

FLORIDA PUBLIC SERVICE COMMISSION
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MEMORANDUM

May 7, 1998

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FPSC - Records/Reporting

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

FROM: DIVISION OF COMMUNICATIONS (OLLILA) A.D. *W*
DIVISION OF LEGAL SERVICES (BEDELL) *GNB*

RE: DOCKET NO. 980459-TP - FLOW-THROUGH OF 1998 LEC SWITCHED
ACCESS REDUCTIONS BY IXCS, PURSUANT TO SECTION
364.163(6), F. S.

AGENDA: MAY 19, 1998 - REGULAR AGENDA - PROPOSED AGENCY ACTION -
INTERESTED PERSONS MAY PARTICIPATE

CRITICAL DATES: NONE

SPECIAL INSTRUCTIONS: S:\PSC\CMU\WP\980459TP.RCM

CASE BACKGROUND

During the 1998 Legislative Session, the House and the Senate passed revisions to Section 364.163(6), Florida Statutes, including a new revision that modifies existing requirements for switched access rate reductions and the flow-through of those reductions to customers. As of this writing, the legislation has not become law. Since staff anticipates that it will become law, and staff has a short time frame for implementing the first scheduled reduction (July 1, 1998), staff is filing this recommendation now. The Order resulting from this recommendation is not scheduled to be issued until the time for the governor's veto has passed.

The 1998 revision to Section 364.163(6), Florida Statutes, requires that:

Any local exchange telecommunications company with more than 100,000, but fewer than 3 million, basic local telecommunications service access lines in service on July 1, 1995, shall reduce its intrastate switched access rates by 5 percent on July 1, 1998, and by 10 percent on October 1, 1998.

The 1998 revision also requires that:

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Any interexchange telecommunications company whose intrastate switched access rate is reduced as a result of the rate decreases made by a local exchange telecommunications company in accordance with this subsection shall decrease its intrastate long distance rates by the amount necessary to return the benefits of such reduction to its customers but shall not reduce per minute intraLATA toll rates by a percentage greater than the per minute intrastate switched access rate reductions required by this act.

The revisions continue:

The interexchange telecommunications carrier may determine the specific intrastate rates to be decreased, provided that residential and business customers benefit from the rate decreases.

Switched access reductions and their concomitant flow-throughs made their initial appearance in the 1995 amendments to Section 364.163(6), Florida Statutes. There are two major differences between the 1995 and 1998 amendments for local exchange companies (LECs). The first is that the 1998 amendments provide for two switched access reductions on July 1, 1998 and on October 1, 1998, of 5 percent and 10 percent, respectively (versus one reduction on October 1). The second is that the 1995 amendments applied to all LECs whose intrastate switched access rates were not at parity with their December 31, 1994, interstate switched access rates (versus only GTE Florida and Sprint-Florida are required to make the 1998 reductions). For interexchange telephone companies (IXCs), the primary difference is that the 1998 amendment imposes specific requirements that the IXCs must fulfill, i.e., restricting the level of intraLATA toll decreases as part of their flow-through of the switched access reductions, and that both residential and business customers must benefit.

In the 1996 and 1997 flow-throughs, the Commission ordered IXCs to provide substantial documentation to staff so that staff could verify that the IXCs complied with the flow-through requirement. Staff is recommending a slightly different approach for the 1998 flow-throughs. In order not to create potentially burdensome requirements for smaller IXCs, staff is recommending that if an IXC paid less than \$20 million in access charges in 1997 it need only certify that it paid less than \$20 million and that it has met the statutory requirements.

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This recommendation addresses the 1998 switched access reductions and the required flow-throughs.

DISCUSSION OF ISSUES

ISSUE 1: Which LECs are required to file tariffs for these switched access reductions?

RECOMMENDATION: GTE Florida Incorporated (GTE Florida) and Sprint-Florida Incorporated (Sprint-Florida) should be required to file tariffs since they are the only LECs that meet the access line qualification outlined in Section 364.163(6), Florida Statutes. (Ollila)

STAFF ANALYSIS: According to Commission records, GTE Florida and Sprint-Florida are the only LECs whose number of access lines in service was between 100,000 and 3 million on July 1, 1995. Therefore, they are the only LECs affected by the switched access reduction mandate.

