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May 30, 1996

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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. 920260

Dear Ms. Bayó:

Enclosed for filing on behalf of Florida Ad Hoc Telecommunications Users' Committee, MCI Telecommunications Corporation, AT&T Communications, Florida Interexchange Carriers Association, Sprint Communications Company, and McCaw Communications in the above referenced docket are the original and 15 copies of their Joint Proposal.

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

Very truly yours,

R.D. Melson

Richard D. Melson

RDM/cc
Enclosures
cc: Parties of Record

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[Signature]
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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Comprehensive review of)
the revenue requirements and) Docket No. 920260-TP
rate stabilization plan of)
Southern Bell Telephone and) Filed: May 30, 1996
Telegraph Company)
_____)

**JOINT PROPOSAL FOR THE DISPOSITION OF \$48 MILLION IN
UNSPECIFIED RATE REDUCTIONS SCHEDULED FOR 10/1/96**

COME NOW, Florida Ad Hoc Telecommunications Users' Committee ("Ad Hoc"), MCI Telecommunications Corporation ("MCI"), AT&T Communications of the Southern States, Inc. ("AT&T"), the Florida Interexchange Carriers Association ("FIXCA"), Sprint Communications Company, Limited Partnership ("Sprint"), and McCaw Communications of Florida, Inc. ("McCaw") (collectively "Petitioners") and hereby make the following joint proposal and recommendation for the application of the \$48 million in unspecified rate reductions scheduled for October 1, 1996 to specific services of BellSouth Telecommunications, Inc. ("BST").

JOINT PROPOSAL

1. The Florida Public Service Commission ("Commission") should order rate reductions to the following services:
 - o \$11 million Reduce the rates for BST's PBX trunks, and for DID service offerings associated with PBX trunk services
 - o \$35 million Eliminate the Residual Interconnection Charge (RIC) within the local transport rate elements of BST's switched access service

- o \$ 2 million Reduce usage rates for BST's mobile interconnection services

**BACKGROUND FOR DISPOSITION OF \$48 MILLION
IN UNSPECIFIED RATE REDUCTIONS**

2. On February 11, 1994, the Commission entered its Order No. PSC-94-0172-FOF-TL approving a Stipulation and an Implementation Agreement ("Order Approving Stipulation and Implementation Agreement") which settled a number of docketed investigations of BST, including a then-pending overearnings investigation under BST's Incentive Regulation Plan.

3. The Stipulation approved by the Commission's Order provided for substantial rate reductions over the period 1994 through 1997 in order to dispose of BST's projected overearnings for that period. The Implementation Agreement approved by the Commission's Order provided for rate reductions to some specific services, but left a substantial portion of rate reductions to be applied to "unspecified" services. The services to which these future rate reductions were to be applied was left to be determined by the Commission based on the proposals of the parties.

4. The Implementation Agreement provided for the following specified and unspecified rate reductions:

- o Year 1 Rate reductions effective 7/1/94
 - Intrastate switched access charge reduction - \$50 million
 - Unspecified rate reductions - \$10 million
- o Year 2 Rate reductions effective 10/1/95
 - Intrastate switched access charge reduction - \$55 million
 - Unspecified rate reductions - \$25 million

- o Year 3 Rate reductions effective 10/1/96
 - Intrastate switched access charge reduction - \$35 million
 - Non-LEC PATS rate reduction - \$ 1 million
 - Unspecified rate reductions - \$48 million

With respect to the unspecified rate reductions, the Implementation Agreement provided for the parties to make proposals as to which services should receive rate reductions "not less than 120 days prior to the scheduled effective date." (Implementation Agreement ¶ 4)

5. The Petitioners making this Joint Proposal were signatory parties to the Implementation Agreement. This Joint Proposal is being submitted pursuant to the Implementation Agreement "not less than 120 days" prior to the scheduled effective date of October 1, 1996.

6. Section 364.385(3), which was added as part of the Legislature's 1995 rewrite of Chapter 364, expressly retained the requirement that BST reduce its rates pursuant to the Order Approving Stipulation and Implementation Agreement, and the Commission's jurisdiction to enforce the provisions of the Order and of the agreements, notwithstanding the fundamental change in the regulation of BST made by the statutory revisions.

