

FILE COPY

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July 31, 1996

Mrs. Blanca S. Bayo  
Director, Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399

ACK \_\_\_\_\_ RE: Docket No. 920260-TL

AFA \_\_\_\_\_ Dear Mrs. Bayo:

APP \_\_\_\_\_ Enclosed are an original and fifteen copies of BellSouth  
CAF \_\_\_\_\_ Telecommunications, Inc.'s Direct Testimony of Jerry D. Hendrix  
CMU \_\_\_\_\_ and A. J. Varner. Please file these documents in the captioned  
CTP \_\_\_\_\_ docket.

EPG \_\_\_\_\_ A copy of this letter is enclosed. Please mark it to  
indicate that the original was filed and return the copy to me.  
Copies have been served on the parties shown on the attached  
Certificate of Service.

Sincerely,

*Nancy B. White*

Nancy B. White (BW)

CFH \_\_\_\_\_ Enclosures

cc: All Parties of Record  
A. M. Lombardo  
R. G. Beatty  
W. J. Ellenberg

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08028-96

**CERTIFICATE OF SERVICE**

**Docket No. 920260-TL**

**Docket No. 900960-TL**

**Docket No. 910163-TL**

**Docket No. 910727-TL**

I HEREBY CERTIFY that a copy of the foregoing has been  
furnished by United States Mail this 31st day of July, 1996 to:

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*Nancy B. White*  

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*(PW)*

**ORIGINAL  
FILE COPY**

1                   BELLSOUTH TELECOMMUNICATIONS, INC.  
2                   DIRECT TESTIMONY OF JERRY D. HENDRIX  
3                   BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION  
4                   DOCKET NO. 920260-TL  
5                   JULY 31, 1996  
6  
7

8 Q.   PLEASE STATE YOUR NAME, EMPLOYER, POSITION AND  
9       BUSINESS ADDRESS WITH BELLSOUTH TELECOMMUNICATIONS,  
10      INC. ("BELLSOUTH" OR "THE COMPANY")  
11

12 A.   My name is Jerry D. Hendrix. I am employed by BellSouth  
13       Telecommunications, Inc., (hereinafter referred to as "BellSouth" or "the  
14       Company"). My position is Manager - Interconnection Services Pricing  
15       in the Interconnection Customer Business Unit. My business address  
16       is 675 West Peachtree Street, Atlanta, Georgia 30375.  
17

18 Q.   PLEASE GIVE A BRIEF DESCRIPTION OF YOUR BACKGROUND  
19       AND EXPERIENCE.  
20

21 A.   I graduated from Morehouse College in Atlanta, Georgia in 1975 with a  
22       Bachelor of Arts Degree. I began employment with Southern Bell in  
23       1979 and held various positions in the Network Distribution Department  
24       before joining the BellSouth Headquarters Regulatory organization in  
25       1985. On January 1, 1996 my responsibilities moved to

1 Interconnection Services Pricing in the Interconnection Customer  
2 Business Unit.

3

4 Q. HAVE YOU TESTIFIED PREVIOUSLY?

5

6 A. Yes. I have testified in proceedings before the Alabama, Florida,  
7 Georgia, Kentucky, Louisiana, Mississippi, South Carolina, and  
8 Tennessee Public Service Commissions and the North Carolina Utilities  
9 Commission.

10

11 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

12

13 A. The purpose of my testimony is to explain why BellSouth's proposed  
14 tariffs to reduce switched access by \$56.4 million as filed on May 31,  
15 1996 are appropriate and should be approved. In addition, I will  
16 explain why BellSouth's proposal to zone price Terminating Carrier  
17 Common Line, Local Switching and certain Switched Transport  
18 services using \$16.4 million of the \$56.4 million switched access  
19 reduction is appropriate.

