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ORIGINAL

November 5, 1999

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

Re: Docket No. 990649-TP  
Investigation into Pricing of Unbundled Network Elements

Dear Ms. Bayo:

Please find enclosed for filing an original and 15 copies of GTE Florida Incorporated's Prehearing Statement in the above matter. Also enclosed is a diskette with a copy of the Prehearing Statement in WordPerfect 5.0 format. Service has been made as indicated on the Certificate of Service. If there are any questions regarding this matter, please contact me at 813-483-2617.

Sincerely,

*Anthony P. Biemer*

Kimberly Caswell

KC:tas  
Enclosures

- FA \_\_\_\_\_
- PP \_\_\_\_\_
- AF \_\_\_\_\_
- MU *2* \_\_\_\_\_
- TR \_\_\_\_\_
- AG \_\_\_\_\_
- EG *2* \_\_\_\_\_
- MAS *5* \_\_\_\_\_
- OPC \_\_\_\_\_
- AI \_\_\_\_\_
- SEC *1* \_\_\_\_\_
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- OTH \_\_\_\_\_

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FPSC-RECORDS/REPORTING

**BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION**

In re: Investigation into Pricing of  
Unbundled Network Elements

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) Docket No. 990649-TP  
) Filed: November 5, 1999  
)

**GTE FLORIDA INCORPORATED'S PREHEARING STATEMENT**

GTE Florida Incorporated (GTEFL) files its Prehearing Statement in accordance with Order number PSC-99-1397-PCO-TP in this docket and Commission Rule 25-22.038.

**A. Witnesses**

GTEFL's witnesses and the matters about which they will testify are:

1. Dennis B. Trimble—general policy witness for all issues.
2. David G. Tucek—guidelines and requirements for cost studies.
3. Michael J. Doane—the factors and policy considerations relative to deaveraging UNEs.

**B. Exhibits**

1. Exhibit DBT-1 (Wire Center Loop Cost Variations), Exhibit DBT-2 (Intra-Wire Center Loop Cost Variations); Exhibit DBT-3 (Intra-Wire Center Loop Cost Variations); Exhibit DBT-4 (Competitive Network Alternatives in GTE Areas), all attached to the Direct Testimony of Dennis B. Trimble.
2. Exhibit DGT-1 (Why Use Average Fill Factors?), attached to the Direct Testimony of David G. Tucek.

DOCUMENT NUMBER-DATE

13652 NOV-5 99

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3. Exhibit MJD-1 (Curriculum Vitae of Michael J. Doane); Exhibit MJD-2 (Baumol Article); Exhibit MJD-3 (Arbitrage Opportunities); Exhibit MJD-4 (Doane et al. Article), all attached to the Direct Testimony of Michael J. Doane.

GTEFL reserves the right to introduce additional exhibits at the hearing or other appropriate points.

### **C. GTEFL's Basic Position**

Competitive neutrality should guide the Commission's decision in this proceeding. Competitive neutrality means that the incumbent LECs (ILECs) and alternative LECs (ALECs) have equal opportunity to serve all markets, to the extent it is efficient for them to do so. Deaveraging unbundled network element (UNE) prices without rebalancing rates and/or establishing an explicit universal service fund (USF) is inconsistent with competitive neutrality. Deaveraging UNEs in isolation will only enhance the cream-skimming opportunities available today for ALECs, while foreclosing ALEC entry into relatively more rural, high-cost markets. This is not an efficient or pro-consumer result.

If the Commission is to foster fair and efficient competition, it must consider retail rates in any deaveraging ruling. If the Commission believes it lacks the authority to adjust basic local rates or to establish a USF, then it should seek a waiver of the FCC's deaveraging rule until a comprehensive solution can be devised. If the Commission wishes to proceed with deaveraging now, then the Commission should adopt a deaveraging adjustment charge, as described by witness Doane. This is the only approach that will allow the Commission to maintain implicit supports in today's rates,

while at the same time facilitating competitive entry into the markets for subsidized services.

#### **D., E., F., G. GTEFL's Specific Positions**

GTEFL believes each issue identified for resolution in this case is a mixed question of fact, law, and policy.

##### **Issue 1: Deaveraging of UNEs:**

All of GTEFL's responses about UNE deaveraging are conditioned upon a resolution of this docket that appropriately considers the existing, implicit support in ILEC retail rates.

##### **(a) Which UNEs, excluding combinations, should be deaveraged?**

Based on existing data, it appears that only unbundled loops exhibit the cost and market characteristics for which geographic price deaveraging would be appropriate.

##### **(b) Which UNE combinations, if any, should be deaveraged?**

In general, if it is appropriate for a single element to have a stand-alone deaveraged rate, then any UNE combinations including that element should reflect its deaveraged rate in a consistent fashion.

##### **(c) What is the appropriate basis for deaveraging UNEs?**

The decision as to whether to deaverage a particular UNE should depend on (1) the extent to which that UNE's cost varies with geography; and 2) whether the geographical cost difference is large enough to warrant a deaveraged price.

**(d) Should the degree of deaveraging be uniform for all UNEs?**

No. There is no need to deaverage particular UNEs that display no significant geographic cost variations.

