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March 23, 1996

BY HAND DELIVERY

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

Re: Docket No. 950985-TP (Sprint-GTEFL)  
(Local Interconnection)

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 our WordPerfect 5.1 disk.

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

Very truly yours,

Richard D. Melson

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

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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: March 22, 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. The term "LECs" refers to GTE Florida (GTEFL), United Telephone Company of Florida (United), and Central Telephone Company of Florida (Centel). The term "ALECs" refers to the petitioning parties and to any other parties who are bound by the Commission's final order in this docket.

SUMMARY

The decisions regarding local interconnection made by the Commission in the earlier BellSouth phase of this docket should be adopted as the framework for local interconnection in this phase of the proceeding.

In particular, 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 -- should be implemented for the exchange of local traffic between the LECs and ALECs. 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 LECs 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 Partial Co-Carrier Agreement entered into between GTE and Metropolitan Fiber Systems (MFS), 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 United/Centel and GTEFL?

**\*\*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 LECs and ALECs, the Commission should adopt a compensation arrangement that fosters the ultimate development of effective competition in the local exchange markets. (Cornell, T 824) 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. Although Mr. Michaelson did not agree that promoting competition should be a goal of this proceeding, he was unaware of the legislative mandate in Section 364.01(4)(d) for the Commission to "promote competition by encouraging new entrants into telecommunications markets." (Michaelson, T 1161-3)

#### **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 827)

(2) The compensation arrangements should foster efficiency, rather than inefficiency. (Cornell, T 828)

(3) The compensation arrangements should not force entrants to select one technology or network architecture over another. (Cornell, T 828)

#### **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 831) This is the method that has been used in Florida whenever local traffic is passed between United/Centel or GTEFL and another local exchange company. (Poag Depo., Ex. 38 at 59-60; Ex. 40 at 003-005; Menard, T 1059; Menard Depo., Ex. 31 at 024; Confid. Ex. 33) 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 832-3)

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 831) Reciprocity simply means that both the LECs 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 830)

(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 831-2) 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 832) If compensation is in cash, a carrier such as GTEFL or United/Centel has the incentive to make the cost of termination inefficiently high, and to pass that inefficiently high cost, plus contribution, along to its competitors. 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 833-4)

(3) Mutual traffic exchange provides the least ability for a LEC to use the compensation mechanism to try to impose unnecessary and anticompetitive costs on the entrants. (Cornell, T 832) The LECs' proposed 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 834-6) United/Centel, for example, plans to deploy

expensive software in its access tandems to enable it to measure traffic to various interconnecting parties, but even that software will not allow it to distinguish terminating toll traffic from terminating local traffic. (Poag, T 1196, 1357-8)

(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 832) 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 836) A switched access charge structure, on the other hand, is not neutral. Assume that entrants are required to mirror GTEFL and United/Centel's structure for switched access charges, and are allowed to charge the LEC only for the functions (as defined in the LEC's access tariff) that they use to terminate a call.<sup>1</sup> 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 the LEC 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 the LECs', the entrant may be incited to add inefficient tandem switching simply to maximize the

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<sup>1</sup> This "mirroring" concept is included in both the United/Centel-ICI and GTE-ICI Agreements. (See Ex. 32 at 003, 020; Ex. 40 at 011-012, 024)

local interconnection payments that it will receive. (Cornell, T 843-4, 851-2)

(5) Mutual traffic exchange is the only compensation method that gives the LECs any incentives to cooperate in the development of true number portability.<sup>2</sup> (Cornell, T 832) This is important, because the LECs benefit from the lack of true number portability and thus have incentives to resist its development and deployment. (Cornell, T 836-7)

**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, GTEFL's own cost studies estimate that the cost of interconnection is less than 0.2 cents per minute, while United/Centel's estimate is between 0.5 and 0.75 cents per minute. (Menard, T 1088; see Confid. Ex. 28 at 002, 013; Poag, T 1347; Confid. Ex. 44 at 0166, line 3) Any cash charge at or above this level would indisputably comply with the statutory requirement.

