



ORIGINAL

Marceil Morrell**
Area Vice President & Associate General Counsel-
Regional Operations (East)

Anthony P. Gillman**
Assistant General Counsel

Attorneys*
Kimberly Caswell
M. Eric Edgington
Ernesto Mayor, Jr.

* Licensed in Florida
** Certified in Florida as Authorized House Counsel

GTE SERVICE CORPORATION

One Tampa City Center
201 North Franklin Street (33602)
Post Office Box 110, FLTC0007
Tampa, Florida 33601-0110
813-483-2606
813-204-8870 (Facsimile)

February 3, 1999

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

Re: Docket No. 980696-TP
Determination of the cost of basic local telecommunications service,
pursuant to Section 364.025, Florida Statutes

Dear Ms. Bayo:

Please find enclosed an original and fifteen copies of the Response of GTE Florida Incorporated In Support of Sprint-Florida's Motion for Reconsideration of Order No. PSC-99-0068-FOF-TP for filing in the above matter. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this filing, please contact me at (813) 483-2617.

Very truly yours,

Kimberly Caswell
Kimberly Caswell

KC:tas
Enclosures

A part of GTE Corporation

DOCUMENT NUMBER-DATE

01405 FEB-39

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

ORIGINAL

In re: Determination of the Cost of)
Basic Local Telecommunications Service,)
Pursuant to Section 361.025, Florida)
Statutes)

Docket No. 980696-TP
Filed: February 3, 1999

**RESPONSE OF GTE FLORIDA INCORPORATED
IN SUPPORT OF SPRINT-FLORIDA'S
MOTION FOR RECONSIDERATION OF ORDER NO. PSC-99-0068-FOF-TP**

GTE Florida Incorporated ("GTE"), pursuant to Rules 25-22.060, 25-22.037 and 25-22.028, F.A.C., submits the following response in support of Sprint-Florida Incorporated's ("Sprint") Motion for Reconsideration of Order No. PSC-99-0068-FOF-TP (the "Order").

I. INTRODUCTION

GTE joins Sprint in urging the Commission to reconsider its decision to apply a \$4,350 loop investment cap to all carriers in Florida. Instead, the Commission should adopt the \$10,000 value proposed by GTE and Sprint for those companies. The \$10,000 value for GTE and Sprint was not opposed by any party to the proceeding -- not BellSouth, AT&T or MCI. The \$4,350 value chosen by the Commission may be acceptable to BellSouth, but the record does not support it as an investment cap that is appropriate for statewide application or for all other carriers in Florida. The investment cap ordered by the Commission substantially increases the number of loops subject to the cap, resulting in significantly lower costs. For GTE, the Commission's decision leads to an approximate four-fold increase in the number of lines exceeding the cap, and reduces costs in GTE's territory by \$.18 per line. The number of GTE lines that exceed a \$10,000 cap is 1,998, while 7,956 lines exceed the \$4,350 cap.

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II. THE RECORD DOES NOT SUPPORT THE COMMISSION'S DECISION ON THE INVESTMENT CAP ISSUE.

It is a fundamental premise of administrative law that the Commission's decision to apply a single loop investment cap of \$4,350 must be adequately supported by the evidence in the hearing record. The decision must reflect a "considered response to the evidence." *Harborlite Corp. v. I.C.C.*, 613 F.2d 1088, 1092 (D.C. Cir. 1979), citing *Sec'y of Agriculture v. United States*, 347 U.S. 645, 652-54 (1954). If it is not supported by substantial evidence, or reflects mere conjecture or supposition by the Commission, then the decision will be reversed as arbitrary and capricious. See *Tamiami Trail Tours, Inc. v. Bevis*, 299 So.2d. 22, 24 (Fla. 1974).

The record evidence in this proceeding supports only the \$10,000 investment cap for GTE and Sprint, not the \$4,350 value.

The Benchmark Cost Proxy Model 3.1 ("BCPM") provides the user with the option of establishing a cap on loop investment. (Ex. 57 (BCPM Model Methodology) § 6.10 at 56) BCPM states that the cap "allow[s] for the possibility that regulatory/public policy may limit the maximum investment level per line that universal service funds can support," and "allow[s] for technological alternatives, such as a wireless technology, for providing basic service beyond some user specified investment threshold." *Id.* In default mode, BCPM's cap was \$10,000 per loop.¹ This means that if the cost of a loop to serve a customer exceeded \$10,000, the telephone company would consider using other technology to provide service, such as wireless technology. As a result, BCPM, when running in default mode, assumes that no loop will exceed \$10,000.

