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January 3, 1997

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BY HAND DELIVERY

Ms. Blanca S. Bayo, Director  
Division of Records and Reporting  
Florida Public Service Commission  
2540 Shumard Oak Boulevard  
Tallahassee, Florida 32399-0850

Re: Docket No. 961230-TP

Dear Ms. Bayo:

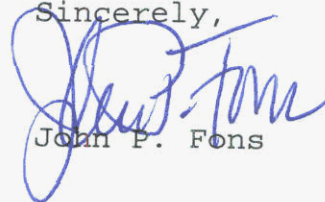
Enclosed are the original and fifteen (15) copies of Joint Brief and Posthearing Statement of United Telephone Company of Florida and Central Telephone Company of Florida.

We are also submitting the Joint Brief on a 3.5" high-density diskette generated on a DOS computer in WordPerfect 5.1 format.

Please acknowledge receipt and filing of the above by stamping the duplicate copy of this letter and returning the same to this writer.

Thank you for your assistance in this matter.

Sincerely,



John P. Fons

- ACK \_\_\_\_\_
- AFA \_\_\_\_\_
- APP \_\_\_\_\_
- CAF \_\_\_\_\_
- CMU \_\_\_\_\_
- CTR \_\_\_\_\_
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- SEC 1 \_\_\_\_\_
- WAS \_\_\_\_\_
- OTH \_\_\_\_\_

cc: All Parties of Record

Enclosures

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EPSC-BUREAU OF RECORDS

DOCUMENT NUMBER-DATE

00056 JAN-3 5

FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: Petition by MCI Telecommuni- )  
cations Corporation for arbitration ) DOCKET NO. 961230-TP  
with United Telephone Company of ) Date Filed: January 3, 1997  
Florida and Central Telephone Company )  
of Florida concerning interconnection )  
rates, terms, and conditions, )  
pursuant to the Federal Telecommuni- )  
cations Act of 1996 )

**JOINT BRIEF AND POSTHEARING STATEMENT OF  
UNITED TELEPHONE COMPANY OF FLORIDA AND  
CENTRAL TELEPHONE COMPANY OF FLORIDA**

United Telephone Company of Florida and Central Telephone Company of Florida ("Sprint") file this Joint Brief and Posthearing Statement of Issues and Positions.<sup>1</sup>

I.

**INTRODUCTION**

This arbitration proceeding was instituted by the Commission upon the petition of MCI Telecommunications Corporation ("MCI") pursuant to Section 252(b) of the Telecommunications Act of 1934, as amended by the Telecommunications Act of 1996 ("Act").<sup>2</sup> Although the "pricing" and "pick and choose" portions of the Federal Communications Commission's ("FCC's") First Report and

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<sup>1</sup> Effective December 31, 1996, Central Telephone Company of Florida was merged into United Telephone Company of Florida and the surviving company's name was changed to Sprint-Florida, Inc.

<sup>2</sup> Telecommunications Act of 1996, Pub. L. No. 104-104, § 101(a), 110 Stat. 56 (to be codified as amended at 47 U.S.C., § 252(b)). The Communications Act of 1934, as amended by the Telecommunications Act of 1996, is referred to herein as the Act.

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(00056-4)  
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Order and Rules, issued August 8, 1996, implementing the interconnection, unbundling and resale provisions of the Act were stayed by the Eighth Circuit Court of Appeals ("the Court") on October 3, 1996, MCI urges, and Sprint agrees, that this Commission should, nonetheless, rely upon the stayed provision of the FCC's First Report and Order as "non-binding" guidelines.<sup>3</sup> In particular, this Commission should establish prices for unbundled network elements and local interconnection based upon Total Element Long Run Incremental Costs ("TELRIC"). Sprint, as part of its submission, has presented TELRIC-based prices for local interconnection and for most unbundled network elements.

MCI's petition requested arbitration of 13 categories of allegedly unresolved issues. During the course of hearing preparations, MCI and Sprint were able to resolve most of these

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<sup>3</sup> On August 8, 1996, the Federal Communications Commission ("FCC") issued its First Report and Order and Rules in CC Docket No. 96-98, In re: Implementation of the Local Competition Provisions in the Telecommunications Act of 1996 ("First Report and Order"). Appeals of the First Report and Order were filed by numerous parties, including this Commission, to the United States Court of Appeals for the Eighth Circuit ("the Court"). Additionally, several parties, including this Commission, requested a stay of the First Report and Order pending outcome of the appeals. On September 27, 1996, the Court granted a temporary stay of the entire First Report and Order and, following oral argument on October 3, 1996, granted a stay of the operation and effect of the pricing provisions and the "pick and choose" rules contained in the First Report and Order pending the Court's final determination of the appeals. The pricing provisions refer to First Report and Order, Appendix B - Final Rules §§ 51.501-51.515 (inclusive), §§ 51.601-51.611 (inclusive), §§ 51.701-51.717 (inclusive) and to the default proxy range for the line ports used in the delivery of basic residential and business exchange services established in the FCC's Order on Reconsideration, dated September 27, 1996. The "pick and choose" rule refers to First Report and Order, Appendix B - Final Rules §§ 51.809.

