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September 15, 1995



Via Hand Delivery

JAMES C. FALVEY

ATTORNEY-AT-LAW

Mrs. Blanca S. Bayo Director, Division of Records and Reporting Florida Public Service Commission 2540 Shumard Oak Boulevard Tallahassee, Florida 32399

Resolution of Petition(s) to establish nondiscriminatory rates, terms, and Re: conditions for interconnection involving local exchange companies and alternative local exchange companies pursuant to Section 364.162, Florida Statutes (Docket No. 950985-TP)

Dear Mrs. Bayo:

WAS ____

Enclosed for filing, in accordance with the Order Establishing Procedure in the above docket, please find an original and fifteen (15) copies of the Direct Testimony of Timothy T. Devine on Behalf of Metropolitan Fiber Systems of Florida, Inc.

Also enclosed is an extra copy of this cover letter. Please date stamp the copy and return it to the messenger.

			Thank you for your a	ttention to this mat	ter.	
ACK AFA APP CAF		٠			Sincerely, James C. Falvey	Falvey 1844
CMU C CTR _ EAG	hase	cc:	All parties of record			
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FPSC-RECORDS/REPORING

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

Resolution of Petition(s) to establish nondiscriminatory rates, terms, and conditions for interconnection nonlinear particles and alternative local exchange companies and pursuant to Section 364.162, Florida Statutes

DIRECT TESTIMONY OF TIMOTHY T. DEVINE

ON BEHALF OF

METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC.

Docket No. 950985-TP

DOCUMENT NUMBER-DATE

09141 SEP 15 #

FPSC-RECORDS/REPORTING

DIRECT TESTIMONY OF TIMOTHY T. DEVINE ON BEHALF OF METROPOLITAN FIBER SYSTEMS OF FLORIDA, INC. Docket No. 950985-TP

ı	Q.	PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.
2	A.	My name is Timothy T. Devine. My business address
3		is Metropolitan Fiber Systems of Florida, Inc.
4		("MFS"), 250 Williams St., Ste. 2200, Atlanta,
5		Georgia 30303.
6	Q.	WHAT IS YOUR POSITION WITH MFS?
7	A.	I am the Senior Director of External and Regulatory
8		Affairs for the Southern Region for MFS
9		Communications Company, Inc., the indirect parent
LO		company of Metropolitan Fiber Systems of Florida.
11		I will collectively refer to MFSCC and its
.2		subsidiaries as "MFS."
.3	Q.	WHAT ARE YOUR RESPONSIBILITIES IN THAT POSITION?
4	A.	I am responsible for the regulatory oversight of
L 5		commission dockets and other regulatory matters and
. 6		
		serve as MFS's representative to various members of
.7		
		serve as MFS's representative to various members of
L8		serve as MFS's representative to various members of the industry. I am also responsible for
.7 .8 .9	Q.	serve as MFS's representative to various members of the industry. I am also responsible for coordinating co-carrier discussions with Local
.8 .9	Q.	serve as MFS's representative to various members of the industry. I am also responsible for coordinating co-carrier discussions with Local Exchange Carriers within the Southern Region.
.8 .9	Q. A.	serve as MFS's representative to various members of the industry. I am also responsible for coordinating co-carrier discussions with Local Exchange Carriers within the Southern Region. PLEASE DESCRIBE YOUR PREVIOUS PROFESSIONAL
.8 .9 80 21	-	serve as MFS's representative to various members of the industry. I am also responsible for coordinating co-carrier discussions with Local Exchange Carriers within the Southern Region. PLEASE DESCRIBE YOUR PREVIOUS PROFESSIONAL EXPERIENCE AND EDUCATIONAL BACKGROUND.

