42

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

December 5, 1996

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

FROM: DIVISION OF COMMUNICATIONS (NORTON) RNT RVE
DIVISION OF LEGAL SERVICES (ELIAS) MCB

RE: DOCKET NO. 920260-TL - COMPREHENSIVE REVIEW OF THE REVENUE REQUIREMENTS AND RATE STABILIZATION PLAN OF SOUTHERN BELL TELEPHONE AND TELEGRAPH COMPANY

AGENDA: DECEMBER 17, 1996 - REGULAR AGENDA - POST HEARING DECISION - PARTICIPATION IS LIMITED TO COMMISSIONERS AND STAFF

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\CMU\WP\920260TL.RCM

CASE BACKGROUND

This docket was initiated by Order No. 25552 to conduct a full revenue requirements analysis and to evaluate the Rate Stabilization Plan under which BellSouth Telecommunications, Inc. (BST or the Company) had been operating since 1988. By Order No. PSC-94-0172-FOF-TL the Commission approved a Stipulation and Agreement Between OPC and BST, and an Implementation Agreement for Portions of the Unspecified Rate Reductions in Stipulation and Agreement Between OPC and BST (the Settlement). The terms of the Settlement require, among other things, that rate reductions be made to certain of BST's services. Some of the reductions specified particular services. Other scheduled reductions were unspecified, and interested persons are permitted to submit their own proposals for disposition of the monies.

The Settlement called for a total reduction of $84 million in 1996. First, switched access rates were to be reduced to parity with January 11, 1994 interstate levels. The remainder was to constitute the last of the unspecified rate reductions required by the Settlement and Implementation Agreement. Both were to be effective October 1, 1996. (As discussed in Issue 3, the

Settlement made specific provision in the event the October 1 date could not be met.)

At the time the Settlement was approved, the estimated 1996 revenue impact of the required switched access reduction was $35 million. This would have left $48 million for the unspecified reductions. By the time BST filed its tariffs on May 31, 1996 for the 1996 reductions, its demand forecasts showed a revenue impact of $40 million for the switched access reduction to interstate parity, thus leaving $44 million in unspecified reductions. The most recent demand forecast, which was submitted during discovery in this proceeding, showed a 1996 impact of approximately $43 million for the switched access reductions. Staff has recommended use of this figure, and thus has recommended approximately $41 million in additional reductions in its analysis.

Estimate per Settlement	**Estimate per 1995 forecast**	**Estimate per 1996 forecast**
$84 million	$84 million	$84 million
35 million	40 million	43 million
$48 million	$44 million	$41 million

The required switched access reductions went into effect on a provisional basis, on October 1, 1996. (Order No. PSC-96-1244-FOF-TL) The remaining tariffs were suspended. A hearing was scheduled for October 30 and 31, 1996 to consider the various proposals for implementing the unspecified rate reductions. Testimony and exhibits were stipulated into the record, and cross examination was waived by the parties. This recommendation addresses the proposals of the parties to apply the unspecified amounts, and recommends final approval of the switched access reductions that were implemented provisionally October 1, 1996.

LIST OF PARTIES AND ABBREVIATIONS

Ad Hoc	Ad Hoc Telecommunications Users Group
ATT	AT&T Communications of the Southern States, Inc.
AWS	AT&T Wireless Services, Inc.
BST	BellSouth Telecommunications,Inc.
CMC	Cellular Mobile Carrier
CMRS	Cellular Mobile Radio Service
FCTA	Florida Cable Telecommunications Association
FEA	Federal Executive Agencies
FIXCA	Florida Interexchange Carriers Association
ICI	Intermedia Communications, Inc.
MCI	MCI Telecommunications Corporation
MSP	Mobile Service Provider
PBNI	Palm Beach Newspapers, Inc.
Sprint	Sprint Communications Company Limited Partnership
OPC	Office of the Public Counsel
ZDP	Zone Density Pricing

DISCUSSION OF ISSUES

ISSUE 1: Below are listed the proposals of various interested parties to this proceeding with respect to the disposition of the scheduled 1996 unspecified rate reductions. Which, if any, should be approved?

A) BellSouth Telecommunications, Inc.:

		millions
1)	Reduce switched access (introduce zone density)	$16.40
2)	Reduce PBX rates and introduce term contracts	13.45
3)	Waive certain business and residential Secondary Service Order (SSO) charges	5.81
4)	Reduce First Line Connection charge (Business)	3.22
5)	Introduce Area Plus for Business	2.25
6)	Eliminate usage charge on Remote Call Forwarding	2.01
7)	Reduce DID recurring and non-recurring charges	1.88
8)	Credit for ECS routes implemented	1.10
9)	Reduce Business Line monthly rates in Rate Group 12	.62
10)	Reduce Megalink interoffice rates	.58
11)	Reduce WATS and 800 Service access line charges	.36
12)	Eliminate the SSO charge for WatsSaver	.30
13)	Reduce SNAC charges for Business	.07
14)	Reduce DS-1 interoffice mileage rates	.04
		$48.09

B) Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and AT&T Wireless Services (AWS):

1)	Reduce PBX and DID trunk charges	$11.00
2)	Eliminate the Residual Interconnection Charge	35.00
3)	Reduce mobile interconnection rates	2.00
		$48.00

C) Public Counsel:

Establish a $2 million reserve fund to assist BellSouth Telecommunication, Inc. customers who have experienced problems with conversion to the 954 NPA.

D) FCTA:

Eliminate or reduce nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

E) Palm Beach Newspapers, Inc.:
Reduce BellSouth's N11 service tariff so that the N11 customers pay a flat charge of one cent per minute, or the current monthly minimum, whichever is greater.

RECOMMENDATION: The Commission should approve, on a permanent basis, the reduction of BST's switched access rates to parity with interstate as of January 11, 1994, that it approved provisionally effective October 1, 1996. In addition, the Commission should apply the remainder of the $84 million as follows:

Unspecified:		
1) Eliminate the RIC	$34.3 million	
2) Reduce the CCL	3.3 million	
3) Eliminate usage on RCF	2.0 million	
4) Credit for ECS routes	1.1 million	
		$40.7 million
Specified Switched Access:		
5) Updated forecast on impact of 10/1/96 switched access reduction filing	$ 3.3 million	
6) Filed impact of 10/1/96 switched access reduction filing	40.0 million	
		$43.3 million
Total 1996 amount per Settlement		**$84.0 million**

POSITIONS OF PARTIES

SBT: 1(A) BellSouth's proposal to implement rate reductions for various features and services should be approved because it benefits a large number of BellSouth's Florida customers.

1(B) The Joint Proposal should not be approved because it is speculative and benefits only a small number of consumers.

1(C) Public Counsel's proposal should not be approved because it is unnecessary.

1(D) FCTA's proposal should not be approved because it conveys a small benefit to a special interest group.

1(E) The Palm Beach Newspapers, Inc./Florida Today's proposal should not be approved because it conveys a small benefit to a special interest group.

ATT: The Commission should adopt proposal "B" - the joint proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

AWS: The Joint Proposal is the best use of the unspecified rate reductions since the designated services would benefit the most customers, reduce prices that are greatly in excess of cost, and facilitate competitive equality between customer service classes. BellSouth's strategic pricing should be rejected.

FEA: The Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw should be approved, but the FEAs do not object to Public Counsel's proposal to establish a fund to assist BellSouth Telecommunications customers who have experienced problems with conversion to the 954 NPA.

AD HOC: The Joint Proposal of the parties, including Ad Hoc, should be approved. This proposal corrects an anticompetitive price imbalance between PBX vendors and BST's ESSX service. BST's proposal should be rejected. It ties proposed rate reductions to long-term contracts in a manner which would stifle future competition.

FCTA: The proposals of FCTA and Office of Public Counsel should be approved. The Commission should also approve any other proposals, or parts of proposals, that the Commission determines would promote local exchange competition.

FIXCA: The Joint Proposal of ATT, MCI, Sprint, FIXCA, Ad Hoc and McCaw should be approved. This proposal calls for an access charge reduction, through the elimination of the RIC, which will move BellSouth's carrier charges toward a cost basis and hasten the benefits of the federal Telecommunications Act of 1996.

ICI:

A) BellSouth:

1) Reduce switched access (introduce zone density) - $16.40m

Intermedia recommends that the Commission reject this proposal. Although zone density pricing is in theory a more cost-based approach to setting the affected rates, BellSouth's proposal would tend to be anti-competitive.

2) Reduce PBX rates and introduce term contracts - $13.45m

The Commission should reject this proposal as anti-competitive. Provision of PBX trunks is a very competitive service and rate reductions here would only enhance BellSouth's competitive advantage. Moreover, Intermedia opposes reduction of PBX rates through term contracts.

3) Waive certain business and residential Secondary Service Order charges - $ 5.81m

Intermedia opposes the waiver of these charges because it would promote BellSouth's position in the market by providing a below cost discount to prospective customers and is thus anti-competitive.

4) Reduce First Line Connection charge (Business) - $ 3.22m

Intermedia opposes the reduction of these charges. Rather than benefit ratepayers generally, these reductions target business customers to give BellSouth an unnecessary advantage in the market place. Intermedia also opposes those reductions because they do not appear to be cost-based.

5) Introduce Area Plus for Business - $2.25m

Intermedia opposes this proposal because it would target business customers to give BellSouth an unnecessary advantage in the market place.

