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May 20, 1994

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Ms. Blanco Bayo
Director, Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Fletcher Building
Tallahassee, Florida 32399-0850

RE: Expanded Interconnection Phase II and Local Transport Restructuring - Docket No. [redacted]

Dear Ms. Bayo:

Enclosed for filing with the Commission are an original and fifteen (15) copies of Sprint Communications Company Limited Partnership's Testimony in the above-referenced matter. Please return a filed-stamped copy in the enclosed return self-addressed envelope.

Sincerely,

Chanthina R. Bryant (lj)
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Attorney, State Regulatory

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SPRINT COMMUNICATIONS COMPANY LIMITED

PARTNERSHIP

TESTIMONY OF FRED I. ROCK

DOCKET NO. 921074-TP

MAY 23, 1994

Q. Please state your name, business address and occupation.

A. My name is Fred I. Rock and my business address is 7171 W. 95th Street, Overland Park, KS 66212. I am employed by Sprint Communications L.P. (Sprint) as Manager - Regulatory Access Planning.

Q. Will you briefly state your educational background?

A. I received a Masters in Business Administration from Rockhurst College, Kansas City, Missouri in 1993 and a Bachelor of Science Degree in Accounting from Kansas State University in 1983. I am a Certified Public Accountant in the state of Kansas.

Q. Please state your previous work experience in telecommunications.

A. I began working for Sprint Communications Co. in July, 1992. Since that time, I have had the responsibility of monitoring state and federal regulatory activity relating to access services in the BellSouth (BellSouth) region, including Florida. Prior to my current position, I was employed by United Telephone - Midwest for four years. At United, my responsibilities included revenue budgets, financial analysis, and service costing and pricing.

Q. What is the purpose of your testimony?

A. I will discuss the benefits of expanded interconnection for switched local transport services ("switched interconnection") and urge this Commission to order the same policies and prices that have been adopted by the FCC in Docket 91-141, In the Matter of Expanded Interconnection with Local Telephone Company Facilities.

With the adoption of switched interconnection, I support the LECs' restructuring of local transport services in Florida as long as an appropriate cost-based pricing methodology is used in developing rates for direct trunked transport.

Q. Is expanded interconnection for switched access in the public interest?

A. Yes, switched interconnection is designed to encourage competitive entry in the provision of switched access services, which today in Florida is exclusively provided by local exchange companies ("LECs"). Switched interconnection will provide several benefits including accelerated deployment of new and advanced technologies and services, alternatives to LEC switched local transport services allowing route diversity, increased access providers' responsiveness to customers in the provision of existing services and movement of prices of the affected services closer to the cost of providing the services.

Q. Will switched interconnection result in material LEC revenue shortfalls?

A. No. Other things being equal, if a LEC loses one minute of switched transport demand, it will realize a decrease in switched transport revenue. However, if Florida adopts the FCC's new switched transport structure, the interconnection charge will be applied to all switched access demand. This includes traffic transported by an interconnector. The interconnection charge is a new rate element created to insure that the local transport restructure is revenue neutral to the LEC.

A general analysis of the potential impact for Southern Bell reflects that approximately 27% of its current intrastate switched access revenue comes from the local transport element. Southern Bell's revised switched transport filing proposes an interconnection rate that is approximately 85% of the current 1.54 cents per minute of use rate for local transport, leaving 15% of the current transport revenue at risk. Thus, I conclude that only 4% of Southern Bell's total switched access revenue is at risk (15% of 27%). However, switched interconnection results in a new revenue source for the LEC in the form of monthly and nonrecurring charges associated with interconnection which will offset some portion of the lost transport revenue, resulting in a maximum net revenue loss for Southern Bell of less than 4%. This assumes that Southern Bell loses 100% of its current transport demand to interconnectors which is unrealistic. In fact, a loss of 25% of its current transport demand would decrease Southern Bell's current switched access revenues less than 1%. Though this analysis is specific to Southern Bell, I cannot see any material LEC revenue shortfall as a result of switched interconnection.

Q. Please discuss the appropriate architecture, availability, standards, rate structure and pricing for switched interconnection offerings in Florida.

A. The Florida PSC should embrace the same switched interconnection policies and prices that were adopted by the FCC in Docket 91-141. This is not to imply that the FCC preempts the Florida PSC's authority in this matter. However, given that the same collocated facilities would be used to interconnect both interstate and intrastate traffic, it is appropriate that the interconnection requirements and prices are the same for interstate and intrastate switched interconnection. In addition, this would be consistent with this Commission's decision in Phase I of this proceeding where the federal policies and prices were generally adopted for expanded interconnection for special access.

