

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In re: FLOW-THROUGH OF 1998 LEC
SWITCHED ACCESS REDUCTIONS BY
IXCS, PURSUANT TO SECTION
364.163(6), F. S.

DOCKET NO. 980459-TP
ORDER NO. PSC-98-0795-FOF-TP
ISSUED: June 8, 1998

The following Commissioners participated in the disposition of this matter:

JULIA L. JOHNSON, Chairman
J. TERRY DEASON
SUSAN F. CLARK
JOE GARCIA
E. LEON JACOBS, JR.

NOTICE OF PROPOSED AGENCY ACTION
ORDER ON
1998 SWITCHED ACCESS REDUCTIONS
AND REQUIRED FLOW-THROUGHS

BY THE COMMISSION:

NOTICE is hereby given by the Florida Public Service Commission that the action discussed herein is preliminary in nature and will become final unless a person whose interests are substantially affected files a petition for a formal proceeding, pursuant to Rule 25-22.029, Florida Administrative Code.

INTRODUCTION

Section 364.163(6), Florida Statutes, was recently amended by Chapter 98-277, Section 4, General Laws of Florida. The amendment modifies existing requirements for switched access rate reductions and the flow-through of those reductions to customers. As amended, Section 364.163(6), Florida Statutes, provides as follows:

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

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access rates by 5 percent on July 1, 1998, and by 10 percent on October 1, 1998. 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 interexchange telecommunications carrier may determine the specific intrastate rates to be decreased, provided that residential and business customers benefit from the rate decreases.

For local exchange companies (LECs), there are two significant changes in the amended statute. First, the 1998 amendment provides for two switched access reductions on July 1, 1998 and on October 1, 1998, of 5 percent and 10 percent, respectively. Second, the amendment requires only those LECs with more than 100,000, but fewer than 3 million, basic local telecommunications service access lines in service on July 1, 1995, to reduce rates. For interexchange telephone companies (IXCs), the 1998 amendment imposes specific requirements on the IXCs by restricting the level of intraLATA toll decreases as part of their flow-through of the switched access reductions, and by requiring that both residential and business customers benefit from the rate decreases.

LECs Required to File Tariffs

Section 364.163(6), Florida Statutes, requires LECs with between 100,000 and 3 million access lines in service on July 1, 1995 to reduce their intrastate switched access rates. Based on this criteria, we conclude that GTE Florida Incorporated (GTE Florida) and Sprint-Florida, Incorporated (Sprint-Florida) are the only LECs required to reduce access charges and to file revised tariffs for the reductions.

Calculation of Switched Access Rate Reductions By LECs

By Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, we ordered a composite approach to calculating a LEC's intrastate and interstate rates, because switched access comprises several rate elements. In order to maintain consistency for year-to-year comparison purposes, we find it appropriate to order the LECs to

use the same methodology required in 1996 and 1997 to calculate the 1998 reductions. As part of their tariff documentation, the LECs shall also provide written demonstration that their intrastate switched access rate reductions are at least 5 percent, effective July 1, 1998, and at least 10 percent, effective October 1, 1998. This demonstration should be consistent with the demonstration filed as part of the 1997 switched access rate reductions. Further, in order to determine the total amount of the switched access reductions, GTE Florida and Sprint-Florida shall describe the annualized effects of their rate reductions, and how they were calculated. A sample spreadsheet is attached to this Order as Attachment A.

IXCs Required to Flow Through Switched Access Rate Reductions

Section 364.163(6), Florida Statutes, as amended, 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 would be required to flow through any reductions in switched access to their own customers. There are 35 facilities-based carriers and 177 resellers certificated in Florida. Except as otherwise provided in the last paragraph of this Section of the Order, all IXCs, including facilities-based and reseller IXCs, certificated by the Commission, which purchase switched access from GTE Florida or Sprint-Florida are required by Section 364.163(6), Florida Statutes, to file tariffs reflecting rate reductions associated with the switched access rate reduction.

Section 364.163(6), Florida Statutes, as amended, 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.