6) Eliminate usage charge on Remote Call Forwarding - $2.01m

Intermedia supports the reduction of the recurring rates for remote call forwarding, but only where such call forwarding is associated with number portability. Facilitating number portability promotes competition and benefits ratepayers generally.

7) Reduce DID recurring and non-recurring charges - $1.88m

Intermedia opposes this proposal as it would only widen BellSouth's competitive advantage. BellSouth has decided to reduce these rates and charges at this time for the same reason it has proposed PBX rate reductions: to lock out competition.

8) Credit for ECS routes implemented - $1.10m

Intermedia does not oppose this proposal. The Commission has previously determined the ECS routes in question to be in the public interest.

9) Reduce Business Line monthly rates in Rate Group 12 - $.62m

Intermedia opposes this proposal. Intermedia believes that while business rates may need to be reduced, basing the proposed reductions on inappropriate reductions in PBX rates would not promote competition or benefit the public generally.

10) Reduce Megalink interoffice rates - $.58m

Intermedia supports this proposal. These reductions would bring the rates closer to costs and thus it would be pro-competitive.

11) Reduce WATS and 800 Service access line charges - $.36m

Intermedia opposes reduction of WATS & 800 Service Access Line charges. These reductions would benefit only a small number of customers in a narrow slice of the competitive market. Also, these reductions do not appear to be cost-based.

12) Eliminate Secondary Service Order charge for WatsSaver - $.30m

Intermedia does not support the elimination of the Secondary Service Order charge for WatsSaver. BellSouth is again proposing a rate reduction that is not cost-based and that would not benefit the general body of ratepayers.

13) Reduce SNAC charges for Business - $.07m

Intermedia supports this proposal. These reductions would bring the rates closer to costs, and is pro-competitive.

14) Reduce DS-1 interoffice mileage rates - $48.09m

Intermedia supports this proposal, as it would also bring the rates closer to costs and is pro-competitive.

B) Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications:

1) Reduce PBX and DID trunk charges - $11.00m

Intermedia opposes this proposal. The restructure of PBX rates and the elimination or reduction of NRCs provide little or no relief for the average rate payer and only improve BellSouth's competitive advantage.

2) Eliminate the Residual Interconnection Charge - $35.00m

Intermedia does not oppose elimination of the RIC. Intermedia is concerned, however, that if the RIC is entirely eliminated, the lion's share of the available revenues will have been used to reduce access charges. As a matter of policy, the Commission might choose to use some of that $35 million elsewhere.

3) Reduce mobile interconnection rates - $2.00m

Intermedia does not oppose this proposal. This proposal would bring mobile interconnection usage rates closer to cost, which is pro-competitive.

C) Public Counsel: Establish a reserve fund to assist BST customers who have experienced problems with conversion to the 954 NPA.

Intermedia does not oppose this proposal.

D) FCTA: Eliminate nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

Intermedia supports this proposal. These reductions would facilitate interconnection and thus would promote competition.

E) Palm Beach Newspapers, Inc.: Reduce usage rates for N11 service to $.02 per minute.

ICI does not oppose this proposal.

MCI:

A) BellSouth Telecommunications, Inc.

The Commission should reject BellSouth's proposal. It reduces rates for Non-Basic services over which this Commission no longer has jurisdiction; it relies on dubious demand assumptions; it involves "strategic pricing" that should be funded by BellSouth's shareholders and not by past overearnings; and there is no rational basis to deaverage the RIC and CCL, which have no basis in cost.

B) Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications

The Joint Proposal should be approved for several reasons: by eliminating the RIC, it continues to implement switched access charge policy reform in Florida; by reducing PBX trunk rates, it corrects existing price inequities; by targeting rates that cannot be increased by BST in the short-term, it ensures a full $48 million revenue reduction; and it reduces rates to customers who paid the excessive rates that contributed to BST's overearnings.

C) Public Counsel: Establish a reserve fund to assist BellSouth Telecommunication, Inc. customers who have experienced problems with conversion to the 954 NPA.

The Commission should approve the Joint Proposal for the reasons discussed in Issue 1B, above.

D) FCTA: Eliminate nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

The Commission should approve the Joint Proposal for the reasons discussed in Issue 1B, above.

E) Palm Beach Newspapers, Inc.: Reduce usage rates for N11 service to $.02 per minute.

The Commission should approve the Joint Proposal for the reasons discussed in Issue 1B, above.

PBNI: The rate should be changed so that the N11 customer pays a flat rate of $0.01 per minute or the current monthly minimum, whichever is greater. This proposal would reduce the average per call cost to N11 customers from roughly $0.26 to a more cost-based level, while assuring BST ample contribution. Making N11 service more cost-based is a low cost, no-risk, and high gain proposal.

SPRINT: The three components of the Joint Proposal should be approved.

(1) The "make-whole" RIC rate element implemented under rate of return regulation should be eliminated.

(2) Reduction of PBX and DID rates will help to achieve consistency between functionally equivalent services, particularly with BellSouth's ESSX service.

(3) Reduction in mobile interconnection rates will achieve reasonable parity between IXC access charges and rates paid by mobile service providers.

OPC: The Commission should adopt the proposal by Mr. Garver and establish a reserve fund to assist customers of BellSouth Telecommunications, Inc., who experience problems with conversion to new area codes.

STAFF ANALYSIS: In its analysis, staff has first briefly described each of the items contained in BST's proposals and BST's rationale. Next, we have described the proposals of the other parties and their rationale. Following that is a summary of each of the parties' comments on others' proposals. Finally, we have presented staff's analysis and recommendations.

BST'S PROPOSAL

1) **Introduce zone density pricing to certain switched access rates.** BST has proposed to implement zone density pricing to some of its switched access rate elements. The concept of zone density pricing was approved by this Commission in DN 921074-TP, in the Local Transport restructure phase of that proceeding. Zone density pricing (ZDP), under the Commission's philosophy, essentially would allow BST to price various switched access rate elements more closely to their actual cost, if traffic or line density resulted in a lower per unit cost. Since Alternative Access Vendors (AAVs) could provide alternative means of transport for toll traffic, IXCs would have a choice of switched transport provider. This zone density rate design was introduced to allow the LECs to price their access services more competitively where cost justified. In Order No. PSC-95-0680-FOF-TP, the Commission required that LECs provide

certain specific types of cost analysis to support their ZDP proposals when filed.

With this filing, BST has proposed to actually offer ZDP on switched access for the first time. There are three zones, with zone 1 reflecting central offices with the highest density characteristics and zone 3 reflecting those with the lowest. (Hendrix TR 28-29) Thus each rate element has three different rates, depending on the zone to which each central office is assigned. BST has proposed that the existing rates be applied to Zone 3, and has proposed various lower rates for zones 1 and 2.

The Company has proposed zone rate differentials on the terminating Carrier Common Line (CCL) charge, the Residual Interconnection Charge (RIC), the DS-1 and DS-3 interoffice dedicated transport mileage rates, and tandem and local switching charges. BST has not proposed ZDP on the originating CCL, the switched transport local channel, voice grade switched transport, or the switched transport termination rates.

BST witness Hendrix explained that these particular rate elements were chosen "based on market pressures." He did not submit cost information with the initial filing, nor was any submitted in response to staff discovery specifically requesting it. Witness Hendrix testified that BST has done no cost analysis in support of zone price differentials although there may be cost differences between urban and rural areas. (TR 43)

2) **Reduce PBX and DID rates and introduce term contracts.** BST has proposed to collapse its 12 rate groups into three for purposes of setting new PBX trunk rates. Current rates range from $33.66 to $49.47. The proposed rates range from $33.00 to $44.00.

BST has also proposed to introduce term contracts for 24-48 months and for 49-60 months, in addition to keeping its existing month-to-month rates. Under the term contracts, rates in all rate groups for 24-48 month term contracts would be $34.00, and for 49-60 month term contracts would be $29.00. Under the proposal, if a customer cancelled service prior to the full term, the customer would be assessed a cancellation charge of either $480 (for a 24-48 month term) or $960 (for a 49-60 month term). The cancellation charge would be reduced by half if the customer cancelled more than halfway through the term of the contract. (EXH 7, p. 17)

BST states that this will "stabilize trunk rates for a selected time period" and "implement some of the Company's strategic pricing initiatives." (EXH 5, p. 7; EXH 6, p. 2) BST also states that these reductions are being proposed to respond to requests for rate relief. (EXH 6, p. 2)

3) **Waive certain business and residential Secondary Service Order (SSO) charges.** This proposal would permanently waive the SSO charge for the following vertical services:

Custom Calling services	Ringmaster service
Touchstar Service	Prestige Communications Service
Message Waiting Indication	Customized Code Restriction
Remote Call Forwarding	Designer Listings

BST states that the recurring charges would cover the costs normally recovered by the SSO charges. (EXH 5, p. 5) Current SSO charges are $10 for residential and $19 for business. BST cites "improved customer satisfaction and customer line retention in a fully competitive market" as reasons for this proposal.

