State of Florida

Public Service Commission

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-M-E-M-O-R-A-N-D-U-M-

DATE: OCTOBER 22, 1998

TO: DIRECTOR, DIVISION OF RECORDS AND REPORTING (BAYÓ)

FROM: DIVISION OF COMMUNICATIONS (SHELFER, HAWKINS, BARRETT)
DIVISION OF LEGAL SERVICES (B. KEATING)

RE: DOCKET NO. 870248-TL - RESOLUTION BY HOLMES COUNTY BOARD OF COUNTY COMMISSIONERS FOR EXTENDED AREA SERVICE IN HOLMES COUNTY

DOCKET NO. 870790-TL - REQUEST BY GILCHRIST COUNTY COMMISSIONERS FOR EXTENDED AREA SERVICE THROUGHOUT GILCHRIST COUNTY

DOCKET NO. 900039-TL - RESOLUTIONS BY THE ORANGE COUNTY BOARD OF COUNTY COMMISSIONERS FOR EXTENDED AREA SERVICE BETWEEN THE MOUNT DORA EXCHANGE AND THE APOPKA, ORLANDO, WINTER GARDEN, WINTER PARK, EAST ORANGE, REEDY CREEK, WINDERMERE, AND LAKE BUENA VISTA EXCHANGES

DOCKET NO. 910022 - RESOLUTION BY BRADFORD COUNTY COMMISSION REQUESTING EXTENDED AREA SERVICE WITHIN BRADFORD COUNTY AND BETWEEN BRADFORD COUNTY, UNION COUNTY AND GAINESVILLE

DOCKET NO. 910528-TL - REQUEST BY PUTNAM COUNTY BOARD OF COUNTY COMMISSIONERS FOR EXTENDED SERVICE BETWEEN THE CRESCENT CITY, HAWTHORNE, ORANGE SPRINGS, AND MELROSE EXCHANGES, AND THE PALATKA EXCHANGE

DOCKET NO. 910529-TL - REQUEST BY PASCO COUNTY BOARD OF COUNTY COMMISSIONERS FOR EXTENDED SERVICE BETWEEN ALL PASCO COUNTY EXCHANGES

DOCKET NO. 911185-TL - REQUEST FOR EXTENDED AREA SERVICE BETWEEN ALL EXCHANGES WITHIN VOLUSIA COUNTY BY VOLUSIA COUNTY COUNCIL

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DOCKET NO. 921193-TL - RESOLUTION BY THE PALM BEACH COUNTY BOARD OF COUNTY COMMISSIONERS FOR EXTENDED AREA SERVICE BETWEEN ALL EXCHANGES IN PALM BEACH COUNTY

DOCKET NO. 930173-TL - PETITION BY THE RESIDENTS OF POLO PARK REQUESTING EXTENDED AREA SERVICE (EAS) BETWEEN THE HAINES CITY EXCHANGE AND THE ORLANDO, WEST KISSIMMEE, LAKE BUENA VISTA, WINDERMERE, REEDY CREEK, WINTER PARK, CLERMONT, WINTER GARDEN, & ST. CLOUD EXCHANGES.

DOCKET NO. 981361-TL - TARIFF FILING TO ELIMINATE THE END USER CREDIT FOR EACH SUBSCRIBER LINE CHARGE FOR DIGITAL CENTREX SERVICE BY ALLTEL FLORIDA, INC. (FILED AUGUST 21, 1998, T-98-1206)

AGENDA: 11/03/98 - REGULAR AGENDA - ISSUES 1-4 ARE POST HEARING DECISION - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF. ISSUES 5-6 ARE PROPOSED AGENCY ACTION - INTERESTED PERSONS MAY PARTICIPATE. ISSUE 7 IS A TARIFF FILING - INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: NONE

FILE NAME AND LOCATION: S:\PSC\CMU\WP\870248.RCM

CASE BACKGROUND

The Commission suspended action in these dockets pending review of the impact of the Telecommunications Act of 1996 (the Act) on outstanding requests for interLATA extended area service (EAS) on BellSouth Telecommunications, Inc. (BellSouth) routes. There was some concern because under Section 271 of the Act, Bell operating companies (BOCs) are prohibited from originating interLATA traffic until the BOCs meet certain conditions. Under Section 271, a BOC may only originate interLATA telecommunications services through a separate and independent affiliate. On November 18, 1996, the Commission staff conducted a workshop on this matter.

After thoroughly reviewing the Act, the issues presented, and the comments filed by the workshop participants, by Order No. PSC-97-0622-FOF-TL issued May 30, 1997, the Commission determined that BellSouth should be relieved of certain requirements set forth in

Order No. PSC-96-0557-FOF-TL, because of the Act's impact on BellSouth's ability to carry interLATA traffic. The Commission also ordered that Docket Nos. 870248-TL, 870790-TL, 900039-TL, 910022-TL, 910528-TL, 910529-TL, 911185-TL, 921193-TL, and 930173-TL which were in various procedural stages, remain open pending a determination of whether one-way extended calling service (ECS) was feasible. By Order No. PSC-97-1462-PCO-TL, PSC-98-0537-PCO-TL, and Order No. PSC-98-0585-PCO-TL, the dockets identified herein were consolidated for hearing purposes only.