ISSUE 2: How should the switched access rate reductions be calculated and what supporting documentation should be provided as part of the tariff filings?

RECOMMENDATION: The rate reductions should be calculated using the same methodology that the LEC used to calculate its intrastate composite switched access rate as provided in its October 1, 1996 and October 1, 1997, filings, pursuant to the 1995 revisions to Section 364.163(6), Florida Statutes (Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, Order No. PSC-97-0604-FOF-TP, issued May 27, 1997, and Order No. PSC-97-1028-FOF-TP, issued August 27, 1997).

The tariff filings should also include a demonstration that the LEC's intrastate switched access rate reductions satisfy the requirements of Section 364.163(6), Florida Statutes, as well as the annualized revenue effects. The LECs should describe how they calculated the annualized revenue effects. A sample spreadsheet is attached (Attachment A). (Ollila)

STAFF ANALYSIS: The Commission ordered a composite approach to calculating a LEC's intrastate and interstate rates in Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, because switched access comprises several rate elements. In order to maintain consistency for year-to-year comparison purposes, the LECs should use the same

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methodology to calculate the 1998 reductions that they used to calculate the 1996 and 1997 reductions.

The LECs should provide as part of their tariff documentation a demonstration that their intrastate switched access rate reductions satisfy the requirements of Section 364.163(6), Florida Statutes; i.e., that the composite rate reduction is at least 5 percent, effective July 1, 1998, or 10 percent, effective October 1, 1998. This demonstration should be consistent with the demonstration filed as part of the 1997 switched access rate reductions.

In addition, in order to determine the total amount of the switched access reductions, GTE Florida and Sprint-Florida should also indicate the annualized effects of their rate reductions, and describe how they calculated these annualized revenue effects. A sample spreadsheet is attached (Attachment A).

ISSUE 3: Which IXC's should be required to file tariffs to flow through GTE Florida's and Sprint-Florida's switched access reductions, and what should be included in these tariff filings?

RECOMMENDATION: All IXC's, including facilities-based and reseller IXC's, certificated by the FPSC which purchase switched access from GTE Florida or Sprint-Florida, should be required to file tariffs.

IXCs which paid \$20 million or more in intrastate switched access charges in 1997 should include with their tariff filing: 1) a calculation of the dollar benefit associated with the LECs' intrastate switched access rate reductions; 2) separate demonstrations that residence and business long distance rates have been reduced and the estimated annualized revenue effect, residence versus business, including a description of how those estimates were made; 3) a demonstration that any reduction to intraLATA toll rates is equal to or less than the switched access rate reduction percentage; and 4) a demonstration that all reductions have been flowed through. A sample worksheet, which differs from the 1997 sample worksheet, is attached (Attachment B).

IXCs which paid less than \$20 million in intrastate switched access charges in 1997 should include with their tariff filing a letter certifying that they paid less than \$20 million in intrastate switched access charges in 1997, and that they have complied with each of the above flow-through requirements as required in Section 364.163(6), Florida Statutes.

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Any IXC whose intrastate switched access expense reduction is \$100 or less per month is not obligated to flow-through its reduction, but should so certify in a letter to staff. (Ollila)

STAFF ANALYSIS: Section 364.163(6), Florida Statutes, also requires that the intrastate switched access rate reductions be "flowed-through" to long distance customer rates by any interexchange telecommunications company (IXC) whose switched access rates are reduced by this section in order to "return the benefits of such reduction to its customers." Both facilities-based IXCs and reseller IXCs may purchase switched access, and thus should be required to flow through any reductions in switched access to their own customers. As of this date there are 35 facilities-based carriers and 177 resellers certificated in Florida.

Section 364.163(6), Florida Statutes, requires that IXCs meet three flow-through requirements. First, an IXC's intrastate rates must be decreased by the amount necessary to return the benefits of the switched access reduction to its customers. Second, an IXC shall not reduce per minute intraLATA toll rates by a percentage greater than the required per minute switched access rate reduction. Third, an IXC may determine the specific rates to be decreased, provided that both residential and business customers benefit from the rate decreases.

In Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, and Order No. PSC-97-0604-FOF TP, issued May 27, 1997, the IXCs were ordered to provide substantial documentation to staff so that staff could verify that the IXCs complied with the flow-through requirement. Staff is recommending a slightly different approach for the 1998 flow-throughs. Staff is recommending that certain IXCs may certify by letter that they have met these requirements. Staff believes that it is important in a pro-competitive environment not to burden smaller IXCs unnecessarily with reporting requirements. Based on data provided to staff, staff believes that the bulk of the intrastate IXC market is served by IXCS which pay \$20 million or more annually in switched access. Therefore, staff is recommending that if an IXC paid less than \$20 million in intrastate switched access charges in 1997 it need only certify in a letter accompanying its tariff reduction filing that it paid less than \$20 million and that it has met the statutory requirements. Staff believes that permitting a smaller IXC to certify that it paid less than \$20 million in intrastate switched access in 1997 and that it has met the flow-through requirements of Section 364.163(6), Florida Statutes, satisfies both the letter and spirit of the Chapter 364, Florida Statutes.

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For the larger IXC's, i.e., those that paid \$20 million or more in intrastate switched access charges in 1997, staff believes that it is not unduly burdensome to require documentation that an IXC has fulfilled its statutory obligation. Therefore, staff recommends that for those IXC's which paid \$20 million or more in intrastate switched access charges in 1997, the tariff filings should include: 1) a calculation of the dollar benefit associated with the LEC's' intrastate switched access rate reductions; 2) separate demonstrations that residence and business long distance rates have been reduced and the estimated annualized revenue effect, residence versus business, including a description of how those estimates were made; 3) a demonstration that any reduction to intraLATA toll rates is equal to or less than the switched access rate reduction percentage; and 4) a demonstration that all reductions have been flowed through. A sample worksheet, which differs from the 1997 sample worksheet, is attached (Attachment B).

Order No. PSC-97-0604-FOF-TP, issued May 27, 1997, relieved IXC's of their obligation to flow-through the switched access expense reduction if it was \$100 or less per month. The Commission believed that when a reduction of \$100 or less per month occurred, the benefit to customers was greatly diluted. In addition, for small IXC's, the cost of implementation was likely to be greater than the dollar reduction received. In 1997, only one IXC fell into this category. Therefore, staff recommends that this limitation be retained. Staff also recommends that affected IXC's certify to staff in a letter that their switched access reduction is \$100 or less per month.

ISSUE 4: When should the LEC's and the IXC's file their tariffs for the July 1, 1998 and October 1 1998 effective dates?

RECOMMENDATION: The LEC's should be required to file their tariffs and supporting documentation for the first 1998 reduction no later than June 9, 1998, to be effective July 1, 1998. They should be required to file their tariffs and supporting documentation for the second 1998 reduction no later than September 1, 1998, to be effective October 1, 1998.

The IXC's should be required to file their tariffs and supporting documentation for the first 1998 reduction no later than June 30, 1998, to be effective July 1, 1998. They should be required to file their tariffs and supporting documentation for the second 1998 reduction no later than September 30, 1998, to be effective October 1, 1998. (Ollila)

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STAFF ANALYSIS: Section 364.163(6), Florida Statutes, requires two reductions in 1998: July 1, 1998 and October 1, 1998. In order for the IXC's customers to receive the full benefit of the switched access reduction, the LECs' and the IXCs' tariffs need to be effective the same day.

The IXCs, however, need sufficient time to review the LECs' filings prior to the IXCs filing their own tariffs to flow through the rate reductions. Likewise, staff requires time to verify that the LECs' reductions are in compliance. Although staff will require time to verify that the IXCs which paid \$20 million or more in intrastate switched access charges in 1997 have flowed through the full effect of the switched access reduction, this can occur after the effective date. When staff's review is completed, it may be necessary to refile IXC tariffs if errors are detected.

The first 1998 reduction is on July 1, 1998, approximately six weeks from the Agenda Conference date. This effective date for switched access and intrastate long distance reductions necessitates a shortened time frame for filing tariffs by the LECs and IXCs, as well as for staff's analysis of the tariff filings. Therefore, staff recommends that the LECs file their tariffs and supporting documentation as soon as possible after the May 19, 1998 Agenda Conference, but in any case no later than June 9, 1998, with a July 1, 1998 effective date. Staff recommends that IXC tariffs and supporting documentation be filed no later than June 30, 1998, with a July 1, 1998 effective date.

