYSIS: The following four guidelines were agreed to by all the parties at the workshop. These guidelines have been used in the past to determine the access charges floor when setting toll prices and in identifying average access costs for compensation purposes.

The calculation illustrated in Guideline 2 is provided for ease in understanding. However, it should be remembered that these costs and factors will vary between LECs on certain access elements and on different services.

PROPOSED GUIDELINES FOR CALCULATING LEC ACCESS CHARGES

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

Staff is not recommending a more stringent requirement that

Docket No. 900708-TL
April 18, 1991

The Florida Interexchange Carrier Association (FIXCA) filed a Petition for Rejection of Southern Bell's proposed Tariff introducing Saver Service on June 22, 1990 arguing that Southern Bell's rates failed to cover access charges in the aggregate. On July 13, 1990, Southern Bell filed revised tariff pages for Saver Service in which it removed the high volume toll option. On July 18, 1990, FIXCA filed its Alternate Request. FIXCA's Alternate Request made several suggestions regarding guidelines for the imputation of charges for Southern Bell's toll services and requested a hearing prior to Southern Bell's implementing its tariff.

On July 31, 1990, staff introduced the proposed tariff filing by Southern Bell dealing with the new Optional Calling Plan, Saver Service (Docket No. 900522-TL). This docket additionally dealt with whether the Commission should adopt FIXCA's guidelines, as proposed in its alternative request, for calculating LEC access charges. This methodology would be applied to the Saver Service Plan and for future LEC toll filings. The Commission approved Southern Bell's proposed optional toll plan for small and medium sized users; however, it deferred the issue regarding whether FIXCA's guidelines should be adopted and requested that staff hold an industry workshop in the interim to discuss the proposed methodology.

On October 17, 1990, staff held the workshop. The purpose of the workshop was to define, for implementation purposes, what constitutes "covering access in the aggregate and other identifiable direct costs". Six guidelines were identified. The participating parties at the workshop were ALLTEL, Centel, Florida, GTEFL, Gulf, Indiantown, Quincy, St. Joseph, Southland, United, Vista-United, Northeast, Southern Bell, MCI, US SPRINT, and ATT-C. All parties were requested to respond to the guidelines identified at the workshop by November 8, 1990, so staff could evaluate the comments and make an appropriate recommendation. Staff's recommendation, resulting from the workshop and incorporating the parties comments, is presented in the following analysis.

each mileage band and rate period price cover access charges (except in the unusual circumstance that mileage-bands and/or time-of-day rate periods are used to define a product's market). This guideline will eliminate discrimination within services or service options directed at residential and business market segments. For example, a business time-of-day factor should not be applied when calculating aggregate access charges for a residential service option.

GUIDELINE 2: Access charges should be calculated with originating access including a non-conversation time factor that accounts for holding time. The non-conversation factor accounts for access charges that accrue while the call is ringing but not yet answered and for uncompleted calls. Simple comparisons of access and toll prices are not appropriate since the typical base of comparison, for example, conversation minutes of use, does not accurately capture all originating access minutes. Appropriate access comparisons should include an adjustment to recognize that average originating access minutes are larger than average conversation minutes by between 10 and 14%. For example, the average rate of a switched access minute for Southern Bell would be calculated using an 11.3% adjustment which is illustrated as follows:

SOUTHERN BELL'S SWITCHED ACCESS

	1 ORIGINATING	2 TERMINATING	3 TOTAL
(1) BHMOC	\$.0	\$.0	\$.0
(2) CCL	.0266	.0382	.0648
(3) LINE TERMINATION	.0079	.0079	.0158
(4) LOCAL SWITCHING	.0098	.0098	.0196
(5) LOCAL TRANSPORT	.0160	.0160	.0320
SUB TOTAL	\$.0603	\$.0719	\$.1322
TIME-OF-DAY FACTOR	.8835*	XXXX	XXXX
TOTAL	\$.0533	\$.0719	\$.1252
CONVERSATION MINUTES	X 1.1130	XXXX	XXXX
	\$.0593	\$.0719	\$.1312

* BUSINESS TIME-OF-DAY FACTOR

GUIDELINE 3: Originating access charges should reflect the time-of-day distribution of the service or market segment under consideration. This guideline relates to the first guideline concerning market

Docket No. 900708-TL
April 18, 1991

segments. Pricing optional plans designed for the business market should reflect the proportionally higher access charges of serving day-time traffic loads. This should not be artificially diluted by using traffic distributions that include the off-peak calling of residential customers which are not part of the target market.

GUIDELINE 4: The BHMOC rate should be the average BHMOC per minute of use rate realized using the most recent annual data available. This rate will be LEC-specific and can be approximated by dividing LEC BHMOC revenues (adjusted for known rate changes) by aggregate intrastate local transport access minutes. For example, GTEFL's BHMOC is \$.014055 which is calculated by dividing \$10,662,537 of BHMOC revenues by 758,652,290 aggregate intrastate local transport access minutes.

EXAMPLE:

$$\frac{\$10,662,537}{758,652,290} = \$.014055$$

Based on the discussions at the workshop and the follow up comments by the parties, there appears to be no controversy surrounding these first four guidelines. Thus, staff recommends the Commission adopt the guidelines as proposed here.

Docket No. 900708-TL
April 18, 1991

ISSUE 2: Should the Commission adopt Guideline 5 which would require LECs to impute the access rate associated with the actual network configuration?

