

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

December 7, 1995

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYO)

FROM: DIVISION OF COMMUNICATIONS (NORTON) *nbu*
DIVISION OF LEGAL SERVICES (CANZANO) *TR*

RE: DOCKET NO. 931074-TP - EXPANDED INTERCONNECTION PHASE II
AND LOCAL TRANSPORT RESTRUCTURE (T-95-554 filed 8/31/95
BY GTE Florida Inc.; T-95-564 filed 9/5/95 by Central
Telephone Company of Florida; T-95-565 filed 9/5/95 by
United Telephone Company of Florida; T-95-566 filed
9/5/95 by Southern Bell Telephone and Telegraph Company)

AGENDA: DECEMBER 19, 1995 - REGULAR AGENDA - TARIFF FILING -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: 8-MONTH EFFECTIVE DATE: MAY 5, 1996

SPECIAL INSTRUCTIONS: I:\PSC\CMU\WP\931074TP.RCM

CASE BACKGROUND

Switched Access Service is provided by LECs to IXCs for origination and termination of IXC toll traffic on the LEC network. Switched Access Service provides a communications path between the IXC's point of presence (POP) and the end user's premises. There are currently four major rate elements associated with the provision of Switched Access in Florida:

- 1) **Carrier Common Line** is the facility that connects the end user's premises to the Local Central Office serving that end user.
- 2) **Local Switching** is the rate that recovers the cost of switching traffic in the Local Central Office, going to or from the end user.
- 3) **Local Transport** is the rate that recovers the cost of transporting traffic between the Local Central Office serving the end user with the IXC's POP. This portion of the call may or may not involve the use of the Access Tandem (which serves to aggregate switched traffic within the Equal Access Exchange Area) depending on the way the IXC's trunking arrangements are configured.

DOCUMENT NUMBER-DATE

12257 DEC-78

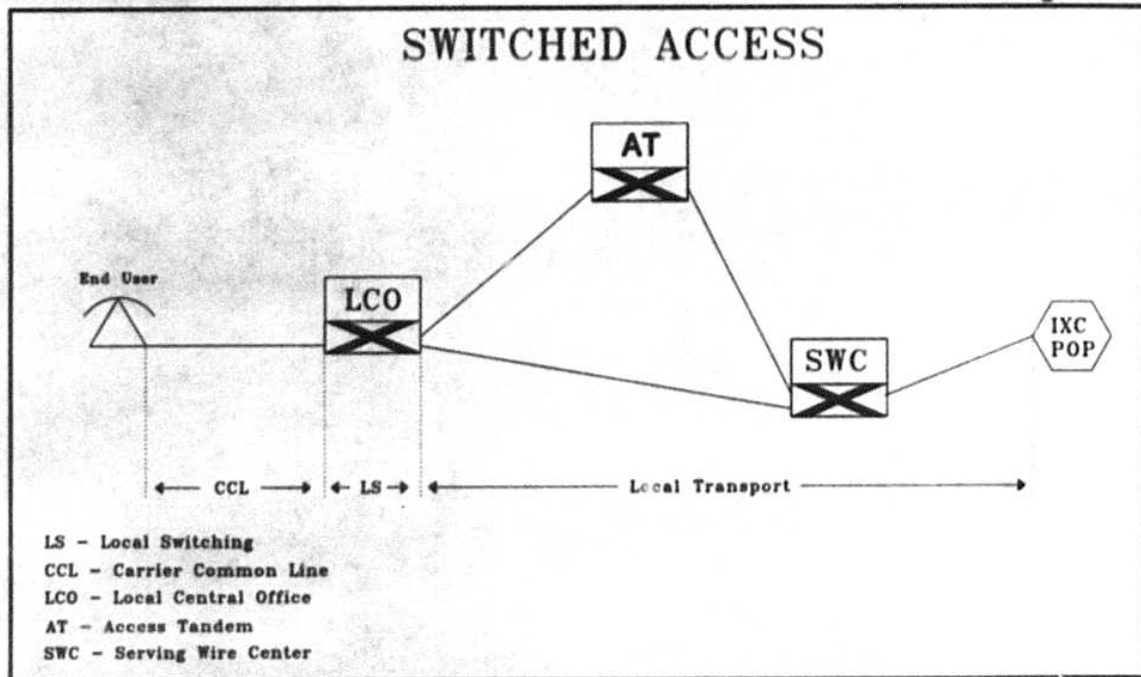
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4) **Busy Hour Minute of Capacity (BHMOc)** is a capacity charge unique to Florida. It was originally designed to ensure revenue neutrality when access charges were first developed following divestiture. Most LECs in Florida have eliminated this rate element.