In this consolidated proceeding, the Commission was to consider the feasibility of one-way ECS. At the prehearing, the parties asked that they be allowed to brief the issues in lieu of proceeding with the hearing. The parties also agreed to include in their briefs proposed rates to be charged to the end-user customers and an analysis of their cost of providing service to the customers with and without stimulation. This request was confirmed and approved at the May 27, 1998 hearing. The briefs were filed on June 17, 1998.

Community of interest was not considered in these proceedings since the Commission had already determined, in previous decisions, that an alternative form of toll relief was warranted.

Staff notes that the parties stipulated that the testimony of the witnesses could be inserted into the record as though read, and waived cross examination of the witnesses.

ALLTEL, GTEFL, and Sprint have interLATA routes involving BellSouth at the terminating end. There are also routes that are BellSouth to BellSouth (originating and terminating). Due to the federal prohibition preventing BellSouth from originating interLATA traffic, the BellSouth to BellSouth routes cannot be considered for one-way EAS.

At the August 18, 1998 agenda conference, the Commission deferred any decisions on this docket until staff determined if the LECs could implement 1+10 digit dialing on the routes involved in these dockets. Staff was also directed to investigate how customers will be made aware that ECS is available to them. On September 15 1998, staff held a workshop. ALLTEL was ordered to refile its hearing EXH 1 to reflect the correct cost and revenue information.

Staff's analysis is based upon the testimony, the briefs of the parties, ALLTEL's revised Exhibit, and staff's workshop.

Staff would note that ALLTEL's tariff filing to remove the end user credit for the SLC on digital centrex lines is included in this recommendation. Because this tariff filing will increase ALLTEL's annual revenues by $267,000, staff has included it in this recommendation for consideration as an offset to the revenue loss for implementation of one-way ECS.

DISCUSSION OF ISSUES

ISSUE 1: Is one-way ECS appropriate on the routes in question?

RECOMMENDATION: Staff believes that one-way ECS is appropriate for the routes for GTEFL, Sprint, and ALLTEL (see Attachment A and B). These routes should be implemented as soon as possible, but not to exceed six months from the issuance date of the order. Also, because of federal prohibitions, staff does not believe that one-way ECS is feasible for the BellSouth to BellSouth routes listed in Attachment C. **(SHELFER, HAWKINS)**

POSITION OF THE PARTIES

ALLTEL: No. The compensatory price for one-way ECS would be 50 cents for the first minute and 32 cents for every minute thereafter, which exceeds prevailing toll rates. Consequently, customers would not view one-way ECS as a meaningful alternative to existing toll services, and ALLTEL should not be required to offer the service.

GTEFL: Market forces can best determine the services and rates to be made available on particular routes. However, GTEFL does not oppose ECS on its two routes at issue because the Commission has already determined some form of mandatory toll relief will be implemented.

SPRINT-FLORIDA: One-way ECS is appropriate on the routes in question if the company is allowed to price the service to recover its costs.

BELLSOUTH: BellSouth does not have access to traffic data on the subject routes. In the absence of this data, BellSouth does not have a position on whether one-way ECS is appropriate.

FCCA: No. In a competitive market, it is not the Commissions's role to require carriers to provide particular services. The Commission should refrain from requiring any more ECS discounts.

STAFF ANALYSIS: ALLTEL contends in its brief that Issue 1 should not be decided until Issues 3 and 4 are resolved. These latter two issues deal with the economic impact to the LECs and end users. ALLTEL argues that if Issue 1 is approved prior to deciding the later issues, a select group of customers may be provided a service priced under cost. ALLTEL argues that while it continues to be regulated under rate-of-return regulation and the Commission continues to have plenary authority over ALLTEL's rates, the recent activity in the Florida Legislature strongly suggests that pricing below cost and reliance on implicit subsidies from other services should be avoided if possible. (BR, pp. 4-5)

ALLTEL's witness Eudy contends that the Commission's previous decisions that alternative toll plans were appropriate were based on community of interest considerations that were in effect when the decisions were made. Witness Eudy argues that all of the routes have very low traffic volumes. In addition, the witness states that none of these routes qualified for two-way, flat rate, nonoptional EAS, the $.25 plan, or ECS. (Eudy, TR 14-15; EXH 1)

Witness Eudy contends that as the market continues to change in the future, ECS plans will become less attractive as alternative toll plans. The witness asserts that one-way ECS is appropriate only if the Company is allowed to price the service at a level that allows it to recover all of the costs associated with providing the service. Witness Eudy states that for the Commission to impose a one-way ECS requirement that does not allow ALLTEL to recover all of the costs associated with providing the service from the customers using the service would be inconsistent with sound regulatory policy. (TR 15)

In its brief, ALLTEL states that if the Commission allows ALLTEL to price the service to recover all of the costs of providing the service from the customers using the service, the resulting price would be higher than prevailing toll rates, and the service would not be perceived by customers as a viable toll alternative. ALLTEL argues that the Commission should not let community of interest concerns override the ever increasing need to price services in a manner that requires subscribing customers to bear the cost of the service. ALLTEL contends that since the existing toll rates on the routes in question are being provided at rates below the compensatory rates proposed by ALLTEL, the Commission should find that an alternative toll plan is not appropriate. (BR, pp. 5-6)