By Order No. PSC-96-1265-FOF-TP, issued October 8, 1996, and Order No. PSC-97-0604-FOF-TP, issued May 27, 1997, we ordered IXCs to provide us with substantial documentation to verify their compliance with the flow-through requirements. By this Order, we are modifying the filing requirements for smaller IXCs, in order to reduce their regulatory burden. We find that it is important in a pro-competitive environment not to burden smaller IXCs

unnecessarily with reporting requirements. Based on our review of available data, we find that the bulk of the intrastate market is served by IXCs that pay \$20 million or more a year in switched access charges. Further, we conclude that permitting smaller IXCs to certify that they paid less than \$20 million in total Florida intrastate switched access in 1997, and that they have met the flow-through requirements of Section 364.163(6), Florida Statutes, satisfies both the letter and spirit of Chapter 364, Florida Statutes. Accordingly, we conclude that any IXC that paid less than \$20 million in total Florida intrastate switched access charges in 1997 is relieved of the obligation to file the documentation required herein for larger IXCs. In lieu of filing the documentation, qualifying IXCs must certify by letter accompanying their tariff reduction filing that they paid less than \$20 million and that they have met the statutory requirements.

For larger IXCs that paid \$20 million or more in total Florida intrastate switched access charges in 1997, we find that it is not unduly burdensome to require documentation that they have fulfilled their statutory obligations. Therefore, we are requiring that the tariff filings for all IXCs that paid \$20 million or more in total Florida intrastate switched access charges in 1997, include: (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 to this Order as Attachment B.

Order No. PSC-97-0604-FOF-TP, issued May 27, 1997, relieved IXCs of their obligation to flow-through their switched access expense reduction if it was \$100 or less per month. This decision was based on our conclusion that when a reduction of \$100 or less per month occurred, the benefit to customers was minimal. In addition, we concluded that for small IXCs, the cost of implementation was likely to be greater than the dollar reduction received. In 1997, only one IXC fell into this category. Accordingly, we conclude that any IXC whose intrastate switched access expense reduction is \$100 or less per month is not obligated to flow-through its reduction. However, it must file a letter certifying that its access expense reduction is \$100 or less per month.

Time For Filing Tariffs

The first 1998 reduction is set for July 1, 1998. 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 the Commission's analysis of the tariff filings. 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, the Commission must have time to review the LECs' reductions. Therefore, we find it appropriate to require the LECs to file their tariffs and supporting documentation as soon as possible after our decision at the May 19, 1998, Agenda Conference, but in any case no later than June 9, 1998, with a July 1, 1998 effective date. IXC tariffs and supporting documentation are to be filed no later than June 30, 1998, with a July 1, 1998 effective date.

For the October 1, 1998 reduction, LECs shall 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 affected IXCs shall file their tariffs and supporting documentation no later than September 30, 1998, to be effective October 1, 1998.

We note that our review of tariff filings may occur after the effective date of the tariffs. In the event errors in the filings are discovered, IXCs may be required to file revised tariffs.

This docket will remain open to handle any protests filed in response to this Order, 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, and the protest is unresolved, the tariffs shall 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, shall go into, and remain in, effect pending the resolution of any protest. Once the LEC reductions and the IXC flow-throughs are complete for 1998, this docket may be closed administratively.

Based on the foregoing, it is

ORDERED by the Florida Public Service Commission that this Order is issued as Proposed Agency Action and shall become final and effective unless an appropriate petition, in the form provided

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by Rule 25-22.036, Florida Administrative Code, is received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on the date set forth in the "Notice of Further proceedings or Judicial Review" attached hereto. It is further

ORDERED that GTE Florida Incorporated and Sprint-Florida, Incorporated are hereby required to reduce access rates and to file revised tariffs as required by the provision of 364.163(6), Florida Statutes, as amended, and as described in the body of this Order. It is further

ORDERED that GTE Florida and Sprint-Florida shall use the same methodology to calculate the 1998 reductions that was used to calculate the 1996 and 1997 reductions, and shall provide documentation that their intrastate switched access rate reductions are at least five percent, effective July 1, 1998, and 10 percent, effective October 1, 1998. It is further