issues. The parties submitted a stipulation and agreement to the Commission, which stipulation was accepted by the Commission at the commencement of the hearings. (Tr. p. 6) The issues remaining to be arbitrated in their entirety are Issues, 2, 3b, 3c, 7 and 9. Additionally, there are parts of Issues 21 and 23 that remain to be arbitrated.

## II.

### BASIC POSITION

As to the remaining substantive issues, Sprint takes the position that:

- ▶ local call termination compensation should be reciprocal and symmetrical only if MCI employs the same facilities and functions in terminating Sprint's local traffic that Sprint employs in terminating MCI's local traffic (Issue 2);
- ▶ the appropriate cost methodology for pricing unbundled network elements is the TELRIC standard, notwithstanding the Court's stay (Issue 3b);
- ▶ the price for each unbundled element should be based on the TELRIC of each element plus a contribution to common costs and the Commission should adopt the prices set forth in Exhibit 19 (MRH-6) (Issue 3c);
- ▶ the Commission should find that voice mail and inside wire are not telecommunications services under the Act

and are not required to be offered by Sprint for resale (Issue 7);

- ▶ the Commission should adopt Sprint's avoided cost methodology for establishing wholesale discounts for Sprint's retail services purchased by MCI for resale (Issue 9);
- ▶ the Commission should not require Sprint to allow MCI to collocate remote digital line units ("RDLUs") on Sprint's premises when the RDLUs are being used by MCI for switching purposes (Issue 21); and
- ▶ Sprint should be allowed to charge MCI an appropriate amount for access to Sprint's detailed engineering records and other plant drawings (Issue 23).

The positions taken by Sprint on local call termination, unbundling, resale of services and the other issues are fair and reasonable. Sprint's positions reflect a balance of interest because Sprint Corporation owns and operates both an incumbent local exchange carrier ("ILEC") and a competitive local exchange carrier ("CLEC") in Florida, and is asking on the CLEC side for the same thing that the ILEC side is willing to do. Because Sprint Corporation has already balanced those interests internally, they reflect a balanced approach the Commission should adopt. Adoption of Sprint's positions will achieve the requirements of the Act; will promote efficient and effective local competition; and will bring the benefits of competition to the broadest number of consumers as quickly as possible.

III.

ISSUES AND POSITIONS

**ISSUE 2: What is the appropriate compensation mechanism for the exchange of local traffic between MCI and Sprint?**

SPRINT POSITION: Call termination compensation should be reciprocal and symmetrical. Sprint should not, however, be required to pay MCI the tandem switching and transport rate elements if MCI interconnects at the Sprint tandem and MCI does not provide the equivalent tandem switching and transport functions.

\* \* \* \*

This is not an issue of first impression for the Commission. In the arbitration proceeding between MFS and Sprint (Docket No. 960838-TP), this very same issue was arbitrated, and the Commission concluded that MFS was not entitled to reciprocal compensation stating:

Upon consideration, we believe that the Act is clear regarding reciprocal compensation. Section 252(d)(2)(A)(I) requires that a state commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless

- (i) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier . . .

Section 51.701(c) of the FCC's rules defines transport as the transmission and any necessary tandem switching of local telecommunications traffic subject to Section 251(b)(5) of the Act, from the interconnection point between the two carriers to the terminating carrier's end office switch that directly serves the called party, or equivalent facility provided by a carrier other than an incumbent LEC. Since MFS has only one switch, there technically can be no transport. We believe that Section 51.701(c) requires equal compensation only when MFS

provides the equivalent facility to that provided by Sprint. MFS does not provide the same or equivalent transport facility as Sprint. Since the record shows that MFS does not perform a transport function, there is no cost to recover, and we find that MFS is therefore not entitled to compensation for transport.

Order No. PSC-96-1532-FOF-TP, issued December 16, 1996, page 5.