1	work in the telecommunications industry in April
2	1982 as a sales representative for packet switching
3	services for Graphnet, Inc., one of the first value-
4	added common carriers in the United States. From
5	1983 until 1987, I was employed at Sprint
6	Communications Co., in sales, as a tariff analyst,
7	as a product manager, and as Manager of Product and
8	Market Analysis. During 1988, I worked at Contel
9	Corporation, a local exchange carrier, in its
10	telephone operations group, as the Manager of
11	Network Marketing. I have been working for MFS and
12	its affiliates since January 1989. During this time
13	period, I have worked in product marketing and
14	development, corporate planning, regulatory support,
15	and regulatory affairs. Most recently, from August
16	1994 until August 1995, I have been representing MFS
17	on regulatory matters before the New York,
18	Massachusetts, and Connecticut state commissions and
19	was responsible for the MFS Interim Co-Carrier
20	Agreements with NYNEX in New York and Massachusetts,
21	as well as the execution of a co-carrier Joint
22	Stipulation in Connecticut.

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1 Q. PLEASE DESCRIBE THE OPERATIONS OF MFS COMMUNICATIONS
2 COMPANY, INC. AND ITS SUBSIDIARIES.

MFS Communications Company, Inc. ("MFSCC") is a 3 A. diversified telecommunications holding company with operations throughout the country, as well as in Europe. MFS Telecom, Inc., an MFSCC subsidiary, through its operating affiliates, is the largest 7 competitive access provider in the United States. 8 MFS Telecom, Inc.'s subsidiaries, including 9 MFS/McCourt, Inc., provide non-switched, dedicated 10 11 private line and special access services.

MFS Intelenet, Inc. ("MFSI") is another wholly owned subsidiary of MFSCC. It causes operating subsidiaries to be incorporated on a state-by-state basis. MFSI's operating subsidiaries collectively are authorized to provide switched interexchange telecommunications services in 48 states and have applications to offer such service pending in the remaining states. Where so authorized, MFSI's operating subsidiaries offer end users a single source for local and long distance telecommunications services with quality and pricing levels comparable to those achieved by larger

1	communications users. Apart from Florida, MFSI
2	subsidiaries have been authorized to provide
3	competitive local exchange service in eight states.
4	Since July 1993, MFS Intelenet of New York, Inc. has
5	offered local exchange services in competition with
6	New York Telephone Company. MFS Intelenet of
7	Maryland, Inc. was authorized to provide local
8	exchange services in competition with Bell Atlantic-
9	Maryland, Inc. in April 1994 and recently has
10	commenced operations. On June 22, 1994, MFS
11	Intelenet of Washington, Inc. was authorized to
12	provide local exchange services in competition with
13	US West Communications, Inc. On July 20, 1994, MFS
14	Intelenet of Illinois, Inc. was certificated to
15	provide local exchange services in competition with
16	Illinois Bell Telephone Company and Central
17	Telephone Company of Illinois. MFS Intelenet of
18	Ohio was certificated to provide competitive local
19	exchange service in competition with Ohio Bell on
20	August 3, 1995. MFS Intelenet of Michigan, on May
21	9, 1995, was certificated to provide competitive
22	local exchange service in competition with
23	Ameritech-Michigan. MFS Intelenet of Connecticut

1		was dedicated to provide local exchange service in
2		competition with Southern New England Telephone
3		Company on June 28, 1995. Finally, MFS Intelenet of
4		Massachusetts was certificated on March 9, 1994 to
5		operate as a reseller of both interexchange and
6		local exchange services in the Boston Metropolitan
7		Area in competition with New England Telephone.
8	Q.	HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS
9		COMMISSION?
10	A.	Yes. On August 14, 1995, I filed direct testimony
11		in the universal service docket. In re:
12		Determination of funding for universal service and
13		carrier of last resort responsibilities, Docket No.
14		950696-TP. On September 8, 1995, I filed rebuttal
15		testimony in the universal service docket. On
16		September 1, 1995, I filed direct testimony in the
17		temporary number portability docket. In re:
18		Investigation into temporary local telephone
19		portability solution to implement competition in
20		local exchange telephone markets, Docket No. 950737-
21		TP.

