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GTE Telephone Operations

Marceil Morrell\*\*  
Vice President & General Counsel - Florida

Associate General Counsel  
Anthony P. Gillman\*\*  
Leslie Reicin Stain\*

Attorneys\*  
Lorin H. Albeck            M. Eric Edgington  
Kimberly Caswell        Joe W. Foster  
Franklin H. Deak         Ernesto Mayor, Jr.

One Tampa City Center  
Post Office Box 110, FLTC0007  
Tampa, Florida 33601  
813-224-4001  
813-228-5257 (Facsimile)

\* Licensed in Florida  
\*\* Certified in Florida as Authorized House Counsel

Ms. Blanca S. Bayo, Director  
Division of Records & Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399-0865

May 22, 1995

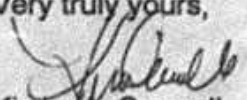
950000

Re: Docket No.  
GTE Florida Incorporated's Tariff Filing for Large Business Toll  
Customers - Tariff Authority Number T-95-293

Dear Ms. Bayo:

On May 9, 1995, GTE Florida Incorporated filed a Request for Confidential Classification and Motion for Permanent Protective Order in connection with the above-referenced tariff filing. The Executive Summary which accompanied the Request has been revised in response to comments and questions from the Commission Staff. Enclosed are an original and fifteen copies of the revised Executive Summary. Please discard the Executive Summary you have on file and replace it with this new version. Mr. D'Haeseleer has received the revised Executive Summary.


We apologize for any inconvenience this may cause. If you have any questions with regard to this matter, please contact me at (813) 228-3094.

Very truly yours,  
  
Kimberly Caswell

KC:tas  
Enclosures

c: Walter D'Haeseleer

A part of GTE Corporation

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DOCUMENT NUMBER-DATE  
04969 MAY 23 1995  
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## EXECUTIVE SUMMARY

### Introduction

This tariff revision adds Contract Service Arrangements (CSAs) for intraLATA toll service for large business customers, defined for purposes of this filing as those that commit to at least 5000 minutes per month of toll business with GTE Florida Incorporated (GTEFL). These arrangements will be offered to these customers in lieu of standard tariff offerings, on a case-by-case basis, at contractual rates. The contract rates will comply with the Commission's imputation guidelines for establishing the competitive price floor for local exchange company (LEC) services.

CSAs are necessary for GTEFL to meet existing competition in the intraLATA toll market. Today, interexchange carriers commonly offer large business customers contracts for carriage of both intra- and interLATA toll. Because of its federal consent decree restrictions, GTEFL can offer only intraLATA toll service. Thus, GTEFL is disadvantaged from the outset. This disadvantage is exacerbated by the fact that GTEFL is required to offer the same toll rates to all customers.

IXCs, in contrast, have much more latitude in devising favorable pricing arrangements because of their ability to package inter- and intraLATA service and to offer large customers nationwide contracts. Often, these large customers' toll minutes of use will be mostly on the interLATA side. Nevertheless, since the discount is on total toll usage, intraLATA minutes are discounted to the same extent as interLATA minutes. GTEFL is thus doubly disadvantaged. It cannot offer interLATA service, and it cannot offer intraLATA contract discounts. While this Commission cannot control GTEFL's federal restrictions, it does have the authority to grant GTEFL the additional pricing flexibility that will eliminate at least some of the artificial competitive disparity between LECs and IXCs.

The requested CSAs will also help GTEFL to respond to other IXC strategies for serving large customers. For instance, IXCs sometimes purchase dedicated T1 facilities to run from their points of presence (POPs) to particular large business customers' premises. In this way, a customer need not go through GTEFL's switch to get to its IXC. The customer will pay high-capacity (hi-cap) charges, rather than usage. For a sufficiently large customer, this arrangement drastically reduces effective access charges. GTEFL today lacks the pricing flexibility it needs to try to compete with the favorable rates IXCs can offer customers through these kinds of arrangements.

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It is beyond doubt that large business customers already enjoy meaningful choice in the intraLATA toll market. The recent intraLATA presubscription proceeding (Docket no. 930330-TP) focussed on asserted benefits for residential and small business users. The record in that docket confirms that the more sophisticated, large business users already enjoy competitive options for their intraLATA toll.

The Commission's authorization of 1+ competition will inevitably cause GTEFL to lose substantial numbers of smaller customers. This is particularly true if GTEFL's interLATA restriction remains in place. Thus, the authorization of intraLATA presubscription makes it more critical than ever for GTEFL to retain as many high-volume, high-revenue-producing customers as it can, in an attempt to offset losses in other market segments.

