

BEFORE THE FLORIDA PUBLIC SERVICE COMMISSION

In Re: Comprehensive review to) DOCKET NO. 920260-TL
the revenue requirements and) ORDER NO. PSC-96-1301-PHO-TL
rate stabilization plan of) ISSUED: October 24, 1996
Southern Bell Telephone and)
Telegraph Company.)
_____)

Pursuant to Notice, a Prehearing Conference was held on October 7, 1996, in Tallahassee, Florida, before Chairman Susan F. Clark, as Prehearing Officer.

APPEARANCES:

Nancy B. White, Esquire, Room 4300, 675 W. Peachtree Street, Atlanta, Georgia 30375
On behalf of Bellsouth Telecommunications, Inc..

Robin Dunson, Esquire, 1200 Peachtree Street, N.E., Room 4038, Atlanta, Georgia 30309; and Mark K. Logan, Esquire, Bryant, Miller & Olive, 201 South Monroe Street, Suite 500, Tallahassee, Florida 32301
On behalf of AT&T Communications of the Southern States, Inc..

Floyd R. Self, Esquire, Messer, Caparello, Madsen, Goldman & Metz, P.A., Post Office Box 1876, Tallahassee, Florida 32302-1876
On behalf of AT&T Wireless Services of Florida, Inc..

*Peter Q. Nyce, Jr., Esquire, Office of The Judge Advocate General, U.S. Army Litigation Center, 901 North Stuart Street, Suite 713, Arlington, Virginia 22203-1837
On behalf of The United States Department of Defense and All Other Federal Executive Agencies.

Benjamin H. Dickens, Jr., Blooston, Mordkofsky, Jackson & Dickens, 2120 L Street, N.W., Suite 300, Washington, D.C. 20037
On behalf of The Florida Ad Hoc Telecommunications Users' Committee.

Laura L. Wilson, Esquire, 310 North Monroe Street, Tallahassee, Florida 32301
On behalf of Florida Cable Telecommunications Association, Inc..

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FPSC-RECORDS/REPORTING

Vicki Gordon Kaufman, Esquire, McWhirter, Reeves,
McGlothlin, Davidson, Rief and Bakas, 117 S.
Gadsden Street, Tallahassee, Florida 32301
On behalf of The Florida Interexchange Carriers
Association.

Patrick K. Wiggins, Wiggins & Villacorta, 501 East
Tennessee Street, Suite B, Tallahassee, Florida 32302
On behalf of Intermedia Communications, Inc. and Palm
Beach Newspapers, Inc..

Martha McMillan, Esquire, 780 Johnson Ferry Road,
Suite 700, Atlanta, Georgia 30342
On behalf of MCI Telecommunications Corporation.

C. Everett Boyd, Jr., Esquire, Ervin Varn Jacobs & Ervin,
Post Office Drawer 1170, Tallahassee, Florida 32302
On behalf of Sprint Communications Company Limited
Partnership.

Charles Beck, Esquire, Office of Public Counsel, c/o The
Florida Legislature, 111 West Madison Street, Room 812
Tallahassee, Florida 32399-1400
On behalf of the Citizens of the State of Florida.

Robert V. Elias, Esquire, Florida Public Service
Commission, 2540 Shumard Oak Boulevard, Tallahassee,
Florida 32399-0850
On behalf of the Commission Staff.

- Peter Q. Nyce, Jr., Esquire, was excused from
appearing at the prehearing.

PREHEARING ORDER

I. CASE BACKGROUND

This docket was initiated by Order No. 25552 to conduct a full revenue requirements analysis and to evaluate the Rate Stabilization Plan under which BellSouth Telecommunications, Inc. d/b/a Southern Bell Telephone and Telegraph Company (Southern Bell or the Company) had been operating since 1988. By Order No. PSC-94-0172-FOF-TL the Commission approved a Stipulation and Agreement Between OPC and Southern Bell and an Implementation Agreement for Portions of the Unspecified Rate Reductions in Stipulation and Agreement Between OPC and Southern Bell

(hereinafter collectively the Settlement). The terms of the Settlement require, among other things, that rate reductions be made to certain of Southern Bell's services. Some of the reductions specified particular services. Other scheduled reductions were unspecified, and interested persons are permitted to submit their own proposals for disposition of the monies. Among the unspecified rate reductions required by the agreement is a \$48 million annual reduction to be effective October 1, 1996. This hearing has been scheduled for October 30 and 31, 1996 to consider the various proposals for implementing this unspecified rate reduction.