1	Q.	are any of the parties upon whose behalf you are
2		TESTIFYING CURRENTLY CERTIFICATED TO PROVIDE SERVICE
3		IN FLORIDA?
4	A.	Yes. Metropolitan Fiber Systems of Florida, Inc., a
5		certificated Alternative Access Vendor ("AAV"), by
6		letter dated July 5, 1995, notified the Commission
7		of its intent to provide switched local exchange
8		service in Florida. The Commission acknowledged
9		this notification on September 12, 1995.
10	I.	PURPOSE AND SUMMARY
11	Ω.	WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS
12		PROCEEDING?
13		Teleport Communications Group, Inc. ("TCG") has
14		petitioned the Commission, pursuant to Section
1.5		364.162, Florida Statutes (1995), for an
16		economically viable, nondiscriminatory reciprocal
17		compensation rate structure and level in response to
18		the failure of negotiations with BellSouth on this
19		issue. MFS agrees with TCG that the switched access
20		rate proposed by BellSouth would not meet the
21		Legislature's goal of promoting local exchange
22		competition in Florida, and should therefore not be
23		considered by the Commission. Direct Testimony of

Paul Kouroupas on Behalf of Teleport Communications 1 2 Group, Inc. ("TCG Testimony") at 32-35. The payment of switched access for terminating access will 3 render it impossible for alternative local exchange carriers ("ALECs") to compete with BellSouth which 5 6 charges flat rates to both residential and business customers in Florida. Unlike TCG, however, MFS does 7 not believe that the TCG port scheme (TCG Testimony 8 at 35-38) will make it possible for ALECs to compete 9 in Florida. Accordingly, MFS advocates the 10 administratively efficient "bill and keep" proposal, 11 by which carriers exchange traffic on an in-kind 12 basis without exchanging compensation for 13 14 terminating access. 15 WHY IS RECIPROCAL COMPENSATION CRITICAL TO THE Q. DEVELOPMENT OF LOCAL EXCHANGE COMPETITION IN 16 17 FLORIDA? Reciprocal compensation arrangements for exchange of 18 A. local traffic, including traffic traditionally known 19 as intraLATA toll traffic, will be critical to the 20 success or failure of local competition. 21 The level of these charges will have a considerably more 22 23 dramatic impact on ALECs than on RellSouth. While

1		virtually all of the traffic originated by ALEC
3		customers will terminate on BellSouth's network,
3		only a small percentage of calls placed by BellSouth
4		customers will terminate on an ALEC's network. If
5		"bill and keep" is not adopted, ALECs will be
6		affected much more seriously than BellSouth. The
7		compensation scheme for interconnection that is
8		established in this proceeding can determine a
9		significant portion of an ALEC's cost of doing
10		business and is therefore critical to ensuring that
11		the business of providing competitive local exchange
12		service in Florida is a viable one.
13	II,	"BILL AND KEEP" IS THE IDEAL METHOD OF RECIPROCAL
14		COMPENSATION
15	Q.	WHY DOES MFS ADVOCATE THAT COMPETITORS UTILIZE A
16		"BILL AND KEEP" SYSTEM OF RECIPROCAL COMPENSATION?
17	A.	The "bill and keep" method of reciprocal
18		compensation is administratively simple, avoids
19		complex economic analysis which is at best subject
20		to further questioning, and is fair. What is more,
21		bill and keep is already a commonly used method of
22		reciprocal compensation between LECs throughout the
23		country.

1	Q.	HOW DOES "BILL AND KEEP" WORK?
2	A.	Under the "bill and keep" method of reciprocal
3		compensation for interconnection, each carrier would
4		be compensated in two ways for terminating local
5		calls originated by customers of other carriers.
6		First, each carrier would receive the reciprocal
7		right to receive termination of local calls made by
8		its own customers to subscribers on the other
9		carrier's network without cash payment, often
10		referred to as payment "in kind." In addition, the
11		terminating carrier is compensated for call
12		termination by its own customer, who pays the
13		terminating carrier a monthly fee for scrvice,
14		including the right to receive calls without
15		separate charge.
16	Ω-	WHAT ARE THE ADVANTAGES OF "BILL AND KEEP"?
17	A.	One of the principal advantages of the bill and keep
18		method of compensation, as compared with the per-
19		minute charge advocated by BellSouth, is that it
20		economizes on costs of measurement and billing.
21		With present technology, carriers are unable to
22		measure the number of local calls that they
23		terminate for any other given carrier. Measurement