RECOMMENDATION: No. The Commission should not adopt Guideline 5 which would require LECs to impute access rates associated with their actual network configuration. The Commission should modify Guideline 5 and require the LECs to impute the access rate associated with the most network configuration which is dependent upon the targeted market segment. This guideline will become final if no hearing is requested by 21 days from the date of the order in this docket

STAFF ANALYSIS: Guideline 5 is the most controversial guideline discussed during the course of the workshop. The parties had various positions as to whether the LECs should be required to impute the access rate incurred by the IXCs when the IXCs use their most economic method of access (special access on one end and switched access on the other end), or should LECs be required to impute the access rate associated with the actual access method used by the LECs to provide service (switched access to switched access). Guideline 5 is summarized as follows:

GUIDELINE 5: Access costs should be calculated using effective tariffed rates that apply to actual network configurations. Access costs should be calculated using the access tariffs the LECs actually have associated with network configurations (i.e., switched access to switched access or special access to switched access) they intend to use. Therefore, access charges should be calculated based on the tariff price associated with the access service used. For example, if a customer subscribes to switched access, he should purchase the service for which switched access rates are charged and should not be charged an artificial rate dependent upon the targeted market segment.

At the workshop, the parties split into two oppsing sides. The LECs (ALLTEL, Centel, Florala, GTEFL, Gulf, Indiantown, Quincy, St. Joseph, Southland, United, Vista-United) who agreed with Southern Bell and the IXCs (MCI, US SPRINT, and ATT-C) who agreed with FIXCA. The opposing opinions concerned whether LECs should be required to impute the access rate associated with the actual LEC network configuration (total switched) rather than the way the IXCs might serve a large volume customer (special and switched). The IXCs believe that the LECs should be required to impute the access rate associated with the actual network

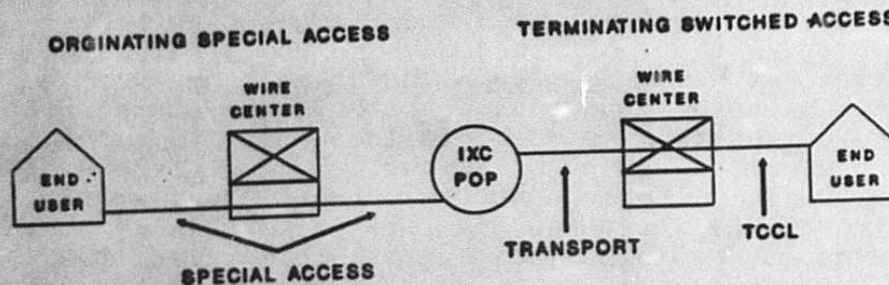
Docket No. 900708-TL
April 18, 1991

configuration, while the LECs say it should be according to the way the relevant market is served by the IXCs. Each of the positions will be discussed individually beginning with Southern Bell's with which all the LECs concur except Northeast.

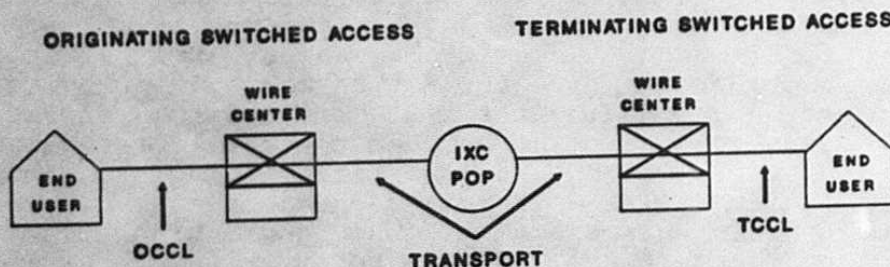
Southern Bell believes that its actual network configuration should not be used when calculating the aggregate access charges. If the LECs did have to use their actual network configurations it would result in their imputing switched access charges on two ends of the call. According to Southern Bell, high volume customers have economic incentives to use special access on one end and switched access on the other end of the call. In addition, those customers can use their special access line for intraLATA, interLATA and interstate calls. Southern Bell believes it should include, in its toll rates, the equivalent of special and switched access because the way the LECs' competitors would serve such large customers. It would be uneconomic and inefficient to provide large toll customers service over switched access lines were they not already there. Thus, for the LECs to compete for large toll customers they must price their services assuming the network engineering of their IXC competitors. Therefore, what is important is the toll rate the customer will pay, not the method of provisioning the service.

Southern Bell also disagrees with this guideline because it believes that the access charges do not relate to how the LEC may provision its toll service offerings. LECs provision intraLATA toll services differently than interexchange carriers; therefore, high volume customers who are the target market, would use special access in purchasing the toll services from an IXC because a dedicated connection between the toll customer and the IXC service provider would be cheaper than paying per minute of use switched access. The different methods of toll service can be provided between an average toll user and a high volume toll user is demonstrated in the diagrams below:

SPECIAL ACCESS CHARGES FOR HIGH TOLL VOLUME CUSTOMER



SWITCHED ACCESS CHARGES FOR TYPICAL TOLL VOLUME CUSTOMER



Southern Bell proposes a cross-point approach to determine whether to use switched or special access for the network configuration for high volume customers. The cross-point approach would assume one end of switched access and one end of special access are used when setting rates for high volume customers. The determining factor on when to use one end of switched access and one end of special access is the break-point

Docket No. 900708-TL
April 18, 1991

where a customer would make a business decision to purchase a special access line over a switched access line based on the number of hours that customer anticipates on using per month. The cross-point is based upon various assumptions about the special access line which are included in the formula in order to arrive at the break point.

Similar services, configured with one end of special access and one end of switched access, which are being provided by IXCs are Megacom, UltraWATS, PRISM, and contract toll rates which are usually lower than the tariffed rates.

The formula for determining the cross-point, going from two ends of switched access to one end of special access and one end of switched access is calculated by total switched access minus the outward plan (see Attachment A) divided into the sum of local channel (which includes special access of one mile, access connection, and two network interfaces) and special transport and assuming a 10 mile transport. The outward plan is a network engineering configuration which uses special access for originating access and switched access for terminating access. Therefore, there is no non-conversion factor applied. Such an example of a network engineering configuration would be the State of Florida SUNCOM system. This formula computes minutes of use which are then converted into hours for the cross-point requiring the LECs to include one end of switched access and one end of special access. According to Southern Bell, Florida's cross-over point, i.e., the point at which it is more economical for a large user to subscribe to special access than to subscribe to switched access, is 113 hours and is calculated on Attachment A.