4) **Reduce First Line Connection charge for Business customers.** BST has proposed to reduce the Service Connection charge element from $56 to $40. This would make it the same rate as that charged to residential customers. This charge applies to single lines, and the first line for trunks and ESSX-1 NARs. According to BST, the charge would be below cost, but recurring business rates in the aggregate would recover the costs. (EXH 5, p. 6) The proposal is made "to provide a benefit to business customers ... and will help reduce 'start up' expenses." (EXH 6, p. 2)

5) **Introduce Area Plus for Business.** BST states that this is an expanded local calling plan with a discounted toll feature. (EXH 6, p. 4) BST proposes to offer this service to new customers as well as to existing flat rate or message rate individual line, PBX trunk or NAR customers. This plan would consist of three geographic parts that would encompass all calls within the LATA.

a) **Basic Local Calling Area (BLCA)** - is the existing local calling area. In addition to the regular monthly flat rate, B-1 subscribers would be charged an increment ranging from $5.00 (RG 1) down to $.90 (RG 12) based on rate groups. PBX customers would pay an additive of $5.00 (RG 1) down to $2.00 (RG 12). ESSX customers would pay an additive per NAR of $3.00 (RG 1) down to $.14 (RG 12). The effect, among other things, would be to flatten out the traditional inclining rate group structure. Payment of these charges allow the subscriber to "buy" into the discounted rates below.

b) **Expanded Local Calling Area (ELCA)** - extends the BLCA to a 40-mile radius, including any ECS areas that extend past 40 miles. ELCA calls would be priced at $.08 per minute. Usage charges would be billed in six second increments with a 30 second minimum.

c) **IntraLATA Area** - would cover the remaining area from the ELCA boundary to the LATA boundary. These calls would receive a 30% discount off regular MTS rates. (EXH 5, p. 10)

6) **Eliminate usage charge on Remote Call Forwarding (RCF).** BST proposes here to eliminate the basic local usage rates for RCF. Current usage rates are $.06 for the first minute, and $.02 per minute thereafter. The usage rates apply for calls within the basic local calling area, between the call forwarding location and the terminating station, when RCF is provided. BST does not propose to eliminate the usage charges for non-optional extended local calling plans such as ECS and Local Calling Plus. (EXH 5, p. 11 & 37) BST states that RCF is the only one of its forwarding services that has a usage rate component. The company states the flat rate portion exceeds the cost of providing service. (EXH 6, p. 5)

7) **Reduce DID recurring and non-recurring charges.** BST has proposed to reduce the non-recurring installation charge to establish a trunk group and provide the first group of 20 numbers for Direct-In-Dialing (DID) Service from $915 to $55. The installation charge for each additional group of 20 numbers would remain at $15.00. BST has also proposed to reduce the installation charge for DID trunk terminations from $90 to $65, and the monthly recurring charge from $21.80 to $20. (EXH 5, p. 7 & 36) This is being proposed to provide rate relief and implement strategic pricing initiatives. (EXH 6, p. 2)

8) **Credit for ECS routes implemented.** ECS was implemented on eight routes between BST and independent company exchanges per PSC order in 1995:

DeBary to Winter Park
Panama City to Port St. Joe
Lake City to Sanderson
Lake City to Live Oak
Panama City to The Beaches
Lake City to MacClenny
Gainesville to McIntosh
Micanopy to McIntosh

In addition, routes for countywide EAS for Bay County, which were approved in DN 950700-TL, are listed below:

Lynn Haven to The Beaches
Lynn Haven to Tyndall AFB
Panama City Beach to The Beaches
Panama City Beach to Tyndall AFB
Panama City Beach to Youngstown-Fountain
Youngstown-Fountain to Panama City Beach
Youngstown-Fountain to The Beaches
Youngstown-Fountain to Tyndall AFB

Finally, the Commission also approved the Lake City to High Springs ECS route in DN 951098-TL. The annual revenue impact of implementing all these routes is approximately $1.1 million, which BST proposes be offset in this proceeding.

9) **Reduce Business Line monthly rates in Rate Group 12.** BST has proposed to reduce the B-1 rate in Rate Group 12 by $.10, from $29.10 to $29.00. The purpose of this reduction is to match this rate with BST's proposed rates for PBX trunks under a 49-60 month contract. The B-1 reduction would apply to toll terminals, independent payphone provider access lines, flat rate resale lines and 976 service access lines. BST also plans to reduce the Rate Group 12 rate for Back Up Line service from $14.55 to $14.50. (EXH 5, p. 9) According to BST, this will facilitate negotiations with customers and promotional activities for the service. (EXH 6, p. 4)

10) **Reduce Megalink Private Line interoffice rates.** The interoffice mileage rates for Megalink apply to that portion of a customer's end-to-end service furnished between central offices. BST proposes to reduce the mileage rates by $1.00 to $2.00 per mile depending on the term of the contract. The proposed rates would range from $28.80 per mile for a month-to-month contract to $18.50 per mile for a 73 to 96 month contract. (EXH 5, p. 13 & 47) BST states that the reductions are proposed to position interoffice channel mileage rates at levels more comparable to market factors. (EXH 6, p. 5)

11) **Reduce WATS and 800/888 Service access line charges.** The Company also proposes to reduce the monthly access line rates for dedicated access lines associated with WATS and 800/888 Services from $37.45 to $25.00 as a "strategic pricing move." (EXH 5, p. 42; EXH 6, p. 4)

12) **Eliminate the Secondary Service Order (SSO) charge for WATS and WatsSaver services.** BST proposes here to eliminate the SSO charge when a customer adds WatsSaver to his existing service. BST states that prices for WatsSaver exceed its cost. (EXH 5, p. 8) The purpose of these proposals is to make these services more competitive when business customers are considering alternative usage plans. In addition, eliminating the SSO charges would bring the service more in line with competitive toll services that do not charge customers to set up a usage commitment plan. (EXH 6, p. 4)

13) **Reduce certain Special Number Assignment Charges (SNAC) for Business.** The Company allows customers to utilize "vanity" numbers or "easy" numbers if they are available. Examples of vanity numbers are those which can spell out readily identifiable words on the dial pad. BST proposes to reduce the non-recurring charge for business "search only" requests from $10 to $5, and the business non-recurring charge for "search and assign" from $75 to $25. This would align the business and residential rates for these services. BST states that existing rates for this service provide a barrier to "other sales." (EXH 5, p. 35; EXH 6, p. 5)

14) **Reduce dedicated access DS-1 interoffice mileage rates.** The interoffice mileage rates for dedicated access DS-1 High Capacity services apply to that portion of a customer's end-to-end service furnished between central offices. BST proposes to reduce the mileage rates by $2.00 per mile. The proposed rates would range from $22.25 per mile for a 24-48 month contract to $18.50 per mile for a 73-96 month contract. (EXH 5, p. 13 & 47) BST states that the reductions are proposed to position interoffice channel mileage rates at levels more comparable to market factors. (EXH 6, p. 5) (EXH 5, p. 13 & 53)

PROPOSALS OF OTHER PARTIES

Joint Proposal of ATT, MCI, Sprint, FIXCA, Ad Hoc and ATT Wireless (AWS).

This proposal calls for the complete elimination of the Residual Interconnection Charge (RIC), the reduction of mobile interconnection usage rates, and the reduction of PBX trunk rates. *These parties endorse this proposal on the basis that it:* 1) benefits the most subscribers in a non-discriminatory manner; 2) reduces those rate categories where the current price is significantly greater than cost; 3) encourages a more competitive telecommunications market in Florida; and 4) directs the refund to those customers who have provided the most in excessive contribution over the years. (Metcalf TR 80; Maass TR 133; Wood TR 174)

Eliminate the RIC: The IXCs, FIXCA, ATT, MCI, and Sprint, are the primary advocates of this proposal. The RIC is a non-cost based element that originated in the interstate access tariffs, and was subsequently approved in Florida as part of the Local Transport restructure proceeding (DN 921074-TP). According to Sprint witness Vanderpool, the RIC was created, during the restructure of local transport, as a make whole element to maintain LEC revenue requirements under rate of return regulation. (TR 126) According to ATT witness Guedel, access charges in excess of incremental cost provide the incumbent monopolist with the opportunity to exact a contribution from any potential competitor that attempts to compete with an incumbent's retail service. (TR 153)

FIXCA witness Gillan states that reducing BST's switched access charges will promote competition in all phases of the telecommunications industry. He states that the federal Act is intended to fundamentally change the way in which telecommunications services are packaged and priced, such that the distinctions between local and toll services are blurred. Witness Gillan noted that BST's introduction of Extended Calling Service, generally called ECS, is a prime example of this development. To this end, switched access rates must be reduced to match local interconnection rates. This will allow carriers to compete with BST's expanded local/reduced toll offerings, and to allow them to develop offerings with different boundaries, in order to attract subscribers. (TR 110-112)

According to FIXCA witness Gillan, the consequences, if the difference between local and toll (access) interconnection rates is not eliminated, will be 1) that the competitive market will be limited to local and toll areas as currently defined by the incumbent LEC; and 2) auditing systems will be required to monitor and calculate the correct price for each minute that crosses the LEC network. (Gillan TR 110, 112)

Witness Gillan also argues that left to themselves, switched access rates will not be "competed down." With the exception of local transport, switched access rate elements (CCL, RIC, and Local Switching) will not be subject to sufficient competitive pressures to force prices down. This is because the IXC is required to use its toll customer's local carrier as its access provider. Thus even if end users have a choice of local carrier, the IXC does not have a choice of access provider, which, according to Gillan, takes the competitive pressure off of switched access. (TR 115) As evidence of this, witness Gillan cites examples in Maryland, Georgia, Michigan and New York where ALECs' access rates mirror or even exceed those of the incumbent LECs. (TR 115) Therefore, witness Gillan proposes that the Commission should first, reduce the CCL, and second, eliminate the RIC, in this proceeding. (TR 118-119)