The following diagram shows how Switched Access is provided, and the associated rate elements.

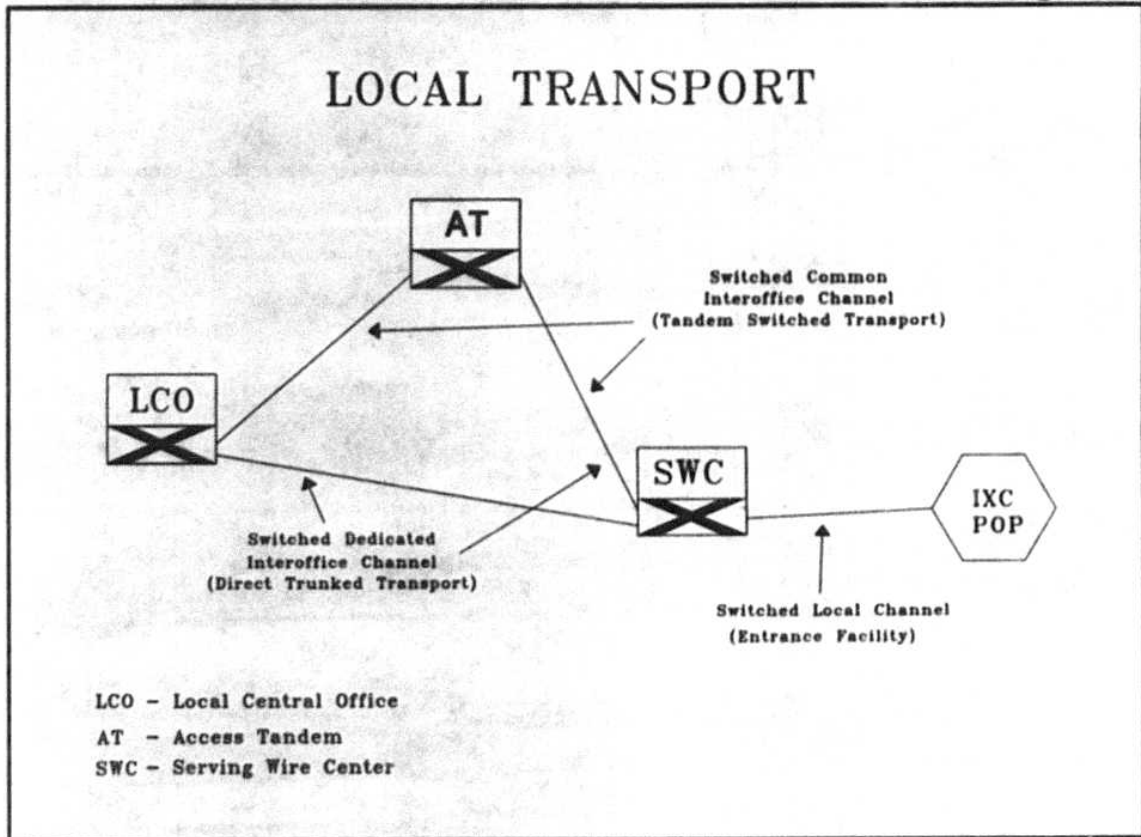
Diagram 1



Expanded interconnection, as defined in this docket, only allows for competition among carriers to provide Local Transport. Although the potential for competition exists for all switched access rate elements, this proceeding addresses only the Local

Transport rate element. Diagram 2 shows the various components and possible network configurations for Local Transport.