GTEFL is aware that issues such as toll rate deaveraging and effective competition for toll services will be treated in Docket 940880-TP. However, those proceedings have been delayed. The hearings, originally scheduled for April of this year, will not be held until the end of August. The Commission is now set to decide the case in late November of 1995. Any petitions for reconsideration will add still more delay in revising rules governing toll services. And while legislation pending for the Governor's signature would increase GTEFL's toll pricing possibilities, that flexibility will not be available until at least January of 1996. If GTEFL is forced to wait that long for additional flexibility in market segments that are competitive today, it will lose customers and the associated revenues for reasons that have nothing to do with its skill in the marketplace.

These losses are not just theoretical. GTEFL has attached an affidavit from a potential large business customer. The affidavit states that this company will contract with GTEFL for intraLATA service, provided GTEFL can offer it off-tariff, volume toll pricing at a specified competitive rate. If the Commission approves GTEFL's CSA proposal, GTEFL will secure this customer's business. If the Commission denies GTEFL the requested ability to use CSAs, GTEFL will lose this customer to a competing IXC, which can offer a contract to meet this customer's needs. This is concrete proof of the significant bypass that is occurring today. There are many more such examples of losses that have and will occur only because GTEFL cannot today offer contract arrangements to its large customers. If GTEFL is forced to wait for all relief until after the conclusion of the toll deaveraging docket, it will be too late. The demonstrated loss of large customers will continue

unabated. Loss of these customers will weaken GTEFL's ability to position itself for the fierce competition sure to follow from implementation of 1+ presubscription.

The action GTEFL seeks will not disrupt Docket 940880-TP, nor will it contravene the Commission's decision in Docket 930330-TP. GTEFL's filing addresses only a very specifically defined segment of its customers. This Commission has explicitly sanctioned different treatment of large business and smaller customers. For example, because of large business customers' greater sophistication, the Commission has determined they do not need the perceived protection of a tariff. Therefore, the Commission has permitted alternative access vendors (AAVs) to operate on a contract, rather than tariff, basis, because AAVs have customarily dealt with only large business users. (Order No. 24877 at 17 (1991).) That same logic applies equally in this case.

This filing should not provoke controversy from GTEFL's competitors, because they have openly acknowledged that the intraLATA toll market for large business is competitive. The record in Docket 930330-TL reflects this fact, as does the affidavit GTEFL has submitted with this filing.

The Commission's legal authority to approve contract arrangements is clear. Southern Bell Tel. & Tel. Company's Proposal for Contract Service Arrangements, Order no. 13603 (1984). The Commission has repeatedly granted CSA authority when there is a reasonable potential for uneconomic bypass of a LEC's services. See, e.g., Request for Approval of Tariff to Add Interconnection of Mobile Service to Contract Service Arrangements (Star Information Plus), Order no. PSC-94-0248-FOF-TL (1994); Proposed Tariff Filing to Establish Rates and Charges for Digital Channel Service by GTE Florida Incorporated, Order no. 24039 (1991); Southern Bell, supra. As stated in GTEFL's tariff, "[u]neconomic bypass occurs when an alternative service arrangement is utilized, in lieu of Company services, at prices below the Company's rates but above the Company's incremental costs." (GTEFL General Services Tariff, sec. A5.6.1.) In this case, the potential for bypass of GTEFL's intraLATA toll service is tangibly demonstrated in the form of the affidavit that GTEFL has submitted with this filing. If GTEFL can use CSAs, it will have the pricing flexibility necessary to retain this large toll customer. If GTEFL cannot offer CSAs, customers will bypass GTEFL in favor of a more favorable arrangement with an IXC. There is no need for any additional evidence to meet the established standard for CSA authority.

### Description of Present Tariff

The existing tariff does not allow contract arrangements for any toll customer segment. As discussed above, it does not meet GTEFL's needs because it does not permit GTEFL to compete effectively for high-volume business toll users. IXCs may today offer favorable contracts packaging inter- and intraLATA toll services. While approval of this filing will not eliminate GTEFL's legal inability to offer a complete toll product, it will at least move toward competitive parity for GTEFL and its IXC competitors.

The present tariff was approved with the expectation that GTEFL would remain the only provider of 1+ intraLATA toll in its serving region. With that expectation gone, the tariff is, by definition, outdated. It does not allow for the enormous changes that will occur with intraLATA presubscription. GTEFL must begin to prepare for those changes now, just as IXCs are taking immediate measures to best position themselves for the new environment. Unnecessary revenue losses caused by GTEFL's inability to meet large customers' needs will affect the average ratepayers who must bear the burden of these undue losses.

### Description of Proposed Tariff

The proposed tariff revision will allow GTEFL to offer CSAs for intraLATA toll to large business customers on a case-by-case basis. Contracts will guarantee GTEFL high usage for a specified length of time (either one or three years). This is a customary commercial tool to reduce business risk. As discussed, IXCs already offer contracts to these sophisticated customers for their toll service. It is now essential that GTEFL also have this means of meeting large customers' needs, in anticipation of the certain loss of smaller toll customers with the advent of 1+ competition.

GTEFL does not contemplate that toll contracts would be filed with the Commission as a matter of course. Like other types of CSAs, toll CSAs would require no prior Commission approval. They would, however, appear on the Company's quarterly CSA report and remain available for the Commission's review upon request. Imputation data will also be available upon Commission request, so that the agency can assure that GTEFL is not pricing below the relevant imputed costs.

### Technical Information

No changes of a technical nature are proposed in this filing.

### Market Information

Existing conditions in the large business segment of the intraLATA toll market are discussed above. GTEFL today faces challenges from large, well-established long-distance carriers which this Commission does not regulate as heavily as the LECs. Competitive challenges in the intraLATA market as a whole will increase with implementation of intraLATA presubscription. GTEFL must be given the broadest authority possible to compete with IXCs which already can offer creative pricing through packaged intra- and interLATA toll contracts. CSAs are a critical part of this authority because they permit GTEFL to price competitively. They also avoid the tariff drawback of public disclosure of the terms of GTEFL's service to particular customers. Contract rates will not be publicly filed. Therefore, GTEFL's competitors will not be able to tailor more favorable contracts without the usual market trial and error process.

### Competitor Information

GTEFL competes in the intraLATA toll market with large, national companies, such as AT&T, Sprint, and MCI, as well as numerous small IXCs certificated in Florida.

### Revenue Information

This offering is geared to large business customers. These are high-volume customers that generate substantial revenues. Their business is critical to GTEFL, particularly with the advent of 1+ competition. As the attached affidavit indicates, if GTEFL is granted contract authority, it can be expected to retain existing large customers' business and win back accounts it has already lost because of its competitive disadvantage.

### Cost Information

GTEFL's CSA pricing will comply with the Commission's guidelines for establishing the competitive price floor for LEC toll services, as set forth in Order number PSC-

92-0146-FOF-TL (April 1, 1992). Specifically, revenues from CSAs will cover aggregate access charges for high volume customers using special access (DS1 facilities) to connect to the public switched network. The Commission can monitor this standard by reviewing GTEFL's imputation data. Prices offered will respond to market conditions.

### Conclusion

This narrow tariff revision merits approval because meaningful, demonstrable competition already exists in the large business user segment of the intraLATA toll market. GTEFL's competitors can provide creative arrangements that combine inter- and intraLATA rates and services. This tariff will enhance GTEFL's ability to compete with these full service toll providers. It will better allow GTEFL to position itself to mitigate the market share and revenue losses accompanying 1+ competition. At the same time, it will give customers additional options they might not otherwise have. Finally, the sophisticated customers to which this tariff is directed are well-equipped to protect their own interest. They do not need the perceived informational benefits that tariffed rates might provide to smaller customers.

MEMORANDUM

MAY 23, 1995

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TO: DIVISION OF RECORDS AND REPORTING

FROM: DIVISION OF LEGAL SERVICES (HATCH) *FL*

RE: NOTICE OF UNDOCKETED COMMISSION STAFF WORKSHOP - PAY TELEPHONE OPERATIONS, PARTICULARLY WITH RESPECT TO REDUCING LOCAL CRIMINAL ACTIVITY THROUGH CURTAILMENT OF PAY TELEPHONE SERVICES TO THE PUBLIC AND THROUGH RESTRICTIONS ON THE LOCATION OF INSTRUMENTS

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Attached is an NOTICE OF COMMISSION STAFF WORKSHOP to be issued in the above-referenced docket. (Number of pages in Order - 3)

TWH/clp  
Attachment  
cc: Division of Communications  
I:paytelno.twh

OK  
CP

*Location: Paytelmo. NOT*