MCI witness Wood argues that if BST is allowed to price its switched access rates above cost, then two things can happen. First, it can impose a price squeeze where the price of its retail toll services could be lower than the underlying access charges required to be paid by its competitors. Second, to the extent that it is allowed to recover a large portion of its "indirect" or joint and common costs from access or other monopoly functions, then other equally efficient or more efficient firms would not be able to enter the market. (Wood TR 169-170)

Sprint witness Vanderpool also argued that elimination of the RIC would help level the playing field for local competition. He noted that BST has negotiated different levels of RIC and CCL with different ALECs. For example, he states that the RIC is billed to Intermedia but MCImetro's agreement provides for no RIC and no CCL. Thus, eliminating the RIC now would help limit potential abuse by BST of its market power. (TR 127)

Elimination of the RIC, according to BST, would result in a 1996 revenue impact of approximately $34.3 million. (EXH 4)

Reduce Mobile Interconnection rates: ATT Wireless Service (AWS) is sponsoring the portion of the Joint Proposal that would reduce certain mobile interconnection usage rates by a total of $2 million. AWS states that this is appropriate because these rates are "greatly in excess of their cost." (Maass TR 135) Current price levels, according to Maass, discourage investment and are anticompetitive. (Ibid.) In addition, witness Maass appears to propose that the Commission in effect reverse its order in the Mobile Interconnection docket (DN 940235) which broke the formula link between Mobile Service Provider (MSP) usage rates and access charges. He argues that since there have now been two switched access reductions since that mobile interconnection order took effect from which the MSPs have not benefitted, the Commission should take steps to remedy that in this proceeding. (TR 137) Witness Maass states that the Commission should reexamine the current rates now because there have been significant changes by both the Florida Legislature and Congress that now mandate competition as a national policy. (TR 138) Witness Maass states that this Commission should work, as quickly as possible, to reduce interconnection rates so the full benefits of a competitive market can be brought to Florida's consumers. (Ibid.) Finally, witness Maass states that wireless end user rates have decreased over the last ten years and pledges that this trend will continue. (TR 139)

Reduce PBX and DID trunk rates: The Ad Hoc Telecommunications Users' Committee (Ad Hoc) is a group of large users of telephone service. There are currently 18 members who sponsor a witness in proceedings before the Commission. (Metcalf TR 79) In his testimony, Ad Hoc witness Metcalf has addressed the pricing of PBX and Direct-In-Dial (DID) trunks relative to that of BST's ESSX Service. PBX vendors compete with BST's ESSX Service, particularly for the large business user. Ad Hoc has proposed that PBX and DID trunks be reduced to a level that provides the same amount of contribution to shared and common costs as BST's ESSX Service. (Metcalf TR 85) According to witness Metcalf, PBX trunk service competes with ESSX, yet is priced significantly above its relative costs and above ESSX. "This unfair pricing differential hinders fair competition between PBX Service and ESSX service, and accordingly denies the full benefits of competition to the customer." (TR 83) Ad Hoc did not specify any amounts except that it, along with others participating in the Joint Proposal, proposed that the total reduction be $11 million to PBX & DID trunks.

Witness Metcalf suggested that the basic principles that should guide the Commission in its decision in this case are 1) the refund should be targeted to parties who have paid the most in excessive contribution and rates over the years, and 2) the refund should be effectuated in a manner that enhances competition as directed by the Legislature. To this end, Ad Hoc states that it is opposed to the PBX and DID reductions as proposed by BST in this case, even though BST's total reduction of $15 million is greater than that favored by Ad Hoc. (Metcalf TR 80) The reason for this, Metcalf argues, is that BST's proposal will "skew competition in business services in favor of BST ... and the proposed rate reduction inequitably favors new business customers whose payments did not contribute to the overearnings being refunded." (TR 81)

Witness Metcalf's difficulty with BST's PBX proposal lies with the term contracts, which he calls an attempt to "lock in" business users just when competitive opportunities are opening up. In addition, he states that BST will stifle competition by lowering rates for subscribers of <u>new</u> DID services by reducing and/or eliminating non-recurring charges for new or additional ESSX, MultiServe, and DID Services. This is because the new and expanding businesses represent one of the larger potential markets for suppliers seeking a foothold in the market. (TR 81)

OPC's Proposal on behalf of Broward County Economic Development Council.

OPC witness Garver testified on behalf of the Broward County Economic Development Council, requesting that the Commission set aside an "emergency source of funding" to be used at the discretion of the Commission to ensure that business customers are not "adversely affected" if they have to change their phone numbers because of area code changes. (Garver TR 86) Mr. Garver acknowledged that the Commission has addressed this issue with respect to the Broward-Dade area code split in DN 951160-TL. In that case, the Commission took note of difficulties experienced by businesses in the Broward area, which took the new 954 NPA. Broward County businesses were at risk of losing incoming domestic and international calls from systems that were only capable of recognizing NPAs with a 0 or 1 as the middle digit. Unless and until the old phone systems worldwide were upgraded, Broward County could lose business.

In Order No. PSC-95-1507-FOF-TL, the Commission ordered an interim relief plan that would allow subscribers in the 954 area code to obtain Remote Call Forwarding from offices in the 305 NPA at reduced rates. Thus, calls from systems that could not read the 954 NPA could still be received by Broward County businesses. Witness Garver is concerned, however, that the permissive dialing period only ended August 1, 1996, and that it is too early to determine how effective the Commission's steps will have been. Witness Garver states that it would be prudent for the Commission to set aside some of the available funds in case there are problems. (TR 87) He did not specify any particular problems that might arise and that the Commission could ameliorate with these funds. However, he identified an amount of $2 million, to be withheld until the Company, the Commission and customers can be certain that this problem is resolved without the need for additional funding. That is, the Commission would designate $2 million for area code relief, and it would be held until "all parties are comfortable that the area code problem no longer exists." (Garver TR 89)

He states that his concern is that we have no way of knowing whether business customers would continue to be disadvantaged by the change. "Under no circumstances should these business customers be required to pay higher rates to receive the same level of service they enjoyed prior to the implementation of the new area code." (TR 88)

FCTA's Proposal

FCTA has proposed that a portion of rate reductions be used to eliminate, or least reduce the non-recurring charges (NRCs) for interconnection trunks. FCTA witness Butler states that BST's prices for trunk ordering are several orders of magnitude higher in Florida than in other states. (TR 91) Witness Butler states that BST has elected price regulation under the provisions of Section 364, Florida Statutes, and that competition is intended to be the primary means of constraining BST's prices in the future. Without competition, price regulation amounts to a huge giveaway to BST. According to witness Butler, BST's current NRCs do not encourage competition. As has been done for others in the industry, witness Butler argues, part of the rate reductions should be used to remove a "very expensive barrier to entry." (TR 93-94)

Witness Butler specifically proposes that the NRCs for trunk side service in BST's switched access tariff be eliminated or, in the alternative, sharply reduced, on the basis that they do not encourage competition. (TR 91) The current NRCs are $915 for the first trunk and $263 for each additional trunk, per trunk group ordered. (TR 94)

Proposal of Palm Beach Newspapers, Inc. (PBNI)

PBNI witness Freeman proposes that BST's N11 Service price be reduced to more closely reflect its cost of service. (Freeman TR 183) He suggests a policy approach to pricing N11 in the "current regulatory environment." He suggests that when competition does not exist, the regulatory role should be to formulate a policy that will encourage the development of any competitive alternatives which may exist in the future. Meanwhile, the current regulatory role should be to ensure fair pricing to "captive" customers and to promote the introduction of new and innovative services. (TR 184-185) Fair pricing would be cost-based pricing, eliminating any cross-subsidies so that non-competitive markets can have reasonable price signals which promote growth and innovation. (TR 186) Freeman continues, saying that if the Commission believes that N11 Service is cross-subsidizing other services, then this proceeding would be a good opportunity to correct the problem. (TR 186)

Witness Freeman also discussed other non-cost based reasons for reducing N11 rates. He states that abbreviated dialing services (ADS) such as N11 will provide customers with local access to information services which are cheaper than other pay-per-call options. He argues that ADS is likely to bring about increased competition for information services generally, which should spur more options for consumers. (TR 187) According to witness Freeman, this will benefit non-ADS users by increasing BST revenues without a significant increase in costs. He believes that N11 Service is currently available but is underutilized. (TR 187) Finally, Witness Freeman states that although some market for N11 exists, the market will never reach its full potential unless "proper pricing signals" via cost-based rates are put in place. (TR 187-188)

According to witness Freeman, the rates for N11 service consist of a flat monthly minimum charge and a usage charge of $.10 per call or $.02 per minute, whichever is greater. Usage only applies after the monthly minimum charge is exceeded. (TR 190-191) Freeman proposes that the rates be reduced to reflect a charge of $.01 per minute to be applied after the minimum monthly charge is exceeded. He states that based on his examination of costs supplied in Georgia and elsewhere, this change would make N11 Service more cost-based, which would eliminate the cross-subsidy being provided by N11 to other customers, while guaranteeing a fair return. According to witness Freeman, making N11 service more cost-based is a low cost, no-risk, and potentially high gain proposal. (TR 194-195)

PARTIES' COMMENTS AND ANALYSES

Staff has summarized below all the comments by parties' on other parties' proposals. Parties did not necessarily address each proposal or position. Intermedia withdrew its testimony, and their post hearing position statements filed with their brief have been listed under the Positions of Parties. Staff did <u>not</u> reiterate these positions below.