20

21 Q. IN COMPLIANCE WITH THE COMMISSION'S ORDER NO. PSC-94-  
22 0172-FOF-TL IN DOCKET NUMBER 920260-TL WHICH APPROVED  
23 THE STIPULATION AND IMPLEMENTATION AGREEMENT,  
24 BELLSOUTH HAS BEEN REQUIRED TO REDUCE SWITCHED  
25 ACCESS RATES TO THE DECEMBER 29, 1993 EFFECTIVE

1 INTERSTATE LEVELS OVER A THREE YEAR PERIOD. PLEASE  
2 DESCRIBE THE SWITCHED ACCESS RATE REDUCTIONS THAT  
3 HAVE BEEN OR WILL BE IMPLEMENTED IN COMPLIANCE WITH  
4 THIS ORDER.

5

6 A. In compliance with the Commission's Order No. PSC-94-0172-FOF-TL,  
7 dated February 11, 1994, approving the Stipulation and Implementation  
8 Agreement, BellSouth agreed to reduce switched access rates to the  
9 December 29, 1993 effective interstate levels over a three year period.  
10 The first year, BellSouth reduced switched access rates by \$50 million  
11 effective July 1, 1994. The second year yielded a switched access rate  
12 reduction of \$55 million effective October 1, 1995. The third and final  
13 year of the stipulated agreement includes a \$36M switched access  
14 reduction to be effective on October 1, 1996. In order to file the rates  
15 previously provided to this Commission as shown in Attachment JDH-1  
16 (a summary of the stipulated rate reductions over this three year  
17 period) the switched access reduction based on 1996 demand yields a  
18 \$40 million reduction.

19

20 Q. WHY DID BELLSOUTH DECIDE TO REDUCE SWITCHED ACCESS  
21 BY \$56.4 MILLION EFFECTIVE OCTOBER 1, 1996?

22

23 A. The Stipulation and Agreement in Docket 920260-TL required  
24 BellSouth to reduce gross revenues by \$84 million on an annualized  
25 basis. Of the \$84 Million, \$36 million, which has now grown to \$40

1 million, was to be applied to intrastate switched access rates as agreed  
2 to in the Stipulation and Implementation Agreement. With \$16.4 million  
3 of the remaining \$44 million, BellSouth has proposed to decrease and  
4 zone price certain switched access rates. The \$16.4 million coupled  
5 with the stipulated \$40 million will bring a total benefit to the  
6 interexchange carriers of more than \$56 million in switched access  
7 reductions effective October 1, 1996. When summed with the  
8 reductions provided over the previous two years, the total switched  
9 access reductions in the state of Florida equal more than \$161 million.

10

11 Q. THE FLORIDA STATUTE REQUIRES THAT BELLSOUTH'S  
12 INTRASTATE SWITCHED ACCESS RATES BE REDUCED BY 5%  
13 UNTIL PARITY IS REACHED WITH DECEMBER 31, 1994  
14 INTERSTATE RATES. HOW DOES BELLSOUTH PLAN TO SATISFY  
15 THIS REQUIREMENT?

16

17 A. On July 1, 1995, the amended Florida State Statute Chapter 364  
18 became effective. According to Chapter 364, beginning October 1,  
19 1996, switched access rates are to be reduced by 5% until parity is  
20 reached with the December 31, 1994 interstate rates. The initial 5%  
21 reduction is being satisfied with the October 1, 1996 \$40 million  
22 reduction being made in compliance with the Stipulation and  
23 Implementation Agreement. The \$40 million reduction brings the  
24 interexchange access rates to a level that is in parity with the  
25 December, 1993 interstate access rates. See JDH -1. With the

1 proposed \$16.4 million switched access reduction, the average (across  
2 all zones) switched access rate of \$.05632 is below the composite  
3 December, 1994 interstate switched access rate of \$.05811 for  
4 switched DS1 service. See JDH -2.

