

MACFARLANE AUSLEY FERGUSON & McMULLEN

ATTORNEYS AND COUNSELORS AT LAW

111 MADISON STREET, SUITE 2300
P.O. BOX 1531 (ZIP 33601)
TAMPA, FLORIDA 33602
(813) 273-4200 FAX (813) 273-4396

227 SOUTH CALHOUN STREET
P.O. BOX 391 (ZIP 32302)
TALLAHASSEE, FLORIDA 32301
(904) 224-9115 FAX (904) 222-7560

400 CLEVELAND STREET
P. O. BOX 1669 (ZIP 34617)
CLEARWATER, FLORIDA 34615
(813) 441-8966 FAX (813) 442-8470

September 23, 1994

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Tallahassee

BY HAND DELIVERY

Ms. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32301

Re: In re: Expanded Interconnection Phase II and
Local Transport Restructure; Docket Nos. 921074-TP,
930955-TL, 940014-TL, 940020-TL and 931196-TL

Dear Ms. Bayo:

Enclosed for filing in the above-styled docket are the original and fifteen (15) copies of United's/Centel's Late-Filed Exhibit No. 43. Portions of Attachment A to this exhibit contain proprietary confidential business information and have been redacted. By separate filing, the Companies are requesting confidential classification of this material.

ACK Please acknowledge receipt and filing of the above by stamping
AFA the duplicate copy of this letter and returning the same to this
writer.

APP Thank you for your assistance in this matter.

CAF

CMI *Reits*

CTR *mas*

EAG

LEG *Carpano*

LIN *JPF/esu*

LIN *Enclosures*

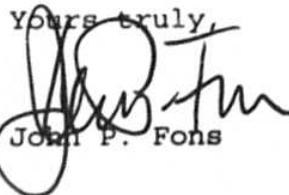
OPC

RCH cc: Parties of Record (w/encl.)

SEC *utd\bayo-lfe*

WAS

QTH

Yours truly,

John P. Fons

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FPC-RECORDS/REPORTING

**UNITED/CENTEL
LATE-FILED EXHIBIT NO. 43
DOCKET NO. 921074-TP**

Attached hereto, as Attachment A, is United's/Centel's analysis of Late-Filed Exhibit No. 39 (Gillan's workpapers) and appropriate corrections to the data.

Regardless of what the numerical results are, the premise that prices should be based on the relative cost difference between DS1 and DS3 services is misguided and inappropriate. While cost results may be appropriate to establish pricing floors, they are inappropriate for determining the prices. Actual price levels are more appropriately determined by the market. A classic example of non-cost based pricing is the price/cost relationship of basic residential telephone service. While local service cost in rural exchanges, due to lower densities and longer local loops, is greater than high-density urban/metropolitan exchanges, services are actually priced inversely with the cost. Local service prices are based on the number of access lines in the local calling area or rate group. Value--that is, the more access lines that can be called--and demand, not cost, is the primary determinant of the relative price. Thus, higher cost rural exchanges have lower basic local service rates than lower cost urban/metropolitan exchange areas.

With regard to pricing dedicated transport facilities, two major considerations must be incorporated into the pricing decision. First, how are other competitors and potential

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competitors in the relevant geographic area pricing their services and, second, what are the prices of cross-elastic services?

With regard to the first consideration, substantial evidence was developed in the record that the prices for dedicated services offered by other access providers do not follow the rationale as proposed by Mr. Gillan. Similarly, given the evidence in the record, there is no reason to believe that a competitive access provider (CAP) would price as suggested by Mr. Gillan. Accordingly, using Mr. Gillan's approach, the LEC would have two choices in pricing to meet the competition. One choice is to price the LEC's DS1 at the market and then, without regard to the market, factor the DS1 rate up by some cost-based algorithm to establish a DS3 service price. This option would essentially price LEC DS3 service out of the market since CAPs and IXCs do not price their DS1 and DS3 services using Mr. Gillan's methodology. Adoption of Mr. Gillan's methodology for the LECs would establish the proverbial pricing umbrella for the competition. Thus, the CAP or IXC could price their DS3 service just under the LEC's inflated DS3 price; thereby denying customers the full benefits of dedicated transport service competition.