1) On BST's proposals:

By members of Joint Proposal: The members of the Joint Proposal are opposed to BST's proposals in general on the basis that they fail to meet competitive objectives set out in Florida and federal statutes that seek to develop competition. BST's proposals not only hamper competition, but fail to adequately refund the overearnings to those parties who have paid the excessive rates. (Metcalf TR 81) BST's proposals will not reduce rates for bottleneck monopoly elements, and if left alone, reductions in prices for the competitive services proposed by BST, would be "virtually guaranteed." (Vanderpool TR 130) The BST proposal appears to be a strategic attempt to establish a rate structure for switched access that will perpetuate existing rate/cost distortions, shield BST from competitive pressures, and help to ensure that it retains monopoly control over the components of switched access. (Wood TR 163)

Specifically, such BST proposals as waivers of nonrecurring charges for secondary service orders and other service connection fees, as well as implementation of more extended local calling such as Area Plus, serve to make competition less viable by targeting one of the larger potential markets for the new competitive telecommunications suppliers. (Maass TR 142) BST's proposals also seek to expand and secure its own customer base by tying reductions to long term customer contracts, thus restricting a customer's ability to move. (Metcalf TR 81-82; Vanderpool TR 129; Maass TR 141)

FIXCA witness Gillan and MCI witness Wood oppose BST's proposed Zone Density Pricing differentials on the basis that any difference should be strictly cost-based or else it will be discriminatory. (Gillan TR 123; Wood TR 172) Witness Gillan states that BST's proposal to zone price the CCL and RIC is an attempt "to manipulate a non-cost based element in its access charges to maintain its market dominance." (TR 123)

Sprint witness Vanderpool took issue with BST's zone pricing proposals as well. He stated that although not opposed in principle to zone pricing, he believes that the Commission should use the overearnings to eliminate a non-cost based element. He further noted that if BST needs to use zone pricing to meet competitive pressures, it should be done outside this proceeding, and not as part of the stipulated reductions. (TR 128)

MCI witness Wood concluded: "[I]f BST is permitted to use the refunds from past overearnings to provide strategically targeted benefits to customers for which BST either experiences or expects to experience some level of competition, BST will have a distinct advantage in the market place." (TR 179) Acceptance of the BST proposal would delay entry of new competitors and the expansion of competitive alternatives. (Maass TR 141)

Staff notes that FIXCA witness Gillan, although opposed to BST's proposals with respect to the RIC, does agree with BST witness Hendrix that the reduction of the CCL is appropriate. (TR 118-119)

By PBNI. PBNI witness Freeman states that an example of a potentially anticompetitive side effect might occur if BST's PBX rate reductions and long term contracts reflect a "preemptive strike" through which BST locks up existing PBX business and forecloses competitors from bidding on it for several years. (TR 186)

By FEA. FEA intervened as a large user of telecommunications services. FEA witness Gildea opposes BST's proposals for PBX and DID services on the basis that they focus benefits primarily on new users rather than existing users by reducing Service Establishment and other nonrecurring charges for these services. (TR 101) Gildea notes that BST witness Varner proposed only a small reduction to the recurring monthly charge for DID trunks and none at all for DID numbers. (TR 101)

Witness Gildea also noted that BST's proposals to reduce NRCs for residential and business customers benefit only new customers or those making changes to their service. Witness Gildea states that BST concentrates too much on this group, and not enough on recurring charges that continue to be incurred by long-term users who have contributed to the levels of profitability that triggered the reductions in the first place. (Gildea TR 102) He also points out that the reductions are not, for the most part, cost based, citing as an example BST's proposed reduction for the New Line Connection charge that BST witness Varner testifies is below cost. (TR 102)

Witness Gildea states that the effect of BST's proposals is to restrict opportunities for competitors. New and expanding firms would naturally be evaluating their telecommunications options. Savings in upfront NRCs would provide a large incentive to stay with BST. (TR 102-103) Witness Gildea concludes that by concentrating reductions on NRCs rather than monthly charges, BST maximizes its chances of gaining new subscribers rather than benefitting present subscribers. (TR 103)

Witness Gildea endorses BST's proposal to reduce PBX trunk rates (from $21.80 to $20.00), but opposes the introduction of long term contracts, on the basis that it locks in customers. He does not oppose long term contracts in general, but does not believe that a lock-in proposal is appropriate as part of an overall rate reduction. (TR 103) He also contends that witness Varner's justification for term contracts as a response to customers' requests for rate stabilization appears "disingenuous." (TR 103) Term contracts do not provide stabilization unless rates tend to increase. Since PBX rates have been coming down, and since further decreases are expected, witness Gildea argues that the fixed charges would tend to benefit the company rather than subscribers. (TR 104)

BST witness Varner responded that BST has not proposed to lock in customers with its contracts. According to witness Varner, whether to pay the cancellation charge ($480 or $960 per trunk depending on the term of the contract) is simply an "economic choice" on the part of the end user in deciding whether to break the contract. (EXH 7, 17-18)

2) On the Joint Proposal.

By FEA. FEA witness Gildea did not make a specific proposal of his own, but noted that FEA supports the Joint Proposal as filed. (Gildea TR 104)

Eliminating the RIC.

By BST. BST witness Hendrix agrees with FIXCA witness Gillan that the CCL should be reduced, but disagrees that the RIC should be eliminated. (TR 35) He argues that, in addition to the CCL reductions that went into effect on October 1, 1996, BST has proposed to reduce certain access rates by about $16.2 million more here. According to witness Hendrix, the IXCs' request is "excessive." They should not expect such a high proportion of the total amount to be used to reduce access charges. (TR 36) He disagrees with witnesses Gillan, Wood, Guedel and Vanderpool that switched access charges should be reduced to cost-based levels, but he does not say why, other than that BST has reduced switched access rates by "nearly 76% since 1984." (TR 37)

Witness Hendrix also contests the assertions of witnesses Wood, Gillan and Guedel that the RIC has no cost basis. He cites the FCC's Local Transport restructure order, saying the FCC "apparently" recognized that the RIC recovers common transport and tandem switching costs that are not covered by the rates. He states that the RIC was established because the tandem switching and transport rates were intentionally set so as not to recover their full costs. (TR 37)

Staff would note here that what witness Hendrix says may be true for interstate transport rates, but that was not what was ordered in Florida. In Florida, LECs were required to have cost-based rates, as opposed to the FCC which allowed the then current interstate special access rates to be mirrored for switched transport. Therefore, witness Hendrix' argument is misleading. If BST did submit proposed rates in Florida that do not recover their costs, it did so contrary to Commission order. The cost data that BST provided and which staff reviewed showed that the rates fully recovered their stated costs plus a contribution. (Order No. PSC-96-0099-FOF-TP, DN 921074)

He also disputed witness Gillan's claim that "most elements of switched access ... are invulnerable to competitive pressures." (Gillan TR 11) Witness Hendrix argues that there are "many competitive pressures in the switched access market," stating that this Commission's approval of restructured local transport rates and expanded interconnection have encouraged AAVs to enter the market. He says that AAVs are displacing switched access and that witness Gillan's assessment is "not well thought through." (TR 42-43) Staff would note several things here. First, while expanded interconnection allowed AAVs to provide switched transport in competition with the LECs, the restructure of local transport rates was the LECs' competitive response to this new market pressure. Second, witness Gillan specifically stated that, <u>with the exception of the local transport component of switched access</u>, the remaining rate elements (local switching, CCL and RIC) are not subject to competitive pressure because the IXC's access provider will be the end-user's LEC. (Gillan TR 115) Witness Hendrix' rebuttal cited local transport competition and did not address the point raised by Gillan.

<u>On generally reducing PBX and DID rates.</u>

by FEA. Witness Gildea briefly compared the PBX/DID proposals submitted by BST and by Ad Hoc. He noted that, if all other conditions were equal, he would have preferred the $15 million reduction proposed by BST (as opposed to the $11 million by Ad Hoc). He stated, however, that the procedure for applying the reduction is more important than the $4 million difference. Hence he recommends that the Commission adopt the Ad Hoc proposal. (TR 104)

by BST. BST witness Varner did not comment specifically on Ad Hoc's proposal for across the board reductions to recurring PBX trunk charges. However, he disputes all the intervenors' arguments against BST's proposed PBX and DID rate reductions, saying that "all of the intervenors favor those reductions which reduce their costs, increase their margins and make their services more economically viable." (TR 63) He alleges a "general consensus" among the parties that PBX and DID rate reductions are appropriate "if the motive is not one of seeking a competitive advantage." (TR 64) He does not explain this rather remarkable statement, but one possibility might be his understandable irritation at parties' (including PBX customers) objections to being tied into term contracts. Most parties have favored Ad Hoc's general proposal for across the board reduction to recurring trunk rates, and have opposed BST's proposal for NRC reductions and term contracts for PBX service.