In this arbitration proceeding, the issue of whether Sprint must reciprocally compensate MCI for tandem switching and transport again turns on whether MCI performs a tandem switching and transport function. The evidence presented by MCI is at best ambiguous. MCI has not established how many switches it will provide in Florida or how many switches will be tandem switches and how many will be end office switches, if any. MCI contends, however, that its network is engineered differently from Sprint's and that its use of RDLUs, which bear some of the same characteristics as a switch, results in a more efficient network. Murphy, Tr. 136-37. Yet, MCI was unable to state unequivocally that the RDLU is a switch or that a Sprint-originated local call terminated on MCI's network will be switched twice; once at the tandem switch and once at the RDLU. Murphy, Tr. 136-37; 144-45. Moreover, MCI could not state that its switch performs a tandem switching function. Murphy, Tr. 137-38. Thus, MCI has not demonstrated that it will perform the tandem and transport functions contemplated by the Act and the FCC's First Report and Order and Rules.

As this Commission concluded in the MFS proceeding:

The FCC's Order provides that states may establish transport and termination rates in the arbitration process that vary according to whether the traffic is



routed through a tandem switch or directly to the end-office switch. States shall also consider whether new technologies perform functions similar to those performed by an incumbent LEC's tandem switch and thus, whether some or all calls terminating on the new entrant's network should be priced the same as the sum of transport and termination via the ILEC's tandem switch. In this case, the record indicates that the technology used by MFS is no different than the technology used by Sprint. The only difference is the size of the companies' operations, not the technologies used to provide transport.

The evidence in the record does not support MFS' position that its switch provides the transport element; and the Act does not contemplate that the compensation for transporting and terminating local traffic should be symmetrical when one party does not actually use the network facility for which it seeks compensation. Accordingly, we hold that MFS should not charge Sprint for transport because MFS does not actually perform this function.

Order No. PSC-96-1532-FOF-TP, issued December 16, 1996, pages 5 and 6.

**ISSUE 3b: What is the appropriate cost methodology for setting the price of each of the following items considered to be network elements, capabilities, or functions?**

**Network Interface Device  
Unbundled Loop  
Loop Distribution  
Local Switching  
Operator Systems (DA Service/911 Service)  
Multiplexing/Digital Cross-Connect  
Dedicated Transport  
Common Transport  
Tandem Switching  
Signaling Link Transport  
Signal Transfer Points  
Service Control Points/Databases**

**SPRINT POSITION:** In general, the Commission should employ the TELRIC standard, notwithstanding the Court's stay.

\* \* \* \*



Both MCI and Sprint agree that the costs for the unbundled network elements should be developed using the TELRIC standard set forth in the FCC's First Report and Order. Even though that portion of the FCC's First Report and Order and Rules has been stayed by the Court, MCI and Sprint believe this Commission should consider TELRIC as a non-binding guideline.

It is imperative that the same cost standard be applied to all Florida ILECs. Sprint believes the Commission should adopt a TELRIC-based costing and pricing standard for all Florida ILECs. A different pricing standard for different ILECs will produce non-competitive costs and prices among ILECs, disadvantaging some while benefiting others. Hunsucker, Tr. 358-59; Farrar, Tr. 454.

The difference between TELRIC and Total Service Long Run Incremental Cost ("TSLRIC") is the focus on elements rather than services. Farrar, Tr. 457. There are costs at the service level that cannot be directly assigned to a service but which at the element level can be directly assigned. Farrar, Tr. 457. Under either methodology, however, common costs are not included. Farrar, Tr. 457.

The parties do not agree on how TELRIC-developed costs should be calculated. MCI believes that the Hatfield Model, version 2.2, release 2 ("HM2") provides the appropriate TELRIC-based costs. Sprint, on the other hand, does not believe that HM2 is an appropriate vehicle for developing the cost of anything. Instead, Sprint relies upon individual TELRIC studies for most unbundled network elements, including the local loop, which uses the BCM 2

for the development of loop investment costs only. The virtues of Sprint's pricing approach are discussed in Issue 3c, following.

**ISSUE 3c: What should be the price of each of the items listed in Issue 3b above?**

SPRINT POSITION: The price of each unbundled element should be based on the TELRIC of each element plus a contribution to common costs. The Commission should adopt the prices set forth in Exhibit 19 (MRH-6). The prices for geographically deaveraged unbundled loops should be based on investments developed in the Benchmark Cost Model ("BCM-2"). The Hatfield model is flawed and should not be used.

\* \* \* \*

Sprint and MCI differ radically on the prices Sprint should charge for unbundled network elements. The difference is found in the nature of the approaches adopted by each party. MCI relies exclusively upon the HM2. This is a generic model which uses limited Florida-specific Sprint data. Sprint, on the other hand, performed individual TELRIC-based studies for most unbundled network elements, relied upon cost-supported tariffed rates for some elements, and used the BCM 2 only for the deaveraged local loop investments. As the record amply demonstrates, the HM2 is fatally flawed and produces prices which are grossly understated. The Sprint approach, however, produces prices based on forward-looking investments, the use of a reasonable annual charge factor which includes an assignment of shared cost, and an appropriate

allocation of forward-looking common costs, to meet the TELRIC pricing standard.