Diagram 2



The components of Local Transport will be described in more detail in the body of the recommendation. The major elements include:

- * the **Entrance Facility**, which connects the IXC POP to the LEC Serving Wire Center.
- * One or more **Interoffice Channels** provide a path between the Serving Wire Center and the Local Central Office serving the end user. The Interoffice Channel can be a direct link over a **dedicated facility** (where traffic volumes warrant), or part of a **common facility** connected via the Access Tandem where traffic from multiple IXCs is aggregated.

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As explained below, in Florida, Local Transport is currently charged at a single rate per minute of use assessed alike to all IXCs whether their traffic is transported via dedicated or common facilities.

History of Federal Policy on Local Transport

In the Modified Final Judgment (MFJ), an "Equal charge per unit of traffic" rule was imposed, according to the terms of Appendix B, entitled Phased-In BOC Provision of Equal Exchange Access. Specifically, this provision required that for a period of time that was originally scheduled to end September 1, 1991,

... the charges for delivery or receipt of traffic of the same type between end offices and facilities of interexchange carriers within an exchange area, or within reasonable subzones of an exchange area, shall be equal, per unit of traffic delivered or received, for all interexchange carriers; ...

This "Equal Charge" rule in the MFJ was designed to allow new IXCs an opportunity to compete with ATT-C in an effort to gain some market share. By requiring that all Local Transport traffic be charged at the same rate per minute of use, the rule precluded ATT-C from taking advantage of efficiencies that would accrue by virtue of its traffic volumes and the location of its facilities.

FCC Docket 91-213, In the Matter of Transport Rate Structure and Pricing, was initiated to determine the new rate structure for Local Transport. An FCC order released in October 1992 set up an interim Local Transport structure that was due to expire at the end of 1995. That order identified and set rates for the different types of transport configurations, and granted limited pricing flexibility to the RBOCs (Regional Bell Operating Companies). (The interim rate structure has now been continued for an unspecified time.)

A subsequent FCC order (also issued October 1992) required Non-Recurring Charge (NRC) waivers to allow IXCs to reconfigure their trunking arrangements. This NRC waiver has enabled IXCs to adapt to the new Local Transport rate structure approved by the FCC, without incurring all the expenses typically associated with such reconfiguration.

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In FCC Docket 91-141, on Expanded Interconnection, in an August 3, 1993 order, the FCC adopted rules for switched transport collocation by AAVs, allowing interconnection into LEC central offices, serving wire centers, tandems, and remote switches. That order facilitates the ability of AAVs to compete with LECs for the provision of switched transport services provided to IXCs. The NRC waivers discussed in the previous paragraph are designed to encourage IXCs to continue to utilize the RBOC networks in the face of competitive alternatives.

History of Local Transport Policy in Florida

Florida's Local Transport rate element was originally designed as a minute-of-use rate like the FCC's rate. However, unlike the federal rate structure, Florida's usage rate was not distance sensitive. The purpose of establishing a non-distance sensitive rate structure for all access traffic within an Equal Access Exchange Area (EAEA) was to encourage IXCs to serve both large and small (urban and rural) communities. Thus, in Florida, although rates vary by LEC, each LEC currently assesses Local Transport at a single rate per minute. That minute-of-use rate applies no matter what kind of interoffice transport facility is used.

The rest of Florida's intrastate switched access rate elements initially mirrored the FCC rate levels. Rate levels were uniform statewide at the outset, but diverged later after Commission decisions in DN 860984 (NTS cost recovery).

Commission Decision in Order No. PSC-95-0034-FOF-TL

In Order No. PSC-95-0034-FOF-TL in this proceeding, this Commission approved the revised rate structure proposed by the LECs to address forthcoming competition. This rate structure matches the rate structure approved by the FCC for LEC interstate Local Transport. It was the consensus of the parties that the structure adopted at the interstate level, which includes both tandem and dedicated switched transport options as well as a separate usage based charge designed to ensure revenue neutrality, was the appropriate rate design to adopt. The majority (about 70%) of switched transport traffic is interstate.