On reducing Mobile interconnection usage rates.

by BST. BST witness Varner opposed AWS' proposal to reduce mobile usage rates, noting the most recent Commission proceeding, and the fact that there is (or was at the time) an appeal to the Florida Supreme Court pending. Witness Varner simply states that the outcome is best handled through the legal process. (TR 74) The Court has now ruled, upholding the Commission's decision in that docket. Nevertheless BST would not propose further reductions to mobile interconnection usage rates at this time. (EXH 7, p. 11)

3) On OPC/Broward Economic Development Council's proposal.

by BST. Witness Varner has described the difference between the Special RCF offering established for use in NPA splits, and the proposed rate reductions to the regular RCF offering in this proceeding. Essentially, one has nothing to do with the other, and nothing in BST's proposal affects the Special RCF offering in any way. Witness Varner did state that when the Special RCF offering expires in an area, subscribers who choose to take the regular offering will benefit to the extent that everyone else does, i.e., local usage charges would be eliminated. (TR 75)

by AWS. AWS opposes this plan on the basis that it is not appropriate to set up a fund on the assumption that there will continue to be long term problems. (Maass TR 143)

4) On FCTA's proposal.

by BST. BST witness Hendrix opposes the use of these funds to eliminate non-recurring charges (NRCs) for interconnection trunks. He states that installation costs are appropriately recovered through such charges, and the charges reflect costs incurred to perform these functions. (Hendrix TR 32) He also argues that end users should be the ones to benefit from the required rate reductions, and that eliminating these charges does not benefit end users. (TR 32)

5) On PBNI's proposal to reduce N11 rates.

by BST. BST witness Varner opposes PBNI witness Freeman's projection of N11 services as a "small, almost cost free laboratory in which information services of the future can be developed." (Freeman TR 188) He states that N11 is not the proper service for such market trials or experimentation. Witness Varner believes that a seven-digit local number would be more appropriate because of the costs to activate and disconnect an N11 Service. (Varner TR 71) Witness Varner states that there have been 51 applications for N11 codes in Florida since the service was introduced. There is currently a waiting list for N11 codes in the major market areas. (TR 71-72)

by AWS. AWS opposes this proposal not because it contests witness Freeman's points on the importance of proper pricing signals, but because the excessiveness and longevity of the rates for access charges, PBX/DID and MSP usage would require that the Commission focus on these rates at this time rather than on N11 pricing. (Maass TR 143)

STAFF ANALYSIS OF PARTIES' PROPOSALS

BST's proposals.

1) Applying ZDP to certain switched access rates. This Commission held a full evidentiary proceeding in the Expanded Interconnection/Local Transport restructure docket. Zone Density Pricing was thoroughly addressed, and the requirements were specified in Order No. PSC-95-0034-FOF-TL. BST has chosen to ignore these requirements by proposing strategic pricing differentials unrelated to cost differences. Staff does not believe that this is appropriate. BST's justification that it "makes good business sense" begs the question. Staff cannot endorse a proposal that violates this Commission's explicit directive. If BST believed that ZDP is warranted it should have provided the cost support required by Order No. PSC-95-0034-FOF-TL, in DN 921074. We recognize that, after this proceeding, BST may adjust its switched access rates downward in any manner it chooses. Staff does not believe that it should be funded by the amounts at issue in this proceeding.

2) Reduce PBX and DID trunk rates and introduce long term contracts.

Although witness Varner says he made his proposals in response to industry requests for "rate relief" and "price stabilization," staff notes that the two major representatives of PBX users in this case (Ad Hoc and FEA) are adamantly opposed to BST's proposal. PBX rates have not increased since divestiture in 1984, and have decreased from approximately $65 to $49 in RG 12 during that time.

Staff would also note that the large business users who filed testimony in this case are vehemently opposed to the BST's term contract proposal. The way in which the terms of the tariff are set out, if a term contract subscriber cancelled service less than half way through the term, the cancellation charge would outweigh the savings on the reduced PBX trunk rates. If the customer cancelled more than half way through the term of the contract, the savings would outweigh the cancellation charge. Assuming a competitive alternative arose, a customer's decision to break the contract with BST and pay the cancellation charge would also hinge on the rates offered by the competitor. Staff agrees with the other parties that the PBX term contracts as proposed will primarily benefit BST and not its customers. Staff is not persuaded by BST witness Varner's argument concerning the desires of the industry. Moreover, we believe that BST will implement these reductions of their own volition, because it will serve their competitive interests, and thus does not need Commission permission in this proceeding to do so.

BST proposals 3-5, 7, 9-14.

Staff believes the evidence shows that the following BST proposals are, for the most part, made to promote its own competitive interests. BST is certainly authorized under state law to implement any of these rate reductions, but as discussed below, staff believes that it will do some or all of these on its own, without the benefit of offsetting the impact by use of the funds at issue in this proceeding.

3) Waive certain residential and business Secondary Service Order charges.
4) Reduce First Line Central Office Connection Charge for Business.
5) Introduce Area Plus for Business.
7) Reduce DID recurring and non-recurring charges.
9) Reduce certain B-1 rates.
10) Reduce Private Line Megalink mileage rates.
11) Reduce WATS and 800/888 Service Access Line charges.

12) Eliminate Secondary Service Order charge for WATS and 800/888 Services.
13) Reduce Special Number Assignment Charges.
14) Reduce DS-1 interoffice mileage rates.

6) Eliminate usage charges on Remote Call Forwarding. This proposal generated little response by other parties in this proceeding. This proposal, if approved, will not affect the issues or rates in DN 950737, the Commission's interim number portability proceeding. Neither will it affect rates paid by subscribers in the Broward County area for the Special RCF tariff for NPA conversions. This is because BST's proposal would eliminate only local usage, and 954 to 305 RCF calls are ECS routes. BST plans to continue charging for ECS calls under this proposal. The revenue and cost data filed shows that revenues from this service would still provide a substantial contribution in excess of the stated costs, even after revenues from local usage charges are eliminated. (EXH 4)

There may, at some point, be NPA conversions that involve local calling areas. If that occurs, eliminating local usage rates would serve to mitigate the impact of any RCF costs to end users if there are still difficulties with older technology equipment.

8) Offset impact of ECS implementation. Traditionally, the Commission has allowed BST to offset the costs of implementing EAS and ECS routes during overearnings or other revenue reduction proceedings. BST has requested recognition of eight routes implemented in 1995. In addition, the Bay County and Lake City/High Springs routes were implemented in 1996 per Commission orders PSC-96-1025-FOF-TL (August 7, 1996) and PSC-96-0727-FOF-TL (May 29, 1996). Staff recommends BST be allowed to offset these revenue impacts here.

The Joint Proposal.

1) Eliminating the Residual Interconnection Charge. Traditionally, switched access charges have been priced substantially above their cost. Access charges have been reduced substantially since their inception in 1984, yet they remain a very large source of contribution. For example, ATT witness Guedel notes that the cost per minute for switched access is approximately $.002 to $.0025 per minute. Even with the $40 million reduction effective October 1, the current BST rate is about $.03 per minute. According to witness Guedel, this mark-up is 12 to 15 times the cost, and is

"significantly higher" than the mark-up on any other major revenue producing service offered by BST. (TR 151)

As the Commission is aware, Florida and all states are actively engaged in proceedings that will determine rates, terms and conditions for local service provided on a competitive basis. Rates for local interconnection will not be priced in the same fashion as switched access has been. These rates recover the cost of terminating a local call on the LEC network. Switched access rates recover the cost of terminating a toll call on the LEC network. The network over which the toll and local calls are terminated is one and the same. Staff agrees with the IXCs that the difference between switched access rates and local interconnection rates, which at the moment is substantial, cannot be maintained. In comments to the FCC, BST has also recognized that there needs to be a "common model for interconnection that is not based on classification of carriers as LECs, IXCs, CMRS, or ESPs." (BST Comments, FCC Docket No. 96-98 at 63; TR 111-112)

This Commission has recognized, in its own state local competition proceedings, that the RIC should be eliminated as quickly as practicable. (Order No. PSC-96-0668-FOF-TP, DN 950985). In addition, the FCC has initiated an Access Charge reform proceeding that it seeks to have completed by May 8, 1997. (FCC Docket 96-98, Order 96-325, p. 8)

Witness Gillan argues that this is this Commission's last opportunity to require BST to reduce its access charges and that under the terms of Chapter 364.163, BST will soon legally be able to increase switched access. Although BST witness Hendrix states that he "knows of no plans" to do so, this begs the question of whether or not it will happen. Based on this, staff does not believe that an industry consensus exists as to whether LECs will or will not have sufficient competitive incentive to reduce switched access rates on their own initiative. Staff believes that it is necessary to do so, and to do so quickly. To reduce the CCL and eliminate the RIC in this proceeding has several benefits.

First, to the extent ALECs mirror LEC access rates, it would be preferable to have as few non-cost based elements as possible in the rates. In that way, we avoid the anomalous situation in which both ILECs and ALECs are collecting switched access rates that are substantially above cost. This does not promote a competitive or efficient market.

Second, we agree that a substantial difference in rates for terminating a local vs. a toll call on the same network will require time, effort, and expense to calculate, bill, and audit.

Nevertheless, it will have to be done if separate sets of rates are retained. In addition, the incentives to arbitrage and bypass access charges are evident. This Commission has had substantial experience with audit problems as a result of differences in access charges between the interstate and intrastate jurisdictions.

