

FLORIDA PUBLIC SERVICE COMMISSION
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M E M O R A N D U M

MAY 9, 1996

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

FROM: DIVISION OF COMMUNICATIONS (CHASE, NORTON, REITH) *Le* *nor* *RNT*
DIVISION OF LEGAL SERVICES (CANZANO, EDMONDS) *used*

RE: DOCKET NO. 950984-TP - RESOLUTION OF PETITION(S) TO
ESTABLISH NONDISCRIMINATORY RATES, TERMS, AND CONDITIONS
FOR RESALE INVOLVING LOCAL EXCHANGE COMPANIES AND
ALTERNATIVE LOCAL EXCHANGE COMPANIES PURSUANT TO SECTION
364.161, FLORIDA STATUTES

AGENDA: MAY 21, 1996 - REGULAR - POST HEARING DECISION -
PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

SPECIAL INSTRUCTIONS: I:\PSC\CMU\WP\950984B.RCM
MFS-FL'S PETITION FOR UNBUNDLING AND RESALE
OF GTEFL AND UNITED/CENTEL NETWORK

DOCUMENT NUMBER-DATE

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FPSC-RECORDS/REPORTING

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CASE BACKGROUND

The 1995 Florida Legislature approved substantial revisions to Chapter 364, Florida Statutes. These changes included provisions that authorize the competitive provision of local exchange telecommunications service. Incumbent local exchange companies may elect to be price regulated rather than rate base, rate-of-return regulated companies. GTE Florida Incorporated (GTEFL) and United Telephone Company of Florida-Central Telephone Company of Florida (collectively United/Centel) elected to be price regulated.

Section 364.161, Florida Statutes, provides that upon request, each local exchange telecommunications company shall unbundle all of its network features, functions, and capabilities, and offer them to any other telecommunications provider requesting them for resale to the extent technically and economically feasible. If the parties to the proceeding are unable to successfully negotiate the terms, conditions, and prices of any feasible unbundling request, the Commission, pursuant to Section 364.162(3), Florida Statutes, is required to set nondiscriminatory rates, terms, and conditions for resale of services and facilities within 120 days of receiving a petition.

On August 30, 1995, the Prehearing Officer set forth the procedural dates governing petitions filed requesting the Commission to establish nondiscriminatory rates, terms, and conditions for resale. See Order No. PSC-95-1083-PCO-TP. On January 24, 1996, Metropolitan Fiber Systems of Florida, Inc. (MFS-FL) filed a petition requesting that the Commission establish such nondiscriminatory rates, terms, and conditions for resale with GTEFL and United/Centel.

By Order No. PSC-96-0137-PCO-TP, issued January 31, 1996, the Prehearing Officer set forth further procedural dates. The Chairman set the matter for an administrative hearing beginning March 20, 1996. The hearing in this docket ended on March 21, 1996.

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EXECUTIVE SUMMARY

On March 20 and 21, 1996, the Commission heard testimony regarding issues related to the unbundling and resale of the local exchange companies' network features, functions, and capabilities. The 1995 Florida Legislature approved substantial revisions to Chapter 364, Florida Statutes. These changes included provisions that authorize the competitive provision of local exchange telecommunications service. When competition is introduced in the local market, it is necessary for the LECs to unbundle the features, functions, and capabilities of the local exchange network so that the ALECs can determine whether various network features should be obtained from the LECs or provided themselves. This recommendation addresses the issues associated with MFS-FL's request for the unbundling and resale of GTEFL and United/Centel's network.

Issue 1 addresses what elements the Commission should require GTEFL and United/Centel to offer on an unbundled basis. This issue was stipulated by MFS-FL and GTEFL. The stipulation was approved at the March 20, 1996 hearing. (TR 13). Therefore, this issue is resolved with respect to GTEFL. Listed below are the elements that United/Centel should offer on an unbundled basis.

- 1) 2-wire and 4-wire analog voice grade loops;
- 2) 2-wire ISDN digital grade loop;
- 3) 4-wire DS-1 digital grade loop;
- 4) 2-wire and 4-wire analog line ports;
- 5) 2-wire ISDN digital line port;
- 6) 2-wire analog DID trunk port;
- 7) 4-wire DS-1 digital DID trunk port; and
- 8) 4-wire ISDN DS-1 digital trunk port.

Staff recommends that United/Centel be required to allow ALECs to collocate loop concentration equipment. Procedures for collocating loop concentration devices should be the same as those ordered by the Commission in its expanded interconnection proceedings.

Issue 2 identifies the technical arrangements for the provision of the unbundled elements listed above. Staff believes the Commission should require all parties to adhere to industry standards for the provision and operation of each unbundled element.

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Issue 3 discusses the appropriate rates for the unbundled elements identified in Issue 1. For GTEFL, staff recommends that rates for unbundled loops should approximate TSLRIC. Unbundled ports may be set at reasonable market prices. The monthly recurring rates for the unbundled elements recommended by staff in Issue 1 should be set as follows for GTEFL:

Loops

1A.	2-W voice grade analog loop:	\$ 20.00	
1B.	4-W voice grade analog loop:	25.00	
2.	2-W ISDN digital grade loop:	20.00	
3.	*4-W DS-1 digital grade loop:	\$250.00	- First System
		\$154.00	- Add'l System

Ports

4.	2-W & 4-W analog line ports:	\$ 6.00	
5.	2-W ISDN digital line port:	20.00	
6.	2-W analog DID trunk port:	6.00	plus tariffed DID charges
7.	4-W DS-1 digital DID trunk port:	60.00	plus tariffed DID charges
8.	4-W ISDN DS-1 digital port:	350.00	

* The recommended rate for the 4-W DS-1 digital grade loop should be considered an interim rate. GTEFL should be required either to refile its cost information or to explain why its proposed rate (current Special Access DS-1 rate) is below the company's own cost estimate, and why the TSLRIC is higher than currently tariffed rates for the equivalent service in GTEFL's Special Access, Private Line, and Local Transport tariffs. This information should be submitted no later than 60 days following the issuance of the final order on this phase of the proceedings.

The data submitted by United/Centel was filed immediately prior to hearing. Staff was unable to adequately analyze the relevant cost components to determine rates for the requested rate elements. Therefore, staff recommends that United/Centel should be required to refile cost studies providing estimates of TSLRIC for all elements as approved by the Commission in Issue 1. United/Centel should be required to organize it in such a fashion that staff can determine the relevant TSLRIC cost components and the associated amounts. The cost data need not reflect separate estimates for residential and business, and it should include weighted average total costs for each component. To the extent that TSLRIC is unavailable or that a proxy is used, this needs to be stated clearly and the method used explained. These cost studies should conform to the information requirements set forth in Rule 25-4.046, F.A.C. and should be submitted no later than 60 days

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from the issuance of the final order on this phase of the proceedings. Staff should bring a recommendation to the Commission to set the rates for these elements based on the cost studies after they have been evaluated.

Meanwhile, the following rates should be approved for United/Centel on an interim basis only:

2-W voice grade analog loop:	\$ 15.00
2-W analog line port:	\$ 7.00

For purposes of this proceeding, TSLRIC, as defined in this proceeding, should be used to determine whether an unbundled rate meets the statutory requirement. That is, no permanent unbundled loop rate should be set below our best estimate of TSLRIC, as determined by the evidence provided in this record.

ALECs should be allowed to combine unbundled loops and unbundled ports.

Staff further recommends that all tariffs required to be filed in this recommendation should be filed no later than 30 days following the issuance of the final order in this phase of the proceedings. They should become effective fifteen days following the date that complete and correct tariffs are filed.

Issue 4 addresses the operational issues associated with the implementation of the unbundled elements discussed above. Staff recommends that GTEFL and MFS-FL should continue to negotiate as outlined in their partial co-carrier agreement. If an agreement is reached on these operational issues, it should be filed with the Commission before it becomes effective. If no agreement is reached within 60 from the issuance of the final order, then staff recommends that GTEFL and MFS-FL adhere to the same operational arrangements that are ordered for United/Centel.

Staff recommends that the following operational arrangements should be ordered for United/Centel:

- (1) United/Centel should be required to apply all transport-based and switched-based features, functions, service attributes, grades-of-service, installation, maintenance, and repair intervals which apply to bundled service to unbundled loops.
- (2) The appropriate termination liability charges for early termination of contracts should apply. Termination liability charges should be pursuant to existing tariffs for the specific service. In addition, nonrecurring charges for

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conversion of bundled loops to unbundled loops should apply. Nonrecurring charges for the conversion of bundled loops to unbundled loops should be based on their costs. In the interim, United/Centel should use its currently tariffed nonrecurring charges associated with residence and business service for the conversion of bundled loops to unbundled loops. United/Centel should submit cost studies which reflect the nonrecurring costs of converting bundled service of the LEC to unbundled service for the ALEC. United/Centel should file these cost studies and proposed terms, conditions, and rates no later than 60 days following the issuance of the final order of this proceeding.

- (3) United/Centel and MFS-FL should develop a billing arrangement for unbundled elements ordered between the companies to be filed with the Commission within 60 days from the issuance of the order.
- (4) Mechanized intercompany operational procedures, similar to the ones between IXCs and LECs today, should be jointly developed by the MFS-FL and United/Centel and should conform to national industry standards which are currently being developed.
- (5) Further operational disputes that may arise and that MFS-FL and United/Centel are unable to resolve through negotiations should be handled by filing a petition or motion with the Commission.

Issue 5 is a legal issue that has already been resolved at the hearing by the Commission. The Commission ruled that any intervenor ALEC who fully participates in this proceeding is bound by the resolution of the issues. Such ALEC is still free to negotiate its own interconnection rate. To the extent negotiations fail, the affected ALEC may petition the Commission to set interconnection rates.

In Issue 6, staff is recommending that this docket stay open because the parties are to file additional information in several of the issues. In addition, this docket should remain open to address any other requests for unbundling or resale.

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LIST OF ACRONYMS USED IN RECOMMENDATION

AAV	Alternative Access Vendor
ALEC	Alternative Local Exchange Company
AT&T	AT&T Communications of the Southern States, Inc.
CCL	Carrier Common Line
DID	Direct-Inward-Dialing
FCTA	Florida Cable Telecommunications Association
GTEFL	GTE Florida Incorporated
IXC	Interexchange Carrier
ISDN	Integrated Services Digital Network
LATA	Local Access and Transport Area
LEC	Local Exchange Company
LDDS	WorldCom, Inc. d/b/a LDDS WorldCom Communications
LRIC	Long Run Incremental Cost
LTR	Local Transport Restructure
MCImetro	MCI Metro Transmission Access Services, Inc.
MFS-FL	Metropolitan Fiber Systems of Florida, Inc.
RIC	Residual Interconnection Charge
SLC	Subscriber Line Charge
TSLRIC	Total Service Long Run Incremental Cost
TIME WARNER	Time Warner AxS of Florida, L.P. and Digital Media Partners
UNITED/CENDEL	United Telephone Company of Florida and Central Telephone Company of Florida
US/USF	Universal Service/Universal Service Fund

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ISSUE 1: What elements should be made available by United/Centel and GTEFL to MFS-FL on an unbundled basis (e.g. link elements, port elements, loop concentration, loop transport)?

GTEFL RECOMMENDATION: This issue was stipulated by MFS-FL and GTEFL. The stipulation was approved at the March 20, 1996 hearing. (TR 13). Therefore, this issue is resolved.