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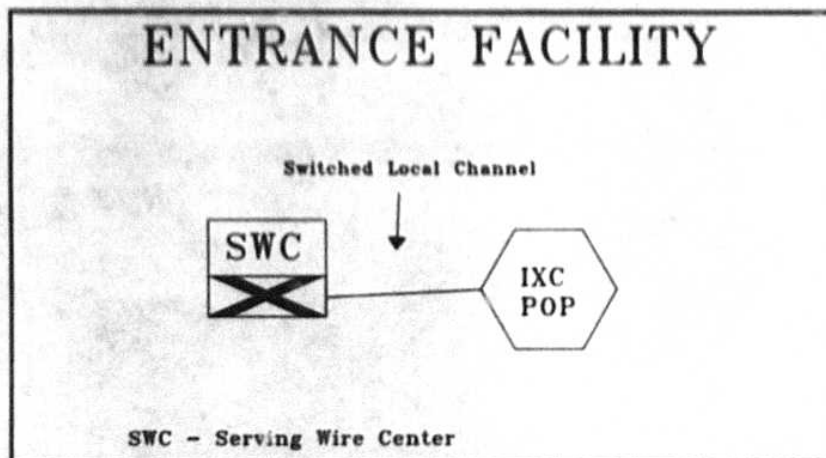
Rate Structure

The rate structure which the Commission approved was designed to assess charges in a manner similar to the way in which costs are incurred, and the way traffic is routed through the network. The new structure consists of the following rate elements:

1) Entrance Facility:

Switched Local Channel - Connects the IXC POP to the LEC Serving Wire Center (SWC). The structure consists of a flat monthly rate per channel, either Voice Grade, DS1, or DS3.

Diagram 3

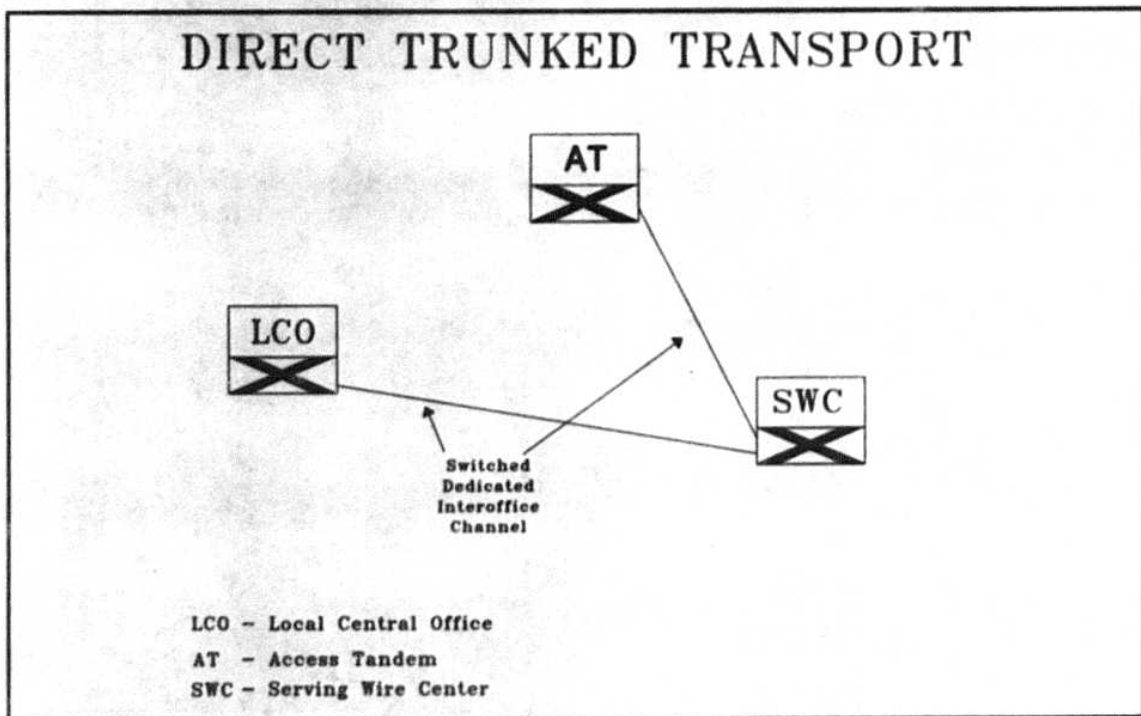


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2) Direct Trunked Transport:

Switched Dedicated Interoffice Channel - Connects the SWC with either the access tandem or the end user's local central office by means of a dedicated facility. The two part rate structure consists of a flat monthly fixed rate plus a mileage charge, both of which vary depending on the facility ordered (Voice Grade, DS1, or DS3).

Diagram 4



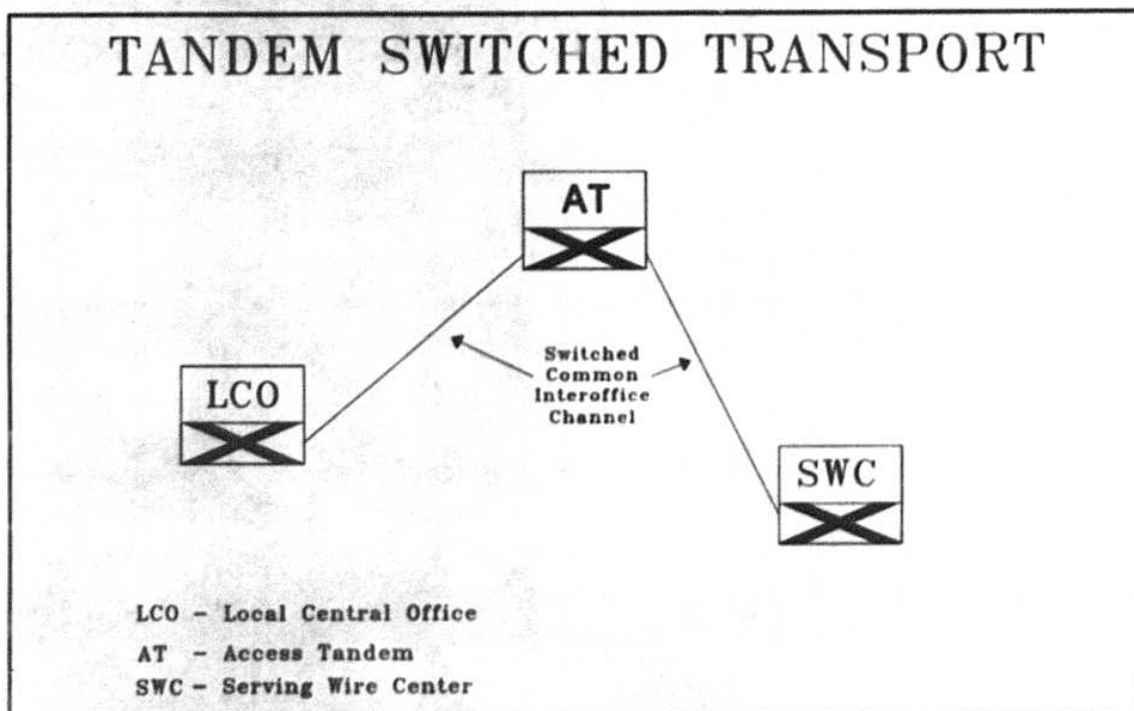
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Tandem Switched Transport:

Switched Common Interoffice Channel - Connects the SWC to the access tandem, or the access tandem to the end user's local central office, over common facilities. The two part rate structure consists of a usage-based termination charge (per minute of use (MOU) per termination) and a distance sensitive usage-based facility charge (per MOU per mile).

Access Tandem Switching - Assessed to traffic that is routed through the access tandem. It is a non-distance sensitive usage rate per MOU.