The Cross-point formula contains various assumptions. First, the Cross-point formula assumes the switched access rates reflected are the current switched access rates for Southern Bell. The business time-of-day factor is used to reflect the appropriate twenty-four hour weighting.

Special access (line B1 of the Cross-point formula) assumes usage per voice grade equivalent of 5000 minutes, which is the industry's usage estimate. Southern Bell states that this is the same assumed usage filed in CC Docket No. 87-339 (program to monitor the impact of Joint Board decisions). Local channels (line B2) includes special access of one mile, which is the average distance between the end user and wire center, access connection and two network interfaces. This charge reflects the

Docket No. 900708-TL
April 18, 1991

current tariff rates. Special Transport (line B3) is a fixed charge at the current rate. Southern Bell's cross-point formula assumes transport of 10 miles (line B4). This assumption is based on switched access average transport since this is the traffic being displaced with high volume toll offerings. Southern Bell states that with switched access, 54.7% of the transport minutes are within 0-8 miles, 18.5% of the transport minutes are within 8-16 miles, and 12.75% are within 16-25 miles. The Company assumes 10 miles of transport since 73.2% of the transport is within 0-16 miles. Staff believes that if special access were to be applied, 10 miles of transport would be appropriate.

Line B5 of the cross-point formula is merely the sum of lines B2, B3, and B4. Line B6 is the 80% fill factor which is the assumed industry percentage. Southern Bell states that this factor has been used in the FCC Bypass Monitoring Report. As of April 1990, the FCC Bypass Report included a fill factor for GTE at 80%, BellSouth at 83%, US West at 80%, Bell Atlantic at 75% and Pacific/Nevada Bell at 79%. Line B7 is line B6 divided by line B1.

The assumptions listed in Attachment A were revised after the workshop and are stricter assumptions than Southern Bell had originally proposed. The comments of the parties presented below are based on the original Southern Bell assumptions presented at the workshop of 100% use of the 24 voice grade channels and 6,000 MOU per channel. (The modified staff assumptions are 80% use of the voice grade channels and 5000 MOU per channel)

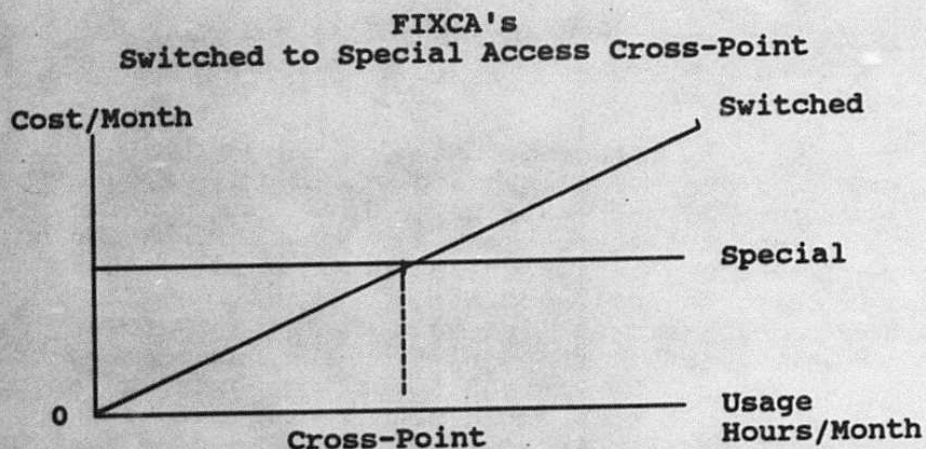
During the course of the workshop, each of the participating parties were requested to file comments regarding Southern Bell's cross-point formula. FIXCA, MCI, US Sprint, Southern Bell, and ATT-C all filed their own comments. Florida, Gulf Telephone Company, and St. Joe Telephone and Telegraph Company concurred with Southern Bell's comments.

FIXCA objects to Southern Bell's proposal that would offer large users products using only switched access, but it would impute the access component at the much lower rates for special access. Southern Bell justifies this approach because it believes it would not be able to compete for large end users if it had to impute switched access on both ends. FIXCA does not oppose Southern Bell offering toll products for large users that reflect the lower cost of special access as long as Southern Bell's products use special access.

Docket No. 900708-TL
April 18, 1991

Further, FIXCA states that Southern Bell's approach would enable Southern Bell to provide themselves the monopoly component (access) of a potentially competitive product at a significantly lower rate than it provides to its rivals. This may violate the fundamental goal for an access pricing standard, which is to assure that necessary monopoly inputs are made available to the LEC's rivals at comparable terms and prices as the LEC "charges" to itself.

FIXCA addressed in its comments how the Southern Bell's cross-point should be estimated. This relationship was illustrated in a diagram, shown below, where the cost of special and switched access are compared.



The positively sloped line represents the price for switched access, increasing with usage. The flat (horizontal) line is the cost of special access which is not usage sensitive. Where these cost lines intersect, a "cross point" occurs. To the left of the cross-point represents the market of smaller toll users for whom switched access is more economical. To the right of the cross-point is the market for large users which are interconnected to less expensive special access. The cross-point is the point where switched access and special access cost the same. Southern Bell believes that once a customer passes the threshold where special access is less expensive for that

Docket No. 900708-TL
April 18, 1991

customer, only special access costs need to be recovered. FIXCA did not provide guidance as to whether Southern Bell's cross-point methodology is correct, they only argued that the Commission should not decide in favor of using special to switched access in lieu of the actual network configuration.

MCI agrees with FIXCA's position that the appropriate methodology to ensure that LECs price their toll services to cover relevant costs should include all six guidelines outlined in FIXCA's presentation. MCI also agrees that the access rates to be recognized by the LECs should be those corresponding to the type of access that the LEC actually uses to offer its service. Further, MCI also believes that allowing the LECs to impute the rates for special access, while offering a service based on the equivalent of switched access, would effectively allow the LECs to "sell themselves switched access at special access prices."

