HOPPING GREEN SAMS & SMITH
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS
123 SOUTH CALHOUN STREET
POST OFFICE BOX 6526
TALLAHASSEE, FLORIDA 32314
(904) 222-7500
FAX (904) 224-8551
FAX (904) 425-3415

JAMES S. ALVES
BRIAN H. BIBEAU
KATHLEEN BLIZZARD
ELIZABETH C. BOWMAN
RICHARD S. BRIGHTMAN
PETER C. CUNNINGHAM
RALPH A. DEMEO
THOMAS M. DEROSE
WILLIAM H. GREEN
WADE L. HOPPING
FRANK E. MATTHEWS
RICHARD D. MELSON
DAVID L. POWELL
WILLIAM D. PRESTON
CAROLYN S. RAEPPLE
GARY P. SAMS
ROBERT P. SMITH
CHERYL G. STUART

KRISTIN M. CONROY
CONNIE C. DURRENCE
JONATHAN S. FOX
JAMES C. GOODLETT
GARY K. HUNTER, JR.
JONATHAN T. JOHNSON
ROBERT A. MANNING
ANGELA R. MORRISON
GARY V. PERKO
KAREN M. PETERSON
MICHAEL P. PETROVICH
DOUGLAS S. ROBERTS
LISA K. RUSHTON
R. SCOTT RUTH
JULIE R. STEINMEYER

OF COUNSEL
CARLOS ALVAREZ
W. ROBERT FOKES

Writer's Direct Dial No.
(904) 425-2313

January 25, 1996

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Ms. Blanca S. Bayó
Director, Records & Reporting
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Re: Docket No. 950985-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Metro Access Transmission Services, Inc. (MCImetro) in the above referenced docket are the original and 15 copies of MCImetro's Post-Hearing Brief, together with a WordPerfect 5.1 diskette containing the brief.

By copy of this letter this document has been provided to the parties on the attached service list.

Very truly yours,

Richard D. Melson

RDM/cc
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cc: Parties of Record

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Resolution of petition(s) to establish nondiscriminatory rates, terms, and conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes.	Docket No. 950985-TP Filed: January 25, 1996

MCI METRO ACCESS TRANSMISSION SERVICES, INC.'S POST-HEARING BRIEF

MCI Metro Access Transmission Services, Inc. (MCImetro) hereby submits its Post-Hearing Brief in the above-captioned docket.

SUMMARY

The best arrangement for the exchange of local traffic between BellSouth and ALECs is mutual traffic exchange in which the parties have co-carrier status and compensate each other "in kind" by terminating local traffic from the other party without explicit compensation. This arrangement creates the fewest barriers to development of a fully competitive local exchange telecommunications market.

The appropriate arrangement for the exchange of toll traffic between BellSouth and ALECs is the payment of terminating switched access charges by the carrier originating the traffic to the carrier terminating the traffic. This is the way that a LEC is compensated for terminating toll traffic today by IXCs and other LECs. Ultimately, any required support for universal service should be quantified and recovered through a neutral

funding mechanism, at which time contribution should be removed from switched access charges.

All arrangements for termination of local traffic and other related matters should be tariffed. However, the tariffing of a specific arrangement negotiated by one set of parties, such as the Stipulation and Agreement entered into between BellSouth and a number of other parties (the "Bell-Cable Agreement"), should not preclude the tariffing of different arrangements that may be negotiated by other parties, nor should it set a precedent for Commission action in this docket.

ISSUE BY ISSUE ANALYSIS

Issue 1. What are the appropriate interconnection rate structures, interconnection rates, or other compensation arrangements for the exchange of local and toll traffic between the respective ALECs and Southern Bell?

MCImetro: The appropriate arrangement for exchange of local traffic is mutual traffic exchange in which the parties have co-carrier status and compensate each other "in kind" by terminating traffic from the other party without cash compensation. The appropriate basis for exchange of toll traffic is the payment of terminating switched access charges.

ARRANGEMENTS FOR TERMINATING LOCAL TRAFFIC

In establishing the financial arrangements for the exchange of terminating local traffic between BellSouth and ALECs, the Commission should adopt a compensation arrangement that fosters the ultimate development of effective competition in the local exchange markets. (Cornell, T 363-4) This is particularly

appropriate in light of the legislative finding that the competitive provision of telecommunications service, including local exchange telecommunications service, is in the public interest. §364.01(3), Florida Statutes.

Principles to Ensure Development of Effective Competition

In order to further this policy goal, there are at least three principles that should govern compensation arrangements for terminating local traffic:

(1) Competing local exchange carriers must be treated as co-carriers, not customers, in recognition of the fact that the need for interconnection becomes mutual as soon as an entrant signs up its first customer. (Cornell, T 366A) While Dr. Banerjee began his summary by emphasizing the entrants' need for interconnection to provide ubiquitous reach for their local service, he readily agreed that interconnection is equally important for BellSouth to maintain ubiquity of reach. (Banerjee, T 664, 687-8)

(2) The compensation arrangements should foster efficiency, rather than inefficiency. (Cornell, T 367)

(3) The compensation arrangements should not force entrants to select one technology or network architecture over another. (Cornell, T 367)

Why Mutual Traffic Exchange is Good Public Policy

The compensation arrangement that best serves these three goals is mutual traffic exchange. In this arrangement, the

compensation for terminating local exchange traffic that passes between the networks of two competing local exchange providers is payment for the terminating function in kind, rather than in cash. (Cornell, T 370) Although Mr. Scheye's direct testimony attempted to cloud the issue, this is the method that has been used in Florida whenever local traffic is passed between BellSouth and another local exchange company. (Scheye, T 455-6, 553) The use of mutual traffic exchange in these relationships, where the parties have nothing to gain from anticompetitive or inefficient behavior, strongly suggests that mutual traffic exchange is an efficient approach. (Cornell, T 371-2, 735-6)

There are at least five reasons that mutual traffic exchange, or payment in kind, is preferable to payment in cash:

(1) Mutual traffic exchange is reciprocal, thus respecting that all participants are co-carriers. (Cornell, T 370) Reciprocity simply means that both BellSouth and the entrant "pay" each other (in cash or in kind) exactly the same amount for terminating local traffic. A lack of reciprocity, with the entrant receiving less than the incumbent for terminating local traffic, would create an unnecessary barrier to entry similar to a price squeeze. (Cornell, T 368-9) Mr. Scheye claims that BellSouth's proposal to charge ALECs switched access charge rates of 4.495 cents per minute is "reciprocal." (Scheye, T 507) Yet Mr. Scheye uses a distorted definition of reciprocity under which the per-minute payment by BellSouth to an ALEC could be significantly less than the per-minute payment from the ALEC to

BellSouth. This can occur under BellSouth's proposal because an ALEC, which has no "special obligations" for universal service, would not be allowed to include a carrier common line (CCL) charge or a residual interconnection charge (RIC) in its interconnection rate. (Scheye, T 516-9; Banerjee, T 617, 674-5)

(2) Mutual traffic exchange is the least costly method of compensating for terminating traffic and therefore is the method most likely to help drive local exchange rates as low as possible. (Cornell, T 370-1) Mutual traffic exchange is the least costly method both because it avoids unnecessary measurement and billing costs and because it gives each carrier the incentive to minimize its cost of terminating local traffic. (Cornell, T 371-5) If compensation is in cash, a carrier such as BellSouth has the incentive to make the cost of termination inefficiently high, and to pass that inefficiently high cost, plus contribution, along to its competitors.[1] In mutual traffic exchange, the burden of inefficiently high costs falls on the carrier who incurs them, not on its competitor, thus providing an incentive to every carrier to terminate traffic in the most efficient manner possible. (Cornell, T 372-3)

(3) Mutual traffic exchange provides the least ability for BellSouth to use the compensation mechanism to try to impose unnecessary and anticompetitive costs on the entrants. (Cornell,

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[1] Dr. Banerjee admitted that his price-setting methodology could result in either the ALEC or BellSouth passing inefficiently high costs to the other through the interconnection charge. (Banerjee, T 676-8)

T 371) For example, BellSouth's compensation mechanism could require the development of systems to measure and jurisdictionally sort traffic, which in turn could impose unnecessarily high costs on its competitors. (Cornell, T 373-5)