ORDERED that except as otherwise provided below, all IXCs, including facilities-based and reseller IXCs, certificated by the Commission that purchase switched access from GTE Florida or Sprint-Florida are required by Section 364.163(6), Florida Statutes, to file tariffs reflecting rate reductions associated with the switched access rate reduction. It is further

ORDERED that any IXC which has an intrastate switched access expense reduction of \$100 or less is not required to flow-through its reduction; however, any such IXC is required to file a letter certifying that its access expense reduction is \$100 or less per month. It is further

ORDERED that those IXCs that paid less than \$20 million in total Florida intrastate switched access charges in 1997 shall certify in a letter accompanying its tariff reduction filing that they did less than \$20 million in total Florida intrastate switched access charges in 1997, and that they have met the statutory requirements. It is further

ORDERED that the tariff filings for all IXCs that paid \$20 million or more in total Florida intrastate switched access charges in 1997, shall include: (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

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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. It is further

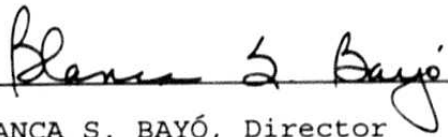
ORDERED that for the July 1, 1998, reduction LECs shall file their tariffs and supporting documentation no later than June 9, 1998, with a July 1, 1998 effective date, and IXC tariffs and supporting documentation shall be filed no later than June 30, 1998, with a July 1, 1998, effective date. It is further

ORDERED that for the October 1, 1998, reduction, LECs shall 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, and all applicable IXCs shall file their tariffs and supporting documentation no later than September 30, 1998, to be effective October 1, 1998. It is further

ORDERED that if a protest is filed within 21 days from the issuance of the Order from this recommendation, and the protest is unresolved, the tariffs shall 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, shall go into and remain in effect pending the resolution of any protest. It is further

ORDERED that this docket shall remain open to handle any protests filed in response to the Order, and any subsequent tariff filings necessary to ensure compliance with Section 364.163(6), Florida Statutes, for the year 1998. Once the LEC reductions and the IXCs flow-throughs are complete for 1998, this docket may be closed administratively.

By ORDER of the Florida Public Service Commission this 8th day of June, 1998.



BLANCA S. BAYÓ, Director
Division of Records and Reporting

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.569(1), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Mediation may be available on a case-by-case basis. If mediation is conducted, it does not affect a substantially interested person's right to a hearing.

The action proposed herein is preliminary in nature and will not become effective or final, except as provided by Rule 25-22.029, Florida Administrative Code. Any person whose substantial interests are affected by the action proposed by this order may file a petition for a formal proceeding, as provided by Rule 25-22.029(4), Florida Administrative Code, in the form provided by Rule 25-22.036(7)(a) and (f), Florida Administrative Code. This petition must be received by the Director, Division of Records and Reporting, 2540 Shumard Oak Boulevard, Tallahassee, Florida 32399-0850, by the close of business on June 29, 1998.

In the absence of such a petition, this order shall become effective on the day subsequent to the above date as provided by Rule 25-22.029(6), Florida Administrative Code.

Any objection or protest filed in this docket before the issuance date of this order is considered abandoned unless it satisfies the foregoing conditions and is renewed within the specified protest period.

If this order becomes final and effective on the date described above, any party substantially affected may request judicial review by the Florida Supreme Court in the case of an electric, gas or telephone utility or by the First District Court of Appeal in the case of a water or wastewater utility by filing a notice of appeal with the Director, Division of Records and Reporting and filing a copy of the notice of appeal and the filing fee with the appropriate court. This filing must be completed within thirty (30) days of the effective date of this order, pursuant to Rule 9.110, Florida Rules of Appellate Procedure. The notice of appeal must be in the form specified in Rule 9.900(a), Florida Rules of Appellate Procedure.

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LEC Summary

Name of LEC: _____

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

Effective Date of Reduction: _____

Annualized Effect of Reduction*: _____

*Describe how calculated.

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>	x	<u>Study Period # Intrastate Minutes (MOUS)</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 Change</u>	x	<u>Study Period # Intrastate Minutes (MOUs)</u>	=	<u>Study Period 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.

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