UNITED/CENTEL RECOMMENDATION: The Commission should require United/Centel to offer the following elements on an unbundled basis:

- 1) 2-wire and 4-wire analog voice grade loops;
- 2) 2-wire ISDN digital grade loop;
- 3) 4-wire DS-1 digital grade loop;
- 4) 2-wire and 4-wire analog line ports;
- 5) 2-wire ISDN digital line port;
- 6) 2-wire analog DID trunk port;
- 7) 4-wire DS-1 digital DID trunk port; and
- 8) 4-wire ISDN DS-1 digital trunk port.

Staff recommends that United/Centel be required to allow ALECs to collocate loop concentration equipment. Procedures for collocating loop concentration devices should be the same as those ordered by the Commission in its expanded interconnection proceedings. [REITH, CHASE]

POSITION OF PARTIES

MFS-FL: MFS and GTE have reached agreement on this issue. Exh. 4. With respect to Sprint, MFS seeks the same level of unbundling agreed to with GTE, and that level required of BellSouth in the BellSouth Unbundling Order, namely unbundled access and interconnection to two-wire and four-wire analog and digital loops and ports and the capability to perform loop concentration.

GTEFL: This issue has been fully stipulated between GTEFL and MFS and cannot now be decided by the Commission. Rather, this issue is controlled by the terms and conditions set forth in the GTEFL/MFS agreement which was approved by the Commission before evidence was taken in this docket.

UNITED/CENTEL: The Commission should order the Companies to unbundle loops consistent with their special access tariffs. The Companies propose to provide unbundled ports that will provide the capability to originate and/or terminate local, long distance, directory assistance, operator, and 911 type calls.

AT&T: The LECs should be required to unbundle local loops and switching ports as requested by MFS

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FCTA: Such elements currently include links, ports, loop transport and loop concentrations.

LDDS: The requested unbundling and resale requests should be granted. However, in approving these requests, the Commission should recognize that because each competitor's service requirements may be different, the unbundled network elements approved in this proceeding may be insufficient or inappropriate for other competitors.

MCImetro: United/Centel should make available the unbundled loops, ports, loop concentration and loop transport requested by MFS-FL. Unbundling such elements is technically and economically feasible. In addition, United/Centel should make available, upon request, any other element that it is technically and economically feasible to unbundle.

Time Warner: Unbundled loops, ports, loop concentration and loop transport should be offered. In addition, other elements requested by ALECs and determined to be technically and economically feasible should be made available.

STAFF ANALYSIS: This issue addresses which network elements MFS-FL is requesting United/Centel to offer on an unbundled basis.

Section 364.161 (1), Florida Statutes, states that upon request, each LEC shall:

unbundle all of its network features, functions, and capabilities, including access to signalling databases, system and routing processes, and offer them to any other telecommunications provider requesting such features, functions or capabilities for resale to the extent technically and economically feasible.

Staff interprets this section to mean that LECs are to unbundle any network feature, function and capability upon request. Staff does not believe this section contemplates offering existing tariffed services as unbundled network elements.

In general, the parties agree that United/Centel should be required to unbundle loops, ports, loop concentration and any transport associated with these elements. Disagreement arises with United/Centel as to the level of unbundling requested by the petitioners. These differences are addressed below.

MFS-FL's Request

MFS-FL requested that United/Centel unbundle its exchange services into two separate packages: the link element plus cross-connect element and the port element plus cross-connect element.

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(Devine TR 80-81) Specifically, MFS-FL seeks unbundled access and interconnection to the following forms of unbundled links:

- 1) 2-wire and 4-wire analog voice grade;
- 2) 2-wire ISDN digital grade; and
- 3) 4-wire DS-1 digital grade.

A link element or loop element is the transmission facility, or channel or group of channels on such facility, which extends from the LEC end office to a demarcation point at the customer's premises. 2-wire analog voice grade links are commonly used for local dial tone service. 2-wire ISDN digital grade links are a 2B +D basic rate interface integrated services digital network (BRI-ISDN) type of loop which meets national ISDN standards. 4-wire DS-1 digital grade links provide the equivalent of 24 voice grade channels. (EXH 5, TTD-2, pp.4-5) Cross-connection is an intra-wire center channel connecting separate pieces of telecommunications equipment including equipment between separate collocation facilities. (EXH 5, TTD-2, p.3)

MFS-FL also requests the following forms of unbundled ports be made available by United/Centel:

- 1) 2-wire and 4-wire analog line;
- 2) 2-wire ISDN digital line;
- 3) 2-wire analog DID trunk;
- 4) 4-wire DS-1 digital DID trunk; and
- 5) 4-wire ISDN DS-1 digital trunk. (EXH 7, pp.53-54)

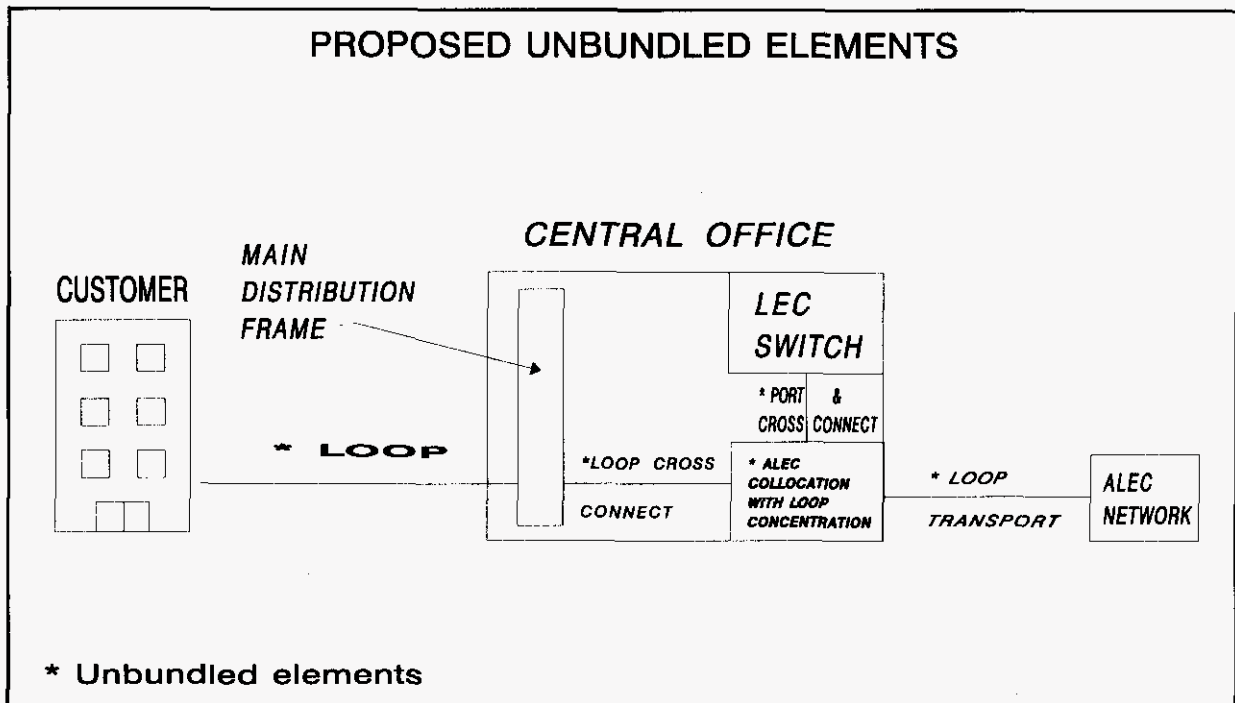
A port element is a line card and associated equipment on the LEC switch which serves as the hardware termination for the customer's exchange service. The port generates dial tone and provides the customer a pathway into the public switched network. Each port is typically associated with one or more telephone numbers which serve as the customer's network address.

2-wire analog line ports are line side switch connections that provide basic residential and business type exchange services. A line side connection from the switch provides access to the customer. 2-wire ISDN digital line ports are BRI line side switch connections that provide ISDN exchange services. A 2-wire analog DID trunk port is a direct inward dialing (DID) trunk side connection that provides incoming trunk type exchange services. A trunk side connection from the switch typically provides access to another switch. 4-wire DS-1 digital DID trunk ports are trunk side switch connections that provide the equivalent of 24 analog incoming trunk type exchange services. 4-wire ISDN digital DS-1 trunk ports are primary rate interface (PRI) trunk side switch connections that provide ISDN exchange services. (EXH 5, TTD-2, pp. 7-8)

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Figure 1-1 provides a generic illustration of the unbundled elements that have been requested.

Figure 1-1



In addition to the link and port elements discussed above, MFS-FL requests the ability to use its own digital loop carrier (DLC) through collocation to provide loop concentration, or to purchase such loop concentration from United/Centel. (Devine EXH 7, pp.22-23) MFS-FL also filed testimony on unbundled access and interconnection to the link subelements of United/Centel's DLCs located in the field. (Devine TR 82-83)

United/Centel's Proposal

In addition to collocation offered in its expanded interconnection tariffs, United/Centel proposes to offer unbundled loops and ports. Witness Poag asserts that United/Centel's existing special access tariff contains the loop elements that should be provided to MFS-FL on an unbundled basis. Special access services are currently used to connect end users to IXCs for switched toll and private line services. Witness Poag believes that special access services meet the needs of IXCs and end users for a large variety of toll services; special access should be used to provide services on a local basis as well as a toll basis. (TR 516; EXH 20, p. 15)

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Witness Poag proposes to offer unbundled ports with the capability to handle local, long distance, directory assistance, operator and 911 type calls. Currently, United/Centel's only tariffed port is a Centrex network access register (NAR) which is equivalent to the dial tone element of a PBX trunk. United/Centel is in the process of developing residence, single line business, and rotary business ports. (TR 524; EXH 20, p. 16)

Loop/Link vs. Special Access

MFS-FL argues that utilizing a special access line as an unbundled loop is not appropriate. Witness Devine asserts that special access lines provide for additional performance parameters that are beyond what is necessary to provide plain old telephone service (POTS). He states that installation of a special access line typically requires special engineering by the LEC and costs more than installation of a POTS line. (TR 91-92) Another concern arises when a United/Centel customer chooses to change service to MFS-FL. Witness Devine believes that the customer's existing link facility should be rolled over from United/Centel to MFS-FL without having the entire link re-provisioned or engineered over different facilities. (TR 92-93) Staff notes that MFS-FL's concerns about customer roll over are addressed in Issue 4. Staff recognizes that dedicated services are rated to reflect operational parameters that go beyond that of a basic local loop. Therefore, staff does not believe that special access lines are an appropriate substitute for an unbundled loop.

ISDN Loops and Ports

MFS-FL argues that ALECs must be able to utilize both 2-wire and 4-wire connections in analog or digital format in order to offer advanced network services such as ISDN. Further, MFS-FL states that private branch exchange (PBX) and key systems almost always require a 4-wire connection. (Devine TR 102-103) MFS-FL witness Devine states that, "If the appropriate range of unbundled loops are not offered, ALECs effectively will be precluded from offering sophisticated telecommunications services, such as ISDN. United/Centel will be able to offer such sophisticated services without competition." (TR 103)

United/Centel asserts that it has two wire and four wire analog voice grade loops as well as data loops available in its special access tariff. As stated before, staff does not believe that special access lines are an appropriate substitute for an unbundled loop. In addition, witness Khazraee states that ports are not currently tariffed but various grades of ports can be offered once a tariff is developed and operational issues are worked out. (TR 499-500) Witness Poag adds that a letter was sent on February 27, 1996 by United/Centel's corporate office stating confusion as to exactly what MFS-FL is requesting. (TR 550) MFS-

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FL asserts that on July 19, 1995 it attempted to begin negotiations with United/Centel via a three page letter outlining proposed unbundling and interconnection arrangements. In addition, on November 9, 1995, MFS-FL sent a 31 page proposed agreement to United/Centel in an attempt to simplify negotiations. (Devine TR 76)

Staff finds it curious that 6 months after MFS-FL's initial contact with United/Centel that there is still a misunderstanding over MFS-FL's unbundling request. Staff believes that MFS-FL's request is reasonable and consistent with MFS-FL's agreement with GTEFL and with the Commission's unbundling order for BellSouth. (Order No. PSC-06-0444-FOF-TP, issued March 29, 1996, in Docket No. 950984-TP)

Loop Concentration

MFS-FL requests that it be granted the ability to collocate loop concentration equipment in United/Centel's central offices. (Devine EXH, pp.22-23) United/Centel states that it will allow central office collocation of loop concentration equipment, if it is being used for terminating loop facilities. (Khazraee TR 509) Staff agrees that it is appropriate to allow ALECs to collocate loop concentration equipment. Staff notes that collocating loop concentration equipment was not explicitly addressed during the expanded interconnection proceedings. The Commission's expanded interconnection order addresses collocation facilities as encompassing central office equipment needed to terminate basic transmission facilities, including optical terminating equipment and multiplexers. (Order No. PSC-94-0285-FOF-TP, issued March 10, 1994, in Docket No. 921074-TP) In addition, staff believes that the procedures for collocating loop concentration devices should be the same as those ordered in the Commission's expanded interconnection proceedings.