MCI also disputes Southern Bell's allegation's that special and switched access are "similar services" as reflected in the following scenario:

The LEC toll offering, based on the equivalent of switched access, allows a customer two-way calling over the same access line, allows local calling, both local and toll over the same access line, does not require installation or PBX programming, has no non-recurring charge associated with the installation of the special access line, and allows a customer relative ease in changing from one interLATA carrier to another. The IXC toll offering, based on special access on one end, would require separate inbound and outbound access lines, require separate access for local calling, require the customer to order, coordinate the installation, program his CPE, and ultimately wait for the special access line to be made available. Non-recurring charges for the provisioning of the special access line would be substantial, and the customer's ability to change his interLATA IXC selection would be limited.

It is MCI's position that the differences between switched and special access outweigh the similarities between these service offerings. If the LECs wish to offer a service based on the equivalent of special access, the relevant cost to be recovered would be the rates for special access. But if the LECs wish to design a service to provide themselves with the benefits

Docket No. 900708-TL
April 18, 1991

of switched access, the switched access rates are the relevant cost.

ATT-C concurs with FIXCA and states that all carriers utilizing switched access arrangements should impute like charges into the rates for toll services they provide. Further, carriers selecting special access arrangements should pay like charges for special access services. ATT-C noted that the LECs have the option of utilizing either switched or special access in the provision of their respective toll services, therefore there should be no restrictions on the purchase of these services and no need to construct artificial rate structures or special rate structures favoring any specific provider at the expense of its competitors or potential competitors. If this was the case, then Southern Bell should make those special rates available to all potential carriers.

If the Commission determines that the special-switched form of access imputation proposed by Southern Bell is in the public interest, the parties had various suggestions to incorporate. US Sprint points out that Southern Bell's methodology for estimating a special access charge per minute is seriously flawed for several reasons. First, Southern Bell proposes to use a "cross-point" for using Switched-Special imputation of 6,705 minutes of use. Although they did not provide evidence or support, US Sprint believes this cross-over point is far below the average usage of a customer with DS1 special access service. Second, Southern Bell "prices out" the charge per minute for special access assuming 144,000 minutes of use per month (24 channels with 6,000 minutes of use each). US Sprint believes that Southern Bell grossly underestimated the special access charge per minute and imputes this charge for all customers with usage over 6,705 minutes per month.

US Sprint suggests an alternative approach that will, in the Company's opinion, more closely approximate the special access costs that IXC customers actually pay. Under this approach, Southern Bell would be required to determine or estimate the average monthly usage of DS1 access services. This average monthly usage level should then be used as the cross-point for Switched Special imputation.

Additionally, US Sprint suggests that rather than the 144,000 minutes of use proposed by Southern Bell, the actual average monthly usage over DS1 services should be used to price out the average per minute charge for DS1 access services.

Docket No. 900708-TL
April 18, 1991

Sprint believes that these changes will serve to limit the Switched-Special imputation to customers large enough to use DS1 services and will also set a more realistic average price per minute for DS1 access service.

Finally, US Sprint states that line 4B (Special Access) of Southern Bell's methodology assumes average special access circuits with 10 miles of transport. US Sprint believes a superior method would be to determine the actual transport mileage appropriate for each individual customer and calculate the hypothetical special access rate per minute using this transport distance. US Sprint believes this method would closely approximate the goal of mirroring "the access costs that the LEC's competitors incur" in obtaining access for the customer traffic. Therefore, in this alternative, LECs would be required to calculate actual average transport mileage for existing DS1 facilities and use this figure in the special access imputation methodology.

ATT-C also disagrees with Southern Bell's cross-point formula. The first reason is that ATT-C believes that considering the rules of contamination, carriers utilizing special access services would generally use interstate services as opposed to intrastate services. Using interstate rates, the cost of purchasing the suggested DS1 would be approximately \$725.00, as opposed to Southern Bell's estimate of \$403.65 (line 5 of the special access section of the crossover formula).

Second, ATT-C, as does US Sprint, believes that Southern Bell's calculations, assuming a utilization of 2,400 hours per month on the DS1 circuit are too high. ATT-C states that most carriers economically utilize special access arrangements for customers using as few as 300 to 400 hours of service per month. Therefore, ATT-C believes that correcting this would change Southern Bell's assumption of 6,000 minutes per voice grade equivalent on their cross-point calculation to 750 to 1000 minutes per voice grade equivalent (line B1).

MCI believes that the calculation used by Southern Bell to determine an equivalent minute of use rate is flawed. First, MCI states that the calculations ignores costs that are clearly relevant, such as the substantial nonrecurring charge for the installation of a special access line. For the costs that are recognized, MCI believes that Southern Bell makes aggressive assumptions regarding assumed usage, length of transport, and channel utilization in order to produce a low minute of use

equivalent.

MCI believes that Southern Bell's presentation concerning the cross-point is conceptually correct regarding that "LECs should be required to cover only the costs a carrier would incur in providing a similar type of toll service". However, MCI disagrees with Southern Bell's interpretation of "costs a carrier would incur" and "similar type toll service".

According to what Southern Bell terms a cross-point methodology, the LEC would offer large users products using switched access on both ends, but they would impute the access portion on one end as if special access were used. For large volume customers, this results in lower access "costs". Southern Bell justifies this reasoning by asserting that it would be unable to compete for large end users if they had to impute switched access on both ends. Further, it argues that for the volume of traffic customers with these services have, an IXC would use special access. It seems reasonable that the network configurations and the access charges imputed should be based on the tariff price associated with the type of access used. In other words, since the LECs are using switched services to provide service, they must charge for the service at switched access rates at both ends rather than using special access rates on one end.

