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December 18, 1992

**BY HAND-DELIVERY**

Mr. Steve C. Tribble, Director  
Division of Records and Reporting  
Florida Public Service Commission  
101 East Gaines Street  
Tallahassee, FL 32399-0850

Re: Docket No. 920260-TL

Dear Mr. Tribble:

Enclosed for filing in the above-referenced docket on behalf of MCI Telecommunications Corporation are the original and fifteen copies of MCI's Prehearing Statement. Also enclosed is a word perfect disk containing the referenced document.

By copy of this letter, this document has been furnished to the parties on the attached service list.

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Very truly yours,

*Richard D. Melson*

Richard D. Melson

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*JD*

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FPSC-RECORDS/REPORTING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Comprehensive Review of the Requirements and Rate Stabilization Plan of Southern Bell Telephone and Telegraph Company. ) Docket No. 920260-TP  
)  
)  
) Filed: Dec. 18, 1992  
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)

MCI TELECOMMUNICATION CORPORATION'S  
PREHEARING STATEMENT

MCI Telecommunications Corporation (MCI) hereby submits its Prehearing Statement in the above-captioned docket.

A. Known Witnesses. MCI will present the direct testimony of the following witnesses:

Dr. Nina W. Cornell	Shortcomings of alternative regulatory plan proposed by Southern Bell
Don J. Wood	Local/toll rate structure, including intraLATA 1+ presubscription

B. Known Exhibits. MCI will offer the following exhibits as part of its direct case:

Ex. ___ (NWC-1)	Cornell	Biography
Comp. Ex. ___ (DJW-1)	Wood	Existing and Proposed Local/Toll Calling Arrangements
Comp. Ex. ___ (DJW-2)	Wood	Availability of IntraLATA presubscription

MCI reserves the right to identify additional exhibits for use in cross-examination.

C. Basic Position. The alternative regulatory plan proposed by Southern Bell should not be approved. First, in

light of falling costs in the telecommunications industry, the Commission should not approve any plan that includes an automatic rate increase mechanism. Second, in order protect against anticompetitive behavior by Southern Bell, the Commission should not grant Southern Bell any further pricing flexibility until the Commission has implemented a building block approach to costing and setting price floors for all services or, at a minimum, has required Southern Bell to apply the principle of imputation to pricing of all services that face competitive entry. Third, the costs and revenues of monopoly services should be separated from the costs and revenues of competitive services so that the risk of investments to provide competitive services will be borne by stockholders. Fourth, if a price increase formula is adopted, there should be no escape clause other than the right to request a full, traditional rate case proceeding.

The "optional expanded local service" proposal made by Southern Bell should not be approved. Instead, the Commission should adopt a local/toll rate design which includes flat rate 7-digit local calling provided by Southern Bell within any expanded local calling areas, and 1+ 10-digit long distance calling provided by the presubscribed carrier of the customer's choice for all intraLATA calling outside the flat rate local calling area.

D. - F. Issues. MCI's positions on issues 2b, 9, 14d, 15k, 19, 27, 28, 29, 30a, 33a, 33b, 33e, 34 and 40 are as follows. MCI takes "No position at this time" on the remaining issues.

Issue 2b: Is Southern Bell's investment in its interLATA internal company network prudent? If not, what action should the Commission take?

MCI: The prudence of the Southern Bell internal interLATA network depends on whether it is evaluated from the point of view of the shareholders or the ratepayers. That network would likely be considered prudent by the shareholders of BellSouth in the event that the "line of business" restrictions of the MFJ are lifted and Southern Bell was enabled to reenter the interLATA market. Ratepayers, on the other hand, should question the level of excess capacity in that network, given the limited legally-permissible uses for this network today.

Under traditional public utility regulation, imprudent utility investment which results in excess capacity should be excluded from rate base. However, the level of Southern Bell's investment in its internal interLATA network is minuscule in comparison to its \$4 billion dollar network investment in Florida and its \$600 million plus annual network construction program. Hence, removing this investment would not have a substantial effect on either BellSouth's shareholders or its ratepayers.

Issue 9: What is the cost of common equity capital for Southern Bell?

MCI: MCI has no position at this time on the specific cost of common equity capital for Southern Bell. However, in determining the cost of equity capital, the Commission should consider the reduced shareholder risk that results from Southern Bell's ability to fund virtually its entire network modernization/expansion program with funds generated internally from cash flow related to depreciation expense. The appropriate cost of capital will thus be influenced by the Commission's decision in Docket No. 920385-TL relating to Southern Bell's depreciation rates.

Issue 14d: How often should Southern Bell be required to perform PIU audits?

MCI: Both the current and proposed access tariff provisions regarding PIU verification audits provide for such audits no more frequently than once per year. PIU reporting is required primarily to support

billing the differential between interstate and intrastate access charges. As MCI advocates in Issue 34, the Commission should continue to reduce switched access charges until they reach parity with interstate levels. When parity is reached the PIU reporting and audit provisions will no longer be necessary.

In the current environment, the limitation to one audit per year is appropriate given the declining base of access minutes to which the PIU provisions apply. Reported PIUs relate principally to terminating Feature Group B traffic, since Southern Bell can directly measure the jurisdictional nature of Feature Group D traffic, and Feature Group A and originating Feature Group B traffic is de minimis. In addition, Southern Bell's proposed ONA tariffs will modify the access charge structure and may reduce the importance of PIU reporting and audits. The issue of how often Southern Bell should perform PIU audits in the future is tied to the pace at which access charge rate parity is achieved and the ONA tariffs are implemented.

Issue 15k: How should software additions be treated for ratemaking purposes?