Loop Transport

MCImetro, a nonpetitioner, requests loop transport from United/Centel. Loop transport is the function of transporting concentrated loops from the central office of the incumbent LEC to the switch of the ALEC. (Cornell TR 231-232) United/Centel asserts that loop transport is nothing more than interoffice transport and should be handled via existing tariffed rates. (Khazraee TR 502) MFS-FL agrees with witness Khazraee and states that it would purchase this capability out of United/Centel's tariff. (Devine EXH 7, p.24) Staff does not understand loop transport to be a request by MFS-FL for an unbundled element. Staff believes that ALECs currently have the option to lease these facilities from the LEC or to provide the facilities themselves as envisioned in expanded interconnection and ordered in the local transport restructure. (Order No. PSC-94-0285-FOF-TP, issued March 10, 1994,

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in Docket No. 921074-TP; Order No. PSC-95-0034-FOF-TP, issued January 9, 1995, in Docket No. 920174-TP) Staff believes that it is not necessary to require United/Centel to create a new pricing element if the petitioner has not requested it.

Sub-loop Unbundling

MFS-FL states that sub-loop unbundling consists of breaking the local loop into subelements that can be purchased by the ALEC. Witness Devine maintains that MFS-FL should have access to United/Centel's loop concentration equipment deployed out in the field. (EXH 7, pp 37-38) Witness Devine believes that sub-loop unbundling is needed in the future but that MFS-FL is not initially requesting it. (EXH 7, pp. 37-38) Staff believes that United/Centel should not be required to offer sub-loop unbundling at this time since MFS-FL is not requesting it. Upon a bona fide request from MFS-FL, United/Centel and MFS-FL should develop a comprehensive proposal for sub-loop unbundling for the Commission's review. The proposal should include cost and price support for each unbundled element, and a list of operational, administrative and maintenance procedures.

Staff's Recommendation

Based on the evidence in the record and on staff's interpretation of the Section 364.161 (1), Florida Statutes, staff recommends that the Commission should require United/Centel to offer the following elements on an unbundled basis:

- 1) 2-wire and 4-wire analog voice grade loops;
- 2) 2-wire ISDN digital grade loop;
- 3) 4-wire DS-1 digital grade loop;
- 4) 2-wire and 4-wire analog line ports;
- 5) 2-wire ISDN digital line port;
- 6) 2-wire analog DID trunk port;
- 7) 4-wire DS-1 digital DID trunk port; and
- 8) 4-wire ISDN DS-1 digital trunk port.

Staff recommends that United/Centel be required to allow MFS-FL to collocate loop concentration equipment. Procedures for collocating loop concentration devices should be the same as those ordered by the Commission in its expanded interconnection proceedings.

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ISSUE 2: What are the appropriate technical arrangements for each such unbundled element?

GTEFL RECOMMENDATION: This issue was stipulated by MFS-FL and GTEFL. The stipulation was approved at the March 20, 1996 hearing. (TR 13). Therefore, this issue is resolved.

UNITED/CENTEL RECOMMENDATION: The Commission should require all parties to adhere to industry standards for the provision and operation of each unbundled element. [REITH]

POSITION OF PARTIES

MFS-FL: MFS and GTE have reached agreement on this issue. See Exh.4. As to Sprint, interconnection should be achieved via collocation arrangements MFS will maintain at the wire center at which the unbundled elements are resident. MFS also must be able to install digital loop carriers at Sprint virtual collocation sites or obtain access to Sprint's DLC equivalent.

GTEFL: This issue has been fully stipulated between GTEFL and MFS and cannot now be decided by the Commission. Rather, this issue is controlled by the terms and conditions set forth in the GTEFL/MFS agreement which was approved by the Commission before evidence was taken in this docket.

UNITED/CENTEL: The technical arrangements contained in the Companies' special access tariff represent the basics of the required technical arrangements.

AT&T: Technical arrangements used to connect the unbundled elements to a new entrant's network should be equal to those currently used to connect the elements within the LEC's own network.

FCTA: Unbundled elements should be made available at interconnection points between the LEC and ALEC network. This availability of unbundled features will promote the development of consumer choice.

LDDS: The technical arrangements requested should be approved.

MCImetro: Unbundled loops should be interconnected at United/Centel's central office to (i) the collocated facilities, including loop concentration facilities, of the ALEC or another carrier, or (ii) loop transport facilities provided by United/Centel. Loop concentration should be provided to maximize the efficiency with which traffic is delivered through transport facilities.

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Time Warner: All unbundled elements of the existing loop ordered for resale should be made available at interconnection points between the Sprint United/Centel and ALEC network and the GTE and ALEC network, according to industry standards.

STAFF ANALYSIS: This issue addresses the appropriate technical arrangements for those elements discussed in Issue 1. The viewpoints of parties which took positions can be summarized as follows:

MFS-FL and MCImetro assert that interconnection of unbundled elements should occur at United/Centel's central office via collocated facilities, including loop concentration or by way of loop transport. LDDS supports MFS-FL and MCImetro's request.

FCTA and Time Warner state that unbundled elements should be made available at interconnection points. Time Warner believes this should be achieved according to industry standards.

AT&T witness Guedel believes that unbundled elements should be provided in a manner that will not prohibit the new entrant from providing the same quality of service as the incumbent LEC. This means that technical arrangements used to connect unbundled elements to a new entrant's network should be equal to those currently used to connect these elements within the LEC's own network. (TR 309)

MFS-FL provided references to BellCore technical publications for digital loop carrier systems. (Devine EXH 3, p.56) Witness Devine states that most companies, whether an ALEC, incumbent LEC, or interexchange carrier, generally abide by BellCore standards. (Devine TR 215) MFS-FL is requesting that collocation of loop concentration devices (digital loop carrier) be allowed. MFS-FL intends to aggregate its traffic via loop concentration and transport it to their respective company's switch. (Devine EXH 7, pp.20-21,) As stated in Issue 1, staff believes ALECs should be allowed to collocate loop concentration devices within United/Centel's central office.

Witness Poag states that the technical arrangements contained in United/Centel's special access tariff provide a good starting point. He asserts that the technical requirements used to interconnect each of the unbundled elements are industry standards. These industry standards were developed by one or more of the following agencies: BellCore, American National Standards Institute (ANSI), or the International Telegraph and Telephone Consultive Committee (CCITT). (EXH 20, p. 25)

Staff believes that the telecommunications industry has developed and created its own set of standards which are widely in use today for the provision of local traffic. Staff agrees that

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these standards are a reasonable starting point for the provision of unbundled network elements and that this serves the public interest by helping to maintain service quality. Therefore, staff recommends that the Commission require all parties to adhere to industry standards for the provision and operation of each unbundled element.

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ISSUE 3: What are the appropriate financial arrangements for each such unbundled element?

GTEFL RECOMMENDATION: Rates for unbundled loops should approximate TSLRIC. Unbundled ports may be set at reasonable market prices. The monthly recurring rates for the unbundled elements recommended by Staff in Issue 1 should be set as follows for GTEFL:

Loops

- 1A. 2-W voice grade analog loop: \$ 20.00
- 1B. 4-W voice grade analog loop: \$ 25.00
- 2. 2-W ISDN digital grade loop: \$ 20.00
- 3. *4-W DS-1 digital grade loop: \$250.00 - First System
\$154.00 - Add'l System

Ports

- 4. 2-W & 4-W analog line ports: \$ 6.00
- 5. 2-W ISDN digital line port: \$ 20.00
- 6. 2-W analog DID trunk port: \$ 6.00 plus tariffed DID charges
- 7. 4-W DS-1 digital DID trunk port: \$ 60.00 plus tariffed DID charges
- 8. 4-W ISDN DS-1 digital port: \$350.00

* The recommended rate for the 4-W DS-1 digital grade loop should be considered an interim rate. GTEFL should be required either to refile its cost information or to explain why its proposed rate (current Special Access DS-1 rate) is below the company's own cost estimate, and why the TSLRIC is higher than currently tariffed rates for the equivalent service in GTEFL's Special Access, Private Line, and Local Transport tariffs. This information should be submitted no later than 60 days following the issuance of the final order on this phase of the proceedings.

UNITED/CENTEL RECOMMENDATION: The cost data submitted by United/Centel was filed immediately prior to hearing. Staff was unable to adequately analyze the relevant cost components to determine rates for the requested rate elements. Therefore, staff recommends that United/Centel should be required to refile cost studies providing estimates of TSLRIC for all elements as approved by the Commission in Issue 1. United/Centel should be required to organize it in such a fashion that staff can determine the relevant TSLRIC cost components and the associated amounts. The cost data need not reflect separate estimates for residential and business, and it should include weighted average total costs for each component. To the extent that TSLRIC is unavailable or that a proxy is used, this needs to be stated clearly and the method used explained. These cost studies should conform to the information requirements set forth in Rule 25-4.046, F.A.C. and should be submitted no later than 60 days from the issuance of the final order on this phase of the proceedings. Staff should bring a

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recommendation to the Commission to set the rates for these elements based on the cost studies after they have been evaluated.

Meanwhile, the following rates should be approved on an interim basis only:

2-W voice grade analog loop:	\$ 15.00
2-W analog line port:	\$ 7.00

JOINT RECOMMENDATION: For purposes of this proceeding, staff recommends that the TSLRIC estimates, where provided in accordance with staff's recommendations in this proceeding, be used to determine whether an unbundled rate meets the statutory requirement. That is, no permanent unbundled loop rate should be set below our best estimate of TSLRIC, as determined by the evidence provided in this proceeding. TSLRIC estimates should be based on the provider's current or prospective network facilities, as opposed to some theoretically optimal network configuration, assuming no facilities are in place.

ALECs should be allowed to combine unbundled loops and unbundled ports.

All tariffs required to be filed in this recommendation should be filed no later than 30 days following the issuance of the final order in this phase of the proceedings. They should become effective fifteen days following the date that complete and correct tariffs are filed. [NORTON]

POSITIONS OF PARTIES

MFS-FL: Sprint and GTE's LRICs are the appropriate prices for unbundled loops, ports and other elements. Furthermore: 1) the sum of the prices of the unbundled rate elements must be no greater than the price of the bundled dial-tone line; and 2) the bottleneck loop and cross-connect elements should be priced at the price of the bundled dial tone line minus the loop and cross-connect LRICs.