(4) Mutual traffic exchange is neutral in terms of both the technology and architecture that entrants might choose to adopt. It is therefore the method most likely to enhance dynamic efficiency in the provision of telecommunications. (Cornell, T 371) Mutual traffic exchange is neutral because the amount paid to a carrier does not depend on that carrier's choice of technology or architecture. (Cornell, T 375) A switched access charge structure, on the other hand, is not neutral. Assume that entrants are required to mirror BellSouth's structure for switched access charges, and are allowed to charge BellSouth only for the functions (as defined in BellSouth's access tariff) that they use to terminate a call.[2] A carrier who determines that the most efficient way for it to provide local service is to use relatively long loops and relatively few switches will not be able to charge BellSouth a "tandem switching" component for local interconnection, because its network architecture has no need for tandem switches. Yet because local interconnection charges will represent a higher percentage of its revenues than of BellSouth's, it may be incented to add inefficient tandem

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[2] This "mirroring" concept is included in the BellSouth-Cable Agreement.

switching simply to maximize the local interconnection payments that it will receive. (Cornell, T 383-4)

(5) Mutual traffic exchange is the only compensation method that gives BellSouth any incentives to cooperate in the development of true number portability.[3] (Cornell, T 371, 376) This is important, because BellSouth benefits from the lack of true number portability and thus has incentives to resist its development and deployment. (Cornell, T 376)

Mutual Traffic Exchange Satisfies the Statutory Requirement that Local Interconnection Arrangements Cover Their Cost

Section 364.162(3) authorizes the Commission, upon proper petition, to set nondiscriminatory rates, terms and conditions for interconnection and resale, "except that the rates shall not be below cost." Similarly, Section 364.162(4) provides that "[i]n setting the local interconnection charge, the commission shall determine that the charge is sufficient to cover the cost of furnishing the interconnection." As discussed in more detail below, BellSouth's own cost studies estimate that the cost of interconnection can be expressed in "tenths of a cent" per minute. (Scheye, T 548-9; Confid. Ex. 18) Any cash charge at or above this level would indisputably comply with the statutory requirement.

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[3] True number portability refers to a permanent database solution to service provider number portability. It does not refer to location, or geographic, number portability.

BellSouth maintains that the compensation for terminating local traffic must be in cash in order to meet the statutory requirement, or otherwise BellSouth will have no means of recovering its costs of interconnection. (Scheye, T 488-90, 508)

Contrary to BellSouth's assertion, mutual traffic exchange provides compensation "in kind" which is sufficient in economic terms to cover BellSouth's cost of providing interconnection. (Cornell, T 402) There is every reason to believe that traffic exchange between BellSouth and an ALEC will be in balance, or fluctuate closely around the balance point, at least after a true service provider number portability solution has been implemented. (Cornell, T 406-10) The only thing which would prevent such a balance is if the compensation mechanism for local interconnection created very strong incentives for a carrier to try to manage the type of customers (and hence traffic) that it attracted. (Cornell, T 377-9) Two things suggest that this will not happen. First, once an entrant has facilities in place to provide local exchange service, it has a financial incentive to serve every customer within reach of its facilities who generates revenues in excess of the direct cost of service. (Cornell, T 377, 728-9) Second, outside of extreme examples like reservation centers or telemarketing operations, entrants and most of their customers are unlikely to have access to information on the customers' originating and terminating traffic patterns. (Cornell, T 378, 729-30) To the extent that such information exists today, it would most likely be in internal telephone

company records to which only BellSouth has access. (See Banerjee Depo, Ex. 24, at 93-4)

So long as traffic is roughly in balance, mutual traffic exchange will enable BellSouth to recover its cost of interconnection. Once a customer selects a given local exchange provider, there is no "competition" for traffic termination to that customer -- other carriers must deliver the customer's calls to his or her chosen carrier. In this situation, the market price for terminating local traffic will be equal to the price charged by the incumbent, BellSouth.[4] (Cornell Depo, Ex. 12 at 72-8) With traffic roughly in balance, BellSouth will receive in-kind compensation -- termination of its traffic by the ALEC -- which has a market price equal to BellSouth's cost of terminating an equivalent amount of traffic from the ALEC. (Cornell, T 409-10; Cornell Depo, Ex. 12 at 72-8) Because it has obtained a needed service from the ALEC, in exactly the quantity it requires, BellSouth has received a value that recovers its cost of providing interconnection. (Cornell, T 402-3) BellSouth is not, as Dr. Banerjee suggests, terminating ALECs' traffic for free. (Cornell, T 379, 726) (See the discussion of the Bell-Cable Agreement later in this brief for another reason that BellSouth's claim that mutual traffic exchange would preclude it from recovering its costs is spurious.)

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[4] If paid in cash, that price should be set equal to the incumbent BellSouth's direct cost (TSLRIC) of providing the service, a price which the record reflects is "tenths of a cent" per minute. (Cornell, T 408; Scheye, T 548-9; Confid. Ex. 18)

BellSouth may argue that given the large geographic scope of its exchanges, and the relatively concentrated areas in which ALECs may first provide service, the average cost to BellSouth of terminating local traffic is higher than the average cost to an ALEC, and therefore the cost (or value) of the terminating service that it would receive under mutual traffic exchange is less than the cost of the terminating service it provides.[5] This ignores the economic principle that the market price that BellSouth would have to pay for terminating traffic to an ALEC is exactly equal to the price it charges the ALEC for terminations, regardless of whether the ALEC's costs are lower, higher, or the same as BellSouth's. (Cornell, T 408; Cornell Depo, Ex. 12, at 76-8)

It is critical to recognize that while BellSouth insists that compensation must be paid in cash to cover its cost of interconnection, **BellSouth presented absolutely no evidence of those costs.** The only evidence touching on this issue was introduced by the staff, which put BellSouth's confidential interrogatory answers and document production responses into the record. But for this diligence on the part of the staff in building a complete record, there would be no basis for the

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[5] This is the downtown Miami vs. Homestead example reflected in Mr. Lackey's cross-examination of Mr. Devine and Dr. Cornell. (T 244-50, 772-4) It should be noted that the average mileage for a switched access minute of use, which BellSouth uses as a proxy for local terminations, is substantially less than the 60 mile Miami-Homestead example used by Mr. Lackey. (See Confid. Ex. 19 at page 0000001)

Commission to even begin to guess what costs BellSouth contends must be recovered by a cash payment.

Even the BellSouth information placed into the record by staff is insufficient to support a definitive finding regarding BellSouth's cost of providing interconnection. As shown in the non-confidential portion of Exhibit 18:

> BellSouth has not conducted a cost study to determine the costs specific to local interconnection. However, it is **assumed** that the costs would **approximate** those for switched access.

(emphasis added) The record contains no testimony or other evidence to support the validity of this assumption, or to indicate how close an approximation these switched access costs may be. On the one issue uniquely within BellSouth's knowledge, it has failed to provide the evidence necessary to support a finding about the cost of providing local interconnection.

What is Wrong With BellSouth's Proposal for Full Switched Access Charges

BellSouth's proposal to apply terminating switched access charge rates of 4.495 cents per minute to local traffic terminated on its network has several problems:

(1) BellSouth's price is far above the direct cost (TSLRIC) of providing the service. Because this margin above cost is not subject to competition, it means that an ALEC's price for local exchange service will be higher than necessary, depriving Florida consumers of one of the primary benefits of competition.

(2) If switched access charges are used as the basis for pricing local interconnection, BellSouth's local exchange service rates will not be able to pass any version of an imputation test, which results in a price squeeze against the new entrants.

(3) BellSouth's price is loaded with "contribution" toward BellSouth's universal service and carrier of last resort obligations, even though (a) the Commission has established a separate mechanism for dealing those obligations in another docket, and (b) the Legislature specifically "de-linked" universal service from local interconnection.

(4) BellSouth's proposal does not provide for reciprocal compensation to the ALECs. This lack of reciprocity is similar to a price squeeze and results in efficiencies of the ALEC being transferred to BellSouth, rather than being available to reduce rates to the ALEC's customers.

(5) BellSouth's proposal is discriminatory on its face, since it is substantially in excess of the price for termination contained in the Bell-Cable Agreement.

(6) BellSouth's proposal creates perverse incentives for BellSouth and the ALECs that are contrary to good public policy.

(7) BellSouth's proposal to mirror switched access charge rates and structure creates artificial incentives for ALECs to mirror the technology and network architecture of BellSouth, and provides no incentive for BellSouth to cooperate in implementing a permanent number portability solution.

Except for the last point, which is dealt with above in the context of mutual traffic exchange, each of these problems with using switched access charges will be discussed in turn.