However, staff would note that today some IXCs offer high volume toll customers reduced intrastate toll rates by aggregating both the interstate and intrastate traffic, factoring in the lower interstate switched access rate. Requiring Southern Bell to include only switched access charges for high volume toll customers would deny Southern Bell the ability to compete on an equitable basis with the IXCs. To aggregate its customers' traffic, an IXC looks at the total traffic and weights that traffic between the interstate and intrastate jurisdictions. The customers rate is based on the melding of the two jurisdiction.

EXAMPLE 1: Originating and Terminating Switched Access

100 X 76% PIU =	76 MINUTES X \$.0627 =	\$4.77	INTERSTATE
	<u>24</u> MINUTES X \$.1252 =	<u>\$3.00</u>	INTRASTATE
TOTAL	100 MINUTES	\$7.77	
			= \$.0777/MOU

In this example, an IXC could quote a rate of \$.0777 which is much lower than the intrastate rate of \$.1252. As shown below, the intrastate switched access rate is nearly twice that of the interstate. The quoted rate may even be lower if special access is used on one end as indicated previously.

To require Southern Bell to include two ends of switched access in toll rates designed for high volume toll customers may eliminate Southern Bell as a competitor in this intraLATA toll market segment. Therefore, the IXCs would be able to "cream skim" the high volume toll customers and relegate the LECs to the position of providing toll services to only the low volume toll users. For example, in the State's Invitation to Bid for the intraLATA portion of the SUNCOM System, section 3.6 (a) states that,

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

This clearly illustrates that the IXCs are providing service much lower than the rates which the LECs would have to charge by computing switched access on both ends.

In addition, although Southern Bell wants to emulate IXC products, because of the nature of the LEC's toll products, FIXCA and the IXCs are concerned that there will be no intraLATA competition if the LECs undercut so much that the IXCs will not be able to compete in that market. However, recently, some major IXCs have put themselves in a better position with high volume customers vis-a-vis call aggregators which aggregate all of the customer's traffic; including intraLATA, interLATA and interstate traffic. By aggregating traffic from all jurisdictions, the IXCs are given the benefit of merging the rate difference between the interstate and intrastate jurisdictions.

In the next example, switched access is used to get either

In the next example, switched access is used to get either "on net" or to go "off net". The same principle applies.

EXAMPLE 2: Originating Switched Access

100 X 76% PIU = 76 MINUTES X \$.0292 = \$2.22	INTERSTATE
<u>24 MINUTES X \$.0533 = \$1.28</u>	INTRASTATE
TOTAL 100 MINUTES = \$3.50	
\$3.50/100 MINUTES = \$.0350/MOU	

Terminating Switched Access

100 X 76% PIU = 76 MINUTES X \$.0335 = \$2.55	INTERSTATE
<u>24 MINUTES X \$.0719 = \$1.73</u>	INTRASTATE
TOTAL 100 MINUTES = \$4.28	
\$4.28/100 = \$.0428/MOU	

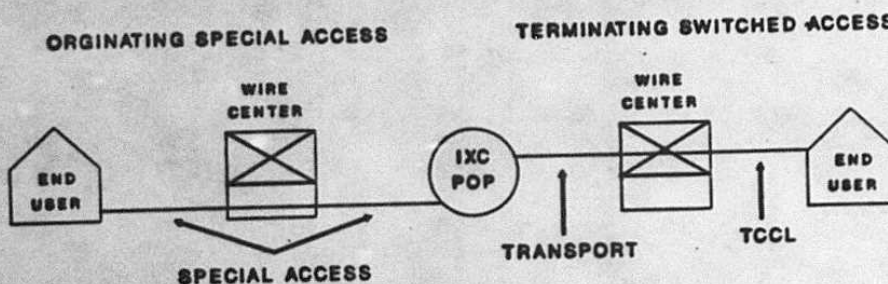
In some situations customers purchase special access directly and only one end of switched access, either originating or terminating switched access, is used by the IXC. If the IXC carrier is using only originating intrastate switched access, the interexchange carrier could quote a "melded" toll rate of \$.0350, 34% lower than the intrastate originating switched access rate of \$.0533.

If the IXC is using only terminating switched access, the quoted "melded" toll rate could be as low as \$.0428, 40% lower than the terminating switched intrastate access rate of \$.0719.

As shown below, the intrastate switched access rate is nearly twice that of the interstate. The quoted rate may even be lower if special access is used on one end as indicated in example 2 and in the diagram below. (See special access and switched access calculations.) To require Southern Bell to include two ends of switched access in toll rates designed for high volume toll customers is to hinder the Company's ability to compete in the intraLATA toll market segment. Therefore, the IXCs will be able to market the high volume customers while Southern Bell will only be able to market the low volume customers.

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

**SPECIAL ACCESS CHARGES FOR
 HIGH TOLL VOLUME CUSTOMER**



**SPECIAL ACCESS (DS1)
 (See Attachment A)**

- | | |
|---|---------------|
| 1. ASSUMED USAGE PER VOICE GRADE EQUIVALENT | 5,000 MINUTES |
| 2. LOCAL CHANNELS (INCLUDES THE FOLLOWING) | = \$ 136.25 |
| SPECIAL ACCESS ONE MILE ACCESS CONNECTION | |
| TWO NETWORK INTERFACES | |
| 3. SPECIAL TRANSPORT - FIXED | = 29.90 |
| 4. ASSUMED TRANSPORT - 10 MILES (\$23.75 EACH MILE) | = 237.50 |
| 5. TOTAL (LINES 2 + 3 + 4) | = \$ 403.65 |
| 6. 19 CHANNELS (\$403.65 DIVIDED BY 19) | = \$ 21.24 |
| 7. MINUTE OF USE RATE (LINE 6 DIVIDED BY LINE 1) | = \$.0042 |
| THE OUTWARD PLAN (A2 + B7) = \$.0719 + \$.0042 | = \$.0761 |
- (Using originating special access and terminating switched access applying no conversation minutes. For example: the state of Florida)

All of the IXCs' comments are well taken. However, we believe that Southern Bell has demonstrated ample proof that applying special access for one end of traffic is appropriate

However, staff believes that the Commission should modify Guideline 5 which would require LECs to impute access rates associated with their actual network configuration. Instead the Commission should modify Guideline 5 and require the LECs to impute the access rate associated with the network configuration which is dependent upon the targeted market segment (i.e., switched to switched for typical toll customers and special to switched for high volume customers). However, if the LEC imputes special access on one end, it must limit the discount toll services so that it is only available on lines which can only be used for those services, not any other, such as local.