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<sup>2</sup> True number portability refers to a permanent database solution to service provider number portability. It does not refer to location, or geographic, number portability.



United/Centel maintains that the compensation for terminating local traffic must be in cash in order to meet the statutory requirement, and to ensure that the LEC will recover its costs of interconnection. (Poag, T 1181, 1198, 1221-2)

Contrary to this assertion, mutual traffic exchange provides compensation "in kind" which is sufficient in economic terms to cover the LECs' cost of providing interconnection. (Cornell, T 846) There is every reason to believe that traffic exchange between a LEC 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 837-40) 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 838) 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 838) 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 838-9)

So long as traffic is roughly in balance, mutual traffic exchange will enable the LECs to recover their 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, GTEFL or United/Centel.<sup>3</sup> (Cornell T 846) With traffic roughly in balance, the LECs will receive in-kind compensation -- termination of their traffic by the ALEC -- which has a market price equal to their cost of terminating an equivalent amount of traffic from the ALEC. Because it has obtained a needed service from the ALEC, in exactly the quantity it requires, each LEC has received a value that recovers its cost of providing interconnection. (Cornell, T 846) The LECs are not terminating ALECs' traffic for free. (Cornell, T 840; Wood, T 431-2)

United/Centel's position that cash compensation is required rests in part on its assertion that traffic will not be in balance. Mr. Poag suggests that United/Centel's experience on EAS routes and with cellular traffic, where significant traffic imbalances sometimes occur, is evidence the traffic between LECs and ALECs will not be in balance. (Poag, T 1224-5) The experience with EAS traffic, where calling would be expected to be predominantly from the rural areas into the metropolitan areas, teaches nothing about

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<sup>3</sup> If paid in cash, that price should be set equal to the incumbents' direct cost (TSLRIC) of providing the service, a price which, based on the LECs' own numbers, is less than two-tenths of a cent per minute for GTEFL, and between one-half and three-quarters of a cent per minute for United/Centel. (Menard, T 1088; Poag, T 1347)

the likelihood of traffic imbalance where two competing carriers are providing local service within the same geographic area. (Cornell, T 900-01; Wood, T 409-10) Similarly, the experience with mobile-land vs. land-mobile traffic, where cellular phones are commonly used to originate rather than receive calls, teaches nothing about land-land traffic between a LEC and an ALEC. United/Centel thus has provided no credible evidence to suggest that LEC-ALEC traffic will be significantly out of balance.

Further, given the way that the United/Centel-ICI and GTEFL-ICI Agreements operate, it is hard for United/Centel to maintain that a traffic imbalance will improperly preclude it from recovering its costs of termination. Under those agreements, the local interconnection rate may apply to only a small fraction of an ALEC's terminating minutes. While those agreements provide for cash compensation at reciprocal rates, 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, GTEFL terminated 10,000 MOU to an ALEC and the ALEC terminated 15,000 MOU to GTEFL, GTEFL would pay for 10,000 terminating minutes and the ALEC would pay for 10,500 terminating minutes, or a net payment of 500 minutes. (Beauvais, T 1029-31; Ex. 31 at 021-022) In this case, GTEFL has either terminated 4,500 minutes for free, or else it has terminated 5,000 minutes for one-tenth of the stated rate of 0.993 cents/MOU. Similarly, in the extreme case in which an ALEC terminates 10,000 MOU to GTEFL, and GTEFL terminates no minutes to the ALEC (e.g. where the ALEC's sole

customer is a telemarketing firm), GTEFL terminates the ALEC's 10,000 minutes for free. (Ex. 31 at 021-022) The United/Centel-ICI Agreement operates in exactly the same way. (Ex. 40 at 025-026) Given these examples from the LECs' own agreements, it is difficult to comprehend how the United/Centel can claim with a straight face that mutual traffic exchange improperly precludes it from recovering the cost of terminating an ALEC's traffic.