Third, to the extent that switched access reform and the development of a Universal Service Fund in Florida will coincide, it would be preferable to have as little as possible in the way of Universal Service support requirements. BST has known of the rate reductions in this proceeding for three years. Staff agrees with Sprint witness Vanderpool that removing this non-cost based charge will give BST the opportunity to move prices closer to cost with no additional revenue loss over what has already been agreed to in the Stipulation. (TR 127) The result should be less demand for potential USF support. Witness Guedel notes, however, that even with the elimination of the RIC, switched access rates will still be more than 10 times their cost. (TR 152)

2) Reducing PBX/DID recurring and non-recurring charges. Although staff agrees with the parties that Ad Hoc's proposal to generally reduce PBX and DID trunk rates is less competitively biased than that proposed by BST, staff does not believe that reducing PBX and DID trunk rates is appropriate as an offset to the 1996 reduction amounts. As stated earlier, staff believes that these rates will be reduced voluntarily by BST as competition develops. BST witness Varner himself testified that he believes that competition will develop very rapidly. (EXH 7, p. 20)

3) Reducing mobile interconnection rates. Staff is unpersuaded by AWS witness Maass' argument concerning the relationship of access prices to mobile interconnection usage rates. We disagree that these rates are higher than terminating access; for the most part, they are not. The one rate that Maass cites as an example, the Land-to-Mobile (LTM) option, is a service that the MSP may utilize at its discretion. Moreover, the LTM option was established at the request of cellular carriers in DN 870675-TP. It allows an MSP, at its option, to pay the toll charges that would otherwise be assessed to the originating land line user if he dialed a mobile number that happened to be a toll call. (This would happen if the MSP's switch was located outside the local calling area of the caller.) MSPs (or their customers) prefer that land line callers avoid such charges since they are sometimes a surprise and often unwelcome. In DN 870675, LECs agreed, in lieu of billing the end user toll charges, to bill the MSPs at a lower rate. Thus LECs voluntarily agreed to taking a lower rate than toll. Today's LTM

rate is still lower than toll. Even if the LTM rate is slightly higher than access today, staff does not believe MSPs are losing the marketing benefit afforded by the LTM option. (See Order No. 20475 in DN 870675-TP.)

Moreover, Witness Maass stated that the new Act and the FCC rules will require that BST and all LECs make substantial changes in mobile interconnection to the benefit of the carriers and consumers. (Maass Tr 144) We expect to begin receiving arbitration requests from MSPs, particularly in light of the Eighth Circuit's reconsideration to allow MSPs and other carriers to initiate proceedings to establish reciprocal compensation. The FCC has defined MSPs as telecommunications carriers, and they are thus eligible to request interconnection under Sections 251 and 252 of the Federal Act. (EXH 7, p. 12) Staff believes that they will be making such requests. Therefore, we believe that since the Commission will be visiting this issue if arbitration is requested, and that granting AWS' proposal will in no way avoid or lessen that possibility, staff recommends that BST's 1996 funds not be used to implement MSP rate reductions.

Setting aside $2 million for 954 area code problems.

Although witness Garver's testimony discusses area code conversion problems in a generic sense, it appears that he is proposing the $2 million be applied specifically to problems associated with the 954 conversion. For example, he states that the Special RCF "interim" tariff that was approved in DN 951160-TP, is scheduled to expire at the end of this year. (TR 88) In fact, the tariff itself is not scheduled to expire, but Broward County subscribers' eligibility to take service under it will end in January, 1997 since the five month eligibility period will have expired. (EXH 7, p. 33)

Staff disagrees with witness Garver's viewpoint that Broward County subscribers should remain unaffected by the change. The NPA relief mechanisms that are taking place nationwide are the direct result of increased demand for telephone numbers. NPA relief is necessary to keep up with this demand, and no one can be shielded from the effects. Adjustments will be necessary, and there will be some negative impacts, but the alternative, i.e., to block calls or not increase the supply of phone numbers, would create a more severe economic problem than the one that is created by the NPA relief itself. Therefore, staff does not believe it is appropriate to attempt to make all impacts from NPA changes invisible to the end users.

Witness Garver is not entirely correct about the "interim" Remote Call Forwarding tariff. Contrary to his testimony, the flat monthly charge of $12.00 is neither reduced nor temporary. It is the regular permanent rate, and will not expire. The only charges that have been waived under the interim tariff are the usage rates. However, the interim tariff has had only five subscribers to date. (EXH 8) Staff has received no requests to continue the interim tariff from the Broward community. Every effort has been made to notify owners of PBXs and other systems world-wide to upgrade their equipment. We do not believe, in any event, that the creation of a reserve fund is warranted or fair. If there are future problems that require the Commission's attention, those problems will be addressed, as in the case of Broward County. That solution was accomplished without a reserve fund. Future cases, if any, will be handled similarly. Staff recommends that the Commission not set up a reserve fund for NPA conversion problems for 954 or any other NPA. It should decide that problems will be handled as needed on a case-by-case basis.

Eliminating or reducing non-recurring charges for interconnection trunks.

Staff does not agree with FCTA that these NRCs should be eliminated. FCTA provided no rationale other than that the charges do not promote competition. (Butler TR 91) In her testimony, FCTA witness Butler did not address the issue of whether any non-recurring costs exist. In his rebuttal, BST witness Hendrix only vaguely states that installation costs are appropriately recovered by these charges, and the charges "reflect" the costs incurred. (TR 32) Staff does not interpret this statement that the charges are based closely on costs.

However, staff would note that BST has proposed to reduce the NRCs to establish a business end user's entire DID trunk group from $915 to $55. Thus while an ALEC itself is required to pay $915 and $263 for each trunk within a trunk group, BST end users will pay $55 to establish an entire trunk group. Unfortunately, neither BST nor FCTA provided cost data on the NRCs that ALECs pay for interconnection trunks. However, staff believes there may be an anti-competitive bias to BST's proposed rate relationships.

In response to staff's requests for priceouts, BST merely provided a list of "proposed non-recurring charges for these services." (EXH 4) BST did not state in what context (docket or negotiation proceeding) these proposals were being made, whether or to what extent they addressed the needs of FCTA, their underlying costs, the expected demand, or revenue impact. While we recognize the time and resource constraints that currently exist, staff nevertheless considers this to be unresponsive. We believe that it was well within BST's capabilities to provide the requested information, and to provide a better description.

However, we also believe that the ALECs represented by FCTA have had opportunities to negotiate the prices they pay BST. FCTA noted that Time Warner's agreement with BST included provisions for ordering interconnection trunks out of interstate access tariffs. (TR 94) If these are not appropriate, they should not have been accepted. The arbitration process is available.

Although staff has not recommended that the funds at issue in this proceeding be used to offset BST's proposed rate reductions to DID non-recurring charges, we believe that BST will do so in the near future on its own initiative due to competitive pressures. Staff concludes that the issue of non-recurring charges assessed to ALECs needs to be addressed, but that there was inadequate support in the record to do so here.

Reducing N11 rates.

Witness Freeman suggests that price reductions for N11 Service usage might stimulate those, presumably non-major, markets, where they are not already saturated. (TR 187) While this may be true, staff agrees with BST witness Varner on this point, that if there were truly a recognizable or potential demand, current Florida tariffs provide opportunities to offer information services with seven-digit numbers such as vanity numbers. (EXH 7, p. 43) This would be less expensive than even the rates that witness Freeman proposes in that there could be no usage charges at all. From this, staff concludes that Mr. Freeman's interest lies with the N11 or three digit number itself.

Of the ten possible numerical combinations of N11 numbers, only about five or six are commercially available for N11 Service for a given local calling area. (EXH 7, p. 41) This means that, at any one time, there can be a maximum of five N11 providers in a local area. At current rates, there are waiting lists for N11 numbers in the "major markets," which were not specifically identified in this case. (EXH 7, p. 41-42) Witness Freeman presented no argument that there is a demand for N11 offerings in smaller markets at any price. BST did not present any evidence as to the "take rate" in smaller areas, beyond saying there was a waiting list in the major areas. (EXH 7, p. 42) As stated, staff believes that seven digit numbers can and would be used if there were perceived demand for such information services.

Given the forthcoming requirements that LECs offer their services for resale by ALECs, staff believes that it is possible that information services providers will have opportunities to purchase N11 service from alternative providers in the future. When that occurs, ISPs would have the opportunity to select a provider of N11 Service. At any rate, staff does not recommend that the funds at issue in this proceeding be used to reduce N11 Service usage rates.

RECOMMENDED RATE REDUCTIONS

There have been numerous proposals addressing a wide variety of rates and services. It is safe to say that each proposal would in some way inure to the benefit of the sponsoring party, competitively or financially, all testimony concerning the impending benefit to mankind aside. Staff believes that this last round of rate reductions required under Order No. PSC-94-0172-FOF-TL, should be undertaken with the idea that those services which will promote effective competition and which will not necessarily be voluntarily reduced by BST, should be addressed with these funds. As noted above, staff believes BST has opposed these types of reductions because they will not advance its own competitive position. Staff recognizes BST's interest in protecting its own market share. It is a rational response from BST, but the Commission must be concerned with its own mandate to foster the development of a competitive market, and to serve the public interest.