A. Sprint's Prices for Unbundled Network Elements

As noted previously, Sprint's methodology for pricing unbundled network elements is straightforward and uncomplicated. The Company's investment in each element is determined using current or forward-looking technologies, reasonably accurate fill factors, and forecasted increased demands. Farrar, Tr. 520. Sprint has developed an annual charge factor for each element. This factor includes a direct operating expense factor - maintenance, depreciation, economic life, rate of return and ad valorem taxes, and another direct operating expense factor that includes expenses that would be shared at the service level but are direct at the element level. Farrar, Tr. 488-89. The investment is multiplied by the annual charge factor to obtain an annual cost for the element. Finally, a forward-looking common cost factor is uniformly applied to the annual cost of each element, and this result is divided by 12, which then produces the monthly price for each element. Where justified, the price is geographically deaveraged to reflect the differences in the cost of providing the element. Farrar, Tr. 466-68.

1. Investment

Sprint analyzed each unbundled network element to determine the investment in current and forward-looking technologies. This analysis took into account future demand for the network elements. In order to keep the analysis conservative, all forecasted

increases in demand were considered, while decreases in demand relating to potential competitive losses were excluded. Farrar, Tr. 520.

Deaveraged loop investments were developed using the BCM 2. BCM 2 uses the current national local exchange network topology and provides a benchmark measurement of the relative costs of serving customers residing in CBGs. It is a proxy for current engineering costs, developed from inputs such as loop distance, subscriber density, and the terrain characteristics that typically influence the investment and expenses of a carrier providing telephone facilities. Dunbar, Tr. 580-81.

All loop cost (investment) calculations are derived in terms of efficient and state-of-the-art investment. The technology used in the BCM 2 is forward looking and actually in use today. In order to determine a monthly cost for basic local service by CBG, the individual investments for the piece parts are summed to include loop and structure investments, electronic circuit equipment investments and switching investments. In order to determine a monthly cost for basic local service by CBG, BCM 2 uses both investment related expense factors and line related expense factors. The investment related factors are developed separately for three plant categories: cable and wire facilities, switching equipment, and circuit equipment. A separate annual cost factor is developed for line-related expenses. These factors are applied to investment or access lines, as appropriate, and the result is

divided by 12 to estimate a monthly cost of basic local service. Dunbar, Tr. 582.

For purposes of determining the loop investment in Florida, Sprint used Florida-specific factors and not the defaults. Dunbar, Tr. 604. As a result, the loop investment numbers are appropriate for Florida and, from an engineering standpoint, produce loop quantities and lengths that are capable of providing end-to-end dial tone service to every subscriber in every CBG. Dunbar, Tr. 600-601. The resultant forward-looking investment in loop plant using BCM 2 is less than the embedded loop plant investment for year end 1995. Farrar, Tr. 546.

Not surprisingly, MCI has offered no criticisms of BCM 2 in its prefiled testimony. The criticisms of BCM 2 developed during Staff's cross-examination of MCI's witness Wood are without merit. Not only are they inaccurate, they were not personally developed by MCI's witness Mr. Wood who acknowledges that he is not familiar with BCM 2 or how it is different from previous versions. Wood, Tr. 343. See also Exhibit 14, pages 11 and 12. At best, the criticisms of BCM 2 were in the form of a comparison to HM2 which, as the record in this proceeding amply demonstrates, is no model to be compared with. Dunbar, Tr. 598-99.

As noted previously, the investment in other unbundled network elements was developed using a variety of models and techniques, including Bellcore's Switching Cost Information System (SCIS) and Sprint Corporation's Switching Model (SWIM). Farrar, Tr. 475.

## 2. Annual Charge Factors

Sprint developed its own Annual Charge Factor Program ("ACFP") to provide the necessary TELRIC factors. Farrar, Tr. 488. The main components of the ACFP are: maintenance, other direct operating expenses, depreciation, economic life, rate of return and ad valorem taxes.