5

6 Q. BELLSOUTH IS PROPOSING TO ZONE PRICE SWITCHED  
7 ACCESS. HOW DID THE CONCEPT OF ZONE PRICING COME  
8 INTO BEING?

9

10 A. In the FCC's Expanded Interconnection Order in Docket No. 91-141,  
11 Local Exchange Companies (LECs) were granted greater flexibility to  
12 price access to reflect traffic density. The FCC believed that the  
13 combination of expanded interconnection and increased pricing  
14 flexibility for LECs would establish an equitable frame work for  
15 promoting competition.

16

17 Q. PLEASE EXPLAIN BELLSOUTH'S ZONE PRICING SWITCHED  
18 ACCESS TARIFF REVISIONS.

19

20 A. On February 6, 1996 the Zone Pricing structure for switched transport  
21 became effective in Florida. With the May 31, 1996 tariff filing,  
22 BellSouth is proposing to zone price Terminating Carrier Common Line,  
23 Local Switching and certain transport services. The zone pricing plan  
24 divides Florida into three density zones. The zone pricing plan  
25 introduces exchange areas for assignment of rate zone based on DS1



1 equivalent circuits in an exchange area. Zone 1 is the most dense area  
2 with more than 4,000 DS1 equivalent circuits; Zone 2 has 1,000 to  
3 4,000 DS1 equivalent circuits, and Zone 3 has the least dense with  
4 fewer than 1,000 DS1 equivalent circuits. Consistent with the FCC  
5 findings, this filing allows more flexibility in the pricing of switched  
6 access rate elements.

7

8 Q. WHY DID BELLSOUTH CHOOSE TO ZONE PRICE THESE RATE  
9 ELEMENTS?

10

11 A. Zone pricing of these elements will allow BellSouth to strategically  
12 establish prices that meet competitive pressures in the more dense  
13 areas of Florida. A growing number of Alternative Access Vendors  
14 (AAVs) have entered the access transport market deploying fiber optic  
15 rings, microwave systems and other transport service options to service  
16 large business customers. AAVs generally target the more dense  
17 markets where their cost of providing service would justify a rate that is  
18 below the LEC's averaged rates. BellSouth chose to zone price the  
19 usage elements as well as certain transport services in response to  
20 customer requests for reduced switched access rates, especially  
21 Carrier Common Line and Interconnection.

22

23 Q. WHAT IMPACT WILL BELLSOUTH'S ZONE DENSITY PRICING  
24 TARIFF REDUCTION HAVE ON ITS CUSTOMERS?

25

- 1 A. With the introduction of zone pricing, no switched access customer will  
2 pay rates that are higher than current effective rates. Furthermore,  
3 zone pricing will benefit not only the access customers but also the  
4 general body of ratepayers.  
5
- 6 Assuming total flow through by the Interexchange Carriers, with zone  
7 pricing, BellSouth will be better situated to compete with AAVs for high  
8 volume access customers. Prohibiting BellSouth from competing  
9 effectively could result in the loss of high volume access customers and  
10 revenue for access services which provide substantial contribution to  
11 basic service.  
12
- 13 Q. IN THE JOINT PROPOSAL FOR THE DISPOSITION OF \$48 MILLION  
14 IN UNSPECIFIED RATE REDUCTIONS SCHEDULED FOR 10/1/96,  
15 FLORIDA AD HOC TELECOMMUNICATIONS USERS' COMMITTEE  
16 ("AD HOC"), MCI TELECOMMUNICATIONS CORPORATION ("MCI"),  
17 AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.  
18 ("AT&T"), THE FLORIDA INTEREXCHANGE CARRIERS  
19 ASSOCIATION ("FIXCA"), SPRINT COMMUNICATIONS COMPANY,  
20 LIMITED PARTNERSHIP ("SPRINT"), AND MCCA  
21 COMMUNICATIONS OF FLORIDA, INC. ("MCCA") ADVOCATE  
22 THAT THE COMMISSION SHOULD ELIMINATE THE  
23 INTERCONNECTION CHARGE, VALUED AT APPROXIMATELY \$35  
24 MILLION. WHAT IS BELLSOUTH'S RESPONSE TO THE JOINT  
25 PROPOSAL?