To approve the use of these funds to make reductions that BST would make anyway to serve its competitive interests is unnecessary. Moreover, staff would note that last year the Commission authorized the use of $25 million in unspecified rate reductions to implement virtual LATA wide ECS in the Southeast LATA. The effect of this was essentially to convert every toll route in that market to local. This enhanced BST's competitive position substantially. Now, there are several other areas which need attention to be addressed to comply with the directives of the Federal Act and FCC Order. It is not possible to resolve all the telecommunications pricing and other competitive issues facing this Commission. A start, however, can be made.

As shown below, staff has recommended a total of $40.7 million to address the unspecified rate reductions.

Staff has recommended the elimination of the RIC and a further reduction to the CCL for all the reasons discussed above. We believe that implementation of access charge reform, the universal service funding mechanism, and separations reform on the federal level, will have a significant impact on local rate payers. Staff's recommendation here will serve to mitigate that impact, with the least incremental effect on BST as possible.

We have also recommended approval of BST's proposal to eliminate the local usage charges on BST's Remote Call Forwarding service on the basis that it does not appear to negatively affect the emerging competitive market, and it may at some point serve to ameliorate future NPA conversion problems for BST customers in Florida.

In addition, we have recommended approval of BST's request to acknowledge the impact of ECS implementation costs in 1995 and 1996.

Finally, staff has incorporated an adjustment to the revenue impact of the CCL reduction that was approved provisionally effective October 1, 1996. In Order No. PSC-94-0172-FOF-TL, the estimated 1996 impact was $35 million. BST estimated $40 million at the time of its filing in May. The most recent demand forecast shows the impact to be $43.3 million. (EXH 14) Staff recommends that the most recent forecast data be used and that the provisional decision be made permanent.

Staff recommends the following:

<u>Unspecified:</u>		
1) Eliminate the RIC	$34.3 million	
2) Reduce the CCL	3.3 million	
3) Eliminate usage on RCF	2.0 million	
4) Credit for ECS routes	<u>1.1 million</u>	
		$40.7 million
<u>Specified Switched Access:</u>		
5) Updated forecast on impact of 10/1/96 switched access reduction filing	$ 3.3 million	
6) Filed impact of 10/1/96 switched access reduction filing	40.0 million	
		<u>$43.3 million</u>
Total 1996 amount per Settlement		**$84.0 million**

ISSUE 2: To the extent the Commission does not approve the plans proposed by BellSouth, Public Counsel, FCTA, Palm Beach Newspapers, Inc./Florida Today and AT&T, MCI, Sprint, FIXCA, AD Hoc and McCaw, how should the Commission implement the scheduled rate reduction?

STAFF RECOMMENDATION: Staff and the parties have addressed all the proposals, issues, positions, and alternatives on the disposition of the 1996 unspecified amounts, in Issue 1. Therefore, if the Commission approves staff's recommendation in Issue 1, this issue is moot.

POSITIONS OF PARTIES

SBT: As noted in its response to Issue No. 1, BellSouth encourages the Commission to adopt BellSouth's proposal.

ATT: The Commission should adopt the proposal co-sponsored by AT&T. Whatever selection the Commission makes should focus rate relief on those Bell South rate elements that are: 1) in excess of cost today, and 2) not likely to positively influence competition or frustrate competition if rates remain at current levels.

AWS: The Commission should approve the Joint Proposal. To the extent there is money available for additional rate reduction, the Commission should apply them to mobile interconnection usage rates as if the linkage with access charges had not been broken.

FEA: The Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw should be approved, but the FEAs do not object to Public Counsel's proposal to establish a fund to assist BellSouth Telecommunications customers who have experienced problems with conversion to the 954 NPA.

AD HOC: Ad Hoc submits that the Commission should adopt the proposal of the joint parties. To the extent the Commission declines to adopt the Joint Proposal, however, the Commission should move rates as close as possible to the rate levels advocated in the Joint Proposal, including PBX and DID rates.

FCTA: The Commission should take such action as is necessary and appropriate to promote local exchange competition.

FIXCA: The Commission should approve the Joint Proposal. However, if it does not, it should focus the reduction on services that are priced in excess of cost and should ensure that any reductions are not anticompetitive and do not benefit BellSouth through the strategic pricing.

ICI: The Commission should also reduce the local channel for (a) LightGate, MegaLink and SynchroNet services and (b) the corresponding High Capacity Service and Digital Data Access Service services.

MCI: The Commission should approve the Joint Proposal. If it does not approve the Joint Proposal, it should ensure that the reductions are used to eliminate pricing anomalies and not to benefit BellSouth through strategic pricing of newly competitive services.

PBNI: No position.

SPRINT: Sprint adopts the post-hearing positions of FIXCA.

OPC: If the Commission applies some of the unspecified rate reductions to access charges, the Commission should require IXCs to flow through the reductions to their basic toll rates (MTS). To the extent the Commission does not adopt any of the proposals, the Commission should reduce local rates.

STAFF ANALYSIS: In its brief, ICI introduced a completely new proposal under this issue. There was no record support for this, and other parties have not had an opportunity to respond. Staff believes that ICI's proposal is not appropriate and should not be considered in this proceeding.

Staff and the parties (except as noted above) have addressed all the proposals, issues, positions, and alternatives on the disposition of the 1996 unspecified amounts, in Issue 1. Therefore, if the Commission approves staff's recommendation in Issue 1, this issue is moot.

ISSUE 3: What should be the effective dates of the approved tariffs?

STAFF RECOMMENDATION: Pursuant to the terms of the Settlement, the rate reductions were to have been effective October 1, 1996. In the event that the effective date is delayed, BST agreed to provide refunds in the same manner as was done in DN 880069-TL for the period of the delay. Therefore, staff recommends the following:

1) Tariffs implementing the Commission's decision in Issue 1 should be filed no later than January 13, 1997 to become effective five days after correct tariffs have been filed.

2) Refunds, including interest, should cover the pro rated portion of $44 million for the period October 1, 1996 through the effective date of the tariffs.

3) Refunds should be made, based on access lines, pro rata according to rate level, to customers of record as of November 30, 1996. ESSX customers should receive refunds based on applicable Network Access Register rates. Subscribers who pay usage rates plus some percentage of the equivalent flat rate should receive refunds based on either the applicable flat rate surrogate if there is one, or, if no tariffed flat rate surrogate exists, the full equivalent flat rate.

4) Refunds should be distributed with billing cycles beginning on or after February 1, 1997 through March 1, 1997, or as soon thereafter as possible.

5) Reports on the status of the implementation of the refund should be filed in accordance with Rule 25-4.4.114, Florida Administrative Code.

6) In addition, Rule 25-4.114, FAC requires the following:
a) Refunds must be made within 90 days of the final order.
b) Motions for reconsideration do not delay refunds unless a stay is requested and granted.

7) BST should provide full documentation of its calculation of the specific refund amounts.

POSITIONS OF PARTIES

SBT: Tariffs were filed by BellSouth on May 31, 1996. These tariffs should be approved, and the effective date should be October 1, 1996.

ATT: The effective dates of the approved tariffs should be within 30 days of the issuance of the final order in this docket.

AWS: The rate reductions approved by the Commission should be effective 30 days from the Commission's final order in the docket.

FEA: The effective date should be October 1, 1996.

AD HOC: The effective date of the tariffs should be as soon as possible. However, refunds should be issued to customers for the period beginning October 1, 1996 and ending on the effective date of tariffed rate reductions.

FCTA: The effective date should be October 1, 1996.

FIXCA: The tariffs should be effective as soon as possible but no later than January 1, 1997.

ICI: No position.

MCI: The rate reductions should be effective on the date of the Commission's vote.

PBNI: No position.

SPRINT: Sprint adopts the post-hearing positions of FIXCA.

OPC: The tariffs should be effective as soon as possible.

STAFF ANALYSIS: Pursuant to the terms of the Settlement, the rate reductions were to have been effective October 1, 1996. In the event that the effective date is delayed, BST agreed to provide refunds in the same manner as was done in DN 880069-TL for the period of the delay. Therefore, staff recommends the following:

1) Tariffs implementing the Commission's decision in Issue 1 should be filed no later than January 13, 1997 to become effective five days after correct tariffs have been filed.

2) Refunds, including interest, should cover the pro rated portion of $44 million for the period October 1, 1996 through the effective date of the tariffs.

3) Refunds should be made, based on access lines, pro rata according to rate level, to customers of record as of December 1, 1996. ESSX customers should receive refunds based on applicable Network Access Register rates. Subscribers who pay usage rates plus some percentage of the equivalent flat rate should receive refunds based on either the applicable flat rate surrogate if there is one, or, if no tariffed flat rate surrogate exists, the full equivalent flat rate.

4) Refunds should be distributed with billing cycles beginning on or after February 1, 1997 through March 1, 1997, or as soon thereafter as possible.

5) Reports on the status of the implementation of the refund should be filed in accordance with Rule 25-4.4.114, Florida Administrative Code.

6) In addition, Rule 25-4.114, FAC requires the following:
a) Refunds must be made within 90 days of the final order.
b) Motions for reconsideration do not delay refunds unless a stay is requested and granted.

7) BST should provide full documentation of its calculation of the specific refund amounts.

ISSUE 4: Should this docket be closed?

RECOMMENDATION: No, this docket should remain open pending appropriate tariff filings and handling of confidential documents, as well as completion of audits for 1995 and 1996 sharing amounts.

STAFF ANALYSIS: This docket should remain open pending appropriate tariff filings and handling of confidential documents, as well as completion of audits for 1995 and 1996 sharing amounts.