GTEFL: Under the efficient component pricing rule, prices should fall between stand-alone and TSLRIC costs. Pricing at TSLRIC is confiscatory as it denies the firm's ability to obtain any contribution to its common and/or shared costs.

UNITED/CENTEL: Unbundled services should be priced consistent with the Companies' special access tariffs. Doing so will allow the Companies to provide similar services on a nondiscriminatory basis to ALECs, IXC's, AAVs, and cellular providers at the same rates, terms and conditions.

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AT&T: The target price for the unbundled elements should be the Total Service Long Run Incremental Cost (hereinafter "TSLRIC") that the LEC incurs in providing them.

FCTA: LECs should not be required to price their retail services at a deep discount for use by resellers. An aggressive policy simply to promote "rebranding" of local service elements will deter the development of facilities-based competition. LEC imputation requirements are necessary to avoid a price squeeze.

LDDS: The pricing of the unbundled elements should be based on the direct economic cost of the network element purchased.

MCIMETRO: The price of each unbundled element which is not competitively available should be set equal to its direct economic cost (i.e. TSLRIC) in order to avoid a price squeeze and to bring the lowest possible prices to Florida consumers. Prices for loops should be set on a deaveraged basis to reflect cost differences based on distance and density.

TW/DMP: The price for the elements should cover the incumbent's incremental costs, plus provide sufficient markup to encourage other facilities-based entrants to make network investments. In addition, the LECs' retail basic services should pass an imputation test.

STAFF ANALYSIS: This issue addresses the prices of rate elements that staff has recommended be made available to ALECs in Issue 1. The Florida Legislature has mandated that the competitive provision of local exchange service is in the public interest. (Section 364.01, Florida Statutes) Section 364.161, F.S. requires unbundling of LEC features, functions, and capabilities, including access to signaling databases, systems and routing processes. The unbundling and resale of certain LEC features, functions and capabilities by competitors allows them to enter the market more quickly and with less cost than if they had to build an entire duplicative network. (Devine TR 32) The statute requires that unbundled rates not be set below cost but neither may they become a barrier to competition. This issue has therefore turned on the appropriate level at which to set these rates.

Essentially, parties were divided into two camps with respect to pricing of unbundled loops: those who advocated pricing at Special Access rates and those who advocated pricing at TSLRIC. Predictably, the LECs and those ALECs who had signed agreements with the LECs, i.e., FCTA and Time Warner, proposed Special Access rates or at least, rates with some contribution in them. (Khazraee TR 499; Menard TR 483; TW BR p. 4) The others, including AT&T, MCImetro, MFS-FL, and LDDS, believe that for competition to occur, unbundled loop rates must be priced no higher than TSLRIC.

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MCImetro also advocates the establishment of deaveraged rates for unbundled loops which will be discussed further. (Cornell TR 256-258, 261-262, 272-273, 293-295)

Total Service Long Run Incremental Cost (TSLRIC) Data

There has been no one single universally accepted definition of TSLRIC proposed in this or the interconnection proceedings (DN 950985) although all the definitions are similar. GTEFL witness Duncan states that it is defined different ways depending on the context; in this proceeding, he means the average incremental cost of providing a service as opposed to not providing it at all. (TR 442) MCImetro witness Cornell describes it as the direct economic cost, which includes recovery of the firm's cost of capital, but does not include any contribution above cost. (TR 234) Witness Cornell also explains that the phrase "reasonable return on capital" as expressed in regulatory terms, is called "a normal profit" in standard economic terms. (Cornell TR 234, 267-269)

MFS-FL appears to use LRIC and TSLRIC interchangeably. (Duncan TR 442) For example, witness Devine, in deposition, agreed with Dr. Cornell's definition of TSLRIC, yet he himself refers to that type of cost as "LRIC." Witness Devine defines LRIC as "the direct economic cost of a given facility, including the cost of capital, and represents the cost that the LEC would otherwise have avoided if it had not installed relevant increment of plant -- i.e., local loops in a given region." (EXH 7, p. 59) This definition is very similar to the ones given by both MCImetro witness Cornell and GTEFL witness Trimble.

GTEFL witness Trimble explains the concept as follows:

... if the company were to get out of the R-1 residential business, the true TSLRIC would be defined as the total cost to the company with R-1 residential service minus the total cost of the company without residential service, or the total change in cost to the company. (TR 359)

Witness Trimble also noted that for a multi-product firm with significant joint and common costs, it is extremely difficult to calculate a true TSLRIC, and that he knew of no telecommunications company that had actually performed a true TSLRIC study. Therefore, GTEFL developed a two-step process by which it computed two known TSLRIC components: volume-sensitive costs (or LRIC) and the volume-insensitive costs specific to that service, which he describes as fixed costs. (TR 359) He indicated that certain common costs would be appropriate to include as well, but these were not identified and quantified for this proceeding. (EXH 11, p. 27, 39; TR 359-360)

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United/Centel did not conduct any cost studies for loops at all. They did not define any of the cost data that they provided as TSLRIC except for the ports for the 2-wire analog loops. Unlike GTEFL, United/Centel did not attempt to develop a substitute or proxy for TSLRIC.

AT&T witness Guedel described TSLRIC as the actual cost that the LEC incurs in providing the unbundled element, either to itself or to a new entrant. According to Guedel, when prices are set at TSLRIC, neither the new entrant nor the incumbent is disadvantaged. (TR 310-311) Both he and MCImetro witness Cornell argue that TSLRIC is competitively neutral, and thus will not be a barrier to competition by a causing price squeeze. (Guedel TR 310; Cornell TR 234-236)

For purposes of this proceeding, staff recommends that the TSLRIC estimates, where provided in accordance with staff's recommendations in this proceeding, be used to determine whether an unbundled rate meets the statutory requirement. That is, no permanent unbundled loop rate should be set below our best estimate of TSLRIC, as determined by the evidence provided in this proceeding. TSLRIC estimates should be based on the provider's current or prospective network facilities, as opposed to some theoretically optimal network configuration, assuming no facilities are in place.

GTEFL Cost Data

GTEFL provided approximations of TSLRIC for the loops and ports that it has agreed to provide to MFS-FL. As noted earlier, GTEFL states that true TSLRIC estimates are extremely difficult to produce. Therefore, the Company provided estimates that reflect volume sensitive (LRIC) plus volume insensitive costs. Staff believes that this approach is reasonable given the statutory time constraints in this proceeding.

GTEFL provided cost data, under confidential cover, for several types of loops and ports that were requested specifically by MFS-FL. As discussed, this data reflected GTEFL's effort to develop a set of estimates as close to TSLRIC as possible in the timeframe allowed.

For loops, the LRIC (or volume-sensitive) cost components included the basic loop costs (by distance), the Drop-In protector, the Main Distribution Frame (MDF) protector, the Network Access Cross Connect (NACC) which connects the port to the loop, Billing & Collection (B&C), and volume-sensitive customer contact/marketing expense. The volume-insensitive components included spare capacity equipment and volume-insensitive customer contact/marketing expense. GTEFL provided data for DS-1 channels and transport costs as well. (EXH 12; Trimble TR 403-404)

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For ports, the LRIC cost components included the Basic Level Switch Interface (the line card that connects the loop and switch), Billing & Collection (B&C), Directory Exchange (relates to costs for telephone directories), and volume-sensitive customer contact/marketing expense. The volume-insensitive component included just the volume-insensitive customer contact/marketing expense. GTEFL provided data for DID and ISDN costs as well.

MFS-FL believes that GTEFL should exclude "extra costs" such as B&C, customer contact and marketing, as well as spare capacity inventory. (MFS-FL BR p. 19) MFS-FL proposes that both GTEFL and United/Centel be required to resubmit proper cost data for the link, port, cross-connect, and local usage. MFS-FL further proposes that the Commission set interim rates so as not to delay local competition in the meantime. (BR p. 19-20; TR 41-43, 89-90)

MCImetro states that GTEFL's cost studies include high amounts of marketing costs that should not be included in the TSLRIC of unbundled loops. MCImetro argues that LECs should not incur marketing costs on any unbundled network elements. (BR, p. 10) GTEFL witness Trimble was cross examined at length on this point at hearing, and testified that these costs do not reflect retail marketing efforts, but rather the "sales and support efforts that we do for interexchange carriers." He stated that he believed that this type of support would continue for ALECs in the unbundled environment. He explained that in developing these expenses they used data that related to the current support provided to IXCs for special access services since that was information they had available. (Trimble TR 400-403)

Staff would note these "marketing" or "customer support" costs were slightly over 12% of the total unbundled 2-wire loop cost. (EXH 12) There is no evidence in this proceeding that gives staff guidance as to what a reasonable proportion of total cost such customer contact/support expenses should be. Witness Trimble acknowledged that GTEFL had not provided specific supporting documentation for the expense numbers submitted. (TR 403)

Staff disagrees with MFS-FL that GTE should exclude all B&C, customer contact and marketing, and spare capacity inventory. Staff believes that these types of costs are relevant TSLRIC components in that they represent costs that would be avoided in the long run if the LEC did not provide the service. If these are costs which are not incurred if the service is not provided, then logically they are relevant costs to provide the service. MFS-FL itself endorsed this definition. (EXH 7) Staff cannot explain why MFS-FL has now simply dismissed these costs as "extra." However, as with the marketing/customer contact expenses discussed above, GTEFL did not provide support for the specific figures it used. (TR 405)

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Staff believes that the cost data which GTEFL provided was a creditable effort, particularly given the time constraints. This cost data is not perfect, but we believe that for the most part it is adequate to set rates for unbundled loops and ports in this proceeding.

One exception is the data provided for the 4-wire DS-1 loop. The TSLRIC estimate that GTEFL provided is higher than the Special Access rate that the Company has proposed for this element. In addition, the TSLRIC estimate is higher than GTEFL's currently tariffed rates for the equivalent service in its Private Line and Local Transport tariffs as well. Staff is unable to understand why GTEFL would propose such a rate for unbundling purposes if it does not cover the Company's own stated cost, particularly in view of the explicit statutory requirement to cover cost. Given that none of the company's tariffed DS-1 rates cover the cost as submitted, staff believes that GTEFL should reexamine the DS-1 loop cost estimate submitted in this proceeding. This estimate should be refiled. Alternatively, the company should explain why its TSLRIC estimate is higher than its proposed rate (current tariffed Special Access charge) for the unbundled DS-1 loop. In addition, GTEFL should explain why its TSLRIC is higher than the currently tariffed rate for the equivalent service in its current Private Line and Local Transport tariffs. In the meantime, the current DS-1 Special Access rate should be used as an interim rate for the unbundled 4-wire DS-1 loop.

United/Centel Cost Data

As they did in the Local Interconnection proceeding, United/Centel filed its response to staff's request for cost data on the rate elements immediately prior to hearing. They did not provide cost estimates (or proposed rates) for most of the requested elements. (EXH 25) In lieu of cost support, the companies cited back to old tariff filings. However, witness Poag conceded that he was not even sure whether costs were in fact provided in those tariff filings. (TR 548, 574-575) He stated that for the 2-wire voice grade analog loop costs that he did provide, the studies were old and the costs needed to be updated. Moreover, the loop costs did not reflect unbundled loops, but rather, consisted of the loop portion of residential and business exchange service. (TR 580) Witness Poag did testify that the costs could be considered "incremental," but could not identify them as LRIC or TSLRIC. The only TSLRIC cost data provided, according to witness Poag, were for the 2-wire ports, and for these he submitted different estimates for residential and business ports. (TR 572-573) For reasons to be discussed later, staff does not believe that unbundled elements should be priced according to the type of user of the service. There were several elements for which neither costs nor rates were proposed. For those, witness

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Poag conceded during cross examination that he himself was unclear as to what MFS-FL was requesting. (TR 549-551)

The data provided does not adequately support the development of rates for the elements requested. Staff recommends that United/Centel refile cost studies for all elements requested by MFS-FL in Issue 1. United/Centel should be required to organize the data in such a fashion that staff can determine the relevant TSLRIC cost components and the associated amounts. The cost data need not reflect separate estimates for residential and business, and it should include weighted averaged costs for each component. To the extent that TSLRIC is unavailable or a proxy is used, this needs to be stated clearly and the method used explained. These estimates should be based on the provider's current or prospective network facilities, as opposed to some theoretically optimal network configuration, assuming no facilities are in place. Staff believes that United/Centel needs to develop a better understanding of what is being requested by MFS-FL so they can identify the relevant costs. The cost studies should conform to the information requirements set forth in Rule 25-4.046, Florida Administrative Code. These studies should be submitted no later than 60 days from the issuance of the final order in this phase of the proceeding.