In considering whether cash compensation should be required, the Commission should remember that the costs of implementing such a compensation mechanism would almost certainly outweigh the benefits unless the traffic imbalances were at relatively high levels. Assuming that local interconnection were priced at TSLRIC, an ALEC would have to generate 50,000,000 MOU per month with a 10% imbalance before the net compensation payable would reach \$12,500 a month. At anything below this level, the cost of measuring to determine whether there is in fact an imbalance could be a dead weight loss to society. If the Commission is concerned about the potential for long-term, systematic imbalances, it could address the situation by allowing the LEC to attempt to demonstrate an imbalance once a single ALEC was terminating in excess of some specified number of minutes of use on its network. (See Cornell, T 911-20)

It is critical to recognize that while the LECs insist that compensation must be paid in cash to cover their costs of interconnection, GTEFL and United/Centel offered no evidence of those costs in either their direct or rebuttal cases. The only

evidence touching on this issue was introduced by the staff, which put the LECs' 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 Commission to even begin to guess what costs the LECs contend must be recovered by a cash payment.

And for United/Centel, the cost studies which were submitted through staff raise as many questions as they answer. At least three witnesses who have had experience reviewing LEC cost studies in other states stated that the United/Centel studies lacked the detail usually found in such cost studies and/or produced a cost figure which is substantially higher than what other LECs typically compute. (Cornell, T 955-7; Wood, T 445-6; Devine, T 711-2) Even this record shows that United/Centel's cost of 0.5 to 0.75 cents per minute is 2-1/2 to 3-1/2 times the per minute cost (less than 0.2 cents per minute) reported by GTEFL. Given these discrepancies, United/Centel's cost study does not provide a credible basis for setting cost-based interconnection charges, and mutual traffic exchange becomes even more appropriate. If the Commission nevertheless feels compelled to set a per minute charge, Dr. Cornell suggested that if the Commission determined that a cost study was seriously flawed, the Commission might use a more representative number -- something on the order of 0.25 to 0.3 cents per MOU -- as a reasonable estimate of TSLRIC for purposes of establishing an interconnection rate. (Cornell, T 956-7)

## **What is Wrong With the LECs' Proposal for Switched Access Charges**

The LECs' proposals to apply terminating switched access charge rates of approximately one cent per minute to local traffic terminated on their networks present at least three problems:<sup>4</sup>

First, the proposed prices are 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.

Second, if switched access charges are used as the basis for pricing local interconnection, GTEFL and United/Centel's local exchange service rates will not be able to pass an imputation test, which results in a price squeeze against the new entrants.

Third, the LECs' proposals to mirror switched access charge rates and structure creates artificial incentives for ALECs to mirror the technology and network architecture of the incumbents, and provides no incentive for the LECs to cooperate in implementing a permanent number portability solution.

The third point has been dealt with above in the context of mutual traffic exchange. The two other problems with using

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<sup>4</sup> GTEFL proposes a rate (excluding the entrance facility) that averages 0.993 cents per minute. (Menard, T 1084-5, 1087; see Ex. 32 at 020) United/Centel proposes a rate that averages 1.882 cents per minute initially. United/Centel indicates that this rate is expected to decline effective October 1, 1996, to 1.092 cents, when United/Centel plans to eliminate the line termination rate element of switched access charges, and move any remaining revenues associated with that rate element into the CCL. (Poag, T 1343-4; see Ex. 40 at 024)

switched access charges as local interconnection rates will be discussed in turn.