MCI: MCI takes no position on this issue except as it relates to the software necessary to implement intraLATA 1+ presubscription. In Docket 920385-TL, Southern Bell indicated that the provision of software to its switches to provide intraLATA 1+ presubscription would constitute an expense item rather than a depreciable asset. MCI proposes that this expense be recovered through an access charge mechanism similar to the interLATA equal access recovery charge and assessed to all carriers in the intraLATA market.

Issue 19: What is the appropriate amount of depreciation expense for the test year?

MCI: The appropriate amount of depreciation expense for the test year should be the depreciation expense level established in Docket 920385-TL. MCI's position in that case is that depreciation expense levels should be established which permit the prudent modernization of the local exchange network. Further, the Commission should recognize the level of

ratepayer funding of the deployment of new technologies, and the resultant network efficiencies and cost savings, in considering cost of equity and other issues in this docket.

Issue 27: Southern Bell (SBT) proposes to change its current form of regulation. The proposed plan includes the following components listed below. On the basis of these components, what are the pros and cons of this plan?

MCI: The primary "cons" of the plan are: (1) the proposed price regulation index (PRI) permits price increases when there is no showing that increases are required; (2) until a building block approach to costing and setting price floors has been implemented, the pricing flexibility proposal ("baskets") would allow Southern Bell to engage in anticompetitive behavior that could harm competition in the telecommunications industry; (3) the plan does not include safeguards to ensure that monopoly services will not be used to subsidize competitive services; and (4) the escape clause to allow rates to be increased above the PRI is inappropriate. (Cornell)

Issue 28: Does SBT's proposed Price Regulation Plan meet the requirements of S. 364.036(2)(a)-(g), F.S.?

MCI: No. The plan is not consistent with the public interest as required by subsection (a) because it preserves some of the worst aspects of traditional regulation while not retaining many of its benefits. Absent price floors based on a building block approach and/or application of the principle of imputation to all competitive services offered by Southern Bell, the pricing flexibility plan does not provide either the safeguards for consumers or the safeguards against cross-subsidization required by subsections (d) and (f). (Cornell)

Issue 29: Should the Commission approve an incentive regulation plan for SBT? If so, what is the appropriate plan? If not, what is the appropriate form of regulation for SBT? How does the appropriate form of regulation meet the requirements of Chapter 364.036(a)-(g), F.S.?

MCI: An appropriate incentive regulation plan would have to include the following elements: (1) price floors set on a building block basis for all services; (2) equal rates to all business users (including end users, competitors, and Southern Bell itself) for bottleneck monopoly elements of Southern Bell's network; (3) pricing flexibility only for services that face competition; (4) costs and revenues of competitive services which are separated from the cost and revenues of monopoly services so that stockholders bear the risk of investment to provide competitive services. (Cornell)

Issue 30a: Should Southern Bell be permitted to cross-subsidize their competitive or effectively competitive services?

MCI: No. Under Section 364.036(2),(3), the Commission cannot adopt an alternative method of regulation unless it finds that the plan "includes adequate safeguards to assure that the rates for monopoly services do not subsidize competitive services." Similarly, Section 364.3381(1) prohibits the cross-subsidization of competitive services by monopoly services. (Legal issue)

Issue 33a: Is it appropriate to combine local measured usage with discounted intraLATA toll offerings?

MCI: No. The combination of local measured usage and discounted toll rates for 7-digit local calls that have traditionally been made on a flat rate basis will cause customer confusion with no off-setting benefits. (Wood)

Issue 33b: Should Southern Bell's proposed Optional Expanded Local Services (OELS) plan be approved? If not, what alternative plan, if any, should be approved on IntraLATA Toll Calls? Over what distance?

MCI: No. Southern Bell's OELS plan should not be approved. The Commission should approve a plan under which flat rate 7-digit local service would be provided in a mileage-defined local calling area. The size of the expanded local calling area should be based on an evaluation of existing EAS pressures and the availability of Southern Bell revenues to support a

calling area of a given size. All intraLATA calls beyond the flat rate area should be provided by the customer's presubscribed carrier of choice on a 1+ 10-digit basis. (Wood)

Issue 33e: If the Commission approves an OELS or similar plan, what other action should the Commission take, if any? (e.g., route-specific switched access charges, 1+ IntraLATA presubscription.)

MCI: If the Commission approves any new local/toll calling plan, it should require Southern Bell to offer 1+ intraLATA presubscription for all calls beyond the flat rate local calling area. If Southern Bell elects to purchase 2-PIC software, customers could remain presubscribed to Southern Bell unless and until they affirmatively elect a different intraLATA carrier. If Southern Bell declines or delays purchasing 2-PIC software, customers' presubscribed interLATA carrier would become their presubscribed intraLATA carrier upon the effective date of the new calling plan. (Wood)

Issue 34: Southern Bell has made proposals in the areas of switched access service rates, the interconnection usage rates for mobile service providers and toll services as shown below. Should SBT's proposals be approved? Should there be any other changes in switched access, toll or mobile interconnection usage rates (e.g., reduce intrastate switched access rates to interstate levels)?

MCI: At a minimum, the Commission should approve the switched access and other interconnection usage rate reductions proposed by Southern Bell. To the extent additional excess revenues are available, the Commission should continue to reduce switched access charges until they reach parity with interstate levels.

Issue 40: Except for ELS, Southern Bell has proposed no stimulation or repression effects. Is this appropriate?

MCI: No. Stimulation should be recognized in calculating the revenue effect of reducing switched access charges.



G. Stipulations. MCI is not aware of any issues that have been stipulated by the parties.

H. Pending Motions. MCI has no pending motions that require action by the Prehearing Officer.

I. Requirements of Order. MCI believes this prehearing statement is fully responsive to the requirements of the Order on Prehearing Procedure.

RESPECTFULLY SUBMITTED this 18th day of December, 1992.

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing  
was sent by U.S. Mail this 18th day of December, 1992.

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