Meanwhile, the following rates should be approved on an interim basis only:

2-W voice grade analog loop:	\$ 15.00
2-W analog line port:	\$ 7.00

These rates are recommended to be used as an interim mechanism so that ALECs may obtain service as soon as possible. Staff believes that these interim rates will recover the costs as preliminarily identified by United/Centel in this proceeding. Although the cost data is insufficient to make a permanent decision, staff believes that no permanent harm will befall any party if these interim rates are applied in the meantime.

Pricing issues

Price Squeezing and Imputation

GTEFL argues that there will be no price squeeze if unbundled loop rates are set at special access because ALECs will generate revenues from non-basic services (data services, vertical services, access charges and toll) (BR p. 17). ALECs do plan to offer these services. (Devine TR 129-130) MFS-FL, on the other hand, argues that providing simple links at Special Access rates would create a price squeeze. They noted that the Commission ruled the same thing in the BellSouth order at page 7. (BR p.7) The ALECs also stated that they would not be able to resell competitively at those rates. (Devine TR 93; Cornell TR 237)

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The price squeeze for residential loops would completely foreclose the profitable resale of such loops, and the price squeeze for business lines, particularly when combined with charges MFS will pay for number portability and other Sprint and GTE services, is also likely to completely erode any profit margin on these loops, as well. In addition to the loop, an ALEC will have to pay the cost of providing a number of other services, specifically switching, directory capabilities, 911 capabilities, signaling capability, billing and collection, operator services, etc. (MFS-FL BR p. 26)

MCImetro witness Cornell states that any price above TSLRIC for essential inputs would not permit the LEC to pass an imputation test, and would therefore create a price squeeze. (Cornell TR 234) She argues that LEC proposals discriminate because they want to charge special access to ALECs for elements which the LECs obtain at TSLRIC. (Cornell TR 240) If a price squeeze is allowed to occur, then equally efficient firms would not be able to compete. (TR 235-236) A proper imputation test would require that the price floor for a LEC retail service (local exchange service) equal:

(a) the price charged to ALECs for monopoly inputs (loops), plus

(b) the LEC's TSLRIC of all other components of the retail service (switching, transport, billing, directory listings, etc.) (Cornell TR 235, 253)

MCImetro argues that the LECs' current local exchange rates do not pass an imputation test: local exchange rates would have to more than double to pass the imputation test at the proposed special access rates. (MCImetro BR p. 11-12)

Witness Cornell offers three alternative solutions: 1) raise local rates; 2) reduce the prices charged to ALECs for essential inputs; 3) Universal Service Fund (USF). (Cornell TR 254) MCImetro recommends reducing rates to ALECs in the short run by setting rates at TSLRIC with deaveraged loops; in the long run, local rates should be raised to affordable levels and the difference should be funded by means of a USF mechanism. (BR p. 13) MCImetro argues that this is the only solution under the current regulatory regime where unbundled loops must cover costs, and local rates are capped below the claimed average cost of an unbundled loop. (BR p. 13)

Time Warner agrees with MCImetro witness Cornell that the proper imputation standard would require the incumbent LEC to recover from the retail service the price charged to entrants for monopoly inputs, plus all the other costs of providing the retail service. (Cornell TR 235) Alternatively, a LEC could reduce the

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price of its monopoly elements in order to avoid a price squeeze and to pass an imputation test. However, Time Warner disagrees with witness Cornell that exercising this alternative would require pricing the inputs at TSLRIC. (BR p. 6) Finally, Time Warner also endorses MCImetro's third alternative, where local rates are frozen, to rely on the universal service fund to make up the difference between TSLRIC and the unbundled loop. (Cornell TR 255)

Staff believes that in order to be able to compete, the rates that ALECs pay for essential inputs must not result in a price squeeze by exceeding the rates their competitors (LECs) charge for their own retail local exchange services. Given the statutory restrictions that 1) LEC unbundled rates must not be set below cost (Section 364.161(2), F.S.), and 2) basic local rates may not increase prior to January 1, 1999 (Section 364.051(2)(a), F.S.), we recommend that the best course is to set rates for essential monopoly inputs at or near TSLRIC now. We agree with MCImetro witness Cornell that in the long run, if necessary, local rates could be raised to affordable levels and any difference could be funded by means of a USF mechanism.

The question of contribution to shared and common costs

United/Centel argue that using Special Access tariffed rates avoids price discrimination in that unbundled rates are not priced differently from rates charged to other providers (IXCs, MSPs, AAVs, etc.). (Poag TR 527) According to United/Centel witness Poag, pricing at incremental costs is inappropriate because the relevant services are cross elastic with toll and switched access (TR 517); LECs wouldn't recover their shared and common costs (TR 527); and incremental cost pricing would make end users subsidize ALECs. (TR 527) Witness Poag does not believe that his proposed pricing would create a price squeeze, and that special access rates would reasonably reflect TSLRIC plus some contribution. (TR 531)

GTEFL endorses the concept of the Efficient Component Pricing (ECP) rule, which, according to GTEFL witness Duncan, requires that prices fall between Stand Alone costs and TSLRIC. (TR 442-443; Trimble TR 358) GTEFL argues that pricing at TSLRIC would drive firms out of business since there would be no recovery of shared and common costs. (BR p. 4) In addition, GTEFL argues that the Federal act provides for cost recovery plus a reasonable profit. However, the company did not ultimately propose to apply ECP, stating that prices should be set at a level comparable to where they would be in a competitive marketplace. Since application of ECP would result in rates which could be undercut by competitive providers, GTEFL proposed to price unbundled loops at Special Access tariffed rates. (Trimble TR 351)

GTEFL witness Duncan advocated the Efficient Component Pricing Rule, which would set the price of unbundled loops at the lesser of

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1) the TSLRIC of the element plus related wholesale marketing activities plus the contribution that would have been received from the use of the element in the provision of the LEC's own end-user service, or 2) the stand-alone cost of the unbundled element. According to Duncan, this is desirable in that it leaves the LEC indifferent as to whether it serves the customer or the ALEC does. (TR 445) Applying the ECP rule keeps the LEC "contribution neutral" by maintaining "current and necessary" contribution levels. (Duncan TR 458-459)

According to GTEFL's studies, this would mean an unbundled business loop would be \$61.69, and residential would be \$28.67. (Trimble TR 350) These rates are the result of including the contribution from toll, access and vertical service revenues that go along with the loop when an ALEC takes the customer. But these amounts exceed the Stand Alone cost, as well as the cost to an entrant to provide the loop itself. (Trimble TR 350) Thus GTEFL proposes \$23.00 for an unbundled loop, the same as the 2-wire special access line. (Trimble TR 351) The Company states that pricing this way will prevent arbitrage. (Trimble TR 351-352) Also according to GTEFL, the special access price for a two-wire loop provides 12% contribution. (Trimble TR 353)

Time Warner and FCTA both agree with the LEC positions that unbundled rates should include contribution. Time Warner believes that pricing at TSLRIC eliminates the incentive for facilities-based competitors to build out their networks. (BR p. 6) They also endorse requiring that LEC retail services pass an imputation test. Time Warner also agrees with the LECs that deaveraging of loop rates should be done in conjunction with universal service reform. (Trimble TR 433)

MFS-FL, MCImetro, AT&T and LDDS all advocate the pricing of essential monopoly elements at TSLRIC. (Devine TR 41-43, 89-90; Cornell TR 234; LDDS BR p. 4; Guedel TR 310) MFS-FL witness Devine stated that LEC cost studies that were submitted are inadequate; hence, he proposes to set interim rates based on the costs submitted and require both LECs to refile true LRIC studies. (BR p. 6) In general, he believes that the retail rates in the tariff for bundled services should cover the sum of the prices for applicable unbundled monopoly elements. (Devine TR 43, 91) Witness Devine objected to the LEC proposal to set rates at Special Access prices. He states that unbundled loops are not the same as special access channels. While there may be only slight physical differences, there are significant differences in technical standards, engineering and operational practices. (Devine TR 91-93) He notes that the GTEFL/MFS-FL agreement excludes the monitoring, testing, and maintenance identification responsibilities from unbundled loop service, that are included in Special Access service. (Agreement at 22, VIIIA(3)(a)).

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MCImetro witness Cornell advocated two basic pricing principles: First, the price for essential inputs, i.e., those which cannot be competitively provided in the near term, should be set at TSLRIC, which includes cost of capital but no contribution in excess of that normal profit. Second, the price for elements which can be competitively provided in the near term should be set by the market, and could contain contribution. According to witness Cornell, the essential inputs include loops, loop concentration, and transport (because collocation rates contain contribution). (Cornell TR 234-235, 286-287) Ports should be unbundled and made available for resale; however they need not be priced at TSLRIC since they are more likely to be provided competitively. (Cornell TR 291) MFS-FL agrees that ports need not be priced at TSLRIC, and proposed that they be priced at the retail rate of the bundled service less the sum of the LRICs of the loop and the cross-connect. (MFS-FL BR p. 6)

MCImetro, MFS-FL, and AT&T all testified that there should be no contribution in the loop rates. According to MFS-FL, LRIC (TSLRIC) pricing of unbundled elements is essential to the development of local exchange competition. (MFS-FL BR p. 18) AT&T witness Guedel states that when loops are priced at TSLRIC, both the LEC and the ALEC incur the same loop costs, and then both have the same opportunity to recover their joint and common costs from retail services. (TR 320) MCImetro witness Cornell stated that including contribution raises the price floor down to which competition can force rates. (Cornell TR 234, 248-249) In deposition, she argued that the whole point of requiring loop unbundling is that it is not clear that economically, it will ever be viable to establish a complete duplicate of the LECs' distribution and feeder networks. (EXH 10, p. 14) She also makes the point that if such facilities-based competition ever does occur in certain areas and not in others, establishing TSLRIC-based rates will not impede the market. (EXH 10, p. 14-15)

Witness Cornell is vehemently opposed to ECP. In reference to GTEFL's statement that it opted not to price at ECP because it would encourage uneconomic bypass, Cornell states: "Well if it [ECP] is truly an efficient way to price, there can be no such thing as efficient uneconomic bypass, sorry." (EXH 10, p. 25)

Staff does not believe that ECP produces a desirable result. A competitive market does not thrive on indifference. If a LEC is rendered indifferent by virtue of the pricing of its services as to whether it serves the customer or not, the whole reason for establishing competition is eliminated. There is no longer any incentive for the LEC to seek to attract customers, and the market is no longer driven by competition. If competitive providers do not have to compete, the consumer will not be served well. Therefore staff does not agree with GTEFL that ECP is an appropriate approach to determining prices.