T		and billing costs could significantly increase the
2		TSLRIC of the switching function for terminating
3		traffic and could result in higher prices for
4		consumers.
5	Q.	WHAT IS THE IMPACT OF THIS INCREASED COST STEMMING
б		FROM MEASUREMENT AND BILLING OF PER-MINUTE
7		TERMINATION FERS?
В	A.	The overall impact on the cost of providing local
9		exchange service could be devastating for both
10		business and residential consumers. In order for
11		this significantly increased cost of providing local
12		exchange service to be justified, there would have
13		to be a very large imbalance in traffic to make such
14		measurement worthwhile for society. Moreover, the
15		costs of measurement would create entry barriers and
16		operate to deter competition, since they would be
17		added to entrants' costs for nearly all calls (those
18		terminated on the BellSouth's network), while being
19		added only to a small fraction of BellSouth calls
20		(those terminated on an ALEC's network).

1	Q.	WHAT OTHER ADVANTAGES TO "BILL AND KEEP" DO YOU
2		PERCEIVE?
3		The bill and keep method of compensation also
4		provides incentives to carriers to adopt an
5		efficient network architecture, one that will enable
6		the termination of calls in the manner that utilizes
7		the fewest resources. A compensation scheme in
8		which the terminating carrier is able to transfer
9		termination costs to the originating carrier reduces
10		the incentive of the terminating carrier to utilize
11		an efficient call termination design.
12	Q.	HAS BILL AND KEEP BEEN ADOPTED IN OTHER STATES?
13	A.	The use of the bill and keep method of compensation
14		as long as traffic is close to being in balance
15		(within 5%) has been adopted by the Michigan Public
16		Service Commission. Likewise, the Iowa Utilities
17		Board ordered use of the bill and keep method of
18		compensation on an interim basis, pending the filing
19		of cost studies. Finally, the California Public
20		Utilities Commission recently endorsed bill and keep
21		on an interim basis:
22		"In the interim, local traffic shall be
23		terminated by the LEC for the CLC and by the

1		CLC for the LEC over the interconnecting
2		facilities described in this Section on the
3		basis of mutual traffic exchange. Mutual
4		traffic exchange means the exchange of
5		terminating local traffic between or among CLCs
6		and LECs, whereby LECs and CLCs terminate local
7		exchange traffic originating from end users
8		served by the networks of other LECs or CLCs
9		without explicit charging among or between said
10		carriers for such traffic exchange."
11		Order Instituting Rulemaking on the
12		Commission's Own Motion into Competition for
13		Local Exchange Service, R.95-04-043, I.95-04-
14		044, Decision 95-07-054 (Cal. P.U.C., July 25,
15		1995).
16	Q.	HAS BILL AND KEEP" BEEN SUCCESSFULLY INSTITUTED BY
17		INCUMBENT LECS?
10	A.	While BallSouth opposes the bill and keep method of
19		compensation proposed by its potential competitors,
20		incumbent LECs throughout the United States have
21		endorsed this compensation method by employing it in
22		their business relationships. "Bill and keep"
23		arrangements and similar arrangements that

1		approximate "bill and keep" are common throughout
2		the United States between non-competing LECs in
3		exchanging extended area service calls.
4	Q.	DOES MFS HAVE GOOD REASON TO BELIEVE THAT TRAFFIC
5		WILL BE IN BALANCE BETWEEN BELLSOUTH AND ALECS?
6	A.	Yes. Although incumbents often argue that, if
7		traffic is not in balance between two carriers,
8		"bill and keep" is an imperfect method of
9		compensation, this theory is discredited by MFS's
10		experience in New York, where MFS is terminating
11		more calls from NYNEX customers than NYNEX is
12		terminating from MFS customers. In the face of
13		evidence that it is terminating more minutes of
14		intercarrier traffic in New York than the incumbent
15		LEC, and hence would profit from a compensation
16		system that measures usage, MFS's support for the
17		bill and keep method of compensation is all the more
18		credible.