(1) Contribution in Interconnection Rates Above TSLRIC Is Protected From Competition

BellSouth proposes to charge for local termination on a per minute basis. The rate and rate structure would be the same as switched access charges, including the CCL and the RIC. This rate averages 4.495 cents per minute of use. (Scheye, T 522-4) As seen by comparison to Confidential Exhibit 18, this proposed rate is well in excess of BellSouth's estimated incremental cost of providing the service, which can be expressed in "tenths of a cent" per minute.[6] (Scheye, T 547-9; Confid. Ex. 18)

If the Commission approves BellSouth's approach, it will be protecting from competition the margin between BellSouth's cost and its price. An ALEC who needs to terminate calls to BellSouth customers has no competitive alternative, the customers have made the choice that calls to them will be connected through BellSouth. Since those BellSouth customers do not pay, directly or indirectly, the interconnection charges that BellSouth imposes on the ALEC, their choice of carrier exerts no downward pressure on BellSouth's interconnection rate. Because the price charged

[6] The economically proper price for terminating access is BellSouth's total service long run incremental cost (TSLRIC) of providing the service. (Cornell, T 386, 390) The cost figures for switched access provided by BellSouth, which it uses as a proxy for the cost of local interconnection, are described as "average incremental cost" and may or may not represent TSLRIC. In any event, they are the only cost figures available in this record.

by BellSouth for termination is unavoidable and protected from competition, it becomes an irreducible part of the ALEC's economic cost, and thus part of the price floor for the ALEC's services. Any "contribution" included in this rate can never be competed away. The result is artificially high retail rates for the ALEC's customers, and, consequently, less competitive pressure on BellSouth's retail rates. Thus to the extent that contribution is included in the price for local termination, Florida consumers are deprived of one of the primary benefits of competition, the ability to force prices toward cost. (Cornell, T 386-90, 738-9, 755-7)

Using an example supported by the record in this case, assume that the price for interconnection is set at BellSouth's requested rate of 4.495 cents per MOU; that the average customer make 460 minutes of local calls a month (Ex. 8); and, solely for purposes of calculation, that the cost of providing local termination is 0.6 cents per MOU [the actual cost estimated by BellSouth is shown on Confidential Exhibit 18].[7] In this case, every minute terminated to BellSouth results in the ALEC paying 3.895 cents of "contribution." Assuming that 100% of the originating minutes terminated on BellSouth's network -- essentially an assumption that ALECs have obtained very little market share -- BellSouth would collect "contribution" of

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[7] The derivation from non-confidential information of $.006 as the upper bound on the cost per MOU is shown in the text accompanying footnote 8.

approximately $17.92 per month from interconnection rates attributable to the average ALEC customer.

"CONTRIBUTION" TO BELLSOUTH FROM AVERAGE ALEC CUSTOMER	
Price of Interconnection per MOU	$ .04495
Cost of Interconnection per MOU	$ .00600
"Contribution" per MOU	$ .03985
Average MOU	x 460
Total "Contribution"	$ 17.92

This means that the ALEC's rates, in total, must collect $17.92 more per month than the social cost of providing the service. This excess cost cannot be competed away -- it will remain until the Commission, as a regulatory body, orders it down. (See Cornell, T 756) If, on the other hand, the Commission adopts mutual traffic exchange, no contribution is loaded into the ALEC's interconnection costs, and all of BellSouth's retail prices are subject to competition.

(2) BellSouth's Proposal Fails An Imputation Test and Creates a Price Squeeze

Dr. Cornell and Dr. Banerjee agree that unless BellSouth's local exchange service can pass an appropriate imputation test, ALEC competitors will be subject to a "price squeeze." (Cornell, T 380-2; Banerjee, T 666-7) Under a price squeeze, a dependent competitor who is just as efficient as the monopolist cannot cover all of its costs at the end user price charged by the monopolist. The existence of a price squeeze is thus a barrier to entry. (Cornell, T 382)

The appropriate imputation test to prevent the possibility of a price squeeze is one in which the price floor for a BellSouth retail service (e.g. local exchange service) equals (a) the price charged to dependent competitors (ALECs) for any bottleneck monopoly inputs that they must purchase from BellSouth (e.g. local interconnection), plus (b) the direct economic cost (TSLRIC) to BellSouth of all other elements of its retail service. (Cornell, T 382, 400, 723-4)

Dr. Banerjee advocates a different version of the imputation test in which the price floor equals (a) the direct cost of the retail service, plus (b) the "contribution" included in the price charged retail competitors for essential inputs. Dr. Banerjee's version is incorrect, and would allow the incumbent to raise the costs imposed on entrants in order to engage in anticompetitive behavior. (Cornell, T 723) The two methods produce the same result so long as the cost of providing the essential input to the competitor and the internal cost of using the essential input in providing the retail service are the same, which is the case with the examples used in this docket.[8]

Using an example supported by the record in this case, assume the incremental cost to BellSouth of providing residential local exchange service, including the local loop, is $18.73 (Ex. 26, Item #9); the cost of providing local loops is $15.97

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[8] The difference between Dr. Cornell's approach and Dr. Banerjee's will be illustrated in MCImetro's brief in Docket No. 950984-TP, in which BellSouth claims a lower cost for providing loops to itself than to its competitors.

(Ex. 26, Item #3); the price proposed by BellSouth for local interconnection is $.04495/MOU; and the average number of MOU for a residential subscriber is 460 (Ex. 8). Further assume that the entire difference between the cost of local exchange service and the cost of the local loops ($18.73 - $15.97 = $2.76) represents the cost of local switching and transport, which would produce an assumed per minute cost for these items (and an upper bound on their actual cost) of $.006/MOU ($2.76 / 460 = $.006).[9]

In this situation, either Dr. Banerjee or Dr. Cornell's imputation test would indicate that BellSouth's price for residential local exchange service would have to be $36.65 in order to pass an imputation test and avoid a price squeeze:

DR. CORNELL'S CORRECT IMPUTATION TEST	
Price to Competitor for Essential Input (Local Interconnection) ($.04495 x 460)	$ 20.68
Cost to BellSouth of Other Components of Local Service	$ 15.97
BellSouth Retail Rate Required to Avoid a Price Squeeze	$ 36.65

[9] This $.006 in fact must include other costs, such as billing and collection, that are not attributable to the switching and transport costs that we are attempting to isolate. BellSouth's actual estimate of the cost of the switching and transport components is shown on Confidential Exhibit 18.

DR. BANERJEE'S IMPUTATION TEST[10]	
Cost to BellSouth for Providing Local Service	$ 18.73
"Contribution" from Sale of Essential Input to Competitor ($.03895 x 460)	$ 17.92
BellSouth Retail Rate Required to Avoid a Price Squeeze	$ 36.65

The average retail price for BellSouth's residential local exchange service is $13.26 ($9.76 per Exhibit 26, Item #11, plus the federal subscriber line charge of $3.50). This price would have to climb to $36.65 in order to allow BellSouth to pass an imputation test at its proposed interconnection rates. Yet, by statute, BellSouth's local rates are capped at their current level until January 1, 2001. (§364.051(2)(a), Florida Statutes) This means that there is no way to avoid a price squeeze if interconnection rates are set at BellSouth's requested levels. Dr. Banerjee, who stated that an imputation test should be applied in order to avoid a price squeeze, provided no solution to this admitted problem.

The only way to avoid this price squeeze under current law (which does not allow BellSouth's end user rates to be raised) is to adopt mutual traffic exchange, which in and of itself passes an imputation test. (Cornell, T 400-01) The next best method, which mitigates but does not completely eliminate the price

[10] See Dr. Banerjee's testimony at pages 688-691 for an illustration of his imputation test using slightly different numbers that were rounded off for ease of calculation.

squeeze, is set the price for local interconnection equal to its direct economic cost (TSLRIC).