GTEFL witness Scobie contends that ideally, competitive market forces would provide the most economically efficient alternatives for customers on these interLATA routes. GTEFL suggests that toll prices will likely continue their downward trend in the coming years. Also, with ILECs and ALECs being able to offer competitive local calling plans, the marketplace will determine the appropriate service and rate level for this interLATA traffic where some community of interest exists. (TR 21) GTEFL argues that in view of these kinds of developments, regulatory intervention is not necessary. (GTEFL, BR p. 2) Witness Scobie states, however, that GTEFL is not opposed to providing ECS, since the Commission has previously determined that some form of toll relief is warranted. (TR 21)

Sprint's witness Powell argues that one-way ECS is appropriate on these routes if appropriate originating end user rates and call termination compensation arrangements are also ordered. (Powell, TR 30)

BellSouth's witness Martin contends that due to the absence of traffic data on these routes, BellSouth does not have a position and is unable to determine whether a sufficient community of interest exists. (Martin, TR 39)

Staff notes that the FCCA did not file direct testimony in this case so FCCA's argument is based entirely on its brief. The FCCA notes that most of the dockets in question are quite old and arose prior to the 1995 revision to Chapter 364, Florida Statutes, and prior to the passage of the federal Telecommunications Act of 1996 (Act). The FCCA argues that after the passage of the Act, the Commission suspended activity in these dockets to consider the impact of the Act on the cases. The FCCA notes that the Commission has already determined that due to the passage of the Act, BellSouth is currently prohibited from originating traffic on these interLATA routes. (FCCA BR, p. 3)

FCCA further argues that both the Act and the 1995 revisions to Chapter 364 envision a fundamental shift in the telecommunications market. FCCA suggests that rather than relying on regulation as a surrogate for competition, in the post-Act world market forces will bring competition to bear. FCCA states that in this competitive market, it is not the Commission's role to require carriers to provide particular services. FCCA asserts that the decision as to what services to provide is one that carriers themselves will make based on the types of services and the packages of services which the market demands. FCCA asserts that the Commission should refrain from ordering any more ECS routes because such plans stifle competition, in contravention of the legislative intent of both the state and federal telecommunications laws. (BR, p. 4)

Staff does not oppose ALLTEL's suggestion that Issues 3 and 4 be decided prior to Issue 1. In regard to ALLTEL's remarks that all of the routes have very low traffic volumes, staff would submit that the Commission has already made a determination that toll relief was warranted on all the routes. This recommendation is not reevaluating community of interest, but instead seeking resolution on how toll relief can be implemented.

Staff disagrees with witness Eudy that one-way ECS is appropriate only if it is allowed to price the service at a level that allows ALLTEL to recover all of the costs. Staff notes that the Commission has not historically considered cost when implementing an alternative toll plan. While we do track the economic impact of implementing such a plan, rate-of-return LECs can petition the Commission for a rate relief if the economic impact is too great.

Staff acknowledges GTEFL's and FCCA's argument that competitive market forces could prove to be the most economically efficient alternatives is valid, and that the revisions to Chapter 364 and the Act seem to support their arguments. These dockets, however, arose prior to the 1995 revisions to Chapter 364 and the Act, under a regime of rate-of-return regulation. Indeed, some of these dockets are over 11 years old. Because of federal prohibitions imposed on BellSouth, the routes at issue in these dockets could not be implemented. In addition, because of revisions to Chapter 364, the Commission does not have the authority to order EAS or ECS for exchanges involving price-regulated LECs. Therefore, for many of the customers affected by these dockets, this proceeding is their last opportunity for the Commission to take action on their behalf. One-way ECS appears to be the only viable option left to provide toll relief to these customers.

Staff agrees with Sprint's argument that if appropriate originating end user rates and call termination compensation arrangements can be found then one-way ECS is appropriate.

Staff recommends that GTEFL, Sprint, and ALLTEL implement these routes, as soon as possible, but not to exceed six months from the issuance date of the Commission's order from this recommendation. (See Attachment A and B). This is consistent with past Commission's decisions regarding implementation of ECS routes.

Furthermore, there are 12 interLATA routes that are BellSouth to BellSouth. (See Attachment C) The Act is clear that BellSouth cannot originate interLATA traffic. Since these routes involve BellSouth at both ends, ECS is not possible for these routes.

ISSUE 2: If one-way ECS is appropriate, what rate, if any, should BellSouth charge to terminate ECS interLATA traffic for all carriers?

RECOMMENDATION: If the Commission approves staff's recommendation in Issue 1, staff believes that BellSouth's terminating switched access rate is appropriate. **(SHELFER, HAWKINS)**

POSITION OF PARTIES

ALLTEL: No position.

GTEFL: GTEFL would agree to pay BellSouth for terminating switched access for this traffic, consistent with interconnection agreements between GTEFL companies and BellSouth in other states.

SPRINT-FLORIDA: BellSouth should charge IXCs and LECs the same interLATA terminating access rates.

BELLSOUTH: BellSouth recommends that terminating switched access rates be utilized as the appropriate rate for terminating traffic on the subject routes.