6. However, the incremental costs of collection should be included in setting toll rates. The cost of advertising, marketing, and promotion of the product should not be included in setting the toll rates. This decision will become final if no hearing is requested by 21 days from the date of the order in this docket.

STAFF ANALYSIS: This guideline is the second major area of disagreement. Guideline 6 requires the costs of billing and collection, advertising, marketing, and promotion of the product to be included in setting the toll rates. In addition, if billing and collection is imputed, what is the appropriate amount to be imputed? Guideline 6 is outlined as follows:

GUIDELINE 6: LEC toll services must also be priced to recover all other relevant costs in addition to those associated with the LEC's implied "purchase" of access service. The guidelines used to approximate access costs only partially determine the LECs' costs to provide toll service. Examples of other costs include billing and collection expenses, advertising and marketing costs, and other costs associated with toll transmission that are not considered access service.

FIXCA believes that the cost of billing and collection should be accounted for as an indirect cost of providing the service and that Southern Bell should incur tangible costs related to billing, collection and non-access related transmission.

It is MCI's position that the costs incurred by a carrier go beyond access charges, and include at a minimum the following: billing and collection costs, advertising expenses including the cost associated with introducing a new product, and the cost of utilizing any network facilities beyond those that would be utilized by another carrier and covered in access charges. Further, MCI states that all carriers incur these costs in provision of a toll service, including the LECs. Failure to recover these relevant costs in the rates established for a given service necessarily requires that the shortfall be recovered through the rates for other services.

US Sprint stated in its comments that it believes it is mandatory that the costs of billing and collection and advertising be tracked, quantified and included in the rates of individual services in order to prevent anticompetitive shifting of these costs between services. Further, US Sprint states that there is considerable risk associated with allowing a firm to allocate joint and common costs as it sees fit when the firm has high joint and common costs and both regulated and unregulated (or competitive and non-competitive) services. US Sprint believes this may directly result in an over recovery of joint and common costs from less competitive offerings.

Finally US Sprint believes if Southern Bell is not required to recover an appropriate portion of advertising and billing and collection cost from its high volume business and toll services, Southern Bell's rates will likely be anticompetitive and customers of Southern Bell's other services may bear a disproportionate share of these costs. Therefore, it is US Sprint's position that it is critical to properly assign billing and collection costs, advertising costs, and other similar costs across Southern Bell's products to assure that Southern Bell's pricing structure is not discriminatory or anticompetitive.

Southern Bell stated in its comments that if billing and collection were to be incurred in LEC toll pricing, it may be appropriate to include only the incremental billing and collection costs for bulk billing and collection, not the rate. Southern Bell's rationale for this is that the LECs are not the sole providers of billing and collection services. Many IXCs do their own billing and collection or hire an other entity to do it. Thus, Southern Bell believes, for a company providing its own billing and collection service, that incremental cost, not the tariffed rate, is the appropriate cost to include.

Staff agrees. If billing and collection were a relevant cost in the imputation of covering access charges, staff would agree that proposed rates may be providing a negative contribution of overall costs. However, the LECs are not the sole providers of billing and collection service and therefore the price (i.e., rate) of billing and collection should not be included in LEC toll pricing. Many IXCs are doing their own billing and collection and some IXCs bill major accounts on a national basis, making it impossible to quantify the appropriate rate to be included in LEC toll rates. The Commission should include the applicable cost of billing and collection. For example, staff would recommend that the incremental costs for bulk billing and

Docket No. 900708-TL
April 18, 1991

collection should be the appropriate cost to include in LEC toll pricing, if the company uses bulk billing. Similarly, if the company uses detailed billing, the appropriate cost to be included in the pricing would cover the incremental cost for detail billing.

In the past, this Commission has decided that toll rates must cover access charges only in the aggregate. Although staff agrees that it is currently Commission policy to cover access in the aggregate, we believe that the applicable billing and collection costs should be applied to LEC toll pricing.

Finally, staff believes that it is not appropriate to include any advertising or promotional costs in LEC toll rates. The staff believes that advertising and promotion costs should not be included in LEC toll pricing. The reason for not including advertising and promotional costs is that the amount of advertising varies widely by company, depending on the scope of operation. Staff agrees that it would be difficult to arrive at an appropriate surrogate for advertising and promotions since this figure varies widely from IXC to IXC. Therefore, we recommend it not be included.

Therefore, staff does not believe that advertising, marketing, and promotion of the product should be included in setting the toll rates; and thus recommends that it should not be included in an imputation methodology. Additionally, we do agree that the incremental cost of bulk billing and collection should be included in setting toll rates to provide enough contribution between the cost of the service (or the floor, if the rates are banded) and the rate.

ISSUE 4: Should the Commission approve Southern Bell's proposed tariff filing to introduce the Aggregated Optional Calling Plan?

RECOMMENDATION: No. The Commission should deny Southern Bell's proposed tariff filing to introduce the Aggregated Optional Toll Plan (T-90-309 filed May 23, 1990). The Company should refile its tariff to limit the discount toll service so that it is only available on lines which can only be used for those services, not any other, such as local.

STAFF ANALYSIS: This issue solely deals with Southern Bell's proposed tariff filing to introduce the Aggregated Optional Calling Plan (T-90-309 filed May 23, 1990).

The plan would permit large volume toll customers to purchase a block of time at a flat monthly rate for intraLATA long distance message telecommunications service. The proposed tariff includes a band of rates for each Aggregated Plan option which will allow Southern Bell to file new rates within the proposed bands with only thirty days' notice rather than the standard sixty-day notice period. The use of the banded rates and abbreviated approval period is consistent with the banded rates approved for Southern Bell's Custom Calling Service in Order No. 18326.