**(e) Should the degree of deaveraging be uniform for all affected ILECs for which deaveraged rates are appropriate?**

No, for the obvious reason that each ILEC's market area will exhibit differing degrees of variation in terms of cost levels and market characteristics.

**(f) What other factors or policy considerations, if any, should be considered in determining deaveraged UNE rates?**

It is critical to consider retail rates in any wholesale rate deaveraging decision. Deaveraging UNE rates at TELRIC, without regard to existing, implicit supports in retail rates, is tantamount to deciding to foreclose competition in rural and relatively higher cost areas. The primary result of this short-sighted approach will be to enhance windfalls for ALECs at the expense of efficient competition. The best way to avoid this anti-competitive, anti-consumer result is to deaverage wholesale and retail rates simultaneously. If the Commission believes it cannot fashion a comprehensive solution, including rate rebalancing and a USF, then it should ask the FCC to waive its deaveraging rule until such a solution may be implemented. If the Commission insists on going forward now, then it should adopt a deaveraging adjustment charge, which will facilitate the introduction of deaveraged UNE rates while USF and rate rebalancing issues are under consideration.

**(g) What supporting data or documentation should an ILEC provide with its deaveraging filing?**

Assuming the Commission accepts GTEFL's position that UNE and retail rates must be simultaneously deaveraged, an ILEC should provide TELRIC and TSLRIC studies for all affected UNEs and retail services. The Commission must recognize, however, that these studies produce only estimates of long-run costs; they do not produce prices that reflect an ILEC's actual costs. Therefore, for rate-setting purposes, ILECs should also submit data allowing calculation of these actual costs.

**Issue 2: How can one determine which UNEs an ILEC "currently combines" (51.315(b)), versus those which are "not ordinarily combined in the incumbent ILEC's network" (51.315(c))?**

As the U.S. Supreme Court has made clear, Rule 51.315(b) is intended to prevent the ILECs from disconnecting previously connected elements for no "productive reason." The question of whether an element is currently combined is fact-specific; the ILEC must provide the combination unless it would be required to connect one or more UNEs to fulfill the ALEC's order. The Eighth Circuit vacated the FCC's more extensive combinations prescriptions, including that of Rule 51.315(c), so that section is not relevant to this proceeding.

**Issue 3: Cost Studies:**

**(a) What guidelines and specific requirements should be imposed on recurring and nonrecurring cost studies, if any, required to be filed in this proceeding?**

GTEFL witness Tucek details the specific cost study requirements and guidelines in his prefiled testimony. In short, the long-run, forward-looking costs of UNEs must reflect the TELRIC of each element; the cost model must reflect company-specific inputs, as well as company-specific operating characteristics and practices; cost must be based

on forward-looking capital costs; and loop and switching costs should be based on existing wire center locations.

**(b) For which UNEs should the ILECs submit cost studies sufficient to deaverage those UNEs identified in Issues 1(a) and 1(b)?**

Market data from GTEFL's serving area show that the company's unbundling obligation should not extend beyond loops (except those used to serve business customers with at least 20 access lines) and interoffice transport to or from wire centers serving less than 15,000 lines.

**(c) To the extent not included in Issue 3(b), should the ILECs be required to file recurring cost studies for any remaining UNEs, and combinations thereof, identified by the FCC in its forthcoming order on the Rule 51.319 remand?**

Based on the Act's "necessary and impair" criteria, GTEFL does not contemplate filing studies other than those for loops and interoffice transport, in certain circumstances. However, it is impossible to answer this question in absence of the FCC's Rule 51.319 Order.

**(d) To the extent not included in Issue 3(b), should the ILECs be required to file nonrecurring cost studies for any remaining UNEs, and combinations thereof, identified by the FCC in its forthcoming order on the Rule 31.519 remand?**

No. The ILECs should not be required to file nonrecurring cost (NRC) studies for any UNEs or UNE combinations. Without knowing OSS performance measures, for example, it is impossible to determine associated NRCs. Also, given the complexity of the recurring studies and the expected controversy surrounding the costing and deaveraging issues, separate consideration of recurring and nonrecurring costs is the most feasible approach.

(e) **When should the cost studies identified in Issues 3(b), (c), and (d) be filed?**

GTEFL would need at least 120 days to complete the cost study filing.

#### **H. Stipulated Issues**

GTEFL is unaware of any stipulations at this time.

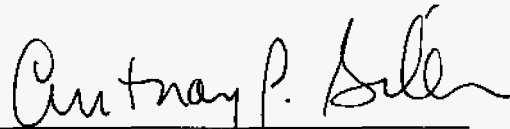
#### **I. Pending Matters**

The Commission has yet to rule on the Joint Motion of FCCA et al. to Strike Portions of Prefiled Testimony of Witnesses Varner, Emmerson, and Trimble.

#### **J. Procedural Requirements**

To the best of its knowledge, GTEFL can comply with all requirements set forth in the procedural order in this case.

Respectfully submitted on November 5, 1999.



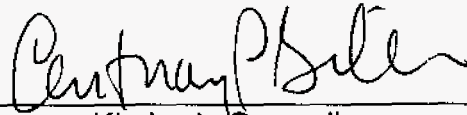
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**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that copies of GTE Florida Incorporated's Prehearing Statement in Docket No. 990649-TP were sent via U. S. mail on November 5, 1999 to the parties on the attached list.

  
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