(3) Price Inappropriately Contains Contribution Toward BellSouth's Universal Service and COLR Obligations

As indicated above, applying BellSouth's proposed switched access charge rate would include at least 3.895 cents/MOU of "contribution" above the direct cost of providing the interconnection service. BellSouth rationalizes the need for this contribution on the grounds that it is necessary to support BellSouth's "special obligations" to provide universal service and act as carrier of last resort (COLR) and to recoup its "legacy costs" (i.e. the amount by which the undepreciated cost of BellSouth's assets exceeds their economic value). (Banerjee, T 665-6, 674, 683-6) In fact, what BellSouth is attempting to do is to recover from its competitors the contribution from vertical services that it loses whenever an existing BellSouth customer chooses to take service from a new entrant. (Banerjee, T 678-9, 686-7) And, in fact, under its proposal BellSouth would also recover from its competitor the contribution that it would have received from vertical services sold to a new customer moving into BellSouth's territory who has never taken service from BellSouth. (Banerjee, T 679-80)

"Having your cake and eating it too" and "rendering unto Caesar that which is Caesar's" are both inadequate to describe BellSouth's proposal that whenever it loses a customer (or a potential customer) to competition, it is entitled to recover

from the competitor the profits associated with the lost customer. As Dr. Cornell aptly stated:

> What Dr. Banerjee is really arguing is that BellSouth should be made whole in a revenue requirement sense no matter how well or badly it fares in the competitive battle. This would be very bad public policy. (Cornell, T 733-4; see also Cornell, T 757)

Beyond this basic principle of public policy, there are two other reasons that it is inappropriate to include "contribution" toward BellSouth's "special obligations" in the interconnection rate. First, Section 364.025 charges the Commission with establishing an interim mechanism for maintaining universal service (US) objectives and funding COLR obligations. The Commission just completed the required proceeding under that statute. In its final order, the Commission held that BellSouth and the other ALECs had failed to prove a need for additional US/COLR funding at this time, and established a procedure under which BellSouth could seek such funding if it became required in the future. (Order No. PSC-95-1592-FOF-TP)

In his prefiled testimony in this docket, Mr. Scheye stated that the specific access charge rate elements that should apply to local interconnection would vary depending on the Commission's action in the universal service docket. (Scheye, T 451, 457-8, 473-4) Under cross-examination, Mr. Scheye stated that <u>if</u> BellSouth's Alternative 1 in the universal service docket had been adopted, then an ALEC should not be required to pay the CCL and RIC, which are generally identified as "contribution"

elements in the switched access charge rates. However, since the Commission rejected BellSouth's Alternative 1 (and indeed its Alternatives 2 and 3 as well), he proposed to include these contribution elements in the interconnection rate in order to help support BellSouth's US/COLR obligations. (Scheye, T 522-3, 524-5)

BellSouth is now asking the Commission to allow it to collect, through the rate for interconnection, precisely the monies the Commission held in the US docket that BellSouth would not be allowed to collect through a surcharge on interconnection. BellSouth attempted, but failed, to establish a need for those monies in the universal service docket. It now seeks to recover the same monies in this docket without even attempting to justify a need -- other than Dr. Banerjee's broad claim that BellSouth is entitled to recover contribution lost to competition.

Second, the legislative history of Section 364.162(4) demonstrates that the universal service and COLR obligations are not to be taken into account in setting the local interconnection rate. The original draft of what is now section 364.162(4) required that in setting the local interconnection rate, the Commission was to be guided by the following criteria:

> that the charge is sufficient to cover the cost of furnishing interconnection; that there is a recovery of a fair share of investments made in fulfilling carrier of last resort responsibilities; and that there is a maintenance of a fair share of universal service objectives.

(Exhibit 1, PCB UT 95-01D at page 27, line 7)

Those guidelines were stricken by Amendment No. 44, adopted by the House Committee on Utilities and Telecommunications on April 12, 1995. They were replaced with the following language that ultimately became law:

> In setting local interconnection rates, the commission shall determine that the charge is sufficient to cover the cost of furnishing interconnection.

(Exhibit 1, Amendment No. 44) On its face this amendment clearly indicates that COLR investments and US objectives are no longer to be considered by the Commission is setting interconnection rates. Under well-recognized principles of statutory construction, the adoption of an amendment is evidence that the legislature intended to change the provisions of the original bill. 2A Sutherland Statutory Construction (5th ed.) §48.18; see State ex rel. Finlayson v. Amos, 76 Fla. 26, 79 So. 433 (Fla. 1918).

In this case, the legislative action on the bill is supplemented by the comments Representative Safley, the amendment's sponsor. In explaining the amendment, Representative Safley stated that "This completes the delinking between the universal service fund and the interconnect charges." (Exhibit 1, Transcript of April 12, 1995 Meeting of the House Committee on Utilities and Telecommunications, page 25)[11]

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[11] Also refer to Representative Safley's earlier discussion of Substitute Amendment SA-12-2, dealing with the universal service provisions of §364.025, in which he stated that the amendment:

> ...deals with the universal service funding mechanism. It creates an interim mechanism. It creates the opportunity, if

While the statements made by the sponsor of an amendment have somewhat less weight in the determination of legislative intent than the fact of adoption itself, federal courts have accepted statements of the draftsman of a proposed bill concerning his understanding of its nature and effect as indicative of legislative intent and if the legislature adopts an amendment urged by a witness, it may be assumed that the intent voiced was adopted by the legislature. 2A Sutherland Statutory Construction (5th ed.) §48.10 at notes 13-14.

(4) The Lack of Reciprocity in BellSouth's Proposal Is Similar to a Price Squeeze

Under BellSouth's proposal it would be entitled to include in the interconnection rate a contribution toward its "special obligations," while ALECs -- who currently have no such "special obligations" -- would not be able to include such contribution. (See Scheye, T 519; Banerjee, T 673-5) This results in a lack of reciprocity, with the entrant receiving less than the incumbent for providing the same service. This is similar to a price squeeze, and creates a barrier to competitive entry. (Cornell, T 369-70)

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necessary, of a permanent mechanism to make sure that we provide universal service, basic telephone service, at affordable rates to the consumers of this state. It guarantees, I think, the continuation of universal service in all the areas of the state. We de-link, if you will, the universal service subsidy issue from the interconnect issue, which is later addressed in the bill.

Id. at 5-6.

A second problem is created if compensation is not reciprocal. Namely, if a more efficient firm does enter the market, it is required to transfer all or a portion of its efficiencies to the incumbent, rather than being able to pass on to its customers the full benefit of such efficiencies. (Cornell, 385-6) This problem also denies Florida consumers the full benefits of competition.

As a practical matter, reciprocity also avoids the need for the Commission to review and approve each ALEC's local interconnection charge, as Mr. Scheye suggests will be required. (Scheye, T 520) The Commission should recall that in adopting the ALEC rules, it required the filing of price lists for retail services, but rejected a proposal to extend the filing requirement to switched access charges. There appears to be little logic in requiring local interconnection charges to undergo a review and approval process that does not apply to any other ALEC rate.

(5) BellSouth's Proposal Is Discriminatory on Its Face

BellSouth proposes to charge MCImetro, MFS, and presumably other ALECs who did not sign the Bell-Cable Agreement, a local interconnection rate of 4.495 cents/MOU, applied to all terminating minutes. (Scheye, T 524-5) Signatories to the agreement get a rate of 1.052 cents/MOU, or less than one-fourth of the rate proposed for non-signatories. (Scheye, T 535-6, 537-8) Mr. Scheye candidly acknowledged that even the lower rate covers BellSouth's costs of terminating the call and provides

some contribution toward BellSouth's shared costs. (Scheye, T 536; compare Confid. Ex. 18)

Further, under the Bell-Cable Agreement, that lower rate may apply to only a small fraction of an ALEC's terminating minutes. Under the Agreement, the rate is reciprocal between BellSouth and the ALECs, but the number of minutes for which payment is made is capped at 105% of the minutes terminated by the carrier with the lower terminating minutes of use. If, for example, BellSouth terminated 10,000 MOU to an ALEC and the ALEC terminated 15,000 MOU to BellSouth, BellSouth would pay for 10,000 terminating minutes and the ALEC would pay for 10,500 terminating minutes, or a net payment of 500 minutes. (Scheye, T 538-9; Ex. 15, Item RCS-7, at 4-5, 23) In this case, BellSouth has either terminated 4,500 minutes for free, or else it has terminated 5,000 minutes for one-tenth of the stated rate of 1.052 cents/MOU. Similarly, in the extreme case in which an ALEC terminates 10,000 MOU to BellSouth, and BellSouth terminates no minutes to the ALEC (e.g. where the ALEC's sole customer is a telemarketing firm), BellSouth terminates the ALEC's 10,000 minutes for free. (Ex. 15, Item RCS-7, at 23) Given these examples from BellSouth's own agreement, it is difficult to comprehend how BellSouth can claim with a straight face that mutual traffic exchange improperly precludes it from recovering its cost of terminating an ALEC's traffic.