The Aggregated Plan functions essentially the same as Saver Service for residential customers and WATS Saver Service for business customers with regard to specifically designed LATAwide Toll Optional Calling Plans (OCP) applicable to intrastate long distance calls. There are three different plans for the Aggregate Plan each requiring 2,500, 5,000, and 7,500 hours of guaranteed toll usage per month. The proposed monthly banded rate structure for the Aggregate Plan is as follows:

Southern Bell's Proposed Aggregated Plan

		BANDS		PROPOSED RATES	
		MINIMUM	MAXIMUM	CURRENT	EACH ADD'L MIN
(1)	PLAN 2500	\$12,600	\$14,100	\$13,500	\$.0900
(2)	PLAN 5000	\$24,600	\$27,600	\$25,500	\$.0850
(3)	PLAN 7500	\$35,775	\$40,500	\$35,775	\$.0795*

Docket No. 900708-TL
 April 18, 1991

Note that Plan 7500 is priced at the minimum band due to the bid restrictions included in the Department of General Services' Invitation to Bid for the intraLATA portion of the SUNCOM system discussed in Issue 2.

The Aggregated Plan is essentially discounted Message Telecommunications Service (MTS). In order to understand the impact of the tariff filing, we can assume a large volume user, such as the state of Florida, with 5,500 hours of calling. Under this scenario, the following chart illustrates what the customer's toll charges would be under regular MTS and under the Aggregated Plan (Option Plan 5000):

COMPARISON OF RATES
 FOR MTS AND THE AGGREGATE PLAN

<u>Intrastate Message Toll Service (MTS)</u>				<u>The Aggregated Plan (Option 5000)</u> (with an additional 500 hours)	
InterLATA Weighting* Factor	Mileage Band	Initial Min.	Additional Min.		
.9%	1-10	\$.10	\$.09	300,000 minutes (5,000 hrs)	\$ 25,500
37.6%	11-22	.27	.16	Minimum, per accounts, per month	
49.1%	23-55	.29	.23	Each additional minute of use is \$.085	
9.9%	56-124	.31	.24	(30,000 minutes (500 hrs.) x .085 =	<u>\$2,550</u>
2.5%	125-292	.32	.25		
0.0	293-430	.32	.25		
0.0	431-624	.33	.26		
<u>100.0</u>					
Weighted average rate per minute is \$.2269*					
TOTAL 330,000 min. (5500 hrs) x \$.2269 = <u>\$74,877</u>				TOTAL	<u>\$28,050</u>

In this comparison, Southern Bell's Aggregated Plan is calculated by taking 330,000 minutes (i.e., 5,500 hours) times the rate for the PLAN 5000 which is \$25,500 and an additional 30,000 minutes (i.e., 500 hours) times the rate of \$.0850 per minute for a total of 5,500 hours per month of the Aggregated Plan calls which is \$28,050.

The intrastate MTS charges are calculated by taking the interLATA MTS weighted rate of \$.2269 per minute and multiplying it by 330,000 minutes or 5,500 hours which equals \$74,877. For this customer, the Aggregate Plan, option PLAN 5000, is approximately a 63% discount off MTS. Of course, savings for

Docket No. 900708-TL
April 18, 1991

various customers would vary depending on distance called, number of calls, duration of calls, and options chosen.

Southern Bell has not provided any estimates for the revenue impact of this filing because the service will be offered on an individual case basis due to the high calling volumes. However, Southern Bell will report to the Commission their estimated gross revenue impact when a customer subscribes to the proposed service.

Cost Methodology			
Contribution Level for the Aggregated Plan			
	Plan 2500	Plan 5000	Plan 7500
Revenue/MOU	\$.0900	\$.0850	\$.0795
Approx. Cost/MOU	<u>\$.0200</u>	<u>\$.0200</u>	<u>\$.0200</u>
Contribution/MOU	\$.0700	\$.0650	\$.0595

No specific cost methodology was developed for the Aggregated Plan since the service is simply an optional calling plan for intraLATA toll, the cost for the aggregated plan is the same as MTS which Southern Bell approximates at \$.0200 per MOU. A forward looking incremental cost methodology is employed in the development of MTS usage costs. Staff has not performed a thorough review of this cost study. We believe that while it is interesting to learn the incremental cost of the service, the relevant cost to review is the cost of access. The proposal must cover access charges as discussed in Issue 2 and Issue 3.

Staff has provided the following access analysis for the proposed Aggregated Plan assuming a BHMOC charge of zero. (This charge was reduced to zero in Docket No. 880069-TL, Order No. 23628 Southern Bell's Rate Stabilization.) The table below summarizes one minute of originating and one minute of terminating access for Southern Bell using switched access on one end and special access on the other end.

Docket No. 900708-TL
April 18, 1991

SPECIAL ACCESS (DS1)
(SEE ATTACHMENT A FOR DETAILS)

- | | | |
|----|---|-------------|
| 1. | ASSUMED USAGE PER VOICE GRADE EQUIVALENT - 5,000 MINUTES | = \$ 136.25 |
| 2. | LOCAL CHANNELS (INCLUDES THE FOLLOWING)
SPECIAL ACCESS ONE MILE
ACCESS CONNECTION
TWO NETWORK INTERFACES | |
| 3. | SPECIAL TRANSPORT - FIXED | = 29.90 |
| 4. | ASSUMED TRANSPORT - 10 MILES (\$23.75 EACH MILE) | = 237.50 |
| 5. | TOTAL (LINES 2 + 3 + 4) | = \$ 403.65 |
| 6. | 19 CHANNELS (\$403.65 DIVIDED BY 19) | = \$ 21.24 |
| 7. | MINUTE OF USE RATE (LINE 6 DIVIDED BY LINE 1) | = \$.0042 |