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The LECs involved in this proceeding have both opted for price cap regulation. An assumption of a greater degree of competitive risk goes along with this as noted in the case background. However, the LECs seem to presume that they are entitled to the same revenue or at least contribution protections that they had under rate-of-return regulation. (Trimble TR 352, 355-356, 362) Their positions in this docket would seem to indicate that they should not be required to assume any competitive risk at all. The LECs must have some confidence in their ability to compete or they would not have elected price cap regulation so readily. Staff is not inclined to believe their predictions of loss of financial integrity in the event the Commission does not insulate them entirely from competitive risks.

Staff also disagrees with United/Centel witness Poag's argument that charging different rates to ALECs than those charged to IXC's, cellular carriers, and AAVs is discriminatory. Staff does not believe that this would be discriminatory. First, ALECs are a different class of customer than IXC's, AAVs, and cellular providers. Also, the unbundled loops and ports at issue in this docket are not the same end-to-end tariffed services provided to IXC's, AAVs, and cellular providers. (EXH 7, p. 26-28) Moreover, if there still are any concerns about arbitrage, use and user restrictions are the standard method of addressing the problem. (EXH 20) In that way, only ALECs could purchase the unbundled network elements at the prices approved in this proceeding.

Moreover, the evidence and testimony would indicate that the loops are not going to be competitively provided in any meaningful fashion in the foreseeable future. (Devine TR 31-32) Thus the LEC is the only realistic source for this element. Staff believes therefore that loops should be priced at a level that approximates TSLRIC. It is impractical to price exactly at the levels of the TSLRIC estimates because they are confidential. Therefore, the LECs' proposed application of their Special Access rates to unbundled loops should be denied. Staff's recommended rate levels are shown on Table 3-1 at the end of this issue.

As discussed in Issue 1, ports consist of a line card and associated equipment on the LEC switch which serves as a hardware termination for the customer's exchange service. The port generates dial tone and provides a path to the public switched network. A port is typically associated with a telephone number. The LECs stated that they do not currently have tariffed rates for ports and would need to develop such rates in this proceeding.

GTEFL subsequently submitted proposed rates for all the port elements requested by MFS-FL. The Company proposes to charge a flat monthly rate plus a usage charge for ports. The flat rates cover the identified TSLRIC estimates. GTEFL also proposes to

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charge associated tariffed DID and ISDN charges where applicable. The usage charge would be identical to the Shared Tenant Service (STS) usage rate. Witness Trimble testified that he does not expect to see much demand for unbundled ports. (Trimble TR 353)

United/Centel proposed rates and provided cost estimates for some of the requested ports but not all of them. They proposed that the 2-wire analog port rates differ between residential and business. United/Centel did not propose a separate usage charge for ports, but they did include a usage component in their cost estimate. GTEFL's and United/Centel's proposed rates (and staff's recommended rates) are shown in Table 3-1 at the end of this issue.

Staff agrees with witness Trimble that ports may not be in high demand from the LECs. We believe they will be more widely available from alternative sources. Many ALECs own their own switches, and can provide their own ports, and can resell them to other ALECs as well. Ports can therefore essentially be priced with some contribution, or "market priced."

However, staff does not believe that it is appropriate or necessary to rule on a usage rate for ports. We have been asked to determine rates for unbundled components requested by MFS-FL. MFS-FL has requested loops and ports, but it did not request local switching in this proceeding which is what the usage rate would cover. (EXH 11, p. 49) Staff believes that ALECs can obtain that from the LEC if they so desire, and at this point, the LECs may charge STS usage rates if ALECs are willing to pay that. If MFS-FL or any other ALEC does not agree with that, and if it cannot resolve the issue with the LEC(s), it may request that the Commission rule on the matter.

Staff would note that no party specifically objected to the usage rates proposed by GTEFL. In fact, there was comparatively little discussion of ports, by MFS-FL or anyone else in this proceeding. However, as noted above, we believe that ALECs can and will obtain ports from other competitive providers.

Distance and density sensitive loop rates

ALECs advocate unbundling loops even further through deaveraging loop rates by distance and density. (Devine TR 57-58; Cornell TR 256) In its brief, MFS-FL argues that "any proposed rate that does not take into account this distance-sensitivity, and more importantly, does not take into account line density, is fundamentally flawed and could severely impair facilities-based local exchange competition." (MFS-FL BR p. 22)

MCImetro, in its cross examination of LEC witnesses, showed that under the LECs' proposed flat special access rates, shorter loops would provide a greater level of contribution than the longer

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loops because the cost of longer loops is higher. (Trimble TR 379-380; Poag TR 542-543; MCImetro BR p. 14) At a flat averaged rate, the effect would be to charge all loops a share of the non-integrated pair gain costs, even though shorter loops do not use pair gain technology. (Trimble TR 368-371, 381) Witness Cornell stated that customers would be better off if loop rates were deaveraged by distance and density. Deaveraging helps identify areas that need universal service support. It allows rural customers to benefit from competition that they might otherwise not have. (Cornell TR 256-262) MCImetro also argued that setting unbundled loop prices equal to deaveraged costs would help minimize the chance for a price squeeze in higher density areas, which would enhance the likelihood of competitive entry in such areas. (BR p. 15) MCImetro also noted that the official corporate position for United/Centel on this issue is that loop prices should be deaveraged, at least by distance. (Poag TR 545; EXH. 25, p. 415)

MCImetro proposes that the Commission set unbundled loop prices for GTEFL based on density and distance; for United/Centel, the rates should be set based on distance only for now since that is all the company provided. MCImetro suggests requiring United/Centel to refile TSLRIC studies incorporating both distance and density. Since United/Centel separated the loop costs between residential and business, that would have to be modified as well. Staff would not recommend designing rates for resale that distinguish between residential and business. There would be no way to monitor or enforce the intended use. We agree with MCImetro's statement that the costs of the loops should be expressed in terms of the functionality, and not the projected service to be provided over them. (BR p. 14)

The LECs acknowledge the distance and density aspects of loop costs. (Poag TR 540-554; EXH 25; Trimble TR 371-373) They state, however, that although deaveraged loops are appropriate in theory, the Commission should not allow such deaveraging until LECs can also deaverage. (Trimble TR 432-433) United/Centel state that distance sensitive pricing was not included in MFS-FL's petition, and therefore is not ripe for decision now. (United/Centel BR p. 17) The LECs say they should be allowed to deaverage at the same time as ALECs, or they would be competitively disadvantaged. (United/Centel BR 18)

Staff believes that eventually loop rates may need to be deaveraged as the market develops. However, this proceeding was initiated by petitions that requested that we resolve issues between MFS-FL, GTEFL, and United/Centel which they were unable to resolve during their own negotiations. Deaveraging local loops was not part of the negotiation process according to United/Centel. (United/Centel BR 17) Therefore, staff agrees with the LECs that the Commission would be premature in making a determination at this time. In addition, given the potential impact on the market of

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deaveraging loop rates, staff would want to have a sufficient amount of time, if requested, to analyze the costs, and recommend accurate rates. This was not possible in the timeframe of this proceeding.

Selling unbundled loops and ports together

MFS-FL maintained that the ability to combine unbundled loops with unbundled ports is crucial to their ability to compete for local traffic. (Devine TR 86-87) However, United/Centel does not want to allow the connection of unbundled loops with unbundled ports. (Khazraee TR 500, 505) (GTEFL has agreed to do so.)

Staff agrees with the ALECs that these items together are important for resale. Section 364.161(1), Florida Statutes, requires that a LEC unbundle all of its network features, functions and capabilities for resale. There are two limitations on this statutory directive: 1) the price cannot be below cost, and 2) the Commission cannot require the resale of "currently tariffed, flat-rated, switched residential and business services" prior to 1997. (emphasis added) The combination of unbundled loops and ports at the recommended rates do not run afoul of either of these limitations. Moreover, in view of the statutory directive to promote competition, these limitations should be narrowly construed. Therefore, staff recommends that ALECs should be allowed to combine unbundled loops and unbundled ports.

GTEFL's Taking Arguments

GTEFL insists it will lose "millions" in contribution and market share. (Trimble TR 354-355) This loss should be addressed in a separate universal service docket. (TR 456) If the Commission does not order an "immediate rate rebalancing or explicit subsidy payments" when unbundled rates go into effect, GTEFL states that it will "be forced to pursue appropriate remedies...." (BR p. 5)

Specifically, GTEFL contends that forcing the loss of contribution constitutes an impermissible taking of GTEFL's property. GTEFL argues that prices should not be set at LRIC or TSLRIC because it will be unable to obtain any contribution to their joint and common and/or shared costs. GTEFL contends that LRIC and TSLRIC do not recover all costs nor provide a profit to the firm. Further, GTEFL asserts that pricing the unbundled loop at TSLRIC does not cover any of GTEFL's embedded costs in providing the loop. GTEFL also argues that denying it recovery of these costs is inconsistent with the Telecommunications Act of 1996 which authorizes the incumbent LEC to recover reasonable profit after the LEC's costs are recovered. GTEFL asserts that the Commission should immediately address this expected loss of contribution in a comprehensive universal service docket or some other proceeding to avoid confiscation of GTEFL's property.

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Moreover, GTEFL argues that it is entitled to rates which return to the company all funds expended in the deployment of assets under the de jure local monopoly which was in effect until January 1, 1996. GTEFL contends that the investments and costs were previously recovered through rate mechanisms and control of entry into the telecommunications field by the Commission and thus constituted an express regulatory compact between the Commission and GTEFL. With the revisions to Chapter 364, GTEFL contends that the state has abandoned the regulatory compact by opening the local exchange market to competition. GTEFL asserts that while the state previously allowed recovery of these investments, the Commission now jeopardizes the financial integrity of GTEFL.

Specifically, GTEFL takes issue with MFS-FL's assertion that GTEFL must price its services at LRIC levels, requiring GTEFL to forego recovery of all service-specific incremental volume insensitive costs as well as shared common costs. GTEFL asserts that neither the Commission nor any other governmental agency is permitted to impose confiscatory rates on one line of a company's business simply because the company can theoretically afford those losses by generating additional revenue on other lines of business. Such a notion, GTEFL argues, would permit the government to impose below-cost pricing on any profitable company. GTEFL argues that mandatory below-cost pricing on a particular line of business is unconstitutional even if the company is able to make up those losses from revenues generated from other businesses and cites to the following case for support. Brooks-Scanlon Co. v Railroad Commission, 251 U.S. 396 (1920).

Although the Commission cannot rule on whether its decision will be unconstitutional, staff believes that the Commission can address the concerns GTEFL asserts implicate the takings clause.

Implicit in GTEFL's arguments is the notion that the Commission owes GTEFL an increase in local rates to replace the company's potential losses of expected contribution and profit. GTEFL is asking the Commission to look at potential revenue losses albeit under the guise of alleged constitutional violations. Even if it could be predicted with certainty that there would be major losses, GTEFL does not have a statutory right that it must recover profit and contribution as a result of unbundling and reselling services per se. Even under the rate-base regulation regime in Chapter 364, GTEFL was merely afforded the opportunity to earn a fair return on its investment, not a guarantee of a return. Further, under the new, price-regulated regime in Chapter 364 that GTEFL has elected, staff points out that GTEFL is not guaranteed a specific return in this competitive environment. Moreover, even if the losses come to fruition, such losses, if necessary, can be addressed through appropriate Commission proceedings.

Property interests are not created by the Constitution, but rather are delineated by existing rules or understandings that stem

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from an independent source such as state law. Ruckelshaus v. Mansanto Co., 467 U. S. 986, 1000 (1984) citing Webb's Fabulous Pharmacies, Inc v. Beckwith, 449 U.S. 155, 161 (1980).