When asked on cross-examination to justify charging the CCL and RIC to non-signatory ALECs, Mr. Scheye stated that it was

appropriate to require these ALECs to contribute to BellSouth's US/COLR obligations, since the Commission's decision in the US docket did not require any immediate contribution from ALECs toward these obligations. (Scheye, T 524-5) This rationale is difficult to square with Mr. Scheye's explanation of the Bell-Cable Agreement, which excludes the CLL and the RIC from the interconnection rate even though its US/COLR provisions mirror (or are even more far-reaching in favor of the signatory ALECs) than those in the Commission's universal service order. (See Scheye, T 533-5)

Without a coherent explanation by BellSouth of what makes the Bell-Cable Agreement so attractive to it, this disparity in local interconnection rates is discriminatory on its face.

(6) BellSouth's Proposal Contains Incentives Which are Bad Public Policy

It is also important to note that while Dr. Banerjee speaks to the economic principles by which he believes BellSouth should set interconnection rates, he does not say that his theories support BellSouth's specific rate recommendation. (Banerjee, T 682) And as the Commissioners got Dr. Banerjee to admit, the application of his economic principles has some perverse consequences. It creates an incentive for BellSouth or an ALEC to incur inefficiently high costs for interconnection and pass them along to its competitors (see Banerjee, T 676-8, 699) and it creates an incentive (not present in mutual traffic exchange) for ALECs to sign up particular types of customers. (Banerjee, T 698)

MCImetro suggests that neither of these results is good public policy.

What is Wrong With the Partial Switched Access Charges Contained in the Bell-Cable Stipulation

BellSouth may argue that local interconnection rates should be set, at a minimum, equal to those agreed to in the Bell-Cable Agreement, namely switched access charges excluding the CCL and the RIC. It may also argue that if TCG, the largest operating ALEC in the country, determined that the Bell-Cable Agreement was a sound basis on which to enter the Florida market, the Commission should infer that those rates, terms and conditions would be equally appropriate for MCImetro, MFS and others. This argument would have both economic and practical flaws.

First, the record shows that the local interconnection rate of 1.052 cents/MOU agreed to by BellSouth and the other signatories is substantially in excess of the direct cost of providing interconnection service. Compare this figure to the "tenths of a cent" sum of lines 1 and 3 on Confidential Exhibit 18. (See Scheye, T 548-9) Even at this reduced interconnection rate level of 1.052 cents/MOU, BellSouth would be unable to pass the imputation test necessary to avoid a price squeeze.

DR. CORNELL'S CORRECT IMPUTATION TEST[12]	
Price to Competitor for Essential Input (Local Interconnection) ($.01052 x 460)	$ 4.84
Cost to BellSouth of Other Components of Local Service	$ 15.97
BellSouth Retail Rate Required to Avoid a Price Squeeze	$ 20.81

Further, the interconnection rate under the agreement is not truly reciprocal, since each carrier is permitted to charge only for the functions that it provides using BellSouth's switched access charge rate structure.[13] Thus the rate charged by BellSouth will ordinarily include a tandem switching component, while the rate charged by an ALEC is unlikely to include such a component. This lack of true reciprocity creates a barrier to entry, and requires a more efficient entrant to transfer a portion of its efficiency to BellSouth. (Cornell, T 368-9, 385-6) Finally, as discussed above, the mirroring of BellSouth's rate structure may incent ALECs to choose a less efficient network architecture in order to maximize their interconnection revenues.

The Commission also should not indulge in a presumption that the Bell-Cable Agreement is good for competition simply because a

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[12] On these numbers, Dr. Banerjee's incorrect version of the impputation test would produce the same reult.

[13] For example, the agreement provides that "parties shall not route local traffic through the tandem switch unnecessarily to generate revenues." (Exhibit 15, RCS-7 at 2) This shows that the parties intend for the tandem switching rate element to be applied only where a tandem switching function is actually performed.

number of ALECs have accepted its terms. First, the original agreement between BellSouth and TCG was described by Mr. Scheye as "a total package, each of the elements can be changed only if all of the other elements are also changed." (Scheye, T 475) While he did not make precisely the same statement about the Bell-Cable Agreement, it was not until the Friday before the hearing that BellSouth indicated to MFS (not to MCImetro) any flexibility to even consider an agreement that was not an entire package. (See Devine, T 292-3)

Even assuming that the agreement's approach to local interconnection is sound -- which it is not -- the "package" deal contains a number of other provisions which are unacceptable to many ALECs. For example, the agreed price for unbundled local loops is set to equal special access rates. (Ex. 15, RCS-7 at 31) As will be demonstrated in MCImetro's post-hearing brief in the unbundling docket, this price is inappropriate for a number of reasons, including its failure to permit BellSouth to pass an imputation test.[14] Further, signatories to the package must "acknowledge" that the application of current tariffed prices for resale purposes is not inconsistent with Chapter 364 (Ex. 15, RCS-7 at 11), despite the existence of language in Section 364.162(5) which shows that it is inconsistent. And, as Mr.

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[14] This price may be unimportant to some signatories, such as those who do not plan to serve residential customers, or who plan to serve them only through existing cable facilities. Such parties in fact have an incentive to agree to an unreasonably high price for a function that they do not intend to use, where that price would artificially raise their competitors' cost of doing business.

Devine pointed out, a number of technical and operational issues are not dealt with at the level of detail necessary to have a meaningful interconnection agreement. (E.g., Devine, T 175)

Finally, the fact that neither the Bell-Cable Agreement, nor interconnection agreements that MCImetro has signed in other states, includes mutual traffic exchange is not surprising, given the vastly unequal bargaining power of the parties at the negotiating table. (Cornell, T 749) As Dr. Cornell stated, the Commission is in the business of establishing the best public policy -- that function should not be left to TCG or the other private parties who have signed the Bell-Cable Agreement. (Cornell, T 777)

Originating Access Charges Should Never Be Applied to a Call Terminated to an ALEC

Mr. Scheye spent a great deal of effort in describing to the Commission a situation in which -- because an ALEC uses a single NNX for more that one BellSouth rate center -- BellSouth would be unable to determine whether a call from a BellSouth customer to an ALEC customer would be a local call or a toll call, based on BellSouth's existing local calling areas. (See Scheye, 452-3, 496A-500, 510-2, Ex. 15, Items RCS-4, 5, 6) This situation is then cited as support for setting local interconnection charges equal to switched access charges, so that BellSouth will get roughly the same compensation (i.e. terminating access charges) for handling this unidentifiable call as it would have received

if the call had been a toll call carried by an IXC (i.e. originating access charges).

At least in the case of the two petitions before the Commission in this docket, this entire issue is a red herring. Both MFS and MCImetro testified that they intend to use NNX codes in the same way as BellSouth, one NNX code per rate center. (Price, T 326-8; Devine, T 270-1) MCImetro's intention to use NNX codes in this manner had previously been communicated to BellSouth. (Price, T 328) Although Mr. Scheye either did not hear or did not recall Mr. Price's testimony on this point, or his prior communication to BellSouth, Mr. Scheye agreed that BellSouth would have no problem in determining the jurisdiction of traffic in the situation described by Mr. Price. (Scheye, T 515-6)

The only reason that MCImetro would not use NNX codes in this manner is if it were unable to obtain the assignment of sufficient codes. In that case, MCImetro should not be penalized for BellSouth's inability to determine the type of call, and mutual traffic exchange should be applied to any such "unidentifiable" calls in either direction.

Summary

Mutual traffic exchange is the best basis for termination of local traffic between BellSouth and new entrants such as MCImetro for all the reasons discussed above.

If the Commission for any reason determines that compensation must be paid in cash, the price should be set equal

to the direct economic cost (TSLRIC) of providing the interconnection. Otherwise there is no chance that competition will cause the price of local exchange services to fall to social cost of providing them, or as close to that level as possible, since any contribution in interconnection prices cannot be competed down. (Cornell, T 386-9, 738-9)

BellSouth will undoubtedly argue, correctly, that if the price for every service it provides were set at TSLRIC, it would not recover all of its shared costs. But MCImetro is not advocating that all of BellSouth's functions or services must be priced TSLRIC, only that local interconnection and other functions which are essential bottleneck inputs into its competitors' services must be priced at that level.[15] (Cornell, T 771, 776-7)

The Commission should also recall that when an arm of BellSouth is seeking a fair basis for entry into a market, rather than protecting one of its existing markets against entry, it argues that "interconnection charges should reflect cost causation and, as such, should be based on long-run incremental costs (LRIC)." (Ex. 24 at 7)

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[15] Ultimately this means that switched access service provided to IXCs should also be priced at TSLRIC, but MCI recognizes that restructuring the way that universal service support is provided is likely to be a part of this larger issue..