For the October 1, 1998 reduction, staff recommends that the LECs file their tariffs and supporting documentation 30 days in advance of the tariff effective date, or September 1, 1998, to be effective October 1, 1998. All applicable IXCs should be required to file their tariffs and supporting documentation no later than September 30, 1998, to be effective October 1, 1998.

ISSUE 5: Should this docket be closed?

RECOMMENDATION: No. This docket should remain open to handle any protests filed in response to the Order from this recommendation and any subsequent tariff filings necessary to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1998. If a protest is filed within 21 days from the issuance of the Order from this recommendation, and the protest is unresolved, the tariffs should be filed as ordered. Those tariffs, filed in response to Section 364.163(6), Florida Statutes, which are effective July 1, 1998 and October 1, 1998, should go into and

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remain in effect pending the resolution of any protest. Once the LEC reductions and the IXCs' flow-throughs are complete for 1998, this docket should be closed administratively. (BEDELL)

STAFF ANALYSIS: This docket should remain open to handle any protests filed in response to the Order from this recommendation and any subsequent tariff filings necessary to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1998. If a protest is filed within 21 days from the issuance of the Order from this recommendation, and the protest is unresolved, the tariffs should be filed as ordered. Those tariffs filed in response to Section 364.163(6), Florida Statutes, which are effective July 1, 1998 and October 1, 1998, should go into and remain in effect pending the resolution of any protest. Once the LEC reductions and the IXCs flow-throughs are complete for 1998, this docket should be closed administratively.

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ATTACHMENT A

LEC Summary

Name of LEC: _____

Study Period (one or more months in 1998): _____

Effective Date of Reduction: _____

Annualized Effect of Reduction*: _____

*Describe how calculated.

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ATTACHMENT B (page 1 of 2)

IXC Flow-Through Worksheet

Name of IXC: _____
 Study Period (one or more months in 1998): _____

Calculation of \$ Savings and Percent Reduction

<u>LEC</u>	<u>Rate Change</u>	<u>X</u>	<u>Study Period</u> <u># Intrastate</u> <u>Minutes (MOUS)</u>	<u>=</u>	<u>Sw. Acc. Savings</u>
1. GTE	Rate Element#1	x		=	
2.	Rate Element#2	x		=	
3. Sprint	Rate Element#1	x		=	
4.	Rate Element#2	x		=	
5. Total Sw. Acc. Savings (Sum lines 1-4)				=	_____
6. Statewide intrastate long distance study period billable revenue				=	
7. Required % reduction in IXC's FL intrastate long distance rates (line 5/line 6)				=	

The percent reduction from line 7 may be applied across-the-board to all of the IXC's intrastate rates

OR

The study period savings may be applied to one or more rate elements such that they are passed through to your customers. An example is shown below. REMEMBER: THE % REDUCTION FOR INTRALATA TOLL RATES MUST NOT BE HIGHER THAN THE REDUCTION ON LINE 7.

Example: Savings Spread Over Specific Rate Elements

<u>Rate Element</u>	<u>IXC Rate</u> <u>Change</u>	<u>X</u>	<u>Study Period</u> <u># Intrastate</u> <u>Minutes (MOUs)</u>	<u>=</u>	<u>Study Period</u> <u>Reduction</u>
8. #1			x	=	
9. #2			x	=	
10. Study period total reduction=			line 8+line 9	=	_____

Study period rate reduction in line 10 must equal or exceed line 5's study period total savings.

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ATTACHMENT B (page 2 of 2)

IXC Summary

IXC: _____

Effective date of flow-through: _____

Percentage Reduction of IntraLATA toll rates

1. IntraLATA Toll Rate % Reduction
 - a. Total IntraLATA Dollar Reduction* =
 - b. Total IntraLATA Revenue* = _____
 - c. Percent Reduction (line a/line b) =
2. LEC Percentage Switched Access Reduction =
(comes from Att. B, p. 1, line 7) =

NOTE: Line 1c must be no greater than Line 2.

Determination of Residence & Business Calculation

Residential

Description of how dollars calculated (e.g., rate elements included, etc.):

Business

Description of how dollars calculated (e.g., rate elements included, etc.):

IXC Flow-Through Summary

1. Annualized Effect* of Flow-Through to Residential Rates =
2. Annualized Effect* of Flow-Through to Business Rates: = _____
3. Total Annualized Flow-Through* (line 1+line 2) =

*Describe how calculated