The LEC's second choice is to price its DS3 service at a competitive level and then, using Mr. Gillan's algorithm, establish a DS1 rate that will be artificially low and substantially below the market price. Competitors would respond to the LEC's DS1 price by lowering their prices for dedicated DS1 services. This market reaction results in a major problem. As LECs and competitors

decrease their dedicated DS1 transport prices, the crossover point between switched access and special access shrinks, and there will be additional migration from switched access service to dedicated facilities. In the long-run, this second choice has the potential for a major impact on demand for the LEC's switched access services which currently provide significant contributions to basic local service rates.

Clearly, while Mr. Gillan's DS1/DS3 pricing recommendation would produce a slight improvement in his clients' financial welfare, it is an inappropriate basis for pricing and could have significant negative impacts on the market place and on the level of contribution flowing from switched access service to support basic local service rates.

**UNITED'S/CENTEL'S ANALYSIS OF AND
CORRECTIONS TO LATE-FILED EXHIBIT NO. 39.**

The cost data used in Mr. Gillan's analysis was based on DS1 and DS3 end user service configurations.¹ These are not appropriate for developing "local transport" DS1 and DS3 costs. The end user DS1/DS3 cost study did not include DS1 to DS3 multiplexing at the originating central office as the DS3 service was provisioned as a through-circuit, i.e., received from the end user customer at the DS3 level. In addition, multiplexing and cross-connect equipment would have to be added at the terminating central office for developing the cost of the DS1 "local transport" service. This equipment is not required for the DS3 customer at the terminating end office since that is the fiber interoffice transmission level. This equipment is, however, required for the DS1 "local transport" service since the transmission over fiber is at the DS3 level and the additional equipment is necessary to deliver the "local transport" service at the DS1 level to the IXC.

In addition, the end user study included remote switches which would not be used for "local transport" service since routing would be done at the host switch. This impacts the types of investments

¹ United's TransLink and LightLink dedicated services cost support

for transmission equipment which would be appropriate in a remote switch for the end user study but not for a "local transport" service cost study.

Using the corrected investment components and resulting monthly cost (see attached supporting documents pages 3, 4, 5 and 6 following) produces the following cost comparison and cost difference for DS3/DS1 "local transport" service:

Monthly Cost Comparison

	<u>Fixed</u>	<u>Mileage</u>
DS3		
DS1		

Difference

	<u>Fixed</u>	<u>Mileage</u>
DS3/28		
DS1		

**DS3/DS1 COST COMPARISON
(Local Transport Service)**

ORIGINATING CENTRAL OFFICE

TERMINATING CENTRAL OFFICE

Equipment	Monthly Cost	Monthly Cost	Total Cost
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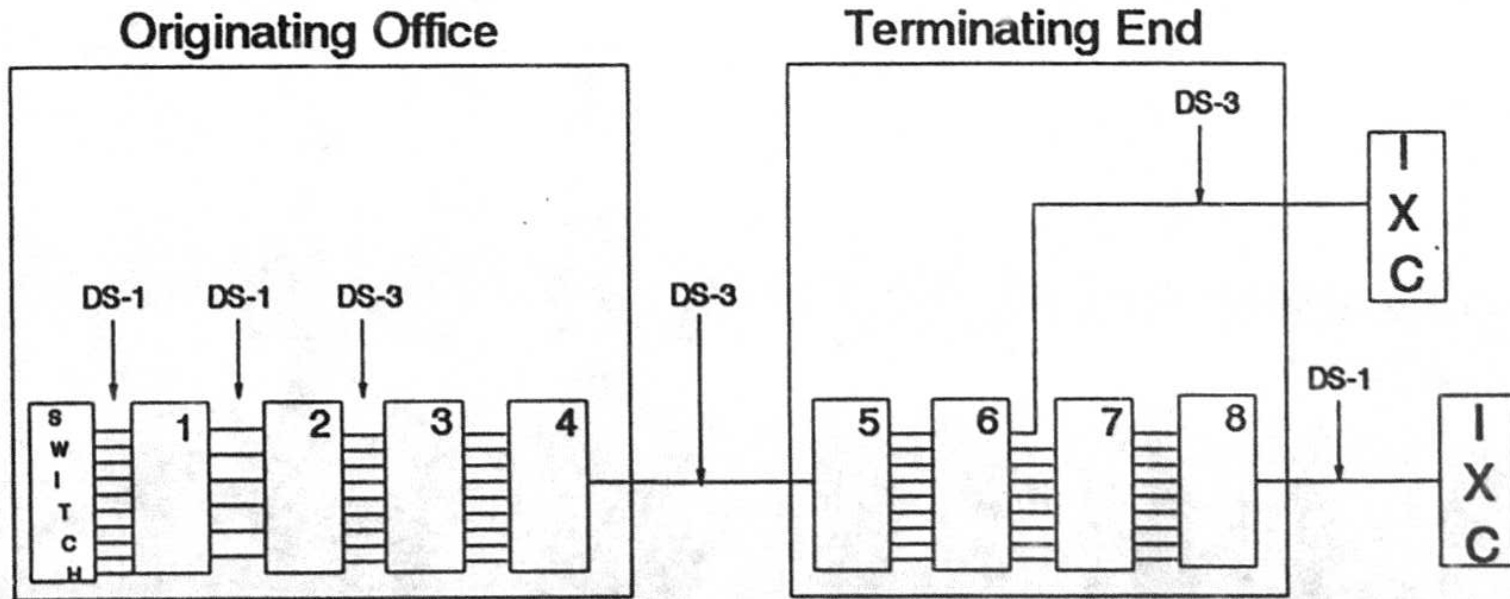
DS3

DSX-1 CROSS CONN.
M13 MUX
DSX 3/4 X-CONN
OC48

DS1

DSX-1 CROSS CONN.
M13 MUX
DSX 3/4X-CONN
OC48

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1. DSX-1 Cross Connect Panel
2. M13 Multiplexer
3. DSX-3/4 Cross Connect Panel
4. OC-48 Fiber Optic Terminal

5. OC-48 Fiber Optic Terminal
6. DSX-3/4 Cross Connect
7. M13 Multiplexer
8. DSX-1 Cross Connect

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ORIGINATING
OFFICE

EQUIPMENT

TERMINATING
OFFICE

COST PER MONTH

COST PER MON' H

TOTAL COST
PER MONTH

DS-3:

DSX-1 CROSS CONNECT PANEL
M13 MULTIPLEXER
DSX-3/4 CROSS CONNECT PANEL
OC-48 FIBER OPTIC TERMINAL

TOTAL DS-3 COST

TOTAL DS-3 COST/28

DS-3:

DS-1:

DSX-1 CROSS CONNECT
M13 MULTIPLEXER
DSX 3/4
OC-48 FIBER OPTIC TERMINAL

TOTAL DS-1 COST

DS-3 vs DS-1 Cost Differential

DS-1:

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DS-3/DS-1 WORKSHEET

	(1)	(2)	(3)	(4)	(5)
<u>EQUIPMENT</u>	<u>ORIGINAL INVESTMENT</u>	<u>UTILIZATION FACTOR</u>	<u>(1) / (2) LOADED INVESTMENT</u>	<u>ANNUAL CHARGE FACTOR</u>	<u>[(3) * (4)]/12 COST PER MONTH</u>

DS-3 ORIGINATING OFFICE

DSX-1
 M13 MULTIPLEXER
 DSX 3/4
 OC-48 FIBER OPTIC TERMINAL

DS-3 TERMINATING OFFICE

DSX 3/4
 OC-48 FIBER OPTIC TERMINAL

DS-1 ORIGINATING OFFICE

DSX-1
 M13 MULTIPLEXER
 DSX 3/4
 OC-48 FIBER OPTIC TERMINAL

DS-1 TERMINATING OFFICE

OC-48 FIBER OPTIC TERMINAL
 DSX 3/4
 M13 MULTIPLEXER
 DSX-1