ARRANGEMENTS FOR TERMINATING TOLL TRAFFIC

Toll Traffic Should be Terminated Using Switched Access Charges

Toll traffic should be exchanged using each carrier's terminating switched access charges. (Cornell T 390) In other words, the carrier originating the toll call (and billing the end user for the toll call) should pay terminating switched access charges to the carrier terminating the toll call. That is the way that toll traffic is handled today when a call terminates from an IXC to BellSouth, or, under the Modified Access Based Compensation Plan, from another LEC to BellSouth. In this situation, there is no reason to treat an ALEC differently than IXCs or other LECs. The record shows that Mr. Scheye apparently misunderstood this aspect of MCImetro's proposal. (Scheye, T. 552)

Each ALEC should have the freedom to file an access charge tariff of its own, with the only requirement being that the total charge for terminating a call not exceed the total rate that the ALEC would pay to BellSouth for terminating an interexchange call in the other direction. (Cornell, T 390)

Special Considerations for Toll Traffic Terminated to "Ported" Numbers

A special problem exists when an ALEC customer has chosen to retain his existing telephone number, and a toll call from an IXC is "remote call forwarded" by BellSouth to that "ported" number. To BellSouth's system, this looks like (1) a terminating toll call to the original number, for which BellSouth will collect

switched access charges from the IXC, and (2) a new local call to the ALEC's customer, for which BellSouth will pay local interconnection charges. BellSouth would not have been involved in the call path at all (except perhaps providing an intermediate transit function between the IXC and the LEC) if it had implemented a true database solution to local service provider number portability. (Price, T 304-5)

In this situation created by the use of an inferior method of providing local number portability, the ALEC is terminating the toll call and is entitled to receive its own switched access charges. BellSouth is already being compensated for performing the remote call forwarding function through the charge imposed for providing the temporary number portability. BellSouth should thus be required to forward to the ALEC any switched access charges collected from the IXC, or else it will be overcompensated, and the ALEC undercompensated, for handling this call. (Price, T 304-5; Devine, T 162-4) Of course, if the ALEC does not have a direct interconnection to the IXC for handling calls to non-ported numbers, BellSouth would be entitled to the portion of the access charges associated with providing the intermediary function. (See Issue 3)

Issue 2. If the Commission sets rates, terms, and conditions for interconnection between the respective ALECs and Southern Bell, should Southern Bell tariff the interconnection rate(s) or other arrangements?

**MCImetro: Yes, interconnection rates or other arrangements established by the Commission should be tariffed

and should be available on a non-discriminatory basis to all parties similarly situated.**

This issue, which deals solely with rates, terms and conditions established by the Commission, not those established in agreements between BellSouth and another party or parties, does not appear to be in dispute. (See Prehearing Positions on Issue No. 2; T 21)

Issue 3. What are the appropriate technical and financial arrangements which should govern interconnection between the respective ALECs and Southern Bell for the delivery of calls originated and/or terminated from carriers not directly connected to the respective ALECs' network?

MCImetro: For local traffic, Southern Bell should provide the intermediary function to ALECs at a price equal to its direct economic cost (i.e. TSLRIC). For toll traffic, Southern Bell should provide the intermediary function to ALECs on the same basis that it is provided to other LECs.

This issue relates to local and toll traffic exchanged between an ALEC and another party besides BellSouth (e.g. an IXC, another ALEC, or another LEC). In this situation, BellSouth would not be involved in handling the traffic, except that, due to its former monopoly status, it is the only carrier who interconnects with both of the exchanging parties. Contrary to Mr. Scheye's understanding, MCImetro does not contend that the provision of this intermediary function is within the scope of mutual traffic exchange. (Price, T 329-30; see Scheye, T 558)

Instead: (1) BellSouth should be required to provide this intermediary function as part of an overall local interconnection arrangement, (2) MCImetro should compensate BellSouth for

performing the intermediary function for local traffic at a rate equal to BellSouth's direct economic cost (TSLRIC) of providing the function, and (3) MCImetro should compensate BellSouth for performing the intermediary function for toll traffic on the same basis that other LECs compensate BellSouth for this function today. (Cornell, T 394) This arrangement is appropriate since BellSouth holds a monopoly over the transit function due to its former monopoly status. Given that this type of intermediary function is the most efficient way to get traffic to its destination, BellSouth should not be allowed to refuse to serve as a transit carrier nor to use its monopoly position to force entrants to pay a discriminatory price for this service. (Cornell, T 394; Price, T 315-6)

If for any reason the Commission determines that the price should be set above TSLRIC, it should in no event exceed the price fixed in the Bell-Cable Agreement. That price, which covers BellSouth's cost, is two-tenths of a cent per MOU, plus any applicable tandem switching and transport rate elements from BellSouth's switched access charge tariff. (Scheye, T 557; Ex. 15, RCS-7 at 7)

There is no technical impediment to BellSouth performing this intermediary function. Mr. Scheye's prefiled testimony states that "it may not be appropriate for BellSouth to be involved in these situations," but that BellSouth "may consider" providing this type of transit function. (Scheye, T 460-1) As noted above, BellSouth has agreed to provide this function to the

signatories to the Bell-Cable Agreement, and Mr. Scheye conceded on cross-examination that there are no technical impediments to the provision of the service, either to those signatories or to MCImetro and MFS. (Scheye, T 555-6)

Issue 4. What are the appropriate technical and financial requirements for the exchange of intraLATA 800 traffic which originates from the respective ALECs' customer and terminates to an 800 number served by or through Southern Bell?

MCImetro: The companies should compensate each other through switched access charges applied in the same manner as when two LECs exchange intraLATA 800 traffic today. In addition, the ALEC should be permitted to utilize BellSouth's tariffed 800 access features at those tariffed rates.

The appropriate financial arrangements are set forth in the summary of MCImetro's position on this issue. Such arrangements are necessary to ensure that ALECs are treated as co-carriers and in a nondiscriminatory manner. The appropriate technical requirements for the exchange of intraLATA 800 traffic are the same as for the exchange of other traffic. See Issue No. 11.

Issue 5a. What are the appropriate technical arrangements for the interconnection of the respective ALECs' network to Southern Bell's 911 provisioning network such that respective ALECs' customers are ensured the same level of 911 service as they would receive as a customer of Southern Bell?

MCImetro: Southern Bell should be required to make trunking and network arrangements available so that an ALEC can route 911 calls through the existing 911 network. Such arrangements should be equal in type and quality to the arrangements Southern Bell provides to itself.

BellSouth should be required to provide technical arrangements for 911 traffic that are equal in type and quality to the arrangements BellSouth provides to itself. For example, 911 trunks use specific, distinctive signalling that is established by industry standards. BellSouth should be required configure its tandem to recognize industry standard 911 signaling for the 911 traffic originating from MCImetro's switches. (Price, T 302-3)

In addition, BellSouth should afford MCImetro's 911 trunks the same level of priority service restoration that it affords its own 911 trunks, should be required to provide MCImetro with at least 48 hours' advance notification of any scheduled testing on or maintenance of the 911 network, and should be required to notify MCImetro immediately of any unscheduled outage. (Price T 308-9)

In general, MCImetro believes that the technical arrangements referred to in this issue could be resolved by the parties through negotiations if BellSouth did not insist that they be considered only as part of a "package" agreement.

Issue 5b. What procedures should be in place for the timely exchange and updating of the respective ALECs' customer information for inclusion in appropriate E911 databases?

**MCImetro: Southern Bell should be required to provide ALECs with access to the "master street address guide" that is used to ensure that address information is in the correct format for inclusion in the 911 Automatic Location Identification (ALI) database. Southern Bell should be required to provide ALECs

with the ability to make mechanized entries into the ALI database(s).**

MCImetro believes that this issue would be substantially resolved if the Commission ordered BellSouth to make the related provisions of the Bell-Cable Agreement available to MCImetro. (See Price, T 341)

That agreement, however, does not provide for mechanized access by an ALEC to BellSouth's "master street address guide" (MSAG) or its "automatic line identification" (ALI) database. (Price, T 341) This type of mechanized access is essential in order to ensure the public safety and welfare. (Price, T 307-8) As Mr. Price indicated, Mr. Scheye's direct testimony was notably silent on the issue of provision of mechanized access to any BellSouth databases. (Price, T 322) In particular, Mr. Scheye's testimony did not tell the Commission whether or when BellSouth intends to provide ALECs with mechanized access to these 911-related databases. (Price, T 316)

By the time of hearing, Mr. Scheye was able to agree that BellSouth would provide these access to these types of databases and functions on a mechanized basis, but even then he had no timetable or estimated cost for providing the mechanized interfaces. (Scheye, T 559) With respect to the MSAG and the ALI database, it would be appropriate for the Commission to require mechanized access as soon as possible, preferably within 30 days after the entry of its order. (See Price, T 308, 342) With

respect to all databases, it is appropriate to require BellSouth to provide the mechanized access at no charge. (Price, T 343)

Issue 6. What are the appropriate technical and financial requirements for operator handled traffic flowing between the respective ALECs and Southern Bell including busy line verification and emergency interrupt services?