Diagram 5



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Residual Interconnection Charge (RIC):

Usage-based MOU rate assessed to all switched access users whether served by the LEC or some other vendor. The purpose of the element is to maintain LEC revenue neutrality with respect to Local Transport revenues. The FCC intends that this element will eventually be eliminated, as Florida's BHMOC has been.

An IXC may select different capacities for each path (i.e., connection between the SWC and the end user's central office) depending on the projected amount of traffic it expects to receive from or send to a particular location (central office). In that way, the DS1 and DS3 facility offerings, plus the tandem switching option can serve to encourage IXCs to utilize the LEC network more efficiently than does the current uniform minute-of-use rate structure. Having the same rate structure for both interstate and intrastate traffic provides some efficiencies since the traffic itself is not segregated by jurisdiction during routing. A similar structure facilitates accurate reporting of Percent Interstate Usage (PIU) as well.

Rate Levels

Although this Commission approved the proposed rate structure in Order PSC-95-0034-FOF-TL, it rejected the rate levels proposed by the LECs and which also mirrored the interstate rates. This Commission determined that the rate levels and relationships for Local Transport should more closely reflect the underlying costs, and should encourage efficient utilization of the LEC network. The interstate rates in effect at the time of the Florida hearings did not, in this Commission's judgment, do that. The Commission therefore required that LECs refile their tariffs with rates that conform to the following guidelines:

- * The intrastate pricing and structure of Local Transport should accurately reflect the underlying cost structure. Prices should be set such that they recover incremental costs and provide a contribution to joint and common costs.
- * The relationship between prices for various transport options should encourage the optimal and most efficient utilization of the LEC network.

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- * The amount of contribution need not be identical between the Tandem Switched and Direct Trunked Transport options. However, the difference between contribution levels should not be unduly discriminatory or serve to distort demand for the various options. Therefore, the differences in contribution levels should not disguise the differences (or similarities) in costs.

In addition, the following constraints were also imposed on the LECs' revised filings:

- 1) LECs shall develop estimates of their costs for their Entrance Facilities, Tandem Switched, and Direct Trunked transport rate elements to serve as benchmarks against which to measure their pricing proposals. The LECs shall provide incremental cost estimates for each of these elements. Also, to the extent possible the LEC shall identify the amount of any costs that, while not directly attributable to one of these elements, is associated with this service.
- 2) LECs shall provide an analysis justifying the contribution levels which they incorporate into their proposed rates.
- 3) LECs shall include a cross-over point analysis in their filings. The cross-over point analysis shall cover different mileage distances, and cross-over points shall be calculated for Entrance Facilities separately from interoffice channels. The RIC shall not be included.
- 4) The LECs may use demand estimates for the RIC based on networks as currently configured. The NRC waiver was designed to encourage more efficient trunking configurations on the part of the IXCs. Therefore the LECs were to use 1994 demand estimates using as much actual data as was available in the timeframe allowed so that the results would be more accurate.

On or about September 5, 1995, the LECs refiled their tariffs as required by the order. At the October 10 agenda, staff brought a recommendation to suspend the tariffs in order to allow time to analyze the proposed rates and the accompanying support data. We had anticipated that the filings would be controversial and would require some time to hear the viewpoints of all the parties on the Local Transport rate levels. At the agenda, representatives of GTE

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Florida and SBT informed the Commission of their desire to have the new rates in place by January 1, 1996. This was due to the fact that the Local Transport rates are integral to the negotiations currently underway for Local Interconnection, pursuant to the revisions in Chapter 364, F.S. Staff agreed to try to bring back a final recommendation as quickly as possible.

Accordingly, in lieu of formal discovery and hearings, staff held a workshop on November 15, 1995 in order to provide a forum for interested parties to present their viewpoints and ask questions on the proposed tariffs. The parties subsequently came to agreement, and the LECs have submitted revised tariff pages in accordance with their agreed upon rate levels.

DISCUSSION OF ISSUES

ISSUE 1: Should the tariffs filed by Southern Bell, GTE Florida, Sprint United and Sprint Centel to restructure their Local Transport offerings be approved?