II. PROCEDURE FOR HANDLING CONFIDENTIAL INFORMATION

A. Any information provided pursuant to a discovery request for which proprietary confidential business information status is requested shall be treated by the Commission and the parties as confidential. The information shall be exempt from Section 119.07(1), Florida Statutes, pending a formal ruling on such request by the Commission, or upon the return of the information to the person providing the information. If no determination of confidentiality has been made and the information has not been used in the proceeding, it shall be returned expeditiously to the person providing the information. If a determination of confidentiality has been made and the information was not entered into the record of the proceeding, it shall be returned to the person providing the information within the time periods set forth in Section 364.183(2), Florida Statutes.

B. It is the policy of the Florida Public Service Commission that all Commission hearings be open to the public at all times. The Commission also recognizes its obligation pursuant to Section 364.183, Florida Statutes, to protect proprietary confidential business information from disclosure outside the proceeding.

In the event it becomes necessary to use confidential information during the hearing, the following procedures will be observed:

- 1) Any party wishing to use any proprietary confidential business information, as that term is defined in Section 364.183, Florida Statutes, shall notify the Prehearing Officer and all parties of record by the time of the Prehearing Conference, or if not known at that time, no later than seven (7) days prior to the beginning of the hearing. The notice shall include a procedure to assure that the

confidential nature of the information is preserved as required by statute.

- 2) Failure of any party to comply with 1) above shall be grounds to deny the party the opportunity to present evidence which is proprietary confidential business information.
- 3) When confidential information is used in the hearing, parties must have copies for the Commissioners, necessary staff, and the Court Reporter, in envelopes clearly marked with the nature of the contents. Any party wishing to examine the confidential material that is not subject to an order granting confidentiality shall be provided a copy in the same fashion as provided to the Commissioners, subject to execution of any appropriate protective agreement with the owner of the material.
- 4) Counsel and witnesses are cautioned to avoid verbalizing confidential information in such a way that would compromise the confidential information. Therefore, confidential information should be presented by written exhibit when reasonably possible to do so.
- 5) At the conclusion of that portion of the hearing that involves confidential information, all copies of confidential exhibits shall be returned to the proffering party. If a confidential exhibit has been admitted into evidence, the copy provided to the Court Reporter shall be retained in the Division of Records and Reporting confidential files.

Post-hearing procedures

Rule 25-22.056(3), Florida Administrative Code, requires each party to file a post-hearing statement of issues and positions. A summary of each position of no more than 50 words, set off with asterisks, shall be included in that statement. If a party's position has not changed since the issuance of the prehearing order, the post-hearing statement may simply restate the prehearing position; however, if the prehearing position is longer than 50 words, it must be reduced to no more than 50 words. The rule also provides that if a party fails to file a post-hearing statement in

conformance with the rule, that party shall have waived all issues and may be dismissed from the proceeding.

A party's proposed findings of fact and conclusions of law, if any, statement of issues and positions, and brief, shall together total no more than 60 pages, and shall be filed at the same time. The prehearing officer may modify the page limit for good cause shown. Please see Rule 25-22.056, Florida Administrative Code, for other requirements pertaining to post-hearing filings.

III. PREFILED TESTIMONY AND EXHIBITS

Testimony of all witnesses to be sponsored by the parties has been prefiled. All testimony which has been prefiled in this case will be inserted into the record as though read after the witness has taken the stand and affirmed the correctness of the testimony and associated exhibits. All testimony remains subject to appropriate objections. Each witness will have the opportunity to orally summarize his or her testimony at the time he or she takes the stand. Upon insertion of a witness' testimony, exhibits appended thereto may be marked for identification. After all parties and Staff have had the opportunity to object and cross-examine, the exhibit may be moved into the record. All other exhibits may be similarly identified and entered into the record at the appropriate time during the hearing.

