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Ms. Blanca S. Bayo, Director
Division of Records & Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, FL 32399-0850

September 23, 1994

Re: Docket No. ~~921074-EP~~
Expanded Interconnection Phase II and Local Transport
Restructure

Dear Ms. Bayo:

Please find enclosed for filing an original and fifteen copies of a Request for Confidential Classification and Motion for Protective Order regarding certain information contained in a late-filed exhibit requested by Staff at the hearing in the above matter.

The confidential information has been highlighted in yellow and placed in a separate envelope marked "Confidential" for your convenience. Also submitted with this package are two edited versions of the confidential information.

Service has been made on the parties of record as evidenced by the Certificate of Service.

Very truly yours,

Kim Caswell
Kimberly Caswell

RECEIVED & FILED

Mao
FPSC BUREAU OF RECORDS

KC:tas
Enclosures

DOCUMENT NUMBER-DATE

09814 SEP 23 94

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Expanded Interconnection Phase II)
and Local Transport Restructure)

Docket No. 921074-TP
Docket No. 930955-TL
Docket No. 940014-TL
Docket No. 940020-TL
Docket No. 931196-TL
Docket No. 940190-TL

Filed: Sept. 23, 1994

**GTE FLORIDA INCORPORATED'S REQUEST FOR CONFIDENTIAL
CLASSIFICATION AND MOTION FOR PROTECTIVE ORDER**

Under Commission Rule 25-22.006, GTE Florida Incorporated (GTEFL) seeks confidential classification and a permanent protective order for certain information in the accompanying late-filed exhibit, requested by Staff at the hearing in this matter. While a ruling on this Request is pending, GTEFL understands that the information at issue is exempt from Florida Statutes section 119.07(1) and Staff will accord it the stringent protection from disclosure required by Rule 25-22.006(3)(d).

Highlighted, unredacted copies of the confidential material are attached to only the original of this Request as Exhibit A. Redacted copies of these items are attached to this Request as Exhibit B. Exhibit C is the required line-by-line justification of confidentiality.

All of the information for which GTEFL seeks confidential treatment fits within Florida Statutes section 364.183(3)(e), which defines the term "proprietary confidential business information" to include "information relating to competitive interests, the disclosure of which would impair the competitive business of the provider of the information."

DOCUMENT NUMBER-DATE

09814 SEP 23 1994

FPSC-RECORDS/REPORTING

The information covered in this filing reveals GTEFL's costs associated with provision of DS1 and DS3 transport services. GTEFL closely guards this information, disclosing it to only those with a need to know it. The Company's costs for transport elements were treated confidentially at the hearing. They are also covered by a protective agreement executed between GTEFL and the Florida Interexchange Carriers Association (FIXCA), which provided late-filed Exhibit 18, to which GTEFL's late-filed exhibit responds.

As reflected in the line-by-line justification, the confidential information in this filing shows the investment in the multiplexer and cross-connect facilities used to provide DS1 service, and the total long-run incremental costs (LRIC) of providing DS3 and DS1 terminations and facilities.

This cost information, coupled with the public data about GTEFL's rates, would permit competitors to discern GTEFL's profit margins and the lowest prices it could charge for its services, allowing them to undercut GTEFL. Public disclosure of this information would enable GTEFL's competitors to devise marketing, entry, and expansion strategies to ensure their success in competing with GTEFL. In addition, disclosure of investment information about specific equipment costs could weaken GTEFL's ability to obtain favorable prices from its vendors in the future.

The transport facilities addressed in this Request and associated tariff filing are subject to ever-increasing competitive pressures. Indeed, this investigation was initiated as a result of a petition of Intermedia Communications of Florida, Inc. (ICI), an alternate access vendor (AAV) in direct competition with GTEFL.

ICI and other potential competitors have a patent interest in gaining any competitive advantage possible over GTEFL. When these advantages are legitimately obtained through trial and error, the marketplace works as it should. However, if useful competitive information is instead disclosed publicly in a regulatory proceeding, the benefits derived from this information are unfair and will hinder efficient market operation, to the ultimate detriment of the consumer.