¹ As the FCC noted in its Further Notice of Proposed Rulemaking, the Rural Utility Service criticized BCPM's \$10,000 default value as being far too low, and other parties, including AT&T, MCI and GTE joined that criticism. See *In the Matter of Federal-State Joint Board on Universal Service, In the Matter of Forward-Looking Mechanism for High Cost Support for Non-Rural LECs*, CC Docket Nos. 96-45, 97-160, Further Notice of Proposed Rulemaking, FCC 97-256 (rel. July 18, 1997) at ¶ 96.

The HAI Model, Version 5.0a ("HAI Model"), also allows the model's user to impose a loop investment cap. (Ex. 42 (DJW-2) (HAI Model Description) § 6.3.4 at 44-45; Ex. 43 (DJW-3) (HAI Model Inputs Portfolio) § 2.11.1-.5 at 44-46). As support for this input category, the HAI Model Inputs Portfolio states that "[i]f a viable wireless technology exists using forward-looking, currently deployable technology, with available frequency spectrum allocation, then this alternative may be used to cap loop costs at a pre-determined investment cost." (Ex. 43 at 45). In default mode, the cap in the HAI Model was disabled. If enabled, the HAI Model did not state what the proper cost should be, but in this and other state proceedings, the sponsors of the HAI Model agreed that \$10,000 was the "commonly accepted" cap. (Tr. (Wells) at 2520). The inputs that are included in the HAI Model relate to two kinds of wireless systems: a "point-to-point" system serving customers on a one-to-one basis, and a "broadcast" system serving a number of customers from a shared base station. Generally, the broadcast system is more expensive than the point-to-point system for a small number of lines, but less expensive if the system is loaded to a substantial portion of its maximum capacity. (Ex. 42 at 44-45).²

GTE sponsored inputs to BCPM that included the default \$10,000 investment cap. AT&T, MCI, Commission Staff, BellSouth and no other company opposed using that value for GTE.³

² The relevant HAI Model inputs, which were based solely on "HAI judgment," were as follows: Wireless Point to Point Investment Cap (for hypothetical point to point radio equipment): \$7,500; Wireless Common Investment (hypothetical investment in base station equipment): \$112,000; Wireless per Line Investment (hypothetical per subscriber investment including premises equipment and share of base station radios): \$500; Maximum Broadcast Lines per Common Investment: 30. (Ex. 43 at 44-46). Thus, even the HAI Model's inputs, which were shown at the hearing to be biased as a group toward unrealistically low costs, are collectively higher than the loop investment cap selected by the Commission, and support the \$10,000 value proposed by GTE and Sprint.

³ If any party had taken issue with the appropriateness of the \$10,000 cap, GTE could have submitted evidence consistent with its position before the FCC and elsewhere that:

(continued ...)

Similarly, Sprint proposed that the Commission adopt BCPM's default value for the loop investment cap for Sprint. Once again, neither AT&T, MCI, BellSouth, Staff or any other party submitted evidence that the \$10,000 cap was inappropriate for Sprint, given its territory or network characteristics.

BellSouth proposed a \$4,350 investment cap as the appropriate value for BellSouth. The only support for this value was testimony by BellSouth witness Daonne Caldwell. Ms. Caldwell stated in her deposition before the hearing that the \$4,350 value was based on a recent BellSouth "study on some wireless technologies." (Ex. 75 (Caldwell) at 52-53). Ms. Caldwell was not questioned about the \$4,350 value at the hearing. BellSouth did not submit any evidence -- through Ms. Caldwell or anyone else -- describing the wireless technologies that were the subject of BellSouth's anonymous study, and did not submit the study itself. Ms. Caldwell did not say that the study was conducted in Florida, or that it was applicable to any company other than BellSouth, or any territory other than BellSouth's Florida territory. In fact, even if the study related to Florida, Ms. Caldwell was very clear that BellSouth's inputs, including by implication the investment cap, were intended to be and were "territory specific." (Tr. (Caldwell) at 2130).

The Commission's Staff agreed with GTE and Sprint that the \$10,000 default value was the appropriate value for an "efficient provider" of universal service, and that the cap should not "be specific to an incumbent LEC," as the \$4,350 value was. (Staff

(continued)

wireless technologies are still not an effective substitute for wireline service; according to many studies, using wireless technologies to serve rural areas results in significantly higher costs than the use of traditional wireline methods; that the costs of cell sites with only limited range, in addition to the costs of the backhaul to the public switched network, switching and maintenance, would significantly exceed \$10,000 per line; and that wireless service today does not reach the same kilobit rates for voice or data service as wireline service, and will not satisfy many customers who are accustomed to wireline service.

Commission has, in many instances, agreed with GTE's approach. Without access to and analysis of the "BellSouth study," GTE has no factual grounds to question the appropriateness of BellSouth's proposed investment cap for BellSouth, other than as described above. Nevertheless, based on GTE's experience and similar comments of numerous other parties, GTE has grave doubts about the feasibility of deploying wireless technology for all loops whose cost exceeds a mere \$4,350. What GTE can say is that BellSouth's value is wholly inappropriate for GTE, and not supported by the record.