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

Each of the LECs proposes to charge for local termination on a per minute basis. The rate and rate structure would be the same as switched access charges, excluding the CCL and the RIC. For GTEFL, this rate averages 0.993 cents per minute of use. (Menard, T 1084-85; see Ex. 32 at 020) For United/Centel, it averages 1.882 cents per minute of use until October 1, 1996, and is projected to average 1.092 cents per minute of use thereafter. (Poag, T 1343-4). As seen by comparison to Confidential Exhibit 28 (pages 002 and 013) and Confidential Exhibit 44 (page 0166), these proposed rates are well above the estimated TSLRIC of providing the service. For GTEFL, this cost is less than two-tenths of a cent per minute. (Menard, T 1088) For United/Centel, it is between one-half and three-quarters of a cent per minute.<sup>5</sup> (Poag, T 1347)

If the Commission approves GTEFL and United/Centel's proposal to use switched access charges for local interconnection, it will be protecting from competition the margin between their costs and their prices. An ALEC who needs to terminate calls to LEC customers has no competitive alternative -- the customers have made the choice that calls to them will be connected through the LEC. Since those LEC customers do not pay, directly or indirectly, the

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<sup>5</sup> As discussed above, United/Centel's cost estimates appear to be seriously out of line with costs of companies in Florida and other states.

interconnection charges that the LEC imposes on the ALEC, their choice of carrier exerts no downward pressure on the LECs' interconnection rates. Because the price charged by the LECs 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 the LECs' 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 846-50)

Using an example supported by the record in this case, assume that GTEFL's price for interconnection is set at its requested rate of 0.993 cents per MOU; that the average residential customer make 454 minutes of local calls a month (Menard, T 1083-4; Ex. 30 at 007); and that the cost of providing local termination is 0.2 cents per MOU [the actual cost estimated by GTEFL is less than 0.2 cents per MOU, as can be calculated from Confidential Exhibit 32 using the methodology described by Ms. Menard at pages 1086-1088 of the transcript]. In this case, every minute terminated to GTEFL results in the ALEC paying 0.793 cents of "contribution." Assuming that 100% of the originating minutes terminated on GTEFL's network -- essentially an assumption that ALECs have obtained very little market share -- GTEFL would collect "contribution" of approximately



\$3.60 per month from the interconnection rates attributable to the average ALEC customer.

"CONTRIBUTION" TO GTEFL FROM AVERAGE ALEC CUSTOMER	
Price of Interconnection per MOU	\$ .00993
Cost of Interconnection per MOU	\$ .00200
"Contribution" per MOU	\$ .00793
Average MOU	x 454
Total "Contribution"	\$ 3.60

This means that the ALEC's rates, in total, must collect \$3.60 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 849-50) If, on the other hand, the Commission adopts mutual traffic exchange, no contribution is loaded into the ALEC's interconnection costs, and all of the LEC's retail prices are subject to competition.

(2) The LECs' Proposals Fail An Imputation Test and Create a Price Squeeze

Unless a LEC's local exchange service can pass an appropriate imputation test, ALEC competitors will be subject to a "price squeeze." (Cornell, T 842) 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 842-3)

The appropriate imputation test to prevent the possibility of a price squeeze is one in which the price floor for a LEC 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 the incumbent LEC (e.g. local interconnection), plus (b) the direct economic cost (TSLRIC) to the LEC of all other elements of its retail service. (Cornell, T 843, 890-4) Mr. Michaelson's version of the imputation test -- which looks at costs and revenues of a group of business or residential services, rather than at basic business or residential service -- is totally inadequate to protect competitors from a price squeeze. (Cornell, T 897-8) That version of imputation also has the perverse effect of forcing new entrants to seek out only low cost, high contribution customers, since it ensures that the new entrant will lose money on customers who take only basic local exchange service. (Cornell, T 897-900) Such a result would be bad public policy.

Using an example supported by the record in this case to understand the correct imputation rule, assume the incremental cost to GTEFL of providing residential local exchange service, including the local loop, is \$22.20 (Menard, T 1090; Ex. 30 at 005, Item 4); the cost of providing the local loop portion of residential service is \$16.19 (Ex. 30 at 004, Item 2); the price proposed by the GTEFL for local interconnection is \$.00993/MOU; and the average number of MOU for a residential subscriber is 454 (Ex. 30 at 007, Item 12).

The difference between the cost of local exchange service and the cost of a local loop (\$22.20 - \$16.19 = \$6.01) represents GTEFL's TSLRIC cost of providing the non-loop components of local exchange service (switching, transport, billing and collection, marketing). Of this \$6.01, the bottleneck monopoly function of terminating local traffic represents about \$0.91 (\$.002/MOU x 454 minutes) and the non-monopoly functions (billing and collection, marketing, etc.) constitute the balance of \$5.10.

In this situation, GTEFL's price for residential local exchange service would have to be \$25.80 in order to pass an imputation test and avoid a price squeeze:

IMPUTATION TEST -- GTEFL	
Price to Competitor for Essential Input (Local Interconnection) (\$ .00993 x 454)	\$ 4.51
Cost to GTEFL of Other Components of Local Service	
- Local loop <sup>6</sup>	\$ 16.19
- Other non-monopoly elements	\$ 5.10
GTEFL Retail Rate Required to Avoid a Price Squeeze	\$ 25.80

The average retail price for GTEFL's residential local exchange service is \$14.35 (\$10.85 per Exhibit 30 at 007, Item #11, plus the federal subscriber line charge of \$3.50). This price would have to climb to \$25.80 in order to allow GTEFL to pass an imputation test

<sup>6</sup> For purposes of this calculation, the local loop is assumed not to be an essential input into local exchange service. As will be demonstrated in the brief in Docket No. 950984-TL, when the unbundled loop is properly treated as an essential input and is included in the imputation test at the price proposed by the GTEFL, the price squeeze becomes even worse than depicted in this table.

at its proposed interconnection rates. Yet, by statute, GTEFL's local rates are capped at their current level until January 1, 1999. (§364.051(2), Florida Statutes) This means that there is no way to avoid a price squeeze if interconnection rates are set at GTEFL's requested levels.

While United/Centel claimed confidentiality for many of the input numbers required to show a comparable imputation calculation, the result of such a calculation demonstrates that the price of United's local exchange service would have to climb from \$12.26 (the average local rate of \$8.76 per Mr. Poag's testimony at page 1336, plus the federal subscriber line charge of \$3.50) to more than \$21 in order to avoid a price squeeze.

The only way to avoid this price squeeze under current law (which does not allow the LECs' end user rates to be raised) is to adopt mutual traffic exchange, which is equivalent to pricing at TSLRIC and in and of itself passes an imputation test. (Cornell, T 909) The next best method, which mitigates but does not completely eliminate the price squeeze, is to set the price for local interconnection equal to its direct economic cost (TSLRIC). (See Cornell, T 850, 894-5)

The Commission should flatly reject the badly named "efficient component pricing" (ECP) rule advocated by Mr. Michaelson. (Cornell, T 887) The ECP rule allows a former monopolist to collect from its competitor all of the contribution that it formerly recovered from its end use customer. That rule not only creates an almost insurmountable barrier to entry, it also protects

that total amount of contribution from competitive pressure, depriving customers of one of the primary benefits of competition. (Cornell, T 889-9) It is curious that while Mr. Michaelson advocates the ECP rule as a theoretical construct, neither he nor his client, United/Centel, made any effort to apply that rule in developing the rates proposed in this case. (See Michaelson, T 1159-60)

**What is Wrong With the Partial Switched Access Charges Contained in the Sprint-ICI and GTE-ICI Agreements**

The LECs may argue that if ICI determined that the United/Centel-ICI and GTEFL-ICI Agreements (or even the Bell-Cable Agreement) were a sound basis for ICI to do business in Florida, the Commission should infer that those rates, terms and conditions would be equally appropriate for other ALECs. (See, Poag, T 1198-9) This argument would have both economic and practical flaws.

First, the record shows that the local interconnection rates agreed to by ICI are substantially in excess of the direct cost of providing interconnection service. As shown above, GTEFL and United/Centel would be unable to pass the imputation test necessary to avoid a price squeeze at these rate levels.

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 GTEFL or United/Centel's

switched access charge rate structure.<sup>7</sup> Thus the rate charged by GTEFL or United/Centel 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 the LEC. (See Cornell, T 894) Finally, as discussed above, the mirroring of the incumbent LECs' rate structures 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 Sprint-ICI and GTE-ICI Agreements are good for competition simply because ICI has accepted their terms. Even assuming that the agreements' approach to pricing local interconnection is sound -- which it is not -- the "package" deals contain a number of other provisions which are unacceptable to many ALECs. For example, in both agreements, the agreed price for unbundled local loops is set to equal special access rates. (Ex. 32 at 028; Ex. 40 at 032) 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 the LECs to pass an

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<sup>7</sup> For example, the GTEFL-ICI Agreement provides that "parties shall not route local traffic through the tandem switch unnecessarily to generate revenues." (Ex. 32 at 003) In a similar vein, the United/Centel-ICI Agreement provides different per port charges depending on whether traffic is delivered to an end office or to an access tandem. (Ex. 40 at 023) This shows that the parties to these agreements intend for the tandem switching rate element to be applied only where a tandem switching function is actually performed.

imputation test.<sup>8</sup> Further, signatories to the United/Centel agreement must "acknowledge" that the application of current tariffed prices for resale purposes is not inconsistent with Chapter 364 (Ex. 40 at 016), despite the existence of language in Section 364.162(5) which shows that it is inconsistent.

#### **Summary**

Mutual traffic exchange is the best basis for termination of local traffic between the LECs 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 847-50)

The LECs will undoubtedly argue, correctly, that if the price for every service they provide were set at TSLRIC, they would not recover all of their shared costs. But MCImetro is not advocating that all of the LECs' functions or services must be priced TSLRIC, only that local interconnection and other functions which are

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<sup>8</sup> This price may be unimportant to ICI if, for example, ICI plans to serve customers only through its own fiber facilities. In that case, ICI in fact would have an incentive to agree to an unreasonably high price for a function it does not intend to use, where that price would artificially raise its competitors' cost of doing business.

essential bottleneck inputs into its competitors' services must be priced at that level.<sup>9</sup>

#### **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 853) 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 a LEC, or, under the Modified Access Based Compensation Plan, from one LEC to another. In this situation, there is no reason to treat an ALEC differently than IXCs or other LECs.

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 the LEC for terminating an interexchange call in the other direction. (Cornell, T 853)

##### **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

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<sup>9</sup> 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.



is "remote call forwarded" by the LEC to that "ported" number. To the LEC's system, this looks like (1) a terminating toll call to the original number, for which the LEC will collect switched access charges from the IXC, and (2) a new local call to the ALEC's customer, for which the LEC will pay local interconnection charges. The LEC 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 794-6)

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. The LEC is already being compensated for performing the remote call forwarding function through the charge imposed for providing the temporary number portability. The LEC 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 796) Of course, if the ALEC does not have a direct interconnection to the IXC for handling calls to non-ported numbers, the LEC 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 United/Centel and GTEFL, should United/Centel and GTEFL 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 a LEC and another party or parties, does not appear to be in dispute. (See Prehearing Positions on Issue No. 2)

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

**\*\*MCImetro:** For local traffic, the LECs should provide the intermediary function to ALECs at a price equal to its direct economic cost (i.e. TSLRIC). For toll traffic, the LECs 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 the LEC with whom it is interconnected (e.g. an IXC, another ALEC, or another LEC). In this situation, the LEC 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.

The appropriate technical arrangements for the handling of intermediary traffic do not appear to be in dispute.

The appropriate financial arrangements for this intermediary function are as follows: (1) the ALEC should compensate the LEC for performing the intermediary function for local traffic at a rate equal to the LEC's direct economic cost (TSLRIC) of providing the

function, and (2) the ALEC should compensate the LEC for performing the intermediary function for toll traffic on the same basis that other LECs compensate the LEC for this function today. (Cornell, T 856-7) These arrangements are appropriate since the LEC 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, the LEC 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 856-7)

If for any reason the Commission determines that the price for the intermediary function should be set above TSLRIC, it should in no event exceed the price fixed in the Sprint-ICI and GTE-ICI Agreements. That price, which covers the LECs' costs, is two-tenths of a cent per MOU, plus any applicable tandem switching and transport rate elements from the LEC's switched access charge tariff. (Ex. 32 at 006; Ex. 40 at 014)

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 United/Centel and GTEFL?

**\*\*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 the LEC's tariffed 800 access features at those tariffed rates.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

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 United/Centel and GTEFL'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 United/Centel and GTEFL?

**\*\*MCImetro:** United/Centel 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 United/Centel provides to itself.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

Because of the strong public policy in favor of uniform 911 service statewide, the Commission should adopt the same requirements for United/Centel as it established in the BellSouth phase of this docket.

This issue could be substantially resolved by requiring United/Centel to make available to all ALECs the relevant provisions of the United/Centel-ICI agreement. In addition, however, United/Centel should afford ALEC's 911 trunks the same

level of priority service restoration that it affords its own 911 trunks, should be required to provide the ALECs with at least 48 hours' advance notification of any scheduled testing on or maintenance of the 911 network, and should be required to notify the ALECs immediately of any unscheduled outage.

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:** United/Centel 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. United/Centel should be required to provide ALECs with the ability to make mechanized entries into the ALI database(s).\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

MCImetro believes that this issue would be substantially resolved if the Commission ordered United/Centel to make the related provisions of the United/Centel-ICI Agreement available to MCImetro.

That agreement, however, does not provide for mechanized access by an ALEC to United/Centel's "master street address guide" (MSAG) or its "automatic line identification" (ALI) database. This type of mechanized access is essential in order to ensure the public safety and welfare. (Price, T 797-8)

While United-Centel agrees to provide mechanized access to its various systems at some time in the future, it apparently does not plan to begin work on those systems until after national standards

have been adopted. (See Poag, T 1261-2) To afford reasonable protection to Florida consumers, it would be appropriate for the Commission to require mechanized access to the MSAG and ALI databases as soon as possible, preferably within 30 days after the entry of its order. (See Price, T 798)

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

**\*\*MCImetro:** United/Centel 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 United/Centel customers, and should provide operator services to ALECs on the same basis as other LECs.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

MCImetro believes that this issue would be substantially resolved if the Commission ordered United/Centel to make the related provisions of the United/Centel-ICI Agreement available to all ALECs. That agreement, however, provides for service to be provided only for a tariffed rate. To the extent that United/Centel offers these services to other LECs on a contractual basis, an ALEC should be entitled to a similar contractual arrangement if it finds that such an arrangement is more useful or economical than the tariffed rate for IXCs.

Issue 7. What are the appropriate arrangements for the provision of directory assistance services and data between the respective ALECs and United/Centel and GTEFL?

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

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

MCImetro believes that this issue would be substantially resolved if the Commission ordered United/Centel to make the related provisions of the United/Centel-ICI Agreement available to MCImetro.

Issue 8. Under what terms and conditions should United/Centel and GTEFL 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:** United/Centel 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 United/Centel customers. United/Centel should also include information on ALECs' services in the "informational" section of the white pages directory.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

ALECs should provide directory listing information to United/Centel at no charge. In return, United/Centel should include ALEC customer listings in their directories, and should distribute directories to ALEC customers, at no charge.

In addition, United/Centel should be required to include basic information on ALEC services in the information section of the

white pages directory at no charge. The purpose of this section of the directory is 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 United/Centel 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.

The Commission should reject United/Centel's proposal to require ALECs to negotiate with its affiliate for any desired informational pages. United/Centel gets access to a base number of such pages at no charge (Poag, T 1361; Ex. 39 at 14), and ALECs should therefore be provided access on an equal basis.

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

**\*\*MCImetro:** United/Centel should provide ALECs with access to the line information database (LIDB) in order to validate calls placed to United/Centel 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.\*\*

**Note:** This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.



In general, MCImetro believes that the technical arrangements referred to in this issue can be resolved by the parties through negotiations once the Commission has decided the basic financial issues.

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

**\*\*MCImetro:** United/Centel should deliver to ALECs, without limitation or modification, any and all CCS7 signalling information generated by the caller or by United/Centel on behalf of the caller.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

MCImetro believes that this issue would be resolved if the Commission ordered United/Centel to make the related provisions of the United/Centel-ICI Agreement available to all ALECs.

Issue 11. What are the appropriate arrangements for physical interconnection between the respective ALECs and United/Centel and GTEFL, 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 United/Centel should be required to provide CCS7 signalling on all trunk types that support it.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

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 can be resolved by the parties through negotiations after the Commission has resolved the basic financial issues in this case.

The Commission nevertheless should establish the points at which United/Centel 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 853) Based on arrangements in use today between United/Centel and IXC or other LECs, interconnection can clearly occur at a number of points, including United/Centel's premises, the interconnector's premises, or at a "meet point" between the two. (Cornell, T 854)

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. If an entrant is required to take transport from United/Centel and have the interconnection be at the entrant's switch, it must pay the price that United/Centel chooses to charge for transport, including whatever contribution United/Centel 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 United/Centel'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. 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. Unless the Commission orders United/Centel 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 on 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 United/Centel with respect to such a call should be remitted to the ALEC.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

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:** United/Centel 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.\*\*

Note: GTEFL and MFS have agreed in part on this issue and have agreed to continue to negotiate to resolve any remaining operation issues. Therefore the Commission's decision will affect only United and Centel.

The use of mechanized interfaces between United/Centel 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 IXC's. (Price, T 796-9)

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 796-7)

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. (Price, T 798-9)

United/Centel 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 the ALECs to isolate trouble both on trunking facilities to the POI and on unbundled network facilities -- such as loop facilities -- leased from United/Centel. 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 the ALEC 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 United/Centel's failure to implement appropriate procedures for handling of repair issues. (Price, T 799)

Because of the importance of these interfaces to both parties in a network of networks environment, because the incremental cost of making existing interfaces available to ALECs should be small, and because the ALECs will be making investment in reciprocal systems for providing mechanized access by the LECs, each party

should bear its own cost of developing and implementing the necessary mechanized systems. (Price, T 802-4, 805-10)

United/Centel should be required to provide such mechanized interfaces as quickly as possible, but in any event by January 1, 1997. Unless the Commission establishes a deadline for such functionality to be provided, United/Centel may not be motivated to work seriously toward implementation.

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

\*\*MCImetro: Although United/Centel is not an NXX code administrator, it should be required to cooperate with the ALECs to the extent necessary to allow them to obtain NXX assignments on the same basis that such assignments are made to other LECs.\*\*

Note: This issue has been stipulated between GTEFL and MFS. Therefore the Commission's decision will affect only United and Centel.

Because United/Centel is not an NXX code administrator, there is less potential for discrimination in NXX code assignments than in some other LEC territories. Nevertheless, United/Centel should be required to cooperate with the ALECs to the extent necessary to allow them to obtain NXX assignments on the same basis that such assignments are made to other LECs.

Issue 15: To what extent are the non-petitioning parties that actively participate in this proceeding bound by the Commission's decision in this docket as it relates to Sprint-United/Centel and GTEFL?

This issue was ruled on by the Commission at the beginning of the hearing, and the parties therefore are not required to brief this issue.

RESPECTFULLY SUBMITTED this 22nd day of March, 1996.

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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following by U.S. Mail this 22nd day of March, 1996.

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