Q. Should the LECs be granted additional pricing flexibility? If so, what should it be?

A. Yes. Sprint urges the Commission to allow the LECs density zone pricing for switched access services, including switched transport. The cost of providing access is largely determined by end office demand density, and associated cost differences should be reflected in access prices. Density zone pricing gives the LECs an opportunity to tailor rates more closely to underlying costs regardless of whether a competitive access provider ("CAP") or another entity has interconnected with the LEC. Although density-based pricing should facilitate fair competition between the LECs and CAPs, once CAP entry has occurred, it is even more

important that the LECs' access prices currently reflect their underlying costs so that interconnectors can determine whether entry would even be economic. Allowing the LECs to price access by density zones will send the right economic signals and should facilitate sound entry decisions.

Q. How is local transport structured and priced today?

A. The current pricing structure for local transport in Florida is known as an "Equal Charge per Unit of Traffic" structure. More specifically, LECs in Florida charge access customers the same per minute of use rate to transport traffic between the LEC end office and the access customer's premises.

Q. Should the Commission modify its pricing and rate structure regarding switched transport service?

A. A restructure of switched transport should be pursued only if switched interconnection is adopted. The rate structure proposed by Southern Bell, GTE and United/Centel is the same structure adopted by the FCC in Docket 91-213, In the Matter of Transport Rate Structure and Pricing. This new federal structure allows the LEC to price dedicated transport facilities on a flat-rated basis which is how a CAP prices its transport facilities. Without flat-rated transport, the LEC would be disadvantaged vis-à-vis the CAP. However, without switched interconnection the LEC will not face any effective competition for its switched transport services. Indeed, there would be no need to restructure the pricing for switched transport services.

Q. If the Commission changes its policy on the pricing and rate structure of switched transport service, which of the following should the new policy be based on: a) The intrastate pricing and rate structure of local transport should mirror each LEC's interstate filing, respectively. b) The intrastate pricing and rate structure of local transport should be determined by competitive conditions in the transport market. c) The intrastate pricing and rate structure of local transport should reflect the underlying cost based structure. d) The intrastate pricing and rate structure of local transport should reflect other methods.

A. The Commission should adopt the federal rate structure for switched transport. Again, the federal structure allows the LEC to price dedicated transport facilities on a flat-rated basis which is appropriate with switched interconnection. However, the rate levels for transport facilities should closely reflect the underlying costs of the service, i.e., cost-based rates. Specifically, the rates for direct trunked transport services should be cost-based, resulting in a price relationship for DS1 and DS3 direct trunked transport which is the same as the cost relationship between the two services.

Q. What are Sprint's recommendations with regard to the appropriate direct trunked transport price relationships to be incorporated into Florida switched transport charges?

A. Sprint recommends that direct trunked transport rates reflect a DS3:DS1 price relationship of 22:1.

Q. What current underlying LEC switched interoffice transport network cost characteristics support Sprint's direct trunked transport price relationship recommendation?

A. Sprint believes that a DS3:DS1 direct trunked transport price relationship of 22:1, more closely reflects the current fiber optic technology and the shared use nature of its interoffice transmission network. The LEC's network used to provide local transport service is utilized to provide traffic for all carriers, including the LEC's intraLATA toll and, in many cases, local service. Any individual customer's usage represents a small fraction of the total traffic riding the transport facilities at any point in time. LEC transmission facilities are typically run at DS3 levels or higher so that very low unit costs can be achieved. Because these low unit costs are essentially a function of total traffic, all users of the network should share in the economies derived from the total usage. In fact, a DS1 direct trunked transport customer is purchasing 1 of the 28 available timeslots on a particular DS3 system. The DS1 is provisioned over the same optronics and fiber optic cable as the remaining timeslots on the DS3. Given that a DS1 is simply one timeslot on a DS3 interoffice transmission system utilizing common optronics and fiber cable, it would seem reasonable that the cost of providing DS1 direct trunked transport would be 1/28th of the DS3 direct trunked transport cost, if the DS3 system was being utilized at full capacity. However, Sprint realizes that the LECs normally do not operate their DS3 transmission systems at 100% capacity, but rather an average of 79%. Using a 79% average DS3 capacity utilization rate would

yield a DS1 cost that would be 1/22nd of the DS3 cost (79% times 28). Using this 22:1 DS3:DS1 cost relationship, the appropriate price relationship should also be 22:1. By requiring the LECs to reduce its intrastate DS1 direct trunked transport rates to be used in Florida to achieve Sprint's recommended 22:1 DS3:DS1 price relationship, the Commission will come nearer to establishing rates which are more cost-based and which promote competition by avoiding volume based discounts. Given that all LECs failed to make any cost showing to justify their existing interstate DS3:DS1 direct trunked transport price relationships at the federal level, it is appropriate for Florida to adopt Sprint's recommendation, unless the LEC can make the proper cost showing to justify some other price relationship. It should also be noted, that Sprint filed for reconsideration of this issue in FCC Docket 91-213. The FCC has yet to rule on Sprint's Petition.

Q. Why does Sprint recommend lowering the DS1 direct trunked transport rate to achieve the 22:1 DS3:DS1 rate relationship?

A. When the industry speaks of increased competition for LEC access services, it is primarily speaking of competition for DS3 level service. In the near term, CAPs are looking to provide DS3 service to its customers. In fact, though Sprint uses CAP provided transport services on a very limited basis, 100% is at the DS3 level. Sprint supports market-based pricing by the LECs for the increasingly competitive DS3 level service. However, because IXCs that purchase DS1 level service, primarily the smaller IXCs, remain a "captive customer" without viable alternatives, they

should not be burdened with prices for DS1 level service that recover more common costs than prices for DS3 level service.

While IXCs should be willing to pay for higher access costs which they themselves impose upon the LEC, IXCs should not pay a higher transport price simply on the basis of their volumes of traffic. This is particularly important, since most IXCs did not grow their marketshare under a monopoly structure. The carrier which does have an entrenched marketshare should not receive pricing for access which is more favorable, and which is available as a result of a marketshare obtained while operating as a monopolist. DS1 special access rates largely reflect the higher cost of copper technology that was in use at the time DS1 service was first offered, whereas the DS3 rates reflect the far lower unit costs of current fiber optic technology. In Southern Bell's original filing to restructure switched transport in Florida, it was revealed that 91.8925%[1] of its interoffice network consists of fiber technology. Thus, it is clear that the use of the existing interstate or intrastate DS1 special access rates do not adequately take into account the extensive fiber deployment that has taken place and will continue to take place in the near term.

It should be noted that LECs will adjust the interconnection charge to recover the decreased facility revenue resulting from reduced DS1 direct trunked transport rates.

[1] Southern Bell Proposed Tariff Filing to Restructure Local Transport in Florida, Workpaper FL.LTR-H, Line 3. September, 1993.

Q. By maintaining a low DS3:DS1 price relationship, what implications does this have on the LEC's interoffice transport network utilization and overall cost efficiency?

A. By maintaining a DS3:DS1 price relationship below 22:1, the LEC is encouraging access customers to purchase DS3 service at a point when that customer will only be utilizing a fraction of the available capacity of the DS3. This ultimately leads to underutilization of the LEC's interoffice DS3s, accelerated interoffice route facility exhaust requiring investment in additional capacity, and higher overall costs in the provision of interoffice transport service. It should be noted that one of the FCC's local transport restructure policy goals in docket 91-213 was to encourage more efficient use of LEC transport facilities by requiring LECs to price access services in a manner that best reflects the way costs are incurred. Sprint believes that such a policy goal is appropriate for the Florida Commission to adopt. An extremely low DS3:DS1 price relationship encourages access customers to act in a manner that runs counter to the FCC stated policy goal, leading to inefficient use of the interoffice transport network assets, which is not in the public interest.

Q. If Sprint's recommendation with regard to the DS3:DS1 direct trunked transport price relationship is adopted, what should happen to the LEC's corresponding tandem switched transport rates?

A. If Sprint's recommendation with regard to the DS3:DS1 direct trunked transport price relationship is adopted, then corresponding tandem switched transport rates should be recalculated to reflect the cost-based

DS3 and DS1 prices. Again, this revision would appropriately reflect the underlying costs of the LEC's shared use network.

Q. Are there any components of the LEC switched transport network that are not shared by all carriers?

A. Yes. The entrance facility is generally provisioned by the LEC for the exclusive use of a single access customer and as such, that access customer should be willing to pay any extra costs imposed upon the LEC for the provision of these facilities. Without detailed cost studies of entrance facilities, it is unclear as to the appropriateness of the rates filed by the LECs. Currently, Sprint has no objections to the entrance facility rates as filed.

Q. Are there any additional changes that should be made to the LEC's proposed switched transport rate filings?

A. Once appropriate direct trunked transport rates and tandem switched transport rates are developed as described previously, the LECs should recalculate the projected facility based revenue. This result should be subtracted from the current local transport revenue to determine the revenue to be recovered from the interconnection charge. This will allow the LEC to remain revenue neutral.

Q. Would you please summarize your testimony?

A. Yes. Sprint believes it is in the public interest for the Florida Commission to allow competition in the switched transport market. The

opportunities resulting from competition appear to be many while the risk to the LEC revenue base appears low. Sprint proposes adoption of the federal policies and price levels. With the implementation of switched interconnection, Sprint recommends that the PSC allow the proposed restructure of local transport charges with the provision that all LECs adopt a cost-based DS3:DS1 direct trunked transport price relationship.

Q. Does this conclude your testimony?

A. Yes, it does.

CERTIFICATE OF SERVICE

I hereby certify that I have this date served a copy of the within and foregoing Testimony in Docket No. 921074-TP; "EXPANDED INTERCONNECTION PHASE II AND LOCAL TRANSPORT RESTRUCTURING" via first class mail, by depositing same with sufficient postage and properly affixed and properly addressed to:

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