Under Sections 364.161 and 364.162, Florida Statutes, the LEC is required to unbundle its network features, functions, and capabilities and offer them for resale to the extent technically and economically feasible. If the parties cannot negotiate an agreement, then the Commission's obligation is to set rates for such services, features, functions, capabilities, or unbundled local loops at rates that are not below cost. The Commission is also obligated by statute to ensure that the rate must not be set so high that it would serve as a barrier to competition. The incumbent LEC has no statutory or constitutional right to contribution above cost for unbundled services. Most significantly, staff believes that the unbundled rates it recommends for GTEFL meet the Commission's obligation to ensure that the rates are not below GTEFL's costs as discussed earlier in this issue.

GTEFL argues that setting rates based on TSLRIC is inconsistent with the federal Telecommunications Act of 1996. GTEFL states that basing rates on TSLRIC violates the Act because: 1) it does not cover any of GTEFL's embedded costs in providing the loop; and 2) it denies a reasonable profit to GTEFL as provided in the Act. Staff disagrees with GTEFL's arguments. First, Section 252(c)(1)(A) of the Act provides that just and reasonable rates shall be based on the cost of providing the network element. Basing rates on TSLRIC meets Section 252(c)(1)(A) of the Act, because TSLRIC is the cost of providing the service. Second, Section 252(c)(1)(B) provides that just and reasonable rates may, not must, include a reasonable profit. As discussed earlier, TSLRIC includes recovery of the cost of capital or a reasonable profit; therefore, GTEFL's argument is simply wrong.

In anticipation or speculation that GTEFL will experience lost revenues as a result of unbundling, GTEFL believes that the Commission must order an immediate rate rebalancing or explicit subsidy payments when unbundled rates go into effect. Staff believes that even if the Commission agreed that there was a possibility of major revenue losses, that a mere possibility would not give rise to an immediate rate increase. To the extent GTEFL does experience revenue losses, there are specific procedures for relief set forth in Chapter 364. First, under Section 364.051(5), Florida Statutes, if GTEFL believes that circumstances have changed substantially to justify any increase in the rates for basic local telecommunications services, it may petition the Commission for a rate increase. The Commission shall grant such a petition only after an opportunity for a hearing and a compelling showing of changed circumstances. Second, under Section 364.025, Florida Statutes, GTEFL may seek a subsidy towards its universal service

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obligations. Specifically, GTEFL must file a petition showing that competition has eroded its ability to support universal service and identify the amount of subsidy needed. See Order No. PSC-95-1592-FOF-TP.

GTEFL also argues that mandatory interconnection and unbundling by definition provides physical access to its tangible property. GTEFL states that interconnection allows MFS-FL to move its traffic over GTEFL's network which is then physically invaded by the bits and bytes transmitted by MFS-FL. GTEFL contends that the movement of bits of information across telephone wires constitutes a physical invasion of GTEFL's private property. GTEFL relies on Loretto v. Teleprompter Manhattan CATV Corp., 458 U.S. 419 (1982), for the proposition that the appropriate compensation for this physical taking is to compensate the property owner for the full opportunity cost of the physical invasion.

Staff notes that this argument would have been more appropriately raised in the interconnection proceeding in Docket No. 950985-TP; nevertheless, staff will address GTEFL's arguments in this unbundling docket.

A similar argument was raised by the LECs when the Commission ordered mandatory physical collocation in Phase I of the expanded interconnection docket. See Order Nos. PSC-94-0285-FOF-TP, issued March 10, 1994. The Commission stayed the order when the FCC ordered mandatory virtual rather than physical collocation. See Order No. PSC-94-1102, FOF-TP, issued September 7, 1994. In that order, the Commission was persuaded by the argument that property dedicated for the public purpose is subject to a different standard when, pursuant to statutory authorization, a regulatory body mandates certain uses of that property in the furtherance of its dedicated use. The Commission was not persuaded by the LECs' argument that a mandatory physical occupation is a per se taking.

In this instant case, the statutory authorization is provided by Chapter 364, Florida Statutes. Staff believes that effective interconnection and unbundling and the adequate provision of telecommunications service require that the Commission mandate interconnection and unbundling of the local loop and such purposes do not turn statutorily authorized regulation into a taking.

Loretto is relied upon by GTEFL as authority for the taking analysis based upon an ad hoc factual inquiry of:

1. The economic impact of the regulation;
2. The extent to which it interferes with investment-backed expectations; and
3. The character of the governmental action.

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Loretto is also relied upon for the proposition that a permanent physical occupation represents a per se taking and that an ad hoc inquiry is only reached in the absence of such a permanent physical occupation. In Loretto, the Court stated:

We affirm the traditional rule that a permanent physical occupation of property is a taking. In such a case, the property owner entertains a historically rooted expectation of compensation, and the character of the invasion is qualitatively more intrusive than perhaps any other category of property regulation. Id. at 441

The Commission previously found that an objective reading of Loretto is that if there is a permanent physical occupation there is a taking. This is the case regardless of the size of the occupation. In Loretto, the permanent occupation was the attachment of wires and a box to the exterior of a building.

In the instant case, GTEFL objects to the possible mandate of interconnection and unbundling of its local loop to effectuate statutorily authorized interconnection and unbundling. However, based on Loretto, it appears that such interconnection would be a taking if opposed by GTEFL. Staff believes that such an interpretation would make it impossible for this Commission to regulate telecommunications pursuant to its statutory mandate.

GTEFL contends that it must be compensated for the full opportunity cost of the physical invasion of its private property. Staff believes that Loretto is not the appropriate standard to employ regarding the Commission's statutorily authorized regulation of the LEC's property. Staff contends that Loretto involved neither the taking of a common carrier's property nor government regulation of a common carrier. This distinction is central to any taking analysis.

A lawful governmental regulation of the service of common carriers, though it may be a burden, is not a violation of constitutional rights to acquire, possess, and protect property, to due process of law, and to equal protection of the laws, since those who devote their property to the uses of a common carrier do so subject to the right of governmental regulation in the interest of the common welfare. . . . Even where a particular regulation causes a pecuniary loss to the carrier, if it is reasonable with reference to the just demands of the public to be affected by it, and it does not arbitrarily impose an unreasonable burden upon the carrier, the regulation will not be a taking of property, in violation of the Constitution. State ex rel. Railroad Com'rs v. Florida East Coast Ry. Co., 49 So. 43-44 (Fla. 1909) (Emphasis added).

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Staff believes that it has long been established that property which has been dedicated to a public purpose can be regulated and even permanently physically occupied as long as the regulation involves the dedicated public purpose. See Munn v. Illinois, 94 U.S. 113, 126 (1876). Under this analysis, the taking issue is not reached except to the extent that there is inadequate compensation for the use of the property or a mandate to use the property in a manner to which it has not been dedicated; neither case is present here.

Staff believes that while the Commission cannot determine the appropriate compensation for a taking, it certainly has the authority to establish the appropriate rates for the provision of telecommunications service in Florida. Provided that the rates are not confiscatory, staff believes that the Commission has the statutory authority to establish nondiscriminatory rates, terms, and conditions for resale.

Recommendation Summary

The recommended rates for GTEFL and United/Centel are shown on Table 3-1. GTEFL should refile new cost data for its 4-wire DS-1 loop, or explain why the TSLRIC is higher than its proposed rate. The company's proposed use of its existing Special Access rate should be approved solely as an interim rate. United/Centel should be required to refile its cost data with better support and organization. Certain rates, as shown on Table 3-1, should be approved solely as interim rates. Staff will recommend permanent rates after the revised cost data has been submitted and analyzed, and a recommendation filed.

For purposes of this proceeding, staff recommends that the TSLRIC estimates, where provided in accordance with staff's recommendations in this proceeding, be used to determine whether an unbundled rate meets the statutory requirement. That is, no permanent unbundled loop rate should be set below our best estimate of TSLRIC, as determined by the evidence provided in this proceeding. TSLRIC estimates should be based on the provider's current or prospective network facilities, as opposed to some theoretically optimal network configuration, assuming no facilities are in place.

ALECs should be allowed to combine unbundled loops and unbundled ports.

All tariffs required to be filed in this recommendation should be filed no later than 30 days following the issuance of the final order in this phase of the proceedings. They should become effective fifteen days following the date that complete and correct tariffs are filed.

TABLE 3-1				
LEC PROPOSED AND STAFF RECOMMENDED RATES				
UNBUNDLED LOOPS AND PORTS				
LOOPS	GTEFL PROPOSED	STAFF RECOMMENDED	UTF/CTF PROPOSED	STAFF RECOMMENDED
2-W Voice Grade Analog	\$23.00	\$20.00	\$19.05	\$15.00 *
4-W Voice Grade Analog	\$33.00	\$25.00	\$28.75	None at this time
2-W ISDN Digital	\$23.00	\$20.00	\$55.00 Plus R1/B1	None at this time
4-W DS-1	\$250 First Sys/ \$154 Add'l Sys.	\$250 First Sys/ \$154 Add'l Sys. *	\$112.75	None at this time
PORTS	GTEFL PROPOSED	STAFF RECOMMENDED	UTF/CTF PROPOSED	STAFF RECOMMENDED
2-W & 4-W Analog	\$6.00	\$6.00	\$3.50/Res. \$9.00/Bus.	\$7.00 *
2-W ISDN Digital	\$20.00	\$20.00	\$55.00 plus R1/B1	None at this time
2-W Analog DID	\$6.00 plus tariffed DID charges	\$6.00 plus tariffed DID charges	None proposed	None at this time
4-W DS-1 DID	\$60.00 plus tariffed DID charges	\$60.00 plus tariffed DID charges	None proposed	None at this time
4-W ISDN DS-1	\$350.00	\$350.00	\$325.00	None at this time

Source: EXH 11 & 25
 * Recommended Interim rates only.

ISSUE 4: What arrangements, if any, are necessary to address other operational issues?

GTEFL RECOMMENDATION: GTEFL and MFS-FL should continue to negotiate as outlined in their partial co-carrier agreement. If an agreement is reached on these operational issues, it should be filed with the Commission before it becomes effective. If no agreement is reached within 60 days of the issuance of the final order, then staff recommends that GTEFL and MFS-FL adhere to the same operational arrangements that are ordered for United/Centel.

UNITED/CENTEL RECOMMENDATION: The following operational arrangements should be ordered for United/Centel:

- (1) United/Centel should be required to apply all transport-based and switched-based features, functions, service attributes, grades-of-service, installation, maintenance, and repair intervals which apply to bundled service to unbundled loops.
- (2) The appropriate termination liability charges for early termination of contracts should apply. Termination liability charges should be pursuant to existing tariffs for the specific service. In addition, nonrecurring charges for conversion of bundled loops to unbundled loops should apply. Nonrecurring charges for the conversion of bundled loops to unbundled loops should be based on their costs. In the interim, United/Centel should use its currently tariffed nonrecurring charges associated with residence and business service for the conversion of bundled loops to unbundled loops. United/Centel should submit cost studies which reflect the nonrecurring costs of converting bundled service of the LEC to unbundled service for the ALEC. United/Centel should file these cost studies and proposed terms, conditions, and rates no later than 60 days following the issuance of the final order of this proceeding.
- (3) United/Centel and MFS-FL should develop a billing arrangement for unbundled elements ordered between the companies to be filed with the Commission within 60 days from the issuance of the order.
- (4) Mechanized intercompany operational procedures, similar to the ones between IXCs and LECs today, should be jointly developed by MFS-FL and United/Centel and should conform to national industry standards which are currently being developed.
- (5) Further operational disputes that may arise and that MFS-FL and United/Centel are unable to resolve through negotiations should be handled by filing a petition or motion with the Commission. [CHASE]

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POSITION OF PARTIES

MFS-FL: MFS and GTE have agreed to many operational issues, discussed below, and have agreed to negotiate remaining issues. With respect to Sprint, Sprint should apply all transport-based and switch-based features, grades-of-service, etc. which apply to bundled service to unbundled links as was required of BellSouth in the Commission's BellSouth Unbundling Order. Sprint and GTE should permit any customer to convert its bundled service to an MFS unbundled service with no penalties. Sprint should provide MFS with the appropriate billing and electronic file transfer arrangements.