Witnesses are reminded that, on cross-examination, responses to questions calling for a simple yes or no answer shall be so answered first, after which the witness may explain his or her answer.

IV. ORDER OF WITNESSES

| <u>Witness</u> | <u>Appearing For</u> | <u>Issue #</u> |
|----------------|----------------------|----------------|
| <u>Direct</u> | | |
| J. Garver | OPC | 1, 2, 3 |
| J. Hendrix | BellSouth | 1, 2, 3 |
| A. Varner | Bellsouth | 1, 2, 3 |
| J. Gillan | FIXCA | 1, 2, 3 |
| M. Guedel | AT&T | 1, 2, 3 |

| <u>Witness</u> | <u>Appearing For</u> | <u>Issue #</u> |
|-----------------|----------------------|----------------|
| C. Maass | AT&T Wireless | 1, 2 |
| D. Metcalf | FL Ad Hoc | 1, 2 |
| J. Butler | FCTA | 1,3 |
| T. Allen | Intermedia | 1, 2, 3 |
| D. Wood | MCI | 1, 2, 3 |
| J. Freeman | PBNI | 1, 2, 3 |
| D. Vanderpool | Sprint | 1, 2 |
| <u>Rebuttal</u> | | |
| K. Maass | AT&T Wireless | 1, 2 |
| J. Hendrix | BellSouth | 1, 2, 3 |
| A. Varner | BellSouth | 1, 2, 3 |
| H. Gildea | FEA | 1, 2, 3 |
| D. Metcalf | FL Ad Hoc | 1, 2 |
| D. Wood | MCI | |

At the request of OPC and with the agreement of all parties, Mr. Garver will be the first witness.

The rebuttal testimony of all witnesses who filed both direct and rebuttal testimony will be offered with their direct testimony.

V. BASIC POSITIONS

POSITIONS:

SBT: The Settlement reached in the above captioned matter and approved by the Commission in Order No. PSC-94-0172-FOF-TL, dated February 11, 1994, provided for an \$84 million revenue reduction, to be implemented in 1996. Of that amount, \$40 million is required to bring switched access charges to parity with December 1993 interstate levels. The remaining \$44 million is not specifically allocated. BellSouth proposed to provide for the \$44 million rate reduction by reducing the rates of the following services:

| | Annual Effect |
|--|----------------|
| - Switched Access | (\$16,400,067) |
| - Selected Secondary Service Charges | |
| - Residence | (\$ 3,609,180) |
| - Business | (\$ 2,203,791) |
| - First Line Connection Charge for Business Customers | (\$ 3,222,592) |
| - PBX monthly & term contracts | (\$13,451,394) |
| - DID Recurring | (\$ 987,012) |
| - DID Nonrecurring | (\$ 893,625) |
| - WATS & 800 Service Access Line | (\$ 355,721) |
| - Secondary Service Charge for WatsSaver (Registered Service Mark of BellSouth) | (\$ 301,093) |
| - Business Line Monthly Rates | (\$ 622,518) |
| - AREA PLUS for Business customers | (\$ 2,254,140) |
| - Usage Charge on RCF | (\$ 2,010,198) |
| - Special Number Assignment Charges for Business | (\$ 70,500) |
| - MegaLink interoffice | (\$ 579,192) |
| - DS1 interoffice | (\$ 39,216) |
| - Extended Calling Service | (\$ 1,096,628) |

BellSouth's proposal more than satisfies the requirement for the 1996 unspecified rate reductions; in fact, BellSouth's proposal totals more than \$48 million in rate reductions. It is a proposal that is in the best interest of and benefits the greatest number of ratepayers in Florida. For these reasons, BellSouth's proposal should be adopted by this Commission.

ATT: The Commission should approve the Joint Proposal of AT&T, MCI, Sprint, FIXCA, Ad Hoc and McCaw. The access charge reductions contained in the joint proposal are essential to the fostering the benefits of local competition contemplated by the enactment of the Telecommunications Act of 1996. The Commission should apply a significant portion of the unspecified reduction amount to eliminate the residual interconnection charge ("RIC"). This charge has no cost basