

HOPPING GREEN SAMS & SMITH
PROFESSIONAL ASSOCIATION
ATTORNEYS AND COUNSELORS

123 SOUTH CALHOUN STREET
POST OFFICE BOX 6526
TALLAHASSEE, FLORIDA 32314

(904) 222-7500

FAX (904) 224-8551

FAX (904) 425-3415

Writer's Direct Dial No.
(904) 425-2313

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JAMES S. ALVES
BRIAN H. BIBEAU
KATHLEEN BLIZZARD
ELIZABETH C. BOWMAN
RICHARD S. BRIGHTMAN
PETER C. CUNNINGHAM
RALPH A. DEMEO
THOMAS M. DeROSE
WILLIAM H. GREEN
WADE L. HOPPING
FRANK E. MATTHEWS
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DAVID L. POWELL
WILLIAM D. PRESTON
CAROLYN S. RAEPPLE
DOUGLAS S. ROBERTS
GARY P. SAMS
ROBERT P. SMITH
CHERYL G. STUART

GARY K. HUNTER, JR.
JONATHAN T. JOHNSON
ROBERT A. MANNING
ANGELA R. MORRISON
GARY V. PERKO
KAREN M. PETERSON
MICHAEL P. PETROVICH
R. SCOTT RUTH
W. STEVE SYKES
T. KENT WETHERELL, II

OF COUNSEL
W. ROBERT FOKES

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

Re: Docket 961230-TP

Dear Ms. Bayó:

Enclosed for filing on behalf of MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. (collectively, "MCI") are the original and 15 copies of MCI's post-hearing brief, together with a 5.1 WordPerfect disk.

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

Very truly yours,

Richard D. Melson

Richard D. Melson

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BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Petition by MCI)
Telecommunications Corporation)
for arbitration with United) Docket No. 961230-TP
Telephone Company of Florida and)
Central Telephone Company of)
Florida concerning) Filed: January 3, 1997
interconnection rates, terms, and)
conditions, pursuant to the Federal)
Telecommunications Act of 1996.)
_____)

MCI'S POST-HEARING BRIEF

MCI Telecommunications Corporation and MCImetro Access Transmission Services, Inc. (collectively, MCI) hereby file their post hearing brief.

EXECUTIVE SUMMARY

This arbitration proceeding, and others like it, will shape the future of local competition for years to come. The Telecommunications Act of 1996 (Act) sets forth numerous standards that the Commission must apply in resolving the issues submitted for arbitration. Among these is the provision in Section 252(c) which states that the Commission must apply the requirements set forth in the regulations prescribed by the Federal Communications Commission (FCC) pursuant to Section 251 of the Act (FCC Rules).

The United States Eighth Circuit Court of Appeals has entered a partial stay of the FCC Rules. The Commission is, of course, required to apply the remaining, unstayed provisions of those rules. Although the Commission is not required at this time to apply the pricing provisions of those rules as a result

of the stay, it is still required to comply with the pricing provisions of the Act. The Eighth Circuit did not consider, much less decide, whether the FCC's pricing rules are inconsistent with the Act. Rather, the stay was issued solely on the ground that a question exists about the FCC's authority to promulgate pricing rules. The pricing principles contained in the FCC Rules are consistent with sound economic principles and with the terms of the Act. The Act requires the Commission to set rates based on forward-looking economic cost (TELRIC). Any other costing methodology, such as one based on historical costs, would effectively create a barrier to entry and would violate the Act. MCI therefore urges the Commission to adopt pricing principles in this proceeding which follow the FCC Rules to the maximum extent possible, consistent with the Commission's view of any Florida-specific public interest factors.

In resolving the numerous issues presented in this proceeding, the Commission should ask:

- Does its decision create an environment that promotes investment and the development of a flourishing array of new services?
- Does it establish prices that mirror a fully competitive market?
- Does it provide vigilant oversight against anti-competitive practices?

Five of the major issues in this proceeding are the appropriate price for unbundled network elements; the appropriate

symmetrical compensation mechanism for the transport and termination of local traffic; the extent to which Sprint is required to allow its services to be resold; the appropriate wholesale price for such resold services; and whether Sprint should be allowed to preclude MCI from collocating remote digital line units on Sprint premises.

With respect to unbundled network elements, the prices for such elements should be based on their forward-looking economic cost in accordance with total element long-run incremental cost (TELRIC) principles. The Hatfield Model results presented by MCI in this docket include all costs that would be incurred by an efficient wholesale provider of unbundled network elements, and therefore provide a reasonable basis for setting rates consistent with TELRIC principles.

With respect to transport and termination of local traffic, prices should be symmetrical based on the functionality provided, not the facilities used. Such prices should be based on Sprint's forward-looking economic cost in accordance with total element long-run incremental cost (TELRIC) principles.

With respect to resale of Sprint services, the Commission should require Sprint to allow resale of all retail services, including voice mail service and inside wire maintenance service. The prices for all resold services should be set to reflect the retail costs that Sprint avoids when it provides services on a wholesale basis. The avoided cost study presented by MCI in this

docket provides a reasonable basis on which to set discounts of 20.49% (United) and 21.37% (Centel) for such wholesale services.

With respect to collocation, the Commission should require Sprint to allow MCI to collocate equipment of its choice, including remote digital line units.

ISSUE-BY-ISSUE ANALYSIS

The following is a summary of MCI's position on each issue, and a discussion of the evidence which supports that position.

Issue 2. What should be the compensation mechanism for the exchange of local traffic between MCI and Sprint?

****MCI Position:** The compensation mechanism should use symmetrical rates for transport and termination set in accordance with total element long run incremental cost principles. The Hatfield Model produces costs calculated in accordance with these principles for tandem switching, local switching and transport.**

Section 251(b)(5) of the Act places a duty to provide reciprocal compensation on all telecommunications carriers (including Sprint and MCI):

(b) OBLIGATION OF ALL LOCAL EXCHANGE CARRIERS.-- Each local exchange carrier has the following duties:

(5) RECIPROCAL COMPENSATION.-- The duty to establish reciprocal compensation arrangements for the transport and termination of telecommunications.

Section 252(d)(2) of the Act fleshes out the pricing standard for reciprocal compensation by providing that:

(2) CHARGES FOR TRANSPORT AND TERMINATION OF TRAFFIC.--

(A) IN GENERAL.-- For the purposes of compliance by an incumbent local exchange carrier with section 251(b)(5), a State commission shall not consider the terms and conditions for reciprocal compensation to be just and reasonable unless--

(i) such terms and conditions provide for the mutual and reciprocal recovery by each carrier of costs associated with the transport and termination on each carrier's network facilities of calls that originate on the network facilities of the other carrier; and

(ii) such terms and conditions determine such costs on the basis of a reasonable approximation of the additional costs of terminating such calls.

The parties appear to agree that the reciprocal compensation mechanism should be based on Sprint's forward looking economic costs of providing transport and termination, and that the reciprocal recovery of costs should be accomplished through the application of symmetrical charges. The parties disagree on how "symmetrical" charges are measured when MCI employs a different network architecture than Sprint to perform the same transport and termination function.

Sprint contends that transport and termination must be viewed as two separate network functions, and that MCI is entitled to full compensation only when it uses distinct network facilities to provide the two separate functions. MCI contends that regardless of how transport and termination are priced with reference to Sprint's existing network, MCI is entitled to full compensation -- regardless of the network facilities it uses -- when it provides the same overall function as Sprint, namely the

termination of calls throughout a calling area that is at least as large as that served by a Sprint tandem switch. (Cabe, T 208-209)

Although stayed, and thus not currently binding on the Commission, the FCC Rules on pricing for transport and termination of local traffic are a reasonable interpretation of "reciprocal compensation" requirements of the Act. MCI submits that these rules provide useful direction as the Commission determines the appropriate compensation under the Act for the exchange of local traffic.¹

Under Sections 51.701 and 51.703 of the FCC Rules, Sprint is required to establish reciprocal compensation arrangements for transport and termination of local traffic. Reciprocal compensation is defined in Section 51.701(e) as an arrangement in which each of two carriers receives compensation from the other "for the transport and termination" of local traffic which originates on the network of the other carrier. Section 51.711(a) of the FCC Rules declares that reciprocal compensation for transport and termination of local telecommunications traffic shall be "symmetrical." Subparagraph (3) of Rule 51.711 provides that "(w)here the switch of a carrier other than an incumbent LEC serves a geographic area comparable to the area served by the incumbent LEC's tandem switch, the appropriate rate for the

¹ In this regard, it should be noted that Sprint's witness Hunsucker relies on both the FCC Rules and the FCC Order as support for Sprint's position on the appropriate pricing for transport and termination of local traffic. (Hunsucker, T 388-390)

carrier other than an incumbent LEC is the incumbent LEC's tandem interconnection rate."

Sprint interprets these Rules as requiring it to compensate MCI on a symmetrical basis for both transport and termination (i.e. at the tandem interconnection rate) only where MCI has deployed both tandem and end office switches in its new local network. (Hunsucker T 389, 390) This interpretation would punish MCI for using the most efficient architecture using today's technology. It would doom MCI to an unpalatable and unnecessary choice: either mirror Sprint's outmoded network architecture in order to receive compensation at the tandem interconnection rate, or sacrifice full reciprocal compensation in order to build the most efficient, modern network.

The FCC Rules, however, do not dictate this illogical result. Sections 51.701(c) and (d) define transport and termination in terms of the facilities used by the incumbent LEC, or the "equivalent facility" provided by a carrier other than the incumbent LEC. Sprint witness Hunsucker acknowledges that ". . .where both the CLEC and ILEC provide the same or equivalent call termination functionality the same compensation rates should be applicable." (Hunsucker, T 389) He then distorts this concept by maintaining that "equivalent call termination functionality" means that a CLEC must provide "the equivalent tandem switching and transport functions" before the incumbent LEC can be required to pay the CLEC the tandem switching and transport rate elements. (Hunsucker, T 389).

In examining the issue of whether the CLEC and the ILEC provide the same call termination functionality, the Commission should focus on the similarity of the functionality provided, not on the configuration of the physical facilities used to provide that functionality. In the old ILEC network architecture, the purpose and function of tandem switches is to distribute calls to any switch which serves any end user within the tandem serving area. In MCI's modern network architecture, the equivalent functionality is performed by whatever facilities MCI uses to terminate traffic over a geographic area that is at least as large as the area served by Sprint's tandem. As explained by MCI witness Jerry Murphy,

The classic switching hierarchy was dictated by limitations on loop length using copper facilities. This resulted in networks that use a relatively large number of switches positioned very close to end users of that switch. MCI's network, which uses modern distributed technology, supports much greater serving area with a greater number of subscriber loops per switch. Both network architectures take traffic from a point of interconnection and terminate it throughout a wide geographic serving area. So long as the territory served by MCI's switch is at least as large as the area served by Sprint's tandem and the subtending end offices, each carrier is using "equivalent facilities" to provide the same function, and each carrier should be entitled to the same compensation. Any other conclusion would only create an incentive to build inefficient networks which would ultimately be detrimental to the consumers of Florida.

(Murphy, T 124-125)

The practical equivalence of the functionality provided can be seen as follows: if MCI hands a call to Sprint for local

termination in the geographic area served by Sprint's tandem switch, Sprint will take that call at its tandem and deliver the call to the customer subtended by that tandem; if Sprint hands a call to MCI for local termination in a geographic area at least as large as that served by Sprint's tandem, MCI will take that call and deliver it to the MCI customer in the equivalent geographic area. The same thing happens under both scenarios, i.e., the calls are handed off to the applicable local carrier for termination in equivalent geographic areas. The only difference is that the MCI and Sprint networks have different architectures, which results in different terminology applicable to their different, yet equivalent, functions.

Since MCI is going to perform the same function when it terminates a local call for Sprint as Sprint will perform when it terminates a local call for MCI, symmetrical reciprocal compensation rates should apply. This ensures that carriers will be properly compensated for performing equivalent functions and avoids punishing new entrants for building networks with a modern architecture. The appropriate rate for termination of local calls is Sprint's tandem rate, including tandem switching, shared transport, and termination, in situations where MCI's geographic scope is comparable to the geographic scope covered by Sprint's tandem network.

As Dr. Cabe testified, from an economic point of view, the appropriately defined function for pricing purposes is the termination of a call, regardless of the technology used in the

termination. It is absolutely crucial for the pricing rules to focus on the function performed, not the particular facilities used to perform the function, if Florida consumers are to enjoy all the benefits of competition, including the use of modern, cost-effective technologies. (Cabe, T 208-209, 218-222)

Issue 3b. What is the appropriate cost methodology for setting the price of each of the following unbundled network elements?

- Network Interface Device
- Unbundled Loop
- Loop Distribution
- Local Switching
- Operator Systems (DA Service/911 Service)
- Multiplexing/Digital Cross-Connect
- Dedicated Transport
- Common Transport
- Tandem Switching
- Signaling Link Transport
- Signal Transfer Points
- Service Control Points/Databases

****MCI Position:** The price of unbundled elements should be based on the forward-looking, long-run economic costs, calculated in accordance with TELRIC principles, that a wholesale-only LEC would incur to produce the entire range of unbundled network elements. These costs are calculated by the Hatfield Model.**

Section 252(c)(2) of the Act requires the Commission to establish rates for unbundled network elements according to the pricing standards of Section 252(d)(2). That section in turn provides that:

- (d) PRICING STANDARDS.--
 - (1) INTERCONNECTION AND NETWORK ELEMENT CHARGES.-- Determinations by a State commission of. . .the just and reasonable rate for network elements for purposes of subsection (c)(3) of [section 251]--
 - (A) shall be--

(i) based on the cost (determined without reference to a rate-of-return or other rate-based proceeding) of providing the . . . network element. . . , and

(ii) nondiscriminatory, and

(b) may include a reasonable profit.

In order to meet the requirements of Section 252(d)(2), prices must be set based on their forward-looking economic cost. (Cabe, T 166) The use of revenue-requirement-based embedded cost standards would prevent the market from driving local exchange rates to economic cost and would violate the provision of the Act which precludes reference to rate-of-return or rate-based proceedings.

The FCC coined a new term -- Total Element Long-Run Incremental Cost (TELRIC) -- for its forward-looking costing methodology. Nevertheless, the TELRIC methodology is nothing more than a Total Service Long-Run Incremental Cost (TSLRIC) methodology in which the item to be costed is an "element" rather than a "service." While the Commission is not currently required to apply the FCC's TELRIC methodology due to the stay of the pricing provisions of the FCC Rules, the Commission has previously adopted the similar TSLRIC standard as a basis for setting prices under state law (see Order No. PSC-96-0811-FOF-TP at 14-15, 25), and in other arbitrations under the Act (see Order No. PSC-96-1574-FOF-TP at 22).

The Commission has been provided with competing cost studies which purport to comply with TSLRIC/TELRIC pricing principles.

One set of studies, sponsored by Mr. Farrar of Sprint, was furnished on a confidential basis.² Like previous Sprint cost studies, these studies use a "black box" approach, under which the relationships used to translate from inputs to outputs are unavailable for critical review. (Cabe, T 181-182) Sprint also sponsored the Benchmark Cost Model 2 ("BCM2") as the cost study for unbundled loops. While the calculation of loop investment in BCM2 is not fraught with the same infirmities as the "black box" cost studies, the conversion of that loop investment to an annual cost still relies on overstated annual charge factors which are produced from such studies, as discussed in more detail below.

The other study, the Hatfield Model presented by Mr. Wood, is an open model which makes use of publicly available data to estimate the forward-looking costs that a wholesale-only LEC would incur to produce the entire range of outputs that the FCC Order requires to be unbundled. (Cabe, T 182-186) The Hatfield Model includes cost of capital in its cost calculations, thus satisfying the provision of the Act that permits the recovery of a reasonable profit. (Wood, T 276) The Hatfield Model attributes costs of shared plant to each of the network elements that use that plant, thus appropriately capturing these shared plant costs. It also adds a 10% markup to capital and network

² While the cost study summaries were largely non-confidential (Ex. 21), Sprint furnished the underlying workpapers necessary to evaluate the studies only on a confidential basis. (Ex. 26, 27) These workpapers were provided less than a week prior to the final hearing in this docket.

operations costs as an estimate of forward-looking overhead costs. (Cabe, T 184; Wood, T 278-279)

If the Commission set the prices for network elements equal to the costs that the Hatfield Model reports for each element, those prices would allow Sprint to recover all of its economic costs, including a reasonable profit, of doing business as a wholesale-only firm engaged in the business of providing network elements. (Cabe, T 185) Pricing in accordance with the Hatfield Model is both reasonable, and fully consistent with the pricing principles of the Act.

Strengths of the Hatfield Model

The primary strengths of the Hatfield Model are that it uses sound economic costing principles to estimate the relevant costs of a wholesale provider of unbundled network elements using the best publicly available data and that, as an open model, its operations can be readily scrutinized and a large number of its key inputs can be set by users. (Wood, T 272-274)

The Hatfield Model is consistent not only with the costing provisions of the FCC Order but also with sound economic costing principles generally. The Hatfield Model is forward-looking. As such, it does not use embedded investment, but instead uses existing wire center locations and then develops investments using the most efficient, currently available technologies for the provision of loop facilities, switching, interoffice transport, and signaling. (Wood, T 276-277) The Hatfield Model uses a long-run, total element methodology. It models a period

long enough so that all of the firm's investments and expenses become variable or avoidable, and it studies an increment equal to the entire quantity of the network element being costed. (Wood, T 275-276) The Hatfield Model uses a forward-looking cost of capital, thereby providing a reasonable profit on the firm's forward-looking investment. (Wood, T 276) The Hatfield Model uses cost-causative principles to identify forward-looking costs with specific network elements, and it attributes the cost of shared investments to specific elements in reasonable proportions. (Wood, T 278-279) The Hatfield Model adds a 10% markup to capture an appropriate level of overhead (or common) costs. (Wood, T 279)

As mentioned above, the Hatfield Model is an open model. The model itself, and accompanying documentation, is publicly available through the International Transcription Service of Washington, D.C. (Wood, T 273) In fact, both the model and its documentation have been entered into the record in this proceeding (Ex. 12, 17), and the Commission staff has run the model with differing inputs to test the sensitivity of the model to changes in assumptions. (See Wood, T 336-337) The inputs into the model are available for inspection (Ex. 12), and, except for Census Block Group and U.S. Geological Survey data, the model inputs are user definable. (Ex. 14 at 4-5) This degree of openness, which is unprecedented in telecommunications cost studies, enables independent scrutiny and evaluation of the

assumptions and methodology, and enables a reviewer to test the reliability of the final product. (Wood, T 273-274)

Response to Criticisms of the Hatfield Model

Mr. Dunbar, a co-author of the competing BCM2 Model (T 578), leveled a number of criticisms at the Hatfield Model. (Dunbar, T 588-599) In general, these criticism pertain to the details of the engineering calculations performed by the model. While some of Mr. Dunbar's observations are correct from an engineer perspective, they miss the point. The Hatfield Model is not intended to be an engineering model. Its objective is to develop the correct cost of serving an area, which it does accurately, for the model produces enough dollars to build the necessary local network. As Mr. Wood stated:

If you look at - underlying that, some details of network assumptions, those may or may not be the same network assumptions that a network planner would make when serving that area. But the test of a cost model is if it gets the cost right, not the engineering right. And I think that's what this model does very well.

(Wood, T 297)

While it may be possible to find some loops modeled in the Hatfield Model which will not be workable in real life, it is also possible to find overinvestment for other loops. (Wood, T 298) In response to the suggestion by counsel for Sprint that it is necessary to analyze whether every loop modeled will actually work in real life, and if not, to determine the cost of reengineering the loop, Mr. Wood explained:

It's necessary in the following sense - and I've been doing some of this analysis because BellSouth has asked for it in other states. If you look at what the model calculates as the total investment, in distribution plant, for example, to serve a census block group, a given census block group, you then can calculate through and find out the total dollars available to spend.

If you want to then do the type of analysis you're talking about, you take those total dollars and then you go on a much more specific loop-by-loop basis. And essentially, that's the dollars that you have to spend. And the question becomes can you then design a network given the dollars that you're allowed to spend under the model and of the results of the model. If you can, the model is validated. It's an effective costing model because it correctly calculated the cost of serving the area.

It's only in that type of analysis that you would get to the type considerations that you are asking about.

(Wood, T 300, 301)

Thus, while Sprint has attempted to identify a number of engineering assumptions or calculations which allegedly impact the Hatfield Model results, to the extent that some assumptions tend to understate costs, there are other assumptions that tend to overstate costs. It must be recalled that the output of the Hatfield Model is a total investment dollar figure for each CBG. Based on analysis performed by Mr. Wood in BellSouth cases, there are some overassumptions in terms of investment with regard to cable and structure which are more than sufficient to offset any potential underinvestments in loop facilities. (Wood, T 303-304) In total, the Hatfield Model predicts enough investment dollars to serve an area. This is the real test of a cost model, not

whether it accurately engineers every individual loop, a task which it was not designed to perform. (Wood, T 304)

Weaknesses of Sprint's TELRIC/BCM2 Cost Studies

Sprint submitted what purport to be fourteen TELRIC cost studies for various unbundled network elements and call termination. (Ex. 21) Sprint did not, however, provide any cost studies to support its recommended prices for several of the unbundled elements at issue in this case, including dedicated transport, common transport, and switching features purchased with an unbundled port. (Hunsucker, T 406, 409; Ex. 19 at MRH-6; Farrar, T. 479, 480) Thus the *only* evidence in the record on the cost of these elements is that provided by the Hatfield Model.

As Dr. Cabe testified, Sprint's cost case does not embrace forward-looking economic costing principles, as it relies inappropriately on historical embedded data, with the treatment of shared and common costs looking very much like a fully distributed cost study. (Cabe, T 210, 212)

The first major flaw in the Sprint approach is that the annual charge factors, which are central to its cost calculations, appear to be overstated. These factors come into play as follows: the first step in each of Sprint's cost studies was to calculate the investment in plant necessary to provide the unbundled network element; the second step was to calculate a combined annual charge factor; and the third step was to multiply the annual charge factor by the investment to obtain an annual cost. (Farrar, T 531) In general, the annual charge factors for

each unbundled network element are in the range of 30%. (Farrar, T 539) Thus these factors are a significant component in calculating what Sprint defines as its TELRIC costs.

Each combined annual charge factor consists of two major components. The first component takes into account items such as maintenance, taxes, depreciation, and cost of capital. (Farrar, T 532, 533) A review of these items reveals that they contributed greatly to the inflated nature of the overall annual charge factors. The cost of capital component is unreasonably high, as the cost of equity was a generous 15.81%, with an overall rate of return of 11.25%. The depreciation lives were based on a study by Technology Futures, Inc. which does not appear to have ever been critically evaluated by this Commission. (Farrar, T 548) The maintenance factors were not well documented. They were purportedly calculated by taking historic maintenance costs as a percentage of embedded investment, based on the most recent calendar year. (Farrar, T 542) Yet Mr. Farrar was unable to satisfactorily explain why different maintenance factors were calculated for the same item at different points in the studies. (See Farrar, T 542-547; Ex. 25, deposition pages 18-19) Further, the maintenance factors involve a mismatch of expense and investment. Although a forward-looking loop investment figure produced by the BCM2 model was used, Mr. Farrar testified that Sprint did not make any adjustment to the historical maintenance expense to reflect that the forward-looking loop investment was

going to be different than the embedded loop investment on which the factors had been calculated. (Farrar, T 547)

The second major component of the annual charge factor is referred to by Mr. Farrar as the "other direct operating expense factor." This component represents costs that are shared at the service level but that can be directly attributed or assigned to elements when they are studied at the element level. (Farrar, T 533, 534) The starting point for the other direct operating expense study was Sprint's historical costs for 1995. (Farrar, T 548, 549) Despite the fact that Sprint purports to have performed forward-looking studies, no adjustments were made to these historical costs to make them forward-looking. (Farrar, T 549)

Once the TELRIC cost for the unbundled network element was developed by this process of multiplying the investment by the annual charge factor, a common cost factor was then applied to the TELRIC cost to develop a price. (Farrar, T 540) This raises the second major flaw with Sprint's cost approach, for the common cost factor is overstated. It contains primarily the overhead accounts, costs which are really common costs to the firm for which there is no basis to be allocated to a specific element. (Farrar, T 540) The common cost factor used by Sprint was 14.58%.

The effect of Sprint's cost approach is that it ends up approximating a fully distributed cost study. It relies on historical, embedded costs and then distributes those costs across all elements, resulting in an approach vastly different

than the forward-looking approach required by the Act. (See Cabe, T 209-210, 212; Wood, T 325-326) Mr. Farrar acknowledged that when the exercise of allocating the shared and common expenses to various categories is finished, all of the historical expense dollars in those accounts would be either assigned or attributed to unbundled elements or treated as assigned to a category which does not pertain to unbundled elements. (Farrar, T 552-554)

The other effect of Sprint's approach is that if any of the critical factors - the annual charge factor or the common cost factor - is higher than it should be, the effect will be to overstate the final cost and final price. (Farrar, T 541) As discussed previously, both of these factors are inflated, resulting in overstated costs and inflated prices for Sprint's unbundled network elements.

As a final point, while Sprint used BCM2 to calculate loop investment, that was its only use in this proceeding. BCM2 was not designed to estimate TELRICs of unbundled network elements and has simply been adapted to that purpose for use in this case. While BCM2 has the virtue of being more open than the other Sprint cost studies, it lacks the virtues found in the Hatfield Model.

Given the deficiencies in Sprint's costing approach, which relies heavily on approximating an embedded cost study rather than a forward-looking cost study, the Sprint studies are an unreliable basis on which to estimate Sprint's forward-looking common costs of providing unbundled network elements in Florida.

The Hatfield Model is a sound approach which meets the requirements of the Act. It is the best effort of a party which is not an incumbent local exchange provider to estimate the forward-looking common costs of unbundled network elements based on publicly available data. Approving its results would signal to new entrants that they are not forever doomed to the costs and prices produced by the "black box", incumbent LEC controlled cost studies such as the ones created by Sprint in this case.

Issue 3c. What should be the price of each of the items listed in Issue 3b above?

****MCI Position:** The appropriate prices for the major unbundled network elements are set forth in the direct testimony of Mr. Wood.

As discussed in Issue 3b, the prices for unbundled network elements should be set equal to their TELRIC costs. Also as discussed in Issue 3b, the Hatfield Model is the best basis in this record for determining those TELRIC costs. The results of the Hatfield Model, using Florida specific census, geographic, and usage data for Sprint, are summarized in Mr. Wood's testimony, and are presented in more detail in Schedule DJW-3 of Composite Exhibit 12. (Wood, T 289) These are the appropriate figures to be used as prices for the related network elements.

Issue 7. What is the scope of Sprint's obligation, if any, to resell voice mail and inside wire maintenance?

****MCI Position:** Section 251(c)(4) of the Act requires Sprint to offer for resale any telecommunications service that it provides at retail to end use customers who are not telecommunications carriers. Thus no retail services should be excluded from

resale. Specifically, voice mail service and inside wire maintenance service must be made available for resale.

Section 251(c)(4) of the Act requires Sprint to offer for resale at wholesale rates any telecommunications service that it provides at retail to subscribers who are not telecommunications carriers. "Telecommunications service" is defined in 47 U.S.C. 153(51) as "the offering of telecommunications for a fee directly to the public. . . ." "Telecommunications" is "the transmission, between or among points specified by the user, of information of the user's choosing, without change in the form or content of the information as sent and received." 47 U.S.C. 153(48).

Under the Act, no retail telecommunications services should be excluded from resale. Applying the definitions of telecommunications and telecommunications service to voice mail and inside wire maintenance, the services for which MCI has requested resale, it is apparent that they fall within the confines of the statute. The manner in which voice mail operates illustrates this point. If customer A calls customer B, who is not at home, customer A can be transferred to the voice mail unit, where she can leave a voice message that can be retrieved when customer B returns home. (Hunsucker, T 423) The message customer B receives will be exactly the same as the message left by customer A, i.e., her voice saying the words of the message she intends to deliver. (Hunsucker, T 423, 424) This precisely fits the definition of "telecommunications", in that information of the sender's (customer A's) choosing, is transmitted between or among points specified by the user (from customer A's

telephone to the voice mail unit to customer B's telephone), without change in the form or content of the information as sent or received, in that the message customer A leaves customer B via voice mail is identical from the standpoint of what was sent and what was received.

A similar result follows for inside wire maintenance service. If the wire from the NID to the serving area interface is somehow cut, the transmission path of a telephone call will be interrupted and must be repaired. (Hunsucker, T 424) Thus the physical facility over which communications are transmitted is an integral part of the telecommunications service, and its proper maintenance and repair is vital to the proper provisioning of that service. The same is true for the physical facility between the NID and the customer's telephone equipment: if the wire from inside the home to the NID were accidentally cut, the transmission path of a telephone call will be interrupted and must be repaired. (Hunsucker, T 424) In both cases, the telephone call is transmitted between or among points specified by the user except that the call is cut short by a break in the transmission path. Inside wire maintenance service provides for repair of the wire inside the home to restore the transmission path. This is a service marketed and sold by Sprint which should be made available for resale to CLECs who are likely to have customers equally desirous of this service as those customers of Sprint.

MCI anticipates that Sprint may argue that since voice mail service has been classified by the FCC as an "enhanced service" that is not subject to regulation under the Communications Act of 1934, and since the FCC has deregulated the provision of inside wire and inside wire maintenance, these services are excluded from the definition of "telecommunications" under the Act. This would be incorrect. The operative definitions used to establish Sprint's resale obligations under the Act were added to the federal telecommunications statute by Section 3(a) of the Act. These definitions did not exist at the time the FCC made its determinations under the Communications Act of 1934 as to the regulatory status of voice mail and inside wire. Nothing in the Act changes the regulatory status of these services; conversely, nothing in the prior law dictates whether they are the types of retail services which must be made available for resale.

If the Commission finds that any of these services are not telecommunications services provided to end users, and thus exempt from the Act's requirement for resale at a wholesale discount, the Commission nevertheless should decide whether they are available to CLECs at retail rates. This Commission should carefully evaluate whether an ILEC should be permitted to refuse to resell its services to a CLEC. In a competitive marketplace, vendors normally do not impose restrictions on who can buy their services. (Darnell, T 245)

Issue 9. What is the appropriate methodology to determine the avoided cost amounts to be applied to Sprint's retail rates when MCI purchases such services for resale?

****MCI Position:** Section 252(d)(3) of the Act requires wholesale rates to be based on the retail rates for the service less costs that are avoided by Sprint as a result of offering the service on a wholesale basis. The application of this standard produces wholesale rates for Sprint-United that are 20.49% below the current retail rates and for Sprint-Centel that are 21.37% below the current retail rates.**

Section 252(d)(3) of the Act provides the methodology for determining the wholesale price for resold telecommunications services:

(a) PRICING STANDARDS.—

(1) WHOLESALE PRICES FOR TELECOMMUNICATIONS SERVICES.—For purposes of section 251(c)(4), a State commission shall determine the wholesale rates on the basis of retail rates charged to subscribers for the telecommunications service requested, excluding the portion thereof attributable to any marketing, billing, collection, and other costs that will be avoided by the local exchange carrier.

The purpose of calculating the wholesale rates in this manner is to quantify, and deduct, costs of Sprint that are not incurred in the provision of service at wholesale. In order to determine the appropriate wholesale rates, all - not just part - of Sprint's retailing costs must be deducted from the retail rates. (Darnell, T 232-233, 253-254)

The fundamental feature of the avoided cost calculation presented by Mr. Darnell is that it determines and excludes the total amount of Sprint's retailing costs in calculating the wholesale discount. (See Darnell, T 228-233, 237-241; Ex. 10) In this regard, it leaves in the wholesale price only those costs

that are incurred in the provision of the service at wholesale. This calculation shows that the appropriate wholesale discount for Sprint-United is 20.49% below the current retail rates and for Sprint-Centel is 21.37% below the current retail rates.

Sprint's approach to calculating the appropriate wholesale discount differs from MCI's in several key respects, causing its proposed percentages to be too low. First, MCI treats operator services as totally avoided. Sprint maintains that because resellers wish to provide their own operator services, the costs contained in accounts 6621 and 6622 will not be avoided. However, the reality is that if resellers provide their own operator services, Sprint will not be providing operator service to the reseller's customers; therefore, the cost of providing operator service will be avoided. (Darnell, T 248) Sprint's position would mean that any wholesale companies that want to provide their own operator services would have to pay for all of their own operator service expense, plus pay for part of Sprint's operator service expense through an inappropriately low wholesale discount percentage. (Darnell, T 248)

Second, Sprint claims that uncollectibles will not be avoided, stating that its long distance division's experience with reseller write-offs, unsubstantiated billing adjustments, and fraudulent code abuse are similar to the rate of uncollectibles experienced by Sprint's local division. (Farrar, T 510-511) This logic, that uncollectibles in the wholesale market will be the equivalent to uncollectibles in its retail markets is

not reasonable. End user uncollectibles will be completely eliminated, because resellers will absorb the bad debt associated with those customers. (Darnell, T 250) In line with the FCC's methodology, MCI's study generously assumes that uncollectibles are only avoided in proportion to the avoided direct expenses. (Darnell, T 250) Failing to include uncollectibles in the calculation of avoided expense means that the numerator of the wholesale discount percentage will be too small, with the discount accordingly understated. (Darnell, T 250, 251)

Third, Sprint's current position is that overheads are not avoidable. By failing to include avoided common costs and overhead in its calculation of avoided expense, the numerator of the wholesale discount percentage will be too small, resulting in understating the wholesale discounts. (Darnell, T 249) This position makes no sense, for if the direct cost of a service falls, then the functions needed to support that service will likewise fall. (Darnell, T 249)

Sprint's position on this proper treatment of overheads in an avoided cost study has changed. Accounts which Mr. Farrar now refuses to treat as indirectly avoided accounts were treated as indirectly avoided accounts in his New Jersey avoided cost study submitted earlier this year. (Farrar, T 525) Mr. Farrar's testimony on the appropriate treatment of these costs apparently changes from time to time with changes in Sprint's corporate position. (Ex. 25 at 111, 112) Mr. Farrar did testify that if he had used his New Jersey methodology in Florida, he would have

determined that at least 15.47% of the dollars in the indirect expense categories would have been avoided. (Farrar, T 527)

Issue 21. Should Sprint be prohibited from placing any limitations on the interconnection between two carriers collocated on Sprint's premises, or on the types of equipment that can be collocated, and or on the types of users and availability of the collocated space?

****MCI Position:** Yes, Sprint should be prohibited from placing such limitations. MCI should have the ability to collocate equipment of its choice, including remote digital line units.**

Arbitrary restrictions on the equipment that can be placed in a collocation space should be prohibited. Reasonable limitations on space, power use, heat production, etc. are appropriate. If the collocator complies with these restrictions, it should be permitted to use the collocation space in the most efficient manner possible. Anything more restrictive would result in the incumbent LEC being able to prevent a new entrant from deploying the most efficient network it can using modern technology. (Murphy, T 122)

Sprint refuses to allow the collocation of remote digital line units ("RDLU"), limiting their placement to the conditions set forth in its tariff at Section E17.1.5.C(20). That section of the tariff allows collocation of integrated equipment (which has both transmission and switching functionality) only upon the ILEC's certification that except for the purpose of providing multiplexing and/or signal aggregation functionality between Sprint's network or unbundled network elements and the ILEC's transmission facilities, the switching functionality will not be

used and the device will be used only to terminate or aggregate basic transmission facilities.

That section of the tariff impacts the RDLU, which serves two functions: mainly, to concentrate signals from unbundled network facilities for transmission to MCI's switch but also to perform some switching functions, such as switching calls between two unbundled loops that both terminate on the RDLU, or to switch calls (i.e. route them) from an unbundled loop to a specified trunk group, such as 911. (Murphy, T 122) This allows for redundancy in the event that interoffice facilities between Sprint's central office and MCI's switch were out of service for any reason. The RDLU would, for example, route emergency calls from MCI customers to the appropriate 911 center. (Murphy, T 122, 147) Although the RDLU can be configured to perform only the concentration function permitted by the Sprint tariff, MCI would prefer that the switching function of the RDLU also be enabled so that 911 calls can be completed in the event of an outage. (Murphy, T 147, 148) This is warranted by the public interest in having such redundancy in the event of an emergency.

Issue 23. What capacity, engineering and related information should be provided by Sprint regarding its poles, ducts, conduits, and rights-of-way? What compensation, if any, is appropriate?

****MCI Position:** There should be no compensation for access to engineering and related information except in the unusual circumstance in which Sprint employees must perform additional work in making such documents available to MCI. In that case, Sprint should be entitled recover no more than the forward looking economic cost (TELRIC) of any additional work required.**

In ordinary circumstances, there will be no additional work involved by Sprint in making engineering records and related information available for inspection by MCI. Sprint agrees that in this typical case, no compensation is appropriate. (Hunsucker, T 422)

In the event that additional work is required, Sprint should be compensated on the same basis as it is compensated for any other unbundled function. That is, Sprint should be permitted to recover no more than the TELRIC cost of the additional work performed.

RESPECTFULLY SUBMITTED this 3rd day of January, 1997.

HOPPING GREEN SAMS & SMITH, P.A.

By: Richard D. Melson
Richard D. Melson
P.O. Box 6526
Tallahassee, FL 32314
(904) 425-2313

and

MARTHA MCMILLIN
MCI Telecommunications Corporation
780 Johnson Ferry Road, Suite 700
Atlanta, GA 30342
(404) 267-6375

ATTORNEYS FOR MCI

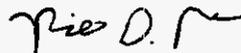
CERTIFICATE OF SERVICE

I HEREBY CERTIFY that a copy of the foregoing was furnished to the following parties by hand delivery or by UPS Overnight Delivery (*) this 3rd day of January, 1997.

Jerry M. Johns (*)
United Telephone Co. of Fla.
Central Telephone Co. of Fla.
555 Lake Border Drive
Apopka, FL 32703

John P. Fons
J. Jeffry Wahlen
Ausley & McMullen
227 S. Calhoun Street
Tallahassee, FL 32301

Martha Carter Brown
Division of Legal Services
Florida Public Service Commission
2540 Shumard Oak Boulevard
Tallahassee, FL 32399



Attorney