MCImetro: BellSouth should provide trunking and signalling that complies with industry standards, should institute procedures to enable ALEC operators to perform busy line verification and operator interrupt for BellSouth customers, and should provide operator services to ALECs on the same basis as other LECs. (See Price, T 312-3, 317, 349-50)

MCImetro believes that the technical aspects of this issue would be substantially resolved if the Commission ordered BellSouth to make the related provisions of the Bell-Cable Agreement available to MCImetro. (See Price, T 349-50) There still is a potential issue of price.

Mr. Scheye indicated that these functions are provided to other LECs today on a contract basis, and to IXCs on a tariffed basis. (Scheye, T 561-2) ALECs should be treated as co-carriers in all respects. As such, they should be entitled to take advantage of the contractual arrangements for this service that are available to other LECs if it finds that such arrangements are more useful or economical than the tariffed rate for IXCs. (Price, T 317, 349-50)

Issue 7. What are the appropriate arrangements for the provision of directory assistance services and data between the respective ALECs and Southern Bell?

MCImetro: BellSouth should be required to list ALECs' customers in its directory assistance data bases at no charge and should be require to offer ALECs three options to support the ALECs' provision of directory assistance.

MCImetro and BellSouth appear to be in general agreement on this issue with two exceptions. BellSouth has indicated its willingness either to provide directory assistance service to an ALEC's customers (Scheye, T. 464), which is the "resale" option described in Mr. Price's testimony (Price, T 310), or to license the use of the database to the ALEC (Scheye, T 465-6), which is the "purchase option" described by Mr. Price. (Price. T 310-1) BellSouth, however, has not agreed to provide a database access option under which MCImetro, using its own operators, could access the BellSouth database to obtain listing information. BellSouth should be required to make such a mechanized directory assistance database interface available to MCImetro upon request. (See Price, T 310, 317-8)

The second area of potential disagreement relates to the charge for including ALEC listing information in the database. Mr. Scheye states that if additional costs are incurred by BellSouth to store ALEC directory information in its database, ALECs should be required to pay those costs. (Scheye. T 464-5) To the extent that Mr. Scheye is talking about data storage costs, there should be no charge to the ALEC, since BellSouth will generate revenues from that data when it responds to DA request for the ALEC's customer listings. (Price, T 317) If Mr. Scheye is concerned about costs imposed on BellSouth to covert

improperly formatted ALEC information, that concern could be addressed by (1) requiring BellSouth to provide detailed formatting guidelines to the ALECs, and (2) requiring ALECs to submit the information to BellSouth in a compliant format.

Issue 8. Under what terms and conditions should Southern Bell be required to list the respective ALEC's customers in its white and yellow pages directories and to publish and distribute these directories to the respective ALECs' customers?

MCImetro: BellSouth should list ALEC customers in its white and yellow page directories, and should distribute directories to ALEC customers, at no charge, in the same manner as if they were BellSouth customers. BellSouth should also include information on ALECs' services in the "informational" section of the white pages directory.

MCImetro believes that this issue would be substantially resolved if the Commission ordered BellSouth to make the related provisions of the Bell-Cable Agreement available to MCImetro. (See Price, T 349)

In addition, BellSouth should be required to include basic information on ALEC services in the information section of the white pages directory. The purpose of this section of the directory is ostensibly to provide a readily accessible -- and neutral -- listing of information to assist end users in using their telephone service. This objective would be enhanced by including in that section data on ALECs' services. Also, there is for all practical purposes only one informational section to which end users can go for data on their telephone services. If BellSouth were to be permitted to use what is purportedly an end-

user oriented portion of the directory to promote its services to the exclusion of others', it would obtain a significant and undeserved market advantage. (Price, T 312)

Issue 9. What are the appropriate arrangements for the provision of billing and collection services between the respective ALECs and Southern Bell, including billing and clearing credit card, collect, third party calls and audiotext calls?

MCImetro: BellSouth should provide ALECs with access to the line information database (LIDB) in order to validate calls placed to BellSouth customers, and should be required to treat ALECs like any other LEC in the billing and clearing of fund transfers for credit card, collect, third-party and audiotext calls. (Price, T 313)

In general, MCImetro believes that the technical arrangements referred to in this issue could be resolved by the parties through negotiations if BellSouth did not insist that they be considered only as part of a "package" agreement.

Issue 10. What arrangements are necessary to ensure the provision of CLASS/LASS services between the respective ALECs and Southern Bell's networks?

MCImetro: BellSouth should deliver to ALECs, without limitation or modification, any and all CCS7 signalling information generated by the caller or by BellSouth on behalf of the caller. (Price, T 302-3)

MCImetro believes that this issue would be resolved if the Commission ordered BellSouth to make the related provisions of the Bell-Cable Agreement available to MCImetro. (See Ex. 15 at 30)

Issue 11. What are the appropriate arrangements for physical interconnection between the respective ALECs and

Southern Bell, including trunking and signalling arrangements?

MCImetro: ALECs should be permitted to designate one point of interconnection (POI) in each local calling area and should have the option to establish the POI via collocation, an entrance arrangement, or a mid-span meet. ALECs should have the option to use either one-way or two-way trunks, and BellSouth should be required to provide CCS7 signalling on all trunk types that support it. (Price T. 301-3)

MCImetro believes that the technical arrangements relating to trunking (e.g. one-way vs. two-way) and signalling (e.g. CCS7) referred to in this issue could be resolved by the parties through negotiations if BellSouth did not insist that they be considered only as part of a "package" agreement.

A major difference that the Commission must resolve is the points at which BellSouth will be required to physically interconnect to a LEC. MCImetro believes that interconnection should be done in the most efficient manner possible. This means that interconnection should be allowed at any feasible point of interconnection, rather than being arbitrarily limited to only certain points. (Cornell, T 391) Based on arrangements in use today between BellSouth and IXC or other LECs, interconnection can clearly occur at a number of points, including BellSouth's premises, the interconnector's premises, or at a "meet point" between the two. (Cornell, T 391-2)

Despite the fact that BellSouth interconnects with other LECs today at a "meet point" (which is sometimes referred to as a "mid-span meet"), BellSouth insists that it will not provide

interconnection to an ALEC except at its tandem or end office. (Scheye, T 559) Yet the option of a mid-span meet is essential to enable an entrant to minimize its cost of interconnection and serve its customers in the most efficient manner possible. (See Cornell, T 392-3)

If the entrant is required to take transport from BellSouth and have the interconnection be at the entrant's switch, it must pay the price that BellSouth chooses to charge for transport, including whatever contribution BellSouth includes in that charge. If the entrant is given the alternative of providing its own transport (or purchasing it from a third party), but is then required to pay directly or indirectly for colocation at BellSouth's switch, it must also pay whatever contribution is included in that colocation charge. Any contribution in those rates is non-competible, so it cannot be affected by competitive pressure. (Cornell, T 760-1)

On the other hand, if the entrant can require a mid-span meet, then each carrier pays the cost of providing the link to the interconnection point. Suddenly the entrant can obtain that physical interconnection at cost, with no contribution. (Cornell, T 761)

Mid-span meets are like mutual traffic exchange, in that BellSouth practices them today with other LECs, but claims they are inappropriate for ALECs. While mid-span meets traditionally occur at the franchise boundary between two LECs, the trunk does not know where ownership changes. Thus a meet-point halfway

between a BellSouth switch and an ALEC switch is every bit as technically feasible as the mid-span meets that are used today.

Unless the Commission orders BellSouth to physically interconnect on a meet-point basis, it will be ensuring that a non-competible contribution element is built into the new entrant's costs, thereby limiting the price down to which local exchange services can be competed. This would impose unnecessary costs of Florida consumers.

Issue 12. To the extent not addressed in the number portability docket, Docket No. 950737-TP, what are the appropriate financial and operational arrangements for interexchange calls terminated to a number that has been "ported" to the respective ALECs?