FCCA: If the Commission requires one-way ECS, BellSouth must charge all carriers the same amount to terminate the ECS calls. The Commission should require BellSouth to charge the local interconnection rate for the termination of such calls.

STAFF ANALYSIS: While ALLTEL takes no position in its brief, ALLTEL's witness Eudy contends in her testimony that if the rate design and levels for the one-way ECS service are set properly, there should be no economic impact on ALLTEL as the originating LEC. (Eudy, TR 16)

GTEFL's witness Scobie states that if the Commission determines that one-way ECS is appropriate on the interLATA routes in question, BellSouth would be justified in charging terminating switched access for this traffic. The witness contends that this would be consistent with previously executed local interexchange agreements between GTEFL and BellSouth in other states where both GTEFL and BellSouth serve. (Scobie, TR 21-22)

Sprint's witness Powell states that BellSouth should charge the same interLATA terminating access rates that BellSouth charges IXCs to terminate traffic between these exchanges. Sprint contends that all of these routes are interLATA routes, and all carriers providing service over these routes should be subject to the same charges. (Powell, TR 31) Sprint argues in its brief that to do otherwise would be discriminatory. (Sprint, BR. P 5) The witness asserts that as long as the traffic in one direction, from BellSouth to Sprint, is toll, local interconnection rates should not apply. (TR 31)

BellSouth's witness Martin states that the Telecommunications Act of 1996 prohibits it from any unjust or unreasonable discrimination in charges when terminating interLATA traffic. The witness states that the IXCs completing calls on these routes are charged terminating access rates, and it would appear that terminating access rates must also be charged to a LEC completing calls on the same routes. (Martin, TR 39)

BellSouth argues in its brief that it is required to charge IXCs, which complete calls on the subject routes, terminating access rates for terminating this traffic. <u>See</u> BellSouth's Access Service tariff, E.1.1 et seq. BellSouth contends that the Act does not prohibit BellSouth from terminating this interLATA traffic (47 U.S.C. § 271(b)(4)); it does prohibit BellSouth from making any unjust or unreasonable discrimination in charges for the termination. (47 U.S.C. § 202(a)) BellSouth argues that unless it charges terminating access rates to a LEC originating the interLATA ECS call, as it would an IXC on the same route, an IXC might claim that BellSouth is unjustly discriminating in the application of access. BellSouth asserts that the Commission recognized this limitation and, in Order No. PSC-97-0622-FOF-TL at 14, stated:

> Even if BellSouth can terminate interLATA traffic, it cannot make any unjust or unreasonable discrimination in termination charges (47 U.S.C. § 202(a)). Therefore, unless BellSouth charges terminating access to the LEC originating the interLATA ECS call, BellSouth could be

considered to be unjustly discriminating in the application of its access charges. (BellSouth, BR p. 4)

BellSouth also argues in its brief that §364.16(3)(a), Florida Statutes, prohibits a local exchange company from delivering traffic for which terminating access service charges would otherwise apply through the use of a local interconnection agreement. Accordingly, BellSouth contends that both the Act and Chapter 364, Florida Statutes, prohibit BellSouth from charging interconnection rates as suggested by FCCA. (BR, pp. 4-5)

The FCCA acknowledges in its brief that BellSouth cannot discriminate as to the rates it charges all carriers. FCCA states it is concerned about what amount the charge should be and whether it should be the local interconnection charge. FCCA argues that in Florida Interexchange Carriers Association v. Beard, 624 So.2d. 248 (Fla. 1993), regarding FIXCA's (FCCA's predecessor organization) challenge to certain GTEFL ECS routes, the court found that the ECS routes at issue were local routes. FCCA argues that the Commission has recognized in various orders that the calls on these types of routes are local. FCCA contends that the ECS routes in question should be viewed as local routes for purposes of determining the termination charge BellSouth may levy on its competitors. (BR, pp. 4-5)

FCCA also argues in its brief that in order to foster competition, it is important to have appropriate carrier-to-carrier rates. FCCA suggests that if that were the case on these routes (for example, through the use of local interconnection rates rather than greatly inflated access rates), it would be possible to have greater competition on the routes at issue and to foster open and competitive telecommunications markets. (BR, p. 5)

ALLTEL, GTEFL, Sprint, and BellSouth agree and staff concurs that BellSouth's terminating switched access charge is the appropriate rate. Staff agrees with Sprint and BellSouth that because the IXCs currently competing on these routes are charged terminating access rates, it is only appropriate that LECs be charged the same rate. (Powell, TR 31; Martin, TR 39) GTEFL confirmed that this would be consistent with other agreements between GTEFL and BellSouth in other states. (Scobie, TR 22)

Staff also supports BellSouth's argument that unless it charges terminating access to a LEC originating the interLATA ECS call, as it would an IXC on the same route, a claim could be made that BellSouth is unjustly discriminating in the application of access. The Commission recognized this possibility of discrimination in Order No. PSC-97-0622-FOF-TL. This is further supported by Section 364.16(3)(a), Florida Statutes, which prohibits a LEC from delivering traffic for which terminating access service charges would otherwise apply through the use of a local interconnection agreement.