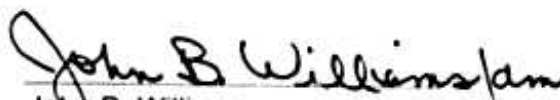
III. CONCLUSION

For the foregoing reasons, Sprint's motion for reconsideration should be granted, and the loop investment cap applicable to GTE and Sprint should be changed from \$4,350 to \$10,000.

Respectfully submitted,



Kimberly Caswell
GTE Florida Incorporated
One Tampa City Center
Tampa, Florida 33601
(813) 483-2617

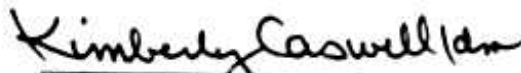


John B. Williams
Thomas W. Mitchell
Collier Shannon Rill & Scott, PLLC
3050 K Street, N.W., Suite 400
Washington, D.C. 20007
(202) 342-8400

Lewis F. Powell, III
Hunton & Williams
951 East Byrd Street
Richmond, VA 23219
(804) 788-8200
Attorneys For GTE Florida Incorporated

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that copies of the Response of GTE Florida Incorporated In Support of Sprint-Florida's Motion for Reconsideration of Order No. PSC-99-0068-FOF-TP in Docket No. 980696-TP were sent via U.S. mail on February 3, 1999 to the parties on the attached list.



Kimberly Caswell

William P. Cox, Staff Counsel
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399-0850

Office of Public Counsel
c/o The Florida Legislature
111 W. Madison Street
Room 812
Tallahassee, FL 32399-1400

Asst. Attorney General
Office of the Atty General
PL-01 The Capitol
Tallahassee, FL 32399-1050

David B. Erwin
Attorney-At-Law
127 Riversink Road
Crawfordville, FL 32327

Charles Rehwinkel
Sprint-Florida Inc.
1313 Blair Stone Road
MC FLTH00107
Tallahassee, FL 32301

Nancy White
BellSouth Telecomm. Inc.
150 S. Monroe Street
Suite 400
Tallahassee, FL 32301-1556

Jeff Wahlen
Ausley & McMullen
227 S. Calhoun Street
Tallahassee, FL 32301

Tracy Hatch/Marsha Rule
AT&T
101 N. Monroe Street, #700
Tallahassee, FL 32301

Richard Melson
Hopping Law Firm
P. O. Box 6526
Tallahassee, FL 32314

Peter Dunbar/Barbara Auger
Pennington Law Firm
P. O. Box 10095
Tallahassee, FL 32302

Thomas Bond
MCI Telecomm. Corp.
780 Johnson Ferry Rd., #700
Atlanta, GA 30342

Benjamin Fincher
Sprint
3100 Cumberland Circle
Atlanta, GA 30339

Floyd R. Self
Norman H. Horton, Jr.
Messer Law Firm
215 S. Monroe Street, Suite 701
Tallahassee, FL 32301-1876

Brian Sulmonetti
WorldCom, Inc.
1515 S. Federal Highway
Suite 400
Boca Raton, FL 33432

Caroyn Marek
Time Warner Telecom
233 Bramerton Court
Franklin, TN 37069

James C. Falvey
e.spire™ Communications, Inc.
133 National Business Parkway
Suite 200
Annapolis Junction, MD 20701

Michael Gross
Florida Cable Tele. Assn
310 N. Monroe Street
Tallahassee, FL 32301

Lynne G. Brewer
Northeast Florida Tel. Co.
P. O. Box 485
Macclenny, FL 32063-0485

Harriet Eudy
ALLTEL Florida, Inc.
P. O. Box 550
Live Oak, FL 32060

Lynn B. Hall
Vista-United Telecomm.
P. O. Box 10180
Lake Buena Vista, FL 32830

Robert M. Post, Jr.
P. O. Box 277
Indiantown, FL 34956

Tom McCabe
P. O. Box 189
Quincy, FL 32353-0189

Mark Ellmer
P. O. Box 220
502 Fifth Street
Port St. Joe, FL 32456

Kelly Goodnight
Frontier Communications
180 S Clinton Avenue
Rochester, NY 14646

Steve Brown
Intermedia Comm. Inc.
3525 Queen Palm Drive
Tampa, FL 33619-1309

Ben Ochshorn
Florida Legal Services
2121 Delta Boulevard
Tallahassee, FL 32303

David Dimlich
Supra Telecommunications
2620 SW 27th Avenue
Miami, FL 33133

Joseph A. McGlothlin
Vicki Gordon Kaufman
McWhirter Law Firm
117 S. Gadsden Street
Tallahassee, FL 32301