This Commission has approved at least thirteen applications to provide AAV service in Florida. Some of these entities are supported by very well-financed cable and other interests, which are aggressively seeking further expansion into traditional LEC market segments. The competitive position of these actual and potential competitors has been significantly enhanced by the expanded interconnection decisions of both this Commission and the FCC. In this intensely competitive environment, unauthorized disclosure of any information about a company can be used to its detriment. GTEFL thus asks the Commission to grant this Request for confidential treatment of the specified information and to issue a permanent protective order with regard to these data.

Respectfully submitted on September 23, 1994.

By:



Kimberly Caswell
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Telephone: 813-228-3094

Attorney for
GTE Florida Incorporated

GTE Florida Incorporated
Docket 921074-TP
Late-Filed Exhibit
Page 1 of 3

At the hearing in this proceeding, Commission Staff requested each LEC to submit a late-filed exhibit consisting of the following:

a) An analysis of the problems with the cost data submitted by Gillan as Late-filed Exhibit 18 (Depo. Ex. #1). Relevant cost components that should be included but which were omitted should be part of the analysis. (The analysis should extend beyond a mere check of the arithmetic.) Also, include a definition of "cost-based" if you want.

b) The LEC's statement of the appropriate cost to use for the basis of a "cost-based" rate. Include your workpapers.

RESPONSE:

2a) The GTEFL cost data Mr. Gillan uses in Late-Filed Exhibit 18 represents GTEFL's Long-Run Incremental Costs (LRIC). There are a number of problems associated with using this cost data for the purposes that Mr. Gillan proposes. GTEFL's LRIC methodology includes volume-sensitive costs only. Volume-insensitive costs, such as common and administrative costs, are excluded. Examples of common costs include the cost of spare capacity existing in GTEFL's network, RTU (right-to-use) fees and plant non-specific expenses, while examples of administrative costs include sales, marketing, and corporate operations expenses. These additional costs need to be considered (allocated to the service) if LRIC is to be used as a basis for setting price as Mr. Gillan proposes.

GTEFL's LRIC methodology is based on capacity cost studies. A utilization factor of 90 percent was used in the development of the DS1 and DS3 LRIC or capacity costs. This utilization factor assumes that the DS1 and/or DS3 facility is operating at theoretical capacity. Applying an average actual utilization factor, however, would result in an increase in DS1 and DS3 costs. Average costs correctly take into account the cost of spare capacity. The costs used by Mr. Gillan are not average costs.

Another reason why these costs should not be used for Mr. Gillan's purposes is that the LRIC costs are forward-looking costs, and thus, assume that DS1 and DS3 are provided 100 percent over fiber facilities. Because there are embedded costs in existing plant and facilities which are not completely fiber-based, Mr. Gillan's analysis does not accurately reflect the higher cost of providing DS1 and DS3 service today. Again, forward-looking costs are appropriate only for setting price floors.

Finally, Mr. Gillan's exhibit excludes costs for specific equipment necessary to provision DS1s over a DS3 system. Compared to DS3 service, DS1 service requires additional investments for multiplexing and cross-connection equipment. This additional equipment increases the cost of providing DS1 service relative to DS3 service, so DS1 is properly priced higher. Specifically, in order to carry an IXC's DS1 level traffic over a DS3 facility in the interoffice network, the DS1 circuit must be multiplexed up to a DS3 level at the serving wire center and then back down to a DS1 at the end office. DS3 terminations require the installation of the following equipment:

1. Fiber Distribution Panel (FDP);
2. Fiber Optic Terminal (FOT); and
3. Cross-Connect at the DS3 level (DSX-3)

In contrast, provision of DS1 terminations carried over DS3 facilities require the above equipment plus two additional pieces of equipment, as follows:

- A
1. Multiplexer from DS Level 1 to DS Level 3 (M1-3);
 2. Cross-Connect at the DS1 level (DSX-1)

B
Cost

1
2

GTEFL must emphasize that these criticisms are offered in the context of a framework with which GTEFL strongly disagrees. Even if Mr. Gillan had properly included all the costs detailed here, GTEFL would still oppose Mr. Gillan's method of rate-setting. GTEFL's definition of "cost-based" is included in its answer to 2b, below, along with a fuller discussion of the proper way to set transport rates in this docket.