GTEFL: GTEFL believes any additional operational issues that may arise are best addressed through ongoing negotiations with MFS. As such, GTEFL is not seeking any relief from the Commission on this issue.

UNITED/CENTEL: It is not necessary for the Commission to address other detailed operational issues at this time. [Tr. 525] Sprint-United/Centel are willing to work in good faith with MFS and other ALECs to address their operational concerns.

AT&T: AT&T supports the positions of MFS (as set forth in the Prehearing Order - on the United/Centel petition) on this issue.

FCTA: The LECs should provide ordering, repair, testing and any other administrative systems needed on an automated basis, wherever possible.

LDDS: The Commission should recognize that other carriers may have different unbundling and resale requirements that may require further proceedings. At a minimum, the Commission should direct the LECs to provide nondiscriminatory automated operational support mechanisms to facilitate the purchase of all network elements of the local network.

MCIMETRO: The LECs should provide order entry, repair, testing, and any other administrative systems required for the provision of unbundled facilities, on a mechanized basis.

TIME WARNER: Sprint United/Centel and GTE should provide ordering, repair, and testing and any other administrative systems needed on an automated basis, where possible, without extraneous costs or contribution to the ALEC or from its customers.

STAFF ANALYSIS: This issue addresses how other operational issues between MFS-FL and United/Centel and GTEFL should be addressed. It is not possible to identify every operational problem that might occur when an ALEC begins operation in the local market. Some of

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the parties argue that some guidelines should be set in the beginning to avoid future operational problems.

GTEFL and MFS-FL signed a partial co-carrier agreement which pertained to this issue. (EXH 4, TDD-8) However, GTEFL and MFS-FL were not able to fully agree on this issue, so it was not approved as a stipulation by the Commission. The agreement states that each party will use its best efforts to address, within 60 days, certain operational issues which remain to be resolved by GTEFL and MFS-FL. (EXH 4, TDD-8, p.26) The only aspect of this issue upon which MFS-FL and GTEFL do not agree is the handling of further operational disputes that may arise in the future. Since the issue was not fully stipulated, the Commission still needs to determine the other operational arrangements with respect to United/Centel and GTEFL.

Time Warner, MCImetro, and FCTA argue that United/Centel and GTEFL should provide, on an automated basis, ordering, repair, and testing and any other administrative systems needed wherever possible. LDDS's position is that the requests and proposals presented in this docket do not necessarily meet the needs of these petitioners in the future nor may they meet the needs of future competitors. AT&T supports the position of MFS-FL which is described below.

MFS-FL states that in order for MFS-FL to efficiently offer service, United/Centel and GTEFL should make the following terms and conditions available for unbundled elements:

- 1) United/Centel and GTEFL should be required to apply all transport-based and switched-based features, functions, service attributes, grades-of-service, and installation maintenance and repair intervals which apply to bundled service to unbundled links.
- 2) United/Centel and GTEFL should permit any customer to convert its bundled service to an unbundled service and assign such service to MFS-FL, with no penalties, rollover, termination or conversion charges to MFS-FL or the customer.
- 3) United/Centel and GTEFL should bill all unbundled facilities purchased by MFS-FL on a single consolidated statement per wire center.
- 4) United/Centel and GTEFL should provide MFS-FL with an appropriate on-line electronic file transfer arrangement by which MFS-FL may place, verify, and receive confirmation on orders for unbundled elements, and issue and track trouble-ticket and repair requests associated with unbundled elements. (Devine TR 39-40; TR 87-88)

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United/Centel argues that it is not necessary for the Commission to address detailed operational issues at this time, and that it is willing to work in good faith with MFS-FL to address the operational concerns. United/Centel states that since it will be difficult to predict the areas in which the Commission will be called upon to arbitrate operational disputes between United/Centel and ALECs, it is premature to decide detailed operational issues at this time. Instead, United/Centel asserts that detailed operational issues are best left to the parties, with resolution by the Commission on a case-by-case basis. (Poag TR 525) In addition, witness Poag states, "But after discussions with them (MFS-FL) I don't think we are very far apart on many of these issues." (TR 569)

United/Centel witness Khazraee disagrees with MFS-FL that United/Centel should permit any customer to convert its bundled service to an unbundled service and assign such service to MFS-FL, with no penalties, rollover, termination or conversion charges to MFS-FL or the customer. United/Centel states that there are nonrecurring costs involved in making the changes necessary in the network and the records to change an end user's service, and that United/Centel should be allowed to recover direct costs from direct cost causers including MFS-FL. (Khazraee TR 503) United/Centel witness Poag stated: ". . . what I would propose is that we use our existing nonrecurring charges associated with residence or business service as an alternative to the nonrecurring charges that are in the special access tariff until such time as we're able to develop nonrecurring charges that are appropriate for unbundled loops." (Poag TR 569)

United/Centel also disagrees with MFS-FL with respect to the mechanized arrangement by which MFS-FL may place, verify, and receive confirmation on orders for unbundled elements, and issue and track trouble-ticket and repair requests associated with unbundled elements. United/Centel states that it should not be required to develop new systems simply to allow electronic interconnection in the manner desired by each ALEC. However, United/Centel states that if the existing systems can be used to effect such transfer of information or if minor modifications can be made to the existing systems, then it would be willing to negotiate such transfers with MFS-FL. (Khazaree TR 504) Witness Poag states that:

Until we're better able to identify through experience exactly what those things look like and what capabilities and what information need to be included, I don't think we should begin to do the development. It's my understanding that the ordering and billing forum is coming up with some standards and that most likely those standards should be the basis for this so that we're not

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developing different systems in different states and different systems for different ALECs. (TR 570)

GTEFL argues that any applicable termination charges, as specified in GTEFL's existing tariffs, would apply when any customer converts its bundled service to an unbundled service and assigns such service to MFS-FL. Further, GTEFL states that it cannot agree to do all of the work to discontinue billing GTEFL's customer and institute billing to MFS-FL at no charge. (Menard TR 481) Witness Menard states, "It is patently unfair to force GTEFL to bear the costs of these changes simply to hold down MFS's cost of entry. The interests of all carries, both incumbents and new entrants, must be balanced if open and effective competition is to develop." (TR 481) In addition, GTEFL asserts that if GTEFL has a customer on some type of contract arrangement with termination liability, then those termination liability charges should apply when the customer terminates early. (Menard TR 489)

GTEFL does not disagree that some type of on-line electronic file transfer system by which ALECs may place, verify, and receive confirmation on orders for unbundled elements, and issue and track trouble-ticket and repair requests associated with unbundled elements should be developed. In addition, GTEFL asserts that developing such a system is in its interest and has agreed to work with the industry in developing a standard system. Witness Menard states that until such systems are developed, "we will have a central group in Durham, North Carolina handling all the ALEC orders nationwide." (Menard TR 490)

MFS-FL agrees that GTEFL should not have many different systems and that they should attempt to have one for GTE nationwide. (Devine TR 211) In addition, MFS-FL states that with regard to rolling over service, there are additional costs associated with the conversion, and MFS-FL would pay for the jumper cable on the main distribution frame and the service order charge in order to convert. (Devine TR 172)

Staff understands that there are many operational issues that will arise as the ALECs begin to provide service. The following operational arrangements should help to minimize problems between the ALECs and LECs in a competitive market.

Staff agrees with MFS-FL that United/Centel and GTEFL should be required to apply all transport-based and switched-based features, functions, service attributes, grades-of-service, and installation maintenance and repair intervals which apply to bundled service to unbundled links because the change in service providers should be transparent to the end-user.

Staff does not believe that MFS-FL's request for rolling over service should be done at no charge to the ALEC. Witnesses for

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GTEFL and United/Centel stated that there are specific nonrecurring charges that are necessary to cover the costs of converting service to the ALECs. MFS-FL even agreed that there are costs and that the ALECs should pay for these nonrecurring costs of conversion. Further, GTEFL points out that there may be situations where the LEC customer is under a contract and termination liability charges would apply if the contract is terminated early. Therefore, staff recommends that MFS-FL's request that United/Centel and GTEFL should permit any customer to convert its bundled service to an unbundled service and assign such service to MFS-FL, with no penalties, rollover, termination or conversion charges to MFS-FL or the customer be denied.

Staff also recommends that the appropriate nonrecurring charges for conversion of bundled loops to unbundled loops should apply and that the termination liability charges for early termination of contracts should also apply. Termination liability charges should be pursuant to existing tariffs for the specific service. Nonrecurring charges for the conversion of bundled loops to unbundled loops should be based on their costs. However, United/Centel stated that it has not developed nonrecurring conversion charges. Therefore, staff recommends that in the interim, United/Centel use its currently tariffed nonrecurring charges associated with residence and business service for the conversion of bundled loops to unbundled loops. United/Centel should submit cost studies which reflect the nonrecurring costs of converting bundled service of the LEC to unbundled service for the ALEC. United/Centel should file this cost study and proposed terms, conditions, and rates for conversion within 60 days from the issuance of the order in this proceeding.

Staff recommends that MFS-FL's request that United/Centel and GTEFL should bill all unbundled facilities purchased by MFS-FL on a single consolidated statement per wire center should not be granted at this time because the record does not support this request. However, staff believes that some type of billing arrangement should be negotiated between the LECs and ALECs for the ordering of unbundled elements. Therefore, staff recommends that United/Centel and MFS-FL develop a billing arrangement to be filed with the Commission within 60 days of the issuance of the order.

Staff believes that the mechanized intercompany operational procedures supported by the ALECs are appropriate, since similar procedures are currently used today between LECs and IXC's. In addition, mechanized procedures will be the most efficient means for both LECs and ALECs to operate together in the same markets. However, the parties need to work together to determine how much these interfaces will cost, how long they will take to develop, and who should pay for them. Staff also believes that such mechanized systems should conform to industry standards, so that they will function for all interconnecting companies. Therefore, staff

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recommends that mechanized intercompany operational procedures, similar to the ones between IXCs and LECs today, should be jointly developed by MFS-FL and United/Centel and should conform to national industry standards which are currently being developed.

Staff believes that on a going forward basis, parties should attempt to work out operational problems that arise. If the parties cannot come to a resolution, they can request resolution of the problem with the Commission by filing a petition or motion.

Staff recommends that GTEFL and MFS-FL should continue to negotiate as outlined in their partial co-carrier agreement. (EXH 19, TDD-9, p.26) If an agreement is reached on these operational issues, it should be filed with the Commission before it becomes effective. If no agreement is reached within 60 days of the issuance of the order, then staff recommends that GTEFL adhere to the same operational arrangements that are ordered for United/Centel.

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ISSUE 5: To what extent are the non-petitioning parties that actively participate in this proceeding bound by the Commission's decision in this docket as it relates to Sprint-United/Centel?

RULING: Any intervenor ALEC who fully participates in this proceeding is bound by the resolution of the issues. Such ALEC is still free to negotiate its own interconnection rate. To the extent negotiations fail, the affected ALEC may petition the Commission to set interconnection rates.

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ISSUE 6: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to address additional information to be filed by United/Centel and GTEFL in various issues discussed above. Further, the Commission has ordered BellSouth to file additional information in its phase of this docket. In addition, this docket should remain open to address any other requests for unbundling or resale.