RECOMMENDATION: Yes, the tariffs should be approved effective January 1, 1996.

STAFF ANALYSIS: The tariffs as originally filed did not contain all the supporting information that was required by Order No. PSC-95-0034-FOF-TL. In subsequent discussions and at the November 15 workshop, staff requested and received more information. In addition, the LECs and other parties negotiated and came to agreement on certain rate changes which the LECs then submitted to staff. Staff recommends approval of the tariffs. We believe that they comport with the requirements of the order and that the rates adequately reflect the policy set forth therein. Moreover, the parties are in agreement that these rates are satisfactory.

Table 1 shows the LECs' rates as proposed in their Local Transport tariff filings. Staff has reviewed the price, cost and contribution relationships between the transport options contained in the LECs' tariffs. The costs vary widely as do the prices. However, the rates reflect a fairly uniform contribution amount per DS1 equivalent circuit, by LEC. The order required that contribution amounts did not distort or disguise variations and/or similarities in cost. This was the major point at issue during the most recent negotiations among the parties. These rates constitute a compromise in an effort to settle this proceeding and not go to hearing.

TABLE 1

LEC PROPOSED LOCAL TRANSPORT RATES - 1996									
LEC	Entrance Facility		Direct Trunked Transport			Tandem Switched Transport			Residual Interconnection Charge
	Switched Local Channel (Monthly Rates)		Switched Dedicated Interoffice Channel (Monthly Rates)			Switched Common Interoffice Channel		Access Tandem Switching	
	Level of Service	Rate (Per Local Channel) (\$)	Level of Service	Rate (Per Mile) (\$)	Fixed Rate (\$)	Facility rate (per min/per mile) (\$)	Facility Termination (per min) (\$)	Rate (per min) (\$)	Rate (per min) (\$)
SBT Zone 1	VG-2W	\$25.00	VG	\$1.90	\$23.30	\$.00004	\$.00036	\$.00050	\$.005159
	VG-4W	45.24	DS0	3.95	38.37				
	DS1	133.81	DS1	16.75	59.75				
	DS3	2100.00	DS3	175.00	1200.00				
GTE Zone 1	VG-2W	33.08	VG	5.08	-	.0000135	.0001344*	.00075	.0134362
	VG-4W	52.93							
	DS1	260.00/1st-Sys 130.00/Add'l Sys	DS1	5.00	30.00*				
	DS3	1400.00	DS3	70.00	500.00*				
UTF/ CTF Zone 2	VG-4W	80.00	VG	1.80	33.80	.00004	.0002	.00088	UTF: .013997 CTF: .021037
	DS1	210.00	DS1	12.00	71.00				
	DS3	0 mi. -924.00 1-3 -1463.00 >3 -2863.00	DS3	243.00	472.00				

* GTE charges two terminations per minute or per facility.

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Table 2 shows the cross-over points at the LECs' proposed Local Transport rates. A cross-over point is the point at which it is economic, from the customer's (IXC's) point of view, to purchase the next higher grade of service. For example, at the proposed prices for Direct Trunked Transport at five miles, a GTE Florida IXC customer would purchase individual DS-1s if it needed fewer than 23, but would "cross-over" to a DS-3 if it needed more than 23 DS-1s. This is shown by the cross-over point of 22.7. The number in parentheses shows the percent of maximum DS-3 capacity that would be filled at the cross-over point (22.7 + 28 = 81%).

TABLE 2

CROSS-OVER POINTS @ LEC PROPOSED LOCAL TRANSPORT RATES				
Inter-Office Mileage				
	SBT (Zone 1)	GTEFL (Zone 1)	UTF/CTF (Zone 2)	Full Capacity
Mileage	DS1 to DS3 Cross-Over Point (% Capacity)			
5	21.2 (76%)	22.7 (81%)	17.5 (63%)	28 DS1s per DS3
10	17.2 (61%)	20.7 (74%)	18.3 (65%)	
20	14.4 (51%)	18.6 (66%)	19.1 (68%)	
Mileage	Tandem Switching to DS1 Cross-Over Point in Minutes of Use (% Capacity)			
5	135,377 (63%)	78,247 (36%)	42,532 (20%)	216,000 Minutes per DS1
10	180,357 (83%)	95,337 (44%)	58,232 (27%)	
20	237,801 (110%)	124,146 (57%)	84,511 (39%)	

These cross over points reflect a major improvement over those associated with the original filings. For the most part, the cross over points are logical. The few anomalies at the longer distances are a function of the rate design and do not constitute a large percentage of the total volume of minutes. The parties have agreed on the rates, and are willing to accept the minor anomalies.