THE APPROPRIATE ACCESS CHARGES TO BE COVERED IN TOLL RATES

INWARD PLAN (A1 + B7) = \$.0593 + \$.0042 = \$.0635
(Using originating switched access and
terminating special access applying the conversion
for conversation minutes.
For example: Delta's 800 service)

OUTWARD PLAN (A2 + B7) = \$.0719 + \$.0042 = \$.0761
(Using originating special access and
terminating switched access applying no
conversion for conversation minutes.
For example: the State of Florida)

The analysis shown above illustrates that under the proposed Aggregated Plan, the rates cover access cost for all of the options for the minimum rates in the aggregate for business customers under the guidelines discussed in Issues 1 and 2. If the Commission were to reject Issue 2, Southern Bell would have to refile their rates using a minimum rate that covers the access cost based on the assumption of switched access on both ends. If Southern Bell were required to refile these rates using switched access on both ends, the Company has stated it would not be able to compete and will withdraw their filing.

If the Commission adopts Guideline 5, Southern Bell will not have adequately covered their switched access charges. Staff notes that by allowing Southern Bell to use switched access on one end and special access on the other end, Southern Bell will be able to become more competitive in the intraLATA toll market with those services that are being offered by IXCs.

Docket No. 900708-TL
April 18, 1991

It is staff's belief that the aggregated plan is reasonable since offering the service to high volume users is their targeted market. Since all relevant rates cover access charges outlined in Issue 1, Issue 2, and Issue 3 staff believes that the proposed rates outlined are appropriate. Therefore, based on the information presented in this docket, it is staff's recommendation that Southern Bell's rates to introduce the aggregate plan should be denied for high volume business customers and the Company should refile its tariff to limit the discount toll service so that it is only available on lines which can only be used for those services, not any other, such as local. Should the company amend the filing to make such changes it should be approved.

ISSUE 5: Should the docket be closed?

RECOMMENDATION: No. The docket should remain open until the effective date of the proposed agency action (PAA) order, assuming no protest is received.

STAFF ANALYSIS: If no protest is received in the PAA for issues 1, 2, and 3, Docket No. 900707-TL should be closed. If no protest is received to the tariff filing discussed in Issue 4, Docket No. 910513-TL should be closed.

900708.MHC

Docket No. 900708-TL
April 18, 1991

Southern Bell's Cross-over Point for Florida

A. SWITCHED ACCESS

	1 ORIGINATING	2 TERMINATING	3 TOTAL
(1) BHMOC	\$.0	\$.0	\$.0
(2) CCL	.0266	.0382	.0648
(3) LINE TERMINATION	.0079	.0079	.0158
(4) LOCAL SWITCHING	.0098	.0098	.0196
(5) LOCAL TRANSPORT	<u>.0160</u>	<u>.0160</u>	<u>.0320</u>
SUB TOTAL	\$.0603	\$.0719	\$.1322
TIME-OF-DAY FACTOR	<u>.8835</u>	* <u>.0000</u>	<u>.0000</u>
TOTAL	\$.0533	\$.0719	\$.1252
CONVERSATION MINUTES	<u>X1.1130</u>	<u>.0000</u>	<u>.0000</u>
	\$.0593	\$.0719	\$.1312

* BUSINESS TIME-OF-DAY FACTOR

B. SPECIAL ACCESS (DS1)

1. ASSUMED USAGE PER VOICE GRADE EQUIVALENT - 5,000 MINUTES
2. LOCAL CHANNELS (INCLUDES THE FOLLOWING) = \$ 136.25
 - SPECIAL ACCESS ONE MILE
 - ACCESS CONNECTION
 - TWO NETWORK INTERFACES
3. SPECIAL TRANSPORT - FIXED = 29.90
4. ASSUMED TRANSPORT - 10 MILES (\$23.75 EACH MILE) = 237.50
5. TOTAL (LINES 2 + 3 + 4) = \$ 403.65
6. 19 CHANNELS which is 80% of 24 = \$ 21.24
 - (\$403.65 DIVIDED BY 19)
7. MINUTE OF USE RATE (LINE 6 DIVIDED BY LINE 1) = \$.0042

C. THE APPROPRIATE ACCESS CHARGES TO BE COVERED IN TOLL RATES

1. INWARD PLAN (A1 + B7) = \$.0593 + \$.0042 = \$.0635
 - (Using originating switched access and terminating special access applying the conversion for conversation minutes.
 - For example: Delta's 800 service)
2. OUTWARD PLAN (A2 + B7) = \$.0719 + \$.0042 = \$.0761
 - (Using originating special access and terminating switched access applying no conversion for conversation minutes.
 - For example: the State of Florida)

D. FORMULA FOR DETERMINING THE CROSS-POINT - GOING FROM TWO ENDS OF SWITCHED ACCESS TO ONE END OF SWITCHED ACCESS AND ONE END OF SPECIAL ACCESS.

(B5) DIVIDED BY (A1) = MINUTES OF USE DIVIDED BY 60 = HOURS

Docket No. 900708-TL
April 18, 1991

The assumptions for Southern Bell's cross-point formula are as follows:

- A) 80% of the 24 voice grade channels are used in a DS1. The estimated filled percent for the industry is 80% with BellSouth being 83%. These percents are used by the FCC. The LECs support the use of these percentages in the proposed cross-point formula to determine when it is appropriate to cover two ends of switched access as opposed to one end of switched access and one end of special access.
- B) Assumed usage per voice grade equivalent is 5,000 minutes. This assumed usage is consistent with the minutes used by the FCC.
- C) Local channel includes special access of one mile, access connection, and two network interfaces. One mile is the average distance between the end user and wire center.
- D) 10 miles of transport. This assumption is based on switched access transport since this is the traffic being displaced with high volume toll offerings. 10 miles of transport is being used since 73.2% of the transport is within 0-16 miles.
- E) An 80% fill factor. The 80% fill factor is the assumed industry percentage which is used by the FCC to monitor bypass.