- ▶ Maintenance - Maintenance is stated as a percent of gross investment.
- ▶ Depreciation. Actual tax depreciation schedules are used, which reflect the MACRS (Modified Accelerated Cost Recovery System) class of plant of each investment category.
- ▶ Economic Life - The tax depreciation rate will not necessarily match the actual useful life of any particular investment. Therefore, Sprint's ACFP uses as a study period the predicted economic life of each investment. This forecast are taken from the 1995 study, "Depreciation Lives for Telecommunication Equipment," written by Technologies Futures, Inc., on behalf of the Telecommunications Technology Forecasting Group.
- ▶ Rate of Return - The currently authorized federal rate of return on investment of 11.25% is used.
- ▶ Ad Valorem Taxes - State specific property tax rates are used. The rate in Florida is 1.88%.
- ▶ Other Direct Expenses - These expenses are stated as a percent of gross investment, based upon actual 1995

information. This 1995 data are the most up-to-date information available.

Farrar, Tr. 488-89.

3. Common Cost Factor

Sprint has created an Excel workbook program, Unbundled Cost Allocation, to determine the common costs using 1995 general ledger information, the most recent financial information available.

Farrar, Tr. 490.

The process for determining common costs to the unbundled network elements consists of four steps. The first step is to identify each General Ledger account at the four-digit level as either direct, other direct operating, or common. Direct expenses are those which are included in the development of the TELRIC annual charge factor, and are excluded from this analysis. The second step is to develop an investment base for each of the ten unbundled network elements. The third step is to allocate each shared and common expense account to one of the ten unbundled network elements based upon one of the following allocation methods.

- ▶ Direct - Allocated directly to a specific element.
- ▶ Indirect - Allocated based on a cost causative linkage to another account.
- ▶ Generally Allocated - Allocated based on a summary of the direct and indirect allocation accounts.

Farrar, Tr. 492-93.



B. MCI's Prices for Unbundled Network Elements

MCI, unlike Sprint - which used Florida-specific data and individual TELRIC studies to establish prices for unbundled network elements - relies entirely upon HM2 for the pricing of each unbundled element. MCI contends that HM2 presents the most accurate and ultimately the only verifiable costs that are available to the Commission to set prices for unbundled network elements. Wood, Tr. 291. Nothing could be further from the truth. As the Commission, by adopting Staff's recommendation, has previously noted, HM2 does not produce costs which are representative of a Florida network, is overly complex and understates costs. Staff Recommendation, Docket Nos. 960833-TP, 960846-TP and 960916-TP, dated November 14, 1996, page 51.

Sprint's independent review of HM2 reveals several major flaws and shortcomings, not the least of which is the fact that the network it produces will not provide dial tone to many customers. Dunbar, Tr. 599. Mr. Wood, the HM2 apologist, counters by claiming that HM2 is not intended to design a working network, but only to arrive at an investment amount large enough to build a working network. Wood, Tr. 300-04. In Mr. Wood's opinion, some costs are understated, e.g., no investment in load coils and loop extenders, while other costs are overstated, e.g., cable lengths and sizes. Exhibit 18. If the theory behind HM2 is that the right level of investment is produced by the model because some amounts are overstated to compensate for other amounts which are understated, HM2 could find salvation only under the law of (a) compensating

errors, or (b) two wrongs make a right. Quite frankly, as the following discussion demonstrates, there are so many investment amounts and costs understated or ignored in the HM2 that it is inconceivable there are sufficient overstated investment amounts and costs to provide enough dollars to construct a working network.

Sprint has not been able to quantify the cumulative effect of the HM2 deficiencies on total loop costs, which deficiencies will be described in more detail below. Nevertheless, Staff in the MCI/BellSouth and MCI/GTE-Florida arbitration proceedings made several adjustments to HM2 and found that an adjusted HM2 produced total loop costs of \$4.55 (BellSouth) and \$4.52 (GTE-Florida) higher than the HM2 results sponsored by MCI. Staff Recommendation, Docket Nos. 960833-TP, 960846-TP and 960916-TP, dated November 14, 1996, pages 50 and 51; and Docket Nos. 960847-TP and 960980-TP, dated November 22, 1996, pages 145-147. Sprint was, however, able to change the HM2 inputs to reflect Florida-specific, as opposed to national default, inputs. When the HM2 is run with Florida-specific inputs, plus some of the Staff's previously described adjustments, the cost per loop increases about \$7.00, or about 65 percent. Dunbar, Tr. 609.