2b) GTEFL defines "cost-based" rates as rates that are supported by and are above Long-Run Incremental Costs. GTEFL's DS1 and DS3 rates are above their costs, thus demonstrating that GTEFL's rates are in fact cost-based. Under GTEFL's definition, these are the appropriate costs to use, but only as a price floor, not for setting the rates. Rather, LECs' transport rates should be determined by market conditions, just as other providers' rates are. These market rates should exceed LRIC and provide contribution towards recovery of the company's common costs. The amount of contribution for each separate service (i.e., DS1 or DS3) should be driven by specific market conditions for each.

	<u>A</u>	<u>B</u>
	<u>Rate</u>	<u>LRIC</u>
2 DS3 Term.	\$ 350.26	\$
DS1 Term.	\$ 42.03	\$
3 DS3 Facility	\$ 116.02	\$
4 DS1 Facility	\$ 13.13	\$

For the reasons noted in response 2(a), these costs are not appropriate to use in the kind of cost-plus-margin proposal advocated by Mr. Gillan. Under Mr. Gillan's definition of "cost-based" rates, GTEFL would need to perform additional cost studies to identify the additional costs and factors described in its response to 2(a) above. GTEFL does not currently have any such cost studies.

EXHIBIT C

<u>Page</u>	<u>Line</u>	<u>Column</u>	<u>Reason</u>
2	1	B	Multi-plexer cost
2	2	B	Cross-connect cost
3	1	B	DS3 Term. LRIC
3	2	B	DS1 Term. LRIC
3	3	B	DS3 Facility LRIC
3	4	B	DS1 Facility LRIC

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of GTE Florida Incorporated's Request for Confidential Classification and Motion for Permanent Protective Order in Docket No. 921074-TP was sent by U. S. mail on September 23, 1994, to the parties on the attached list.

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2b) GTEFL defines "cost-based" rates as rates that are supported by and are above Long-Run Incremental Costs. GTEFL's DS1 and DS3 rates are above their costs, thus demonstrating that GTEFL's rates are in fact cost-based. Under GTEFL's definition, these are the appropriate costs to use, but only as a price floor, not for setting the rates. Rather, LECs' transport rates should be determined by market conditions, just as other providers' rates are. These market rates should exceed LRIC and provide contribution towards recovery of the company's common costs. The amount of contribution for each separate service (i.e., DS1 or DS3) should be driven by specific market conditions for each.

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MEMORANDUM

September 26, 1994

TO: DIVISION OF APPEALS
 DIVISION OF AUDITING AND FINANCIAL ANALYSIS
 DIVISION OF COMMUNICATIONS
 DIVISION OF ELECTRIC AND GAS
 DIVISION OF RESEARCH
 DIVISION OF WATER AND WASTEWATER
 DIVISION OF LEGAL SERVICES

FROM: DIVISION OF RECORDS AND REPORTING (FLYNN)

RE: CONFIDENTIALITY OF CERTAIN INFORMATION

DOCUMENT NO. 9912-24

DESCRIPTION: Late-filed exhibit requested by staff
in hearing

SOURCE: GTEFL

DOCKET NO.: 991074-22

The above material was received with a request for confidentiality (attached). Please prepare a recommendation for the attorney assigned to the case by completing the section below and forwarding a copy of this memorandum, together with a brief memorandum supporting your recommendation, to the attorney. Copies of your recommendation should also be provided to the Division of Records and Reporting and to the Division of Appeals.

Please read each of the following and check if applicable.

The document(s) is (are), in fact, what the utility asserts it (them) to be.

The utility has provided enough details to perform a