Staff disagrees with FCCA that the local interconnection rates should be applied. Staff notes that the ECS routes in the case cited were determined by the Commission to be local and therefore not competitive routes. The Court upheld the Commission's decision. In this case, the routes at issue in these dockets will not be local, and competition will continue to be allowed on them. Therefore, staff believes that FCCA's argument has no merit.

Based on the evidence presented, staff believes that BellSouth's terminating switched access rate is the appropriate charge.

ISSUE 3: If one-way ECS is ordered on the routes in question and a termination charge is deemed appropriate, what economic impact will this have on the originating LEC?

RECOMMENDATION: Based on the evidence in the record, staff does not believe that one-way ECS will have a significant economic impact on GTEFL or Sprint. According to ALLTEL's revised exhibit, one-way ECS will cost ALLTEL $525,185 annually. ***(SHELFER, HAWKINS)***

POSITION OF THE PARTIES

ALLTEL: If rates are set properly, there should be no economic impact on ALLTEL, because the rates will cover the costs of service, including any terminating charges. The Commission should not impose one-way ECS in a manner that has a negative economic impact on ALLTEL.

BELLSOUTH: BellSouth does not have sufficient information to take a position on the economic impact that one-way ECS with a termination charge would have on the originating LECs.

GTEFL: GTEFL cannot provide a definitive answer because call duration data are unavailable to GTEFL for the proposed routes, which are today interLATA. In addition, end users rates are still unsettled. In attempting to provide economic impact information, GTEFL has had to assume certain call durations and rates.

SPRINT-FLORIDA: BellSouth's charge for terminating calls will have a negative impact on Sprint's revenue of approximately $21,000.

FCCA: No position.

STAFF ANALYSIS: Staff notes that BellSouth does not have sufficient information to take a position on the economic impact that one-way ECS with a termination charge would have on the originating LECs. FCCA also does not take a position on this issue.

ALLTEL's witness Eudy argues that its service territory consists of predominantly rural, agricultural areas, and it does not serve a major urban area or city. Witness Eudy states that rural routes tend to be more costly to serve, both in terms of the cost of initial construction and maintenance. (TR 11)

The witness contends that ALLTEL has not completed quantification of the actual dollar costs associated with provision of a one-way ECS plan, but does know the kinds of costs involved in the provision of this service. She asserts that these costs include the costs to lease or build the facilities needed to carry the traffic, the costs of originating the calls, whatever terminating charge may be applicable, lost access charge and billing and collection revenues, and administrative costs such as billing system changes. The witness estimates these costs to be $525,185 annually. (TR 17, Revised EXH 1)

GTEFL's witness Scobie states that in attempting to examine the economic impact, there is an unknown that makes a direct comparison difficult. The witness contends that assuming the residential call duration would be less as an interLATA toll call than as an ECS message-rated call, and also assuming that the call duration is five minutes, the access revenues to GTEFL would be $.256 per call under an access environment, versus GTEFL's proposed $.30 in an ECS environment. GTEFL argues that if a business call lasts for 2.5 minutes, which is the same duration as the average ECS business call, GTEFL would receive a little over $.128 per business message in access revenues. Under an ECS usage-sensitive structure, GTEFL would receive $.19 per average business message. The witness states that the company assumed that a business call was much less price elastic, and a business would be much more likely to have the same duration on a call that had a business purpose. (TR 24-25, EXH 2)

Sprint's witness Powell states that as a result of the traffic study conducted on the routes in question, if the $.10 and $.06 rates and BellSouth's terminating intrastate premium rates listed in the Commission's Access and Toll Report were used, Sprint would incur a negative financial impact of $21,000 a year. (TR 33)

Based on ALLTEL's revised exhibit, the Company contends that one-way ECS will cost the Company $525,185 annually. (Revised EXH 1) If Issue 4 is approved using the $.10/$.06 rate structure, the economic impact to ALLTEL will be $275,404. Staff is proposing to offset $267,000 of this loss with ALLTEL's tariff filing which is addressed Issue 7.

Staff does not have enough information to determine the specific economic impact to GTEFL, but based on the information provided, it does not appear to be significant. This is supported by GTEFL's agreement to implement one-way ECS on its routes.

(Scobie, TR 21) The economic impact to Sprint, if the $.10 and $.06 rates and BellSouth's terminating access are used, would be $21,000 a year. (Powell, TR 33)

ISSUE 4: If one-way ECS is appropriate, what rate structure and rate levels should the LECs charge?

RECOMMENDATION: Staff believes that a usage sensitive rate structure is appropriate for one-way ECS for GTEFL, Sprint, and ALLTEL. Staff recommends $.10 for the first minute and $.06 for each additional minute for residential and business customers. **(SHELFER, HAWKINS)**

POSITION OF THE PARTIES

ALLTEL: If one-way ECS is appropriate, which it is not, a usage based rate design will best recover the cost of the service. To recover all of the costs of providing the service, ALLTEL should be allowed to price the service at 50 cents for the first minute and 32 cents for every minute thereafter.

BELLSOUTH: BellSouth does not have sufficient information to take a position on the rate structure and rate levels that should be utilized by the originating LECs.

GTEFL: If the Commission maintains flat-rate pricing for residential ECS, a $.30 rate is necessary to cover GTEFL's costs. The best approach, however, is a move toward usage-sensitive residential rates, as proposed by Sprint and ALLTEL.

SPRINT-FLORIDA: Sprint recommends a minute per use (usage sensitive) rate structure at levels that allow Sprint to cover the costs of providing the service.

FCCA: See Issue No. 2.

STAFF ANALYSIS: Staff would note that BellSouth did not file testimony on this issue, and FCCA references Issue 2.

ALLTEL contends in its brief that it does not believe that one-way ECS is appropriate on the routes in question. (BR, p. 9) ALLTEL's witness Eudy proposes a rate design that is similar to the rate design used for business customers under the Commission's traditional $.10/$.06 plan. The witness continues that this rate design would apply to all customers, who would be charged one rate for the first minute and a lower rate for subsequent minutes. This would allow ALLTEL to recover all costs associated with the one-way ECS proposal. (TR 17) ALLTEL contends that in order to recover the cost of providing ECS, the company should be allowed to charge the rate of $.20 for the first minute and $.14 for every minute thereafter. This is different from the original rate proposal of $.50 for the first minute and $.32 for each additional minute. (Revised EXH 1)

GTEFL's witness testified that the present level of $.10 for the first minute and $.06 for each additional minute would be appropriate to charge business customers, but residential customers should be charged $.30 per call. The witness contends that GTEFL took the average residential ECS message length of 6.2 minutes and multiplied that by GTEFL's local interconnection origination rate of $.004 per minute and the BellSouth terminating switched access rate of $.023189 per minute. GTEFL states that the total was slightly over $.20 for an average call. The Company then multiplied that number by the GTEFL overhead factor of 47%, yielding a rate of $.294 per message. (TR 23-24, EXH 2)

In its brief, GTEFL suggested instead, a usage-sensitive rate equal to the business rates. GTEFL agrees with Sprint that a per-minute rate will mitigate inter-carrier advantage and be more competitively neutral. GTEFL agrees with Sprint and ALLTEL that with a usage-based structure, ECS will most closely reflect the carriers' underlying costs, an objective that is critical in a competitive marketplace. GTEFL argues that in this case, the per minute cost on the ECS routes terminating in a BellSouth exchange are about four times greater than routes terminating in other GTEFL exchanges. (BR, p. 5-6)

Sprint asserts that in order to recover the terminating access charge expenses, the originating call set-up and transport costs, and to provide some contribution to common costs, a per minute of use rate structure would be appropriate. Sprint's witness contends that its current rate for business customers on ECS routes of $.10 for the initial minute and $.06 for additional minutes is appropriate for both business and residential customers on these interLATA routes. (TR 31-32)

Sprint's witness Powell states that a per minute rate, rather than a per message rate, will mitigate inter-carrier arbitrage and be more competitively neutral. Sprint suggests that if it were required to provide ECS on a per message basis while its competitors charged by the minute, Sprint would win all the "losers" (callers with long call durations), while callers with short call durations would use a competitor. (Powell, TR 32) Sprint gives an example of a customer using the LECs to place long duration calls like to their Internet provider, and using casual dialing to an IXC for shorter calls. (Powell, TR 33) The witness argues that this could result in Sprint paying more in terminating access charges than it collects in revenues from the originating callers. Sprint believes this would limit its ability to compete for customers with short holding times. Witness Powell states that a usage-sensitive rate structure would maintain a competitive balance -- that is, IXCs will be able to compete in this market if LECs' prices reflect underlying costs. (TR 32)

Sprint states that equity and competitive neutrality require that a usage-sensitive pricing structure be implemented. Sprint argues this is the only way to ensure cost recovery and to mitigate competitive barriers on the routes in question. (TR 33)

Staff does not believe ALLTEL's proposal of $.20 for the first minute and $.14 for each additional minute is appropriate. While ALLTEL's proposal would recover the cost of implementing one-way ECS, it would provide very little, if any, rate relief to its end users. Historically, the Commission has not allowed complete cost recovery in EAS or ECS routes. This should not be an exception.

Staff agrees with ALLTEL, GTEFL, and Sprint that usage-sensitive pricing is appropriate for residential and business calls on these routes. (TR 17; TR 32) Because the LECs will be paying per minute rates to BellSouth to complete the interLATA calls at issue, it seems appropriate that all end users pay a per minute rate as well. As argued by Sprint, a usage-sensitive rate structure will maintain a competitive balance, and prevent inter-carrier arbitrage. Staff believes usage-sensitive pricing will ensure cost recovery and mitigate competitive barriers on the routes in question. (TR 32-33)

GTEFL and Sprint concur and staff agrees that the current rates on ECS routes for business customers of $.10 for the first minute and $.06 for each additional minute are appropriate for both residential and business calls on these interLATA routes. (TR 32; GTEFL, BR, pp. 5-6).