As noted by Sprint's witness Mr. Dunbar, who is one of the principal developers of BCM and BCM 2, HM2 suffers from several serious flaws that make HM2 unusable for pricing unbundled elements. Dunbar, Tr. 588. The following are the principal shortcomings:

- ▶ The outside plant cost assumptions are inconsistent with loop plant design and the costs are understated. With the wide variation in loop length, the single cable cost curve used in the HM2 is not consistent with the long loop design attempted by the model. Dunbar, Tr. 588-89.
- ▶ The larger feeder and distribution cables used in the underground portion of the loops must be 26 gauge to fit in the single 4" duct placed by the model. Dunbar, Tr. 589. MCI's witness Mr. Wood concedes that HM2 uses the cable prices for just one gauge - 24 gauge. Late-Filed Exhibit 18.
- ▶ Long loops also require the addition of load coils and line amplifiers to maintain any quality of signal and even simple dial tone. Loops over 18,000 must be loaded. Dunbar, Tr. 589. MCI's witness Mr. Wood agrees that ten percent of the loops would require local coils or loop extenders, Exhibit 16, pages 69-72, that loop extenders and load coils have a cost, Tr. 303, but acknowledges that HM2 does not include any investment for load coils or loop extenders. Late-Filed Exhibit 18.
- ▶ The loop material costs used in the HM2 are far less than reasonable to cover the cost of cable, electronics, and loop treatment. Dunbar, Tr. 590.
- ▶ The HM2 also does not correctly calculate the number of fibers required to carry the Digital Loop Carrier to its correct maximum capacity. Dunbar, Tr. 591.

- ▶ The smaller AFC carrier system used in HM2 is capable of multiple terminal locations on 4 fibers up to a total of 672 lines. The AFC carrier system will not go to 2016 lines as the HM2 calculates. The HM2 also omits the costs for the AFC Local Exchange Terminal (LET) which includes the DS-1 and fiber optic transreceivers that convert the TR 303 central office DS-1 connections to the proprietary optics used by the systems. The HM2 further omits the cost of the fiber optic termination frame required for the termination and distribution to the multiple carrier terminals of all the fiber cables. Dunbar, Tr. 591-92.
- ▶ The total length of distribution cable placed by the HM2 is insufficient to reach all subscribers. The HM2 assumes a square distribution area in its calculations and serves the area with a number of cables that are 5/8ths of the length of the side of the square (3/4ths if rock is present within 1 foot of the surface or soil is difficult). It is not possible for two cables that are 5/8ths of a side to cover in one case 78 square miles (cables are a little over 29,000 feet) or in another example 96 square miles (cables are 32,300 feet). Dunbar, Tr. 592-93.
- ▶ The HM2 also incorrectly calculates the cost of all supporting structures such as poles and conduit systems. The HM2 provides only one 4" duct for all of the cables

in the route even though each maximum-sized cable used in the route totally fills a 4" duct. Dunbar, Tr. 593.

- ▶ The HM2 in its sharing ratio (33%) assumes that power and TV cable will simultaneously place facilities in the same trench used by the telephone duct. The placement costs for the conduit which are then allocated 67% to non-telephone services are less than that necessary to place the telephone facilities. Dunbar, Tr. 593-94.
- ▶ The HM2 divides the total aerial facility distance by the distance between poles input. This fails to recognize the first pole in the aerial plant that is used to bring the cable above ground. Aerial distances less than the distances between poles are priced with one pole. No aerial facility will function with just one pole. Dunbar, Tr. 594.
- ▶ The HM2 virtually ignores the impacts of terrain on the cost of cable placement. All impacts from the presence of water near the surface were removed from the HM2 calculations. While rock presence is recognized by the HM2 if it is hard, this impacts costs only if the bedrock depth is within one foot of the surface. The HM2 assumes that all impacts of terrain will simply result in longer cable distances because the telephone company can avoid the terrain difficulty by going around it. While this occasionally happens in open rural areas, cable placement

in most areas must follow the roads, rights-of-way, and easements assigned for utilities. Dunbar, Tr. 594-95.

**ISSUE 7: What is the scope of Sprint's obligation, if any, to resell voice mail and inside wire maintenance?**

SPRINT POSITION: Voice mail and inside wire maintenance are not telecommunication services under the Act and thus are not required to be offered by Sprint for resale.

\* \* \* \*

In this revised issue, MCI requests that Sprint be required to make its voice mail and inside wire maintenance offerings available to MCI for resale. Section 251(c)(4)(A) of the Act requires Sprint "to offer for resale at wholesale rates any telecommunications service that the carrier provides at retail to subscribers who are not telecommunications carriers." Whether Sprint must make these products available to MCI for resale turns on the definition of a "telecommunications service." Section 3(51) of the Act defines "telecommunications service" to mean "the offering of telecommunications for a fee directly to the public." Section 3(48) of the Act defines "telecommunications" to mean "the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." (Emphasis added.) Because neither of these offerings meet the definition of "telecommunications" and "telecommunications service," these offerings are not within the purview of Section 251(c)(4)(A) of the Act. It is also without question that these are offerings for

which there are other suppliers in the Sprint market area providing the same or similar products on a competitive basis.