MCImetro: Since the ALEC is the carrier terminating the call, it is entitled to terminating access charges. Any such charges collected by BellSouth with respect to such a call should be remitted to the ALEC. (Price, T 303-5, 318-9)

The discussion of the financial arrangements for calls to ported numbers is included in Issue 1 under the heading "Special Considerations for Toll Traffic Terminated to 'Ported' Numbers." The appropriate operational arrangements are for the traffic to be delivered to the ALEC's point of interconnection in the same way that other traffic is delivered, as discussed in more detail in Issue 11.

Issue 13. What arrangements, if any, are necessary to address other operational issues?

**MCImetro: BellSouth must provide mechanized procedures to support the ordering by ALECs of unbundled loops, interoffice facilities, remote call forwarding, and any other service or function necessary for

> the interoperability of the networks. Mechanized intercompany procedures must also be developed to support all types of repair services.**

The use of mechanized interfaces between BellSouth and an ALEC is critical to the development of an effectively competitive local exchange telecommunications market.

Intercompany procedures must be developed to support the ordering of unbundled loops, interoffice facilities, interim number portability mechanisms, and customer listing databases on a mechanized basis. Such mechanized interfaces are similar to those currently used in day-to-day interactions between LECs and IXCs. (Price, T 305-6)

There are obvious reasons for automation, including operating efficiency, the need for automated interfaces with billing systems, and the need to track the various work processes at each step in turning up (or taking down) service. An administrative nightmare would result if thousands of transactions each day were handled on a paper basis. There would be no way to determine whether any progress had been made in fulfilling a request for service, or if so, at what stage of fulfillment that order was. Billing system errors would be rampant because of the need to manually enter each and every transaction separately from the taking of the order. (Price, T 305-6)

Mechanized interfaces are equally important to support repair services. If repair services were to be handled on a paper basis, neither company would be able to determine whether

any progress had been made in isolating or clearing an incidence of trouble, or even whether someone had been dispatched to work on a particular incidence.

BellSouth should therefore be required to provide mechanized systems for processes such as the referral of trouble tickets, and should also be required to develop procedures to permit MCImetro to isolate trouble both on trunking facilities to the POI and on unbundled network facilities -- such as loop facilities -- leased from BellSouth. Without such procedures, efforts to clear customer trouble will be constrained by the lack of appropriate intercompany procedures. This could create an undeserved impression that MCImetro is not capable of providing high quality service. Customers should be won or lost on the basis of fair competition, and not as a result of the BellSouth's failure to implement appropriate procedures for handling of repair issues. (Price, T 309-10)

Despite the obvious importance of these issues, BellSouth did not acknowledge the need for automated system in its prefiled testimony. (Price, T 322) By the time of hearing, Mr. Scheye was able to agree that BellSouth would provide this type of mechanized access, but even then he had no timetable or estimated cost for providing the mechanized interfaces. (Scheye, T 559)

Because of the importance of these interfaces to both parties in a network of networks environment, BellSouth should be required to provide mechanized access at no charge. (Price, T 343) BellSouth should be required to provide such mechanized

interfaces as quickly as possible, but in any event by January 1, 1997. (See Price, T 345) Unless the Commission establishes a deadline for such functionality to be provided, BellSouth may not be motivated to work seriously toward implementation. (Price, T 345-6)

Issue 14. What arrangements, if any, are appropriate for the assignment of NXX codes to the respective ALECs?

MCImetro: Until the NXX code administration function is moved to a neutral third party administrator, BellSouth should be required to provide nondiscriminatory NXX assignments to ALECs on the same basis that such assignments are made to other LECs, including BellSouth.

MCImetro believes that this issue would be substantially resolved if the Commission ordered BellSouth to make the related provisions of the original Bell-TCG Agreement available to MCImetro. (See Price, T 347; Ex. 14, Item RCS-3 at 23) It should be noted that the "Number Resource Administration" provisions of the Bell-Cable Agreement are different, and in fact deal with a totally different issue unrelated to NNX assignment. (Price, T 356-7)

RESPECTFULLY SUBMITTED this 25th day of January, 1996.

HOPPING GREEN SAMS & SMITH, P.A.

By: _____

Richard D. Melson
Post Office Box 6526
123 South Calhoun Street
Tallahassee, FL 32314
904/222-7500

and

MICHAEL J. HENRY
MCI TELECOMMUNICATIONS CORP.
Suite 700
780 Johnson Ferry Road
Atlanta, GA 30346
404/843-6373

Attorneys for MCI Metro Access
Transmission Services, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following by U.S. Mail this 25th day of January, 1996.

Lee L. Willis
J. Jeffrey Wahlen
Macfarlane, Ausley, Ferguson & McMullen
227 S. Calhoun Street
Tallahassee, FL 32301

Anthony P. Gillman
Kimberly Caswell
GTE Florida Incorporated
c/o Richard M. Fletcher
106 E. College Ave., Ste. 1440
Tallahassee, FL 32301-7704

Leslie Carter
Digital Media Partners
1 Prestige Place, Ste. 255
Clearwater, FL 34619-1098

James C. Falvey
Swidler & Berlin, Chartered
3000 K Street, N.W., Ste. 300
Washington, DC 20007

David Erwin
Young van Assenderp & Varnadoe
225 S. Adams St., Suite 200
Tallahassee, FL 32301

Richard A. Gerstemeier
Time Warner AxS of Florida
2251 Lucien Way, Ste. 320
Maitland, FL 32751-7023

Patrick K. Wiggins
Wiggins & Villacorta
501 East Tennessee Street
Tallahassee, FL 32301

Andrew D. Lippman
Metropolitan Fiber Systems
One Tower Lane, Suite 1600
Oakbrook Terrace, IL 60181-4630

J. Phillip Carver
c/o Nancy H. Sims
Southern Bell Telephone
150 S. Monroe St., Suite 400
Tallahassee, FL 32301

Patricia Kurlin
Intermedia Communications
9280 Bay Plaza Blvd., Ste. 720
Tampa, FL 33619-4453

Kenneth A. Hoffman
Rutledge, Ecenia, Underwood, Purnell & Hoffman
215 S. Monroe St., Suite 420
Tallahassee, FL 32301-1841

Jodie Donovan-May
Teleport Communications Group
1133 21st Street, N.W., Ste. 400
Washington, DC 20036

Michael W. Tye
101 North Monroe Street, Ste. 700
Tallahassee, FL 32301

Robin D. Dunson
1200 Peachtree St., N.E.
Pomenade I, Room 4038
Atlanta, GA 30309

Laura Wilson
Florida Cable Telecommunications Assoc. Inc.
310 N. Monroe Street
Tallahassee, FL 32301

Floyd R. Self
Messer, Caparello, Madsen, Goldman & Metz, P.A.
P.O. Box 1876
Tallahassee, FL 32302

63663.1
COS/950985

William H. Higgins
AT&T Wireless Services
250 S. Australian Ave., Suite 900
West Palm Beach, FL 33401

Donna Canzano
Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Jill Butler
Florida Regulation Director
Time Warner Communications
2773 Red Maple Ridge
Tallahassee, FL 32301

Brian Sulmonetti
LDDS Woldcom Communications
1515 S. Federal Hwy., Suite 400
Boca Raton, FL 33432

C. Everett Boyd, Jr.
Ervin, Varn, Jacobs,
Odom & Ervin
305 S. Gadsden Street
Tallahassee, FL 32301

Benjamin Fincher, Esq.
Sprint Communications Co.
Limited Partnership
3065 Cumberland Circle
Atlanta, GA 30339

Sue E. Weiske
Senior Counsel
Time Warner Communications
160 Inverness Drive West
Englewood, CO 80112

Peter M. Dunbar, Esq.
Charles W. Murphy, Esq.
Pennington & Haben, P.A.
215 S. Monroe Street, 2nd Fl
Tallahassee, FL 32301

Timothy Devine
MFS Communications Company, Inc.
Six Concourse Parkway, Ste. 2100
Atlanta, GA 30328

Richard M. Rindler
James C. Falvey
Swidler & Berlin, Chartered
3000 K Street, N.W.
Suite 300
Washington, D.C. 20007

Donald L. Crosby
Continental Cablevision, Inc.,
Southeastern Region
7800 Belfort Parkway, Ste. 270
Jacksonville, FL 32256-6925

A. R. Schleiden
Continental Fiber Technologies
d/b/a AlterNet
4455 Baymeadows Road
Jacksonville, FL 32217

Bill Wiginton
Hyperion Telecommunications, Inc.
Boyce Plaza III
2570 Boyce Plaza Road
Pittsburgh, PA 15241

Rio D. Re

Attorney