Contribution Levels

Contribution (that portion of the total price that exceeds the direct costs of providing the service) should be sufficient to recover some portion of the joint and common costs of the firm. In highly competitive markets, prices are driven downwards towards incremental or marginal costs. This is because potential competitors will enter a market where profit margins are high, and attempt to capture market share by offering the service at a lower price. The incumbent will tend to respond by lowering its price, and this process continues until prices reach a level below which it is not worth it to stay in business. Conversely, to the extent that a market does not experience much competition, the incumbent can maintain higher prices.

This Commission ruled that the contribution levels in the rates for the various transport options need not be identical but should be reasonably close so as not to disguise differences or similarities in costs between the rate elements. The concern was that the LECs could selectively reduce the contribution levels for only some transport options, while maintaining higher levels on others where customers, who because of their limited demand, would not have competitive alternatives available to them. The proposed rates reflect contribution levels that are relatively similar across the various transport options. Staff does not have a problem with the contribution levels as agreed upon by the parties.

Residual Interconnection Charge (RIC)

The RIC, as discussed above, is a non-cost based rate element designed to allow the LECs to remain revenue neutral after the restructured rates are implemented. The LECs have provided workpapers showing the calculation of the RIC. Centel has eliminated its BHMOC rate element and transferred the charges to the RIC. This modification consolidates the two "revenue plug" rates, and accounts for approximately \$.006 of the RIC for that company. The consolidation was approved in concept in the prior proceeding. Staff has reviewed the calculations and is satisfied that the RICs, as proposed, are reasonable, and comport with the terms of the order.

Zone Density Pricing

In this docket, the Commission generally adopted the FCC's approach to zone density pricing to afford the LECs some measure of flexibility for pricing access services. Specifically, LECs are

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allowed to implement three pricing zones. The prices within a zone are uniform, but the prices vary between the zones. Each central office is assigned to a particular density zone based on the number of DS1 equivalent circuits for switched access, high capacity dedicated access, and high capacity private lines. The LECs plan to match their interstate and intrastate zones. The LECs will change the zone assigned to a particular central office if growth patterns sufficiently increase the density, or if competitive conditions change in the area served by that central office.

The LECs have now filed zone prices for some of the Local Transport rate elements. For GTE and SBT, the majority of demand is in Zone 1, which reflects the greatest amount of competition and thus the lowest price. For United and Centel, the demand in Zones 1 and 2 are almost equal, but slightly more demand falls into Zone 2. (Table 1 above shows the rates for the respective zones with the highest demand for each LEC.) The Commission required that each zone price recover its average incremental cost. Staff is satisfied that this requirement has been met.

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ISSUE 2: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open. If the Commission approves Issue 1, these tariffs should become effective on January 1, 1996. If a timely protest is filed within 21 days from the issuance date of the order, the tariffs should remain in effect pending the resolution of the protest. A protest of one tariff shall not keep the other tariffs from becoming final. If no timely protest is filed, these tariffs shall become final. This docket should remain open pending resolution of other issues and approval of required expanded interconnection tariffs.

STAFF ANALYSIS: If the Commission approves Issue 1, these tariffs should become effective on January 1, 1996. If a timely protest is filed within 21 days from the issuance date of the order, the tariffs should remain in effect pending the resolution of the protest. A protest of one tariff shall not keep the other tariffs from becoming final. If no timely protest is filed, these tariffs shall become final. This docket should remain open pending resolution of other issues and approval of required expanded interconnection tariffs.