1	III.	TERMINATING ACCESS COMPENSATION RATES BASED ON
2		SWITCHED ACCESS WILL PRECLUDE COMPETITION IN FLORIDA
3	Q.	WHAT, TO YOUR UNDERSTANDING, HAS BELLSOUTH PROPOSED
4		FOR TERMINATING ACCESS RATES IN NEGOTIATIONS WITH
5		TCG?
6	A.	It is my understanding that BellSouth has proposed
7		to charge switched access rates, or \$0.4793/minute,
8		to terminate local calls. TCG Testimony at 32.
9	Q.	WHY WILL BASING TERMINATING ACCESS ON SWITCHED
10		ACCESS MAKE IT IMPOSSIBLE FOR ALECS TO COMPETE?
11	A.	TCG has aptly demonstrated that ALECs cannot compete
12		with BellSouth in the local exchange market if
13		forced to pay switched access rates for terminating
L 4		access. TCG Testimony at 33. The TCG comparison of
L5		flat rates charged by BellSouth to residential
L6		customers with usage-based rates charged by
L 7		BellSouth to competitors for terminating access
L8		demonstrates a classic price squeeze. It is by
L9		virtue of this simple price squeeze that BellSouth
80		will ensure that competition does not take root in
11		Florida. Significantly, as the TCG Chart
!2		demonstrates, particularly in a flat-rate
23		environment, the price squares is most agular form

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larger customers. Thus, ALECs will have an even 1 more difficult time competing for customers with 800 2 monthly minutes of use than for customers with 600 3 or 460 minutes of use. TCG Testimony at 33. 4 makes the price squeeze a particularly effective 5 6 means of crippling competitors. COULD YOU ELABORATE ON THE CONCEPT OF A PRICE 7 Q. 8 SQUEEZE? A price squeeze occurs where a firm with a monopoly 9 A. over an essential input needed by other firms to 10 11 compete with the first firm in providing services to 12 end users sells the input to its competitor at a price that prevents the end user competitor from 13 meeting the end user price of the first firm, 14 despite the fact that the competitor is just as 15 16 efficient as the first firm. A price squeeze is

meeting the end user price of the first firm, despite the fact that the competitor is just as efficient as the first firm. A price squeeze is anticompetitive and deters entry into the market because, by raising entrants' costs, it forces an entrant who wishes to match the incumbent's prices to absorb losses as a price of entry. Because of their anticompetitive nature, price squeezes are condemned as contrary to the public policy and prohibited by the antitrust laws. See, e.g., United

1		States v. Aluminum Co. of America, 148 F.2d 416,
2		437-38 (2d Cir. 1945); Illinois Cities of Bethany v.
3		F.E.R.C., 670 F.2d 187 (D.C.Cir. 1981); Ray v.
4		Indiana & Michigan Elect. Co., 606 F.Supp. 757 (N.D.
5		Ind. 1984). The Commission can ensure that a price
6		squeeze will not be implemented by applying
7		imputation principles.
8	Q.	WOULD IT BE POSSIBLE FOR ALEC'S TO USE LOCAL
9		EXCHANGE SERVICE AS A LOSS-LEADER, BUT RECOUP THE
10		LOSS AND MAKE A PROPIT THROUGH OTHER SERVICES, SUCH
11		AS INTRALATA TOLL AND INTERLATA SERVICES?
12	A.	As has been recognized in other jurisdictions, if
13		local exchange competition is to succeed,
14		competition must be possible in all segments of the
15		local exchange market, without cross-subsidization
16		from other services. As the Illinois Commerce
17		Commission recently observed:
18		"The issue is not whether a new LEC
19		ultimately can scrape together revenues
20		from enough sources to be able to afford
21		Illinois Bell's switched access charge.
22		The crucial issue is the effect of a given
23		reciprocal compensation proposal on

1	competition [A] doption of Illinois
2	Bell's [switched access based] proposal
3	and rationale would force new LECs to
4	adopt either a premium pricing strategy or
5	use local calling as a 'loss-leader'.
6	That is not just or reasonable."
7	Illinois Bell Telephone Proposed Introduction of a Trial
8	of Ameritech's Customers First Plan in Illinois, Docket
9	No. 94-0096, at 98 (Ill. Comm. Comm'n., April 7, 1995).
10	The Commission must ensure that inflated pricing for
11	interconnection does not preclude ALECs from achieving
12	operating efficiency by developing their own mixture of
13	competitive products over time, including if a LBC so
14	opts, the provision of local exchange service alone.
7.5	Q. WHY IS A USAGE-BASED SWITCHED ACCESS RATE FOR ALECS
16	PARTICULARLY INAPPROPRIATE IN AN ENVIRONMENT IN
17	WHICH BELLSOUTH CHARGES ITS END-USER CUSTOMERS ON A
18	FLAT-RATE BABIS?

1	A.	As discussed above, the usage-based switched access
2		rates proposed by BellSouth result in a price
3		squeeze, a result which is exacerbated at higher
4		calling volumes. Unless usage-based terminating
5		access rates are set at considerably lower levels,
6		ALECs are forced to charge usage-based rates to end-
7		user customers to recover their costs. This
8		precludes ALECs from offering customers a choice of
9		flat-rate or measured service, as Florida LECs
10		Currently offer. Not only would ALECs be limited to
11		measured usage services but, as discussed above,
12		even charging usage-based rates, ALECs cannot begin
13		to compete when paying switched access.
14	IV.	TCG'S CAPACITY-BASED PORT SCHEME WILL STILL RESULT
15		IN A PRICE SQUEEZE
16	Ω.	DOES MFS SUPPORT THE CAPACITY-BASED PORT SCHEME
17		PROPOSED BY TCG?
18	A,	No. While this proposal may represent an
19		improvement over the BellSouth switched access
20		proposal, the TCG proposal does not obviate the
21		possibility of a price squeeze. Under the TCG
22		proposal, "carriers will make available a DS1
23		capacity switch port for the termination of traffic

1 at both the tandem-level and the end-office level of 2 the network." TCG Testimony at 36. While TCG states that *carriers will price these ports on a 3 flat monthly basis" (id.), it fails to establish an 5 adequate basis for this flat-rate capacity-based 6 pricing. While port charges will be allocated 7 between both carriers, there is no guarantee that flat-rate port charges assessed to ALECs will permit 8 9 them to price their services competitively with 10 BellSouth. 11 Q. WHY IS THE "BILL AND KEEP" SOLUTION DISCUSSED EARLIER IN YOUR TESTIMONY A BETTER METHOD THAN THE 12 13 TCG PROPOSAL? 14 Under the "bill and keep" proposal, there is no possibility whatsoever of a price squeeze. Perhaps 15 the most likely and pernicious impediment to the 16 development of local exchange competition in Florida 17 is a terminating access rate that effects a price 18 19 squeeze on ALECs. To the extent that "bill and keep" precludes this possibility, the Commission 20 21 should adopt this proposal for terminating access in 22 Florida.

- 1 Q. DOES THIS CONCLUDE YOUR TESTIMONY?
- 2 A. Yes.

CERTIFICATE OF SERVICE DOCKET NO. 950985-TP

I, Sheila M. Beattie, certify that I have served this foregoing Direct Testimony of Timothy T. Devine on behalf of Metropolitan Fiber Systems of Florida, Inc., in accordance with the Commission's rules and the Order Establishing Procedure in this docket, by mailing a copy via next-day express to all parties listed on the attached Service List with respect to the above-referenced docket.

Alula M. Beatlie Hay

Date: September 15, 1995

SERVICE LIST DOCKET NO. 950985-TP

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