ISSUE 5: If Issue 1 is approved, what dialing pattern should be implemented on the routes? **(PAA)**

RECOMMENDATION: These routes should be implemented with 10 digit dialing, which is consistent with the Commission's decision in Order No. PSC-98-0597-FOF-TL in Docket No. 980048-TL (813 area code relief). **(SHELFER)**

STAFF ANALYSIS: Staff conducted a workshop to determine if the parties could implement interLATA one-way ECS on a 1+10 digit basis. GTEFL, Sprint, and ALLTEL state that 1+10 digit dialing is not possible on these interLATA calls. They contend that the switch recognizes "1+10" as an interLATA call and therefore, it would be routed to the customer's presubscribed interLATA carrier, not the LEC. In order for the LEC to carry the interLATA call, it needs to be dialed on a 10-digit basis. Staff notes that 7-digit dialing may be an option; however, this is discouraged since the Act requires the LECs to offer dialing parity with its competitors. FCCA takes no position in this matter.

Staff also asked if intercept recordings could be used to inform a customer who dialed 1+10 digits in error that this call could be completed by the LEC if 10-digits were dialed. The companies stated that they could not intercept a 1+10 digit dialed call and place an information warning on it. The intercept recordings are for "toll access required" and "toll access digit not required" calls.

Staff agrees that 10-digit dialing is appropriate for these interLATA ECS routes. While the guidelines outlined in Order No. PSC-96-0558-FOF-TP in Docket No. 960090-TP (Generic investigation into dialing plans implemented throughout Florida) suggest 1+10 digit dialing for interNPA ECS, staff notes that these dialing patterns were limited to BellSouth's 284 ECS routes and the 305 area code relief. None of those routes were interLATA. Therefore, staff recommends that these routes be implemented with 10-digit dialing, which is consistent with the Commission's decision in Order No. PSC-98-0597-FOF-TL in Docket No. 980048-TL (813 area code relief).

ISSUE 6: If Issue 1 is approved, how should the customers be informed that one-way ECS is available? **(PAA)**

RECOMMENDATION: The companies should, at a minimum, inform their customers of one-way ECS by a detailed bill stuffer. The bill stuffer should include the rates, the routes, the NXXs involved, and the dialing pattern. A toll-free number should also be provided for customers desiring additional information or clarification. **(SHELFER)**

STAFF ANALYSIS: At the staff workshop, the companies indicated that they currently notice customers of pending ECS routes through bill stuffers. These bill stuffers provide detailed information regarding the rates, the routes, the NXXs involved, and the dialing patterns. FCCA takes no position in this matter.

Since the bill stuffer seems to be working for GTEFL, Sprint, and ALLTEL, staff recommends that the LECs, at a minimum, notify their customers by bill stuffer of the pending implementation of one-way ECS. The bill stuffer should include the rates, the routes, the NXXs involved, and the dialing patterns. A toll-free number should also be provided for customers desiring additional information or clarification.

ISSUE 7: Should ALLTEL's tariff filing to remove the end user credit for subscriber line charge (SLC) for digital Centrex lines be approved effective November 3, 1998? **(TARIFF)**

RECOMMENDATION: Yes, ALLTEL's tariff filing to remove the end user credit for SLCs for digital Centrex lines should be approved effective November 3, 1998. The resulting increase in revenues of $267,000 should be used to offset the revenue loss of $275,404 associated with implementing interLATA one-way ECS on ALLTEL's routes as outlined in Issue 3. **(BARRETT, SHELFER)**

STAFF ANALYSIS: Staff notes that it has included this docket in this recommendation for the Commission to consider offsetting the increase in revenue to ALLTEL from this tariff filing with the projected revenue loss from implementation of interLATA one-way ECS.

On August 14, 1998, ALLTEL filed a tariff revision to change the manner by which it assesses the Subscriber Line Charges (SLC) for digital Centrex service. Presently, ALLTEL assesses the Centrex end users on the basis of the Network Access Registers (NAR). A NAR can be thought of as an equivalency, or a 'virtual trunk' as opposed to an actual trunk. ALLTEL's current practice of billing on the basis of NARs was implemented on December 28, 1992 in Order No. PSC-92-1495-FOF-TL. In billing on a NAR basis, ALLTEL was, in effect, issuing a credit to the end users for each ALLTEL Digital Centrex (ADC) line and with this tariff filing seeks to discontinue this practice.

From a historical perspective, initially Centrex service was marketed as a competitive alternative to Private Branch Exchange (PBX) services. In a Centrex system, network access is limited by the number of simultaneous conversations to and from the system and provides a mechanism for charging for use of the switched network. In contrast, a PBX system is limited by the number of trunk lines and the SLC is levied on the per-line basis. The equivalency structure was developed to make the Centrex service more competitively priced with PBX. Since those early days, ALLTEL states it has seen rapid growth in the subscription to its ADC lines.

ALLTEL has projected that the annual revenue impact for this action will be a net increase of $267,000. This will raise ALLTEL's ROE to 11.31% (range - 10.5-12.5), an increase of 0.45%, assuming no incremental expense. Staff has reviewed the revenue impact study provided by ALLTEL, and we find the estimates to be reasonable.

As discussed in Issue 3, ALLTEL contends it will have $275,404 in unrecovered cost due to the implementation of interLATA one-way ECS at the rate of $.10 for the first minute and $.06 for each additional minute. This will decrease ALLTEL's ROE by 0.46%. Staff believes it is appropriate to offset the cost of implementing ECS with revenue increase from this tariff filing. If the Commission approves the offset, the revenue affect will be negligible.

Therefore, staff recommends that ALLTEL's tariff filing to remove the end user credit for SLCs for digital Centrex lines should be approved effective November 3, 1998. The resulting increase in revenues of $267,000 should be used to offset the revenue loss of $275,404 associated with implementing interLATA one-way ECS on ALLTEL's routes as outlined in Issue 3.

ISSUE 8: Should these dockets be closed?

RECOMMENDATION: The Commission's decisions in Issues 1 - 4 for Docket Nos. 870248-TL, 870790-TL, 900039-TL, 910022-TL, 910528-TL, 910529-TL, 911185-TL, 921193-TL, and 930173-TL will be final decisions. Issues 5 and 6 are, however, proposed agency action. Therefore, if the Commission approves staff's recommendations in Issues 5-6, Dockets Nos. 870248-TL, 870790-TL, 900039-TL, 910022-TL, 910528-TL, 910529-TL, 911185-TL, 921193-TL, and 930173-TL should be closed, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of issuance of this Order. In addition, Issue 7 is a tariff issue; thus, if the Commission approves Issue 7, in Docket No. 981361-TL, this tariff should become effective on November 3, 1998. If a protest of Issue 7 is filed within 21 days of the issuance of the Commission's Order, the tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this Docket should be closed. **(B. KEATING)**

STAFF ANALYSIS: The Commission's decisions in Issues 1 - 4 for Docket Nos. 870248-TL, 870790-TL, 900039-TL, 910022-TL, 910528-TL, 910529-TL, 911185-TL, 921193-TL, and 930173-TL will be final decisions. Issues 5 and 6 are, however, proposed agency action. Therefore, if the Commission approves staff's recommendations in Issues 5-6, Dockets Nos. 870248-TL, 870790-TL, 900039-TL, 910022-TL, 910528-TL, 910529-TL, 911185-TL, 921193-TL, and 930173-TL should be closed, unless a person whose substantial interests are affected by the Commission's decision files a protest within 21 days of issuance of this Order. In addition, Issue 7 is a tariff issue; thus, if the Commission approves Issue 7, in Docket No. 981361-TL, this tariff should become effective on November 3, 1998. If a protest of Issue 7 is filed within 21 days of the issuance of the Commission's Order, the tariff should remain in effect pending resolution of the protest. If no timely protest is filed, this Docket should be closed.

Attachment A

SPRINT AND GTEFL ROUTES INVOLVING BELLSOUTH

FROM	TO	DOCKET NO.	LOCAL EXCHANGE COMPANY(S) INVOLVED
Graceville	Ponce de Leon	870248-TL	Centel and BellSouth
Graceville	DeFuniak Springs	870248-TL	Centel and BellSouth
Mt. Dora	Orlando	900039-TL	United and BellSouth
Lawtey	Gainesville	910022-TL	Centel and BellSouth
Starke	Gainesville	910022-TL	Centel and BellSouth
Hudson	Brooksville	910529-TL	GTEFL and BellSouth
Orange City	Daytona Beach	911185-TL	United and BellSouth
Orange City	New Smyrna Bch	911185-TL	United and BellSouth
Orange City	Oak Hill	911185-TL	United and BellSouth
Orange City	Pierson	911185-TL	United and BellSouth
Orange City	DeLeon Springs	911185-TL	United and BellSouth
Clewiston	Belle Glade	921193-TL	United and BellSouth
Haines City (Both)	Orlando	930173-TL	GTEFL and BellSouth

Attachment B

ALLTEL ROUTES INVOLVING BELLSOUTH

FROM	TO	DOCKET NO.	LOCAL EXCHANGE COMPANY(S) INVOLVED
Branford	Trenton	870790-TL	ALLTEL and BellSouth
High Springs	Trenton	870790-TL	ALLTEL and BellSouth
Branford	Newberry	870790-TL	ALLTEL and BellSouth
Raiford	Gainesville	910022-TL	ALLTEL and BellSouth
Interlachen	Hawthorne	910528-TL	ALLTEL and BellSouth
Interlachen	Keystone Heights	910528-TL	ALLTEL and BellSouth
Florahome	Keystone Heights	910528-TL	ALLTEL and BellSouth
Melrose	Palatka	910528-TL	ALLTEL and BellSouth
Orange Springs	Palatka	910528-TL	ALLTEL and BellSouth

Attachment C BELLSOUTH TO BELLSOUTH ROUTES			
FROM	**TO**	**DOCKET NO.**	**LOCAL EXCHANGE COMPANY (S) INVOLVED**
Keystone Heights	Palatka	910528-TL	BellSouth
Hawthorne	Palatka	910528-TL	BellSouth
DeBary	Daytona Beach	911185-TL	BellSouth
DeBary	New Smyrna Bch	911185-TL	BellSouth
DeBary	Dillon Springs	911185-TL	BellSouth
DeBary	Oak Hill	911185-TL	BellSouth
DeBary	Pierson	911185-TL	BellSouth
Sanford	Daytona Beach	911185-TL	BellSouth
Sanford	DeLeon Springs	911185-TL	BellSouth
Sanford	New Smyrna Bch	911185-TL	BellSouth
Sanford	Oak Hill	911185-TL	BellSouth
Sanford	Pierson	911185-TL	BellSouth