Voice mail is a store and forward technology in the Sprint network which allows a caller to leave a message, not unlike a telephone answering machine on the end user's premises. Voice mail, because it is "store and forward" does, in fact, change the form of the information sent and received. Darnell, Tr. 261. The FCC, in differentiating between "telecommunications services" and "enhanced services," found that voice mail is an enhanced service and not a telecommunications service. FCC Final Decision, Docket No. 20828, released May 2, 1980, ¶¶ 95-98. The distinguishing feature is that transmission in a telecommunications service context is "real time" transmission as opposed to store and forward.

Inside wire maintenance has nothing to do with the "transmission between or among points specified by the end user." It is, instead, simply a maintenance product available to Sprint's customers. Hunsucker, Tr. 424. Inside wire maintenance does not provide a transmission path but only the repair of facilities owned by the customer. Hunsucker, Tr. 425.

In any event, MCI has failed to demonstrate that voice mail and inside wire maintenance offerings are "telecommunications services." Indeed, MCI's witness Darnell stated that he is not contending that voice mail and inside wire are telecommunications services from the standpoint of the Act. Darnell, Tr. 262. Of



course it is the Act, not MCI's vision of what should be available for resale, that controls.

**ISSUE 9: What is the appropriate methodology to determine the avoided cost amounts to be applied to Sprint's retail rates when MCI purchases such services for resale?**

SPRINT POSITION: The appropriate avoided cost methodology for retail wholesale discounts is one that is consistent with Section 252(d)(3) of the Act. The avoided cost methodology described in Sprint's testimony meets that test. Sprint's methodology differs from MCI's in two principal areas; treatment of operator services and overheads.

\* \* \* \*

The Act specifies that an avoided cost discount is to be applied to retail rates to determine the wholesale rates for services to be resold. The FCC Order has defined certain expense categories to be presumed avoided, but allows states to consider a company's rebuttal of these presumptions. Sprint considers an activity-based cost methodology appropriate for the determination of avoided expenses in the five retail service groups. Sprint has also quantified additional expenses it will incur to resell its retail services. Consideration of these additional wholesale expenses is appropriate in determining the wholesale discount. Farrar, Tr. 495-97.

As noted in Sprint's position, Sprint and MCI differ as to the development of avoided cost amounts with respect to the inclusion or exclusion of operator services and overheads from the avoided

cost study. MCI considers operator expenses as an avoidable expense, Sprint does not. MCI treats overheads as avoidable, Sprint does not. Farrar, 521-22. The parties also differ with respect to whether the denominator in the calculation of the discount percentage is costs or revenues. MCI's approach uses costs, while Sprint believes revenues is the proper denominator. Darnell, Tr. 254.

MCI takes the position that because it will be providing its own operator services that this is an expense currently being incurred by Sprint that will be avoided in a competitive environment. Darnell, Tr. 248. Sprint disagrees. Even though MCI may choose to provide its own operator services, other competitors will not and Sprint will provide resold operator services to those competitors as well as its own retail customers. Consequently, because Sprint will be retailing and wholesaling operator services, these expenses will not be avoided in a competitive/wholesale environment. Farrar, Tr. 521. Additionally, because Sprint treats operator services as a distinct service, with its own discount, CLECs choosing to provide their own operator services will not be penalized. Farrar, Tr. 505-06.

MCI also contends that in a competitive/wholesale environment Sprint will reduce its overheads and these expenses are, therefore, avoidable. Darnell, Tr. 249. By definition, overhead expenses are common expenses which are not associated with any individual products. So whether a firm retails a service or wholesales that

service to a competitor, those activities will not have any effect upon corporate overheads. Farrar, Tr. 522.

MCI also takes the position that in the calculation of the discount percentage, the numerator should be avoided costs and the denominator should be total expenses. Darnell, Tr. 254. Sprint, on the other hand, contends that the denominator should be revenues. MCI argues that revenues are inappropriate because revenue is related to revenue requirement, which is equal to expenses plus return on average net investment. Darnell, Tr. 246. Yet, MCI's witness Darnell concedes that it will be difficult to determine which investment will be avoided. Darnell, Tr. 247. This Commission has previously determined in the MCI/BellSouth Arbitration proceeding that the proper discount calculation includes revenues in the denominator. Staff Recommendation, Docket Nos. 960833-TP, 960846-TP and 960916-TP, dated November 14, 1996, p. 84.

**ISSUE 21: Should Sprint be prohibited from placing any limitations on the interconnection between two carriers collocated on Sprint's premises, or on the types of equipment that can be collocated, and or on the types of users and availability of the collocated space?**

SPRINT POSITION: Sprint will allow MCI to connect Sprint provided services and unbundled elements to MCI's facilities at an MCI collocation point and to any other party. However, collocation of RDLUs is not required pursuant to the FCC Rules if RDLUs perform a switching function.

\* \* \* \*

MCI challenges Sprint's refusal to allow MCI to collocate RDLUs in Sprint's facilities, even though MCI's own witness concedes that MCI intends to use the RDLUs as a switch. Murphy, Tr. 143-45. Sprint is not required to permit collocation of MCI's switching equipment.

Sprint filed a tariff with the Commission on October 25, 1996, which outlined its position on the placement of equipment for physical collocation. Specifically, Sprint allows the location of the following including, but not limited to: Optical Line Terminating Multiplexers, Central Office Multiplexers, Digital Cross Connect Panels, Optical Cross Connect Panels and Digital Loop Carrier. Additionally, the tariff states in Section E17.1.5.C(20) that "Should the Interconnector require the placement of integrated equipment (i.e., transmission and switching functionality), the Telephone Company will allow such placement upon certification by the Interconnector that, except for the purpose of providing multiplexing and/or signal aggregation functionality between the Telephone Company's network or unbundled network elements and the Interconnector's transmission facilities, the switching functionality will not be used and the device will be used only to terminate or aggregate basic transmission facilities." This position is fully supported by the FCC Rules, Section 51.323, which states that, "Nothing in this section requires an incumbent LEC to permit collocation of switching equipment or equipment used to provide enhanced services." Hunsucker, Tr. 422.

Furthermore, this Commission in the MCI/GTE Florida arbitration proceeding recognized that the incumbent local exchange companies are not obligated to allow the collocation of switching equipment . As stated by Staff in its Recommendation, adopted by the Commission on December 2, 1996:

Based on the Act and the FCC's Rules, staff recommends that only equipment necessary for interconnection and access to unbundled network elements should be permitted for collocation on GTEFL's premises. Therefore, staff recommends that no switching equipment or equipment used to provide enhanced services should be permitted in a collocated space.

Staff Recommendation, Docket Nos. 960847-TP and 960980-TP, dated November 22, 1996, p. 189.

**ISSUE 23: What capacity, engineering and related information should be provided by Sprint regarding its poles, ducts, conduits, and rights-of-way? What compensation, if any, is appropriate?**

SPRINT POSITION: Sprint will provide MCI access to detailed engineering records and other plant drawings and will charge MCI an appropriate amount for such access.

\* \* \* \*

Sprint has agreed to grant MCI reasonable access to Sprint's records regarding poles, ducts, conduits and rights-of-way. The only issue remaining relates to compensation. Sprint agrees that if MCI wants to inspect the records and Sprint has to do nothing but make the records available to MCI, there should be no charge. Hunsucker, Tr. 422. If, however, Sprint is required to perform any special function to accommodate MCI's requirements, such as preventing disclosure of proprietary information to MCI, then

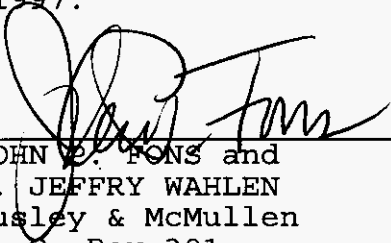
Sprint should be compensated based on the loaded labor rate of the person performing the special function. Hunsucker, Tr. 422.

#### IV.

#### CONCLUSION

There is much to be done to implement the Florida and federal legislation introducing local competition. Much has already been achieved by this Commission in setting the ground rules for local competition. Additionally, Sprint and MCI have mutually agreed to most terms and conditions of local interconnection, the unbundling of network facilities and the resale of retail services. The issues remaining to be arbitrated by the Commission in this proceeding are, however, some of the most important issues of all. Unless the Commission adopts Sprint's position on these issues, local competition will be skewed in MCI's favor to the extent that Sprint and its customers will be subsidizing MCI's entry into the local market and will be insulating MCI's shareowners from the risks of competition. Sprint has offered a balanced solution to the remaining issues, reflective of Sprint Corporation's own internal balancing of its role as an ILEC and CLEC in Florida. The Commission should adopt Sprint's positions.

Dated this 3rd day of January, 1997.



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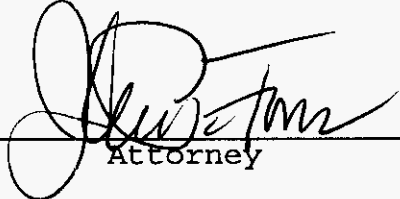
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that a true and correct copy of the foregoing has been furnished by U. S. Mail or hand delivery (\*) this 3rd day of January, 1997, to the following:

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