RATIONALE FOR JOINT PROPOSAL

7. As this Commission is aware, the 1995 rewrite of Chapter 364 fundamentally altered the Commission's regulation of BST and the ability of the Commission to establish rates for telecommunications services provided by BST. Under Price Regulation, which BST has elected under Section 364.051, Florida

Statutes, the Commission no longer has the authority to establish prices on the basis of earnings regulation for "non-basic" services [§364.051(6)] such as PBX trunks and the DID services associated with PBX trunk service, nor for "network access" services [§364.163] such as switched access and mobile interconnection services. This Joint Proposal presents the Commission with its last opportunity to apply BST's overearnings to rate reductions to services which it has long recognized as requiring rate reductions.

Restructure of PBX Trunk and DID Service Offerings

8. This Commission has long recognized the need to reprice and restructure BST's PBX trunk and DID rates relative to the functionally equivalent services that BST offers with its ESSX service. Beginning with its Docket No. 881257-TL which was initiated in 1988, the Commission and Staff have recognized that the disproportionate rates charged to PBX users versus the pricing of BST's ESSX customers for similar loop and electronic facilities and the disproportionate levels of contribution from each service, has resulted in anti-competitive pricing practices in the market for business services.

9. In the Staff Recommendation in this Docket 920260-TP filed last year, the Staff recommended that from the available unspecified \$25 million rate reductions for Year 2 in the Implementation Agreement, the balance of the available funds, after ECS reductions, "should be used to reduce the difference in pricing between ESSX loops, and PBX trunks and DID service rates."

Elimination of the Residual Interconnection Charge (RIC)

10. In the Implementation Agreement approved by the Commission, the parties, including BST, agreed and covenanted that:

During the years 1994 through 1996 under the terms of the Stipulation, the PARTIES intend to move Southern Bell's intrastate switched access charge rates closer to the cost of providing such switched access services.

(Implementation Agreement ¶ 1)

As a result, the parties agreed to make specified intrastate switched access rate reductions that would result in intrastate rate levels being set at parity with BST's January 11, 1994 interstate rate levels as of October 1, 1996. The parties recognized, however, that this did not reflect the cost of providing such switched access services. (See, Implementation Agreement ¶ 1.C)

11. As part of the Implementation Agreement, the interexchange carrier parties agreed to forego requesting additional switched access rate reductions from the "unspecified" rate reductions scheduled for Years 1 and 2. However, with respect to the \$48 million in "unspecified" rate reductions in Year 3, the parties specifically agreed that these rate reductions could be used for:

a further reduction of Southern Bell's Intrastate Switched Access rates below . . . interstate levels, and closer to the cost of providing said Intrastate Switched Access Services.

(Implementation Agreement ¶ 1.C)

12. In addition to the parties' recognition of the need to reduce switched access rates to a level closer to the cost of providing the service, this Commission has long recognized the need to eliminate the inflated levels of "contribution" presently embedded in BST's switched access charges by reducing the rates to levels closer to cost. The requirement to eliminate the non-cost based rate elements from BST's switched access charges has been accelerated by the passage of the Federal Telecommunications Act of 1996 ("Act").

13. Under the Act, BST will be permitted to enter the interLATA long distance telecommunications business after certain conditions are met. One of those conditions is the pricing of BST's switched access rates on the basis of cost. As this Commission is aware, and as BST has admitted, the Residual Interconnection Charge (RIC) has no basis in cost and is simply a rate element established to recover BST revenue requirements.

14. In its Order No. 96-0445-FOF-TP in Docket No. 950985, the Commission addressed the purpose of the RIC:

The RIC is a charge created by the FCC when it restructured interstate local transport rates. When the rates were restructured, local transport and tandem switching rates were lowered. To compensate for the lost revenue, the RIC was implemented as a rate element to recover these revenues. When intrastate local transport rates were restructured in Florida, a similar rate was established for intrastate toll. . . . (citations omitted)

[BST] stated that the RIC recovers a portion of [BST's] revenue requirement. . . [and] was established to recover the shortfall between

the overall local transport revenue requirement and the revenues generated by this new and lower transport and tandem switching charges. . .[BST] states that the collection of the RIC was a revenue requirement issue. . .

(Order No. PSC-96-0445-FOF-TP at 18-19)

15. As previously stated, these Commission proceedings to dispose of the remaining \$48 million in BST overearnings represents the Commission's last opportunity to mandate rate reductions under the implementation agreement. The RIC has no basis in cost to provide switched access services and must be eliminated under the Federal Act. Application of BST's overearnings to eliminate the RIC would be particularly appropriate. As the Commission concluded in its Order in Docket 950985-TP, albeit in a different context:

We disagree with BellSouth's arguments. The collection of the RIC is no longer a revenue requirement issue. BellSouth is no longer rate base regulated; it is price regulated. Revenue requirements are a concept only applicable under rate base regulation; they are neither consistent with nor relevant to price regulation.

(Order PSC-95-0445-FOF-TP at 19)

16. The Commission went even further in its Order in the GTEFL/Sprint phase of the local interconnection docket, stating that:

Although we are not eliminating the RIC in this proceeding, we do not believe that the long term public interest is served when all competitive local carriers are collecting the RIC from IXCs. We believe that none of them should collect it. The RIC should be phased out as soon as possible in the course of the

scheduled switched access reductions required
by Section 364.163(6), Florida Statutes.

(Order No. PSC-96-0668-FOF-TP at 26)

With this widespread recognition that the RIC is a non-cost-based anachronism in today's competitive environment, it is fully appropriate for the Commission to apply a significant portion of the unspecified rate reduction to the elimination of this charge.

Mobile Interconnection Rate Reductions

17. The Commission should apply \$2 million of the unspecified rate reductions to reduce mobile usage rates (other than Type 2B interconnection). This reduction is necessary to maintain a reasonable relationship between mobile usage rates and access charges.

18. Notwithstanding the Commission's action in Docket No. 940235-TL to eliminate the former formula, it is still important to maintain an appropriate relationship between mobile interconnection usage rates and access charges. The land-to-mobile option rate formerly equaled originating access charges, since the two services were functionally similar. With the October 1995, the required October 1996, and the requested October 1996 access charge reductions, if some reduction is not made to mobile interconnection rates, the mobile carriers will be paying substantially more than IXCs for the same originating service.

19. Similarly, with respect to the non-Type 2B mobile-to-land usage rates, the former toll component consisted of full terminating access charges. With the October 1995, the required

October 1996, and the requested October 1996 access charge reductions, if some reduction is not made to the mobile interconnection rates, the mobile carriers will be paying substantially more than the IXCs for the same service.

CONCLUSION

20. The Petitioners urge the Commission to adopt their Joint Proposal to apply the \$48 million in unspecified rate reductions scheduled for October 1, 1996 to restructure PBX trunk and DID rates (\$11 million), to eliminate the RIC (\$35 million), and to reduce mobile interconnection rates (\$2 million) as set forth above. This proceeding represents the Commission's last opportunity under the implementation agreement to order rate reductions and/or restructuring of services that it has long recognized are in need of adjustment. Further, by applying a significant portion of the reduction to the elimination of the RIC, the Commission would enable BST to make a substantial down payment on its obligation under the Telecommunications Act of 1996 to price interconnection at cost.

21. The rate reductions identified in this joint proposal are based on the information presently available to Petitioners regarding both the total dollar amount that remains to be refunded under the Stipulation and Implementation Agreements, and the dollars associated with the three categories of rate reductions identified by this joint proposal. Petitioners intend to pursue the relevant discovery associated with their joint proposal, and reserve the right to modify or supplement this proposal, as

appropriate, based upon the total dollar amount actually remaining to be refunded and the allocation of such dollars to the three rate categories identified herein.

WHEREFORE, the Petitioners request that the Commission apply the unspecified rate reductions scheduled for October 1, 1996 in the manner set forth above.

(Signatures Begin on Following Page)

RESPECTFULLY SUBMITTED this 30th day of May, 1996.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by U.S. Mail this 30th day of May 1996, to the following:

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