1

2 A. Over the past three years, BellSouth has reduced switched access  
3 rates by more than \$161 million. In addition, with the October 1, 1996  
4 tariff filing, we have met the requirement to reach December 31, 1994  
5 interstate rate levels in compliance with the Florida Statutes Chapter  
6 364. Of the \$16.4 million switched access reduction, \$12 million, or  
7 75%, is being proposed to reduce the Interconnection Charge. In  
8 short, BellSouth does not support the joint proposal and would strongly  
9 urge the Commission to approve BellSouth's proposal.

10

11 Q. WHY IS IT NOT APPROPRIATE TO REDUCE THE RESIDUAL  
12 INTERCONNECTION CHARGE BY \$35 MILLION?

13

14 A. It is not appropriate to reduce the Interconnection Charge by \$35  
15 million because this reduction does not afford BellSouth the flexibility it  
16 needs to compete in the marketplace. A single across the board  
17 reduction, which eliminates the Interconnection Charge, leaves  
18 BellSouth vulnerable in those areas where competition is the greatest.  
19 Competitors are targeting our more dense areas and BellSouth should  
20 be allowed to strategically zone price a variety of switched access rate  
21 elements to meet the competition in these areas. To deny BellSouth  
22 the flexibility to zone price the proposed switched access elements is  
23 simply playing in the hands of our competitors, while at the same time  
24 hamstringing BellSouth.

25

1 Q. IN THE PETITION AND PROPOSAL OF FLORIDA CABLE  
2 TELECOMMUNICATIONS ASSOCIATION, INC. FOR DISPOSITION  
3 OF 1996 UNALLOCATED RATE REDUCTIONS, THE FLORIDA  
4 CABLE TELECOMMUNICATIONS ASSOCIATION, INC. ("FCTA")  
5 PROPOSES THAT BELLSOUTH SHOULD ELIMINATE NON-  
6 RECURRING CHARGES FOR THE INTERCONNECTION TRUNKS  
7 THAT ALTERNATIVE LOCAL EXCHANGE TELECOMMUNICATIONS  
8 COMPANIES (ALECS) ORDER FROM BELLSOUTH AND NON-  
9 RECURRING CHARGES FOR DEDICATED, SWITCHED CIRCUIT S  
10 ALECS ORDER OUT OF THE BELLSOUTH SPECIAL ACCESS  
11 TARIFF. WHAT IS BELLSOUTH'S RESPONSE TO THIS  
12 PROPOSAL?

13  
14 A. BellSouth does not support utilizing any of the \$48 million to eliminate  
15 non-recurring charges for interconnection trunks ordered by ALECs.  
16 BellSouth believes the cost of installing interconnection trunks is  
17 appropriately recovered through its non-recurring charges and reflects  
18 costs incurred to perform these functions. Further, end user customers  
19 should realize direct benefit from the \$48 million in rate reductions.  
20 BellSouth cannot identify any immediate direct benefit to the end user  
21 from eliminating non-recurring charges.

22  
23 Q. PLEASE SUMMARIZE YOUR TESTIMONY.

24

25

1 A. In summary, 67% of the \$84 million reduction has been applied to  
2 switched access rates. Additionally, BellSouth has zone priced  
3 switched access rates to meet competitive pressures in the market  
4 place which will benefit the Florida ratepayers. Further, BellSouth  
5 believes that a wide array of customers, not just the interexchange  
6 carriers, should benefit from any proposed rate changes. Therefore,  
7 BellSouth's proposals should be approved as filed with the Commission  
8 on May 31, 1996.

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11

12 A. YES.

13

14

15

16

17

18

19

20

21

22

23

24

25

**FLORIDA**  
**FGD SWITCHED ACCESS RATE COMPARISON**  
**FLORIDA RATE CASE STIPULATION AND IMPLEMENTATION AGREEMENT**  
**ORDER NO. PSC-94-0172-FOF-TL**

RATE ELEMENTS	INTERSTATE		FLORIDA INTRASTATE			
	12/29/93	CURRENT	CURRENT	(\$50M) 7/1/94	(\$55M) 10/1/95	(\$40M)* 10/1/96
Carrier Common Line						
Originating	\$0.01000	\$0.01000	\$0.01061	\$0.02600	\$0.01061	\$0.01000
Terminating	\$0.01853	\$0.01197	\$0.02927	\$0.02927	\$0.02927	\$0.01853
Local Transport						
0 - 1	\$0.00610	-----	-----	\$0.00706 **	\$0.00706 **	-----
1 - 8	\$0.00610	-----	-----	\$0.00706 **	\$0.00706 **	-----
8 - 16****	\$0.00701	-----	-----	\$0.00706 **	\$0.00706 **	-----
16 - 25	\$0.00828	-----	-----	\$0.00706 **	\$0.00706 **	-----
25 - 50	\$0.00998	-----	-----	\$0.00706 **	\$0.00706 **	-----
Over 50	\$0.11650	-----	-----	\$0.00706 **	\$0.00706 **	-----
Switched Transport						
DS1 Local Channel	-----	\$0.00062	\$0.00062	-----	-----	\$0.00062
Interconnection	-----	\$0.004392	\$0.005159	-----	-----	\$0.005159
DS1 Interoffice Channel	-----	\$0.00148	\$0.00105	-----	-----	\$0.00105
Local Switching 1	\$0.00839	\$0.00755	\$0.00876	\$0.01160	\$0.00876 ***	\$0.00876 ***
Local Switching 2	\$0.00839	\$0.00755	\$0.00876	\$0.01160	\$0.00876 ***	\$0.00876 ***
Information Surcharge (per MOU)	\$0.00037	\$0.00032	-----	-----	-----	-----
Composite FGD****						
Originating	\$0.02577	\$0.024364	\$0.026199	\$0.04466	\$0.02643	\$0.025589
Terminating	\$0.03430	\$0.026334	\$0.044859	\$0.04793	\$0.04509	\$0.034119
Total	\$0.06007	\$0.050698	\$0.071058	\$0.09259	\$0.07152	\$0.059708

\*With the (\$40M) filing, the Florida 10/1/96 switched access total composite rate will be at parity with 12/93 interstate composite rate.

\*\*Transport in FL was not distance sensitive. \$0.00706 was the average transport rate for FL.

\*\*\*The FL Local Switching rate = 12/93 Interstate Local Switching + Information Surcharge rate (per 100 MOU) (\$0.00839 + \$0.00037 = \$0.00876)

\*\*\*\*Composite rates include Carrier Common Line, Local/Switched Transport, LS2 and Information Surcharge (per 100 MOU). With Switched Transport, the rates per MOU for DS1 Local Channel and DS1 Interoffice Channel assume 9,000 minutes of use per voice grade equivalent and Interoffice transport of 10 miles.

**PLANNED ZONE PRICING  
SWITCHED ACCESS - FLORIDA RATE COMPARISON**

Rate Elements	INTERSTATE 12/31/94	Tandem Switched			DS1 Dedicated			DS3 Dedicated		
		Zone 1	Zone 2	Zone 3	Zone 1	Zone 2	Zone 3	Zone 1	Zone 2	Zone 3
CCL - Originating	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000	\$0.01000
CCL - Terminating	\$0.01585	\$0.01760	\$0.01807	\$0.01853	\$0.01760	\$0.01807	\$0.01853	\$0.01760	\$0.01807	\$0.01853
Local Switching 2	\$0.00832	\$0.00832	\$0.00854	\$0.00876	\$0.00832	\$0.00854	\$0.00876	\$0.00832	\$0.00854	\$0.00876
Information Surcharge (per 100 MOU)	\$0.03729									
Switched Local Channel-Monthly Rate-VG (4W)	\$45.24									
—VG (4W) Rate per MOU	\$0.00503									
Switched Local Channel-Monthly Rate-DS1	\$133.81	\$133.81	\$133.81	\$133.81	\$133.81	\$133.81	\$133.81			
—DS1 Rate per MOU	\$0.00062	\$0.00062	\$0.00062	\$0.00062	\$0.00062	\$0.00062	\$0.00062			
Switched Local Channel-Monthly Rate-DS3	\$2,165.87							\$2,100.00	\$2,100.00	\$2,100.00
—DS3 Rate per MOU	\$0.00036							\$0.00035	\$0.00035	\$0.00035
Access Tandem Switching	\$0.000780	\$0.000475	\$0.000488	\$0.000500						
Interconnection	\$0.005230	\$0.002500	\$0.003700	\$0.005034	\$0.002500	\$0.003700	\$0.005034	\$0.002500	\$0.003700	\$0.005034
Common Transport - Facility Termination	\$0.00039	\$0.00036	\$0.00036	\$0.00036						
Common Transport - IOC Facility (10 Miles)	\$0.00050	\$0.00038	\$0.00039	\$0.00040						
VG - Facility Termination	\$23.30									
VG -IOC Facility (10 Miles)	\$19.00									
—VG IOC Rate per MOU	\$0.00470									
DS1 - Facility Termination	\$90.47				\$59.75	\$59.75	\$59.75			
-IOC Facility (10 Miles)	\$253.30				\$160.00	\$165.00	\$167.50			
—DS1 IOC Rate per MOU	\$0.00159				\$0.00102	\$0.00104	\$0.00105			
DS3 - Facility Termination	\$1,541.84							\$1,200.00	\$1,200.00	\$1,200.00
-IOC Facility (10 Miles)	\$2,000.00							\$1,550.00	\$1,650.00	\$1,750.00
—DS3 IOC Rate per MOU	\$0.00059							\$0.00045	\$0.00047	\$0.00049
Channelization Equipment - (DS3 TO DS1)	\$1,049.51							\$970.00	\$970.00	\$970.00
—Equivalent MOU Rate	\$0.00017							\$0.00016	\$0.00016	\$0.00016
Originating Rate - Tandem Switched	\$0.026213	\$0.022655	\$0.024098	\$0.025674						
Terminating Rate - Tandem Switched	\$0.032063	\$0.030255	\$0.032168	\$0.034204						
Total Rate - Tandem Switched	\$0.058276	\$0.052910	\$0.056266	\$0.059878						
Originating Rate - Voice Grade Dedicated	\$0.033650									
Terminating Rate - Voice Grade Dedicated	\$0.039500									
Total Rate - Voice Grade Dedicated	\$0.073149									
Originating Rate - DS1 Dedicated	\$0.026133				\$0.022460	\$0.023900	\$0.025464			
Terminating Rate - DS1 Dedicated	\$0.031983				\$0.030060	\$0.031970	\$0.033994			
Total Rate - DS1 Dedicated	\$0.058116				\$0.052520	\$0.055870	\$0.059458			
Originating Rate - DS3 Dedicated	\$0.025041							\$0.021780	\$0.023220	\$0.024794
Terminating Rate - DS3 Dedicated	\$0.030891							\$0.029380	\$0.031290	\$0.033324
Total Rate - DS3 Dedicated	\$0.055932							\$0.051160	\$0.054510	\$0.058118

AVERAGE SWITCHED ACCESS RATE ACROSS ALL ZONES IS \$ .05632.

ASSUMPTIONS:

- 9,000 Minutes of Use per Voice Grade Equivalent
- Interoffice Transport of 10 miles
- Assume DS1 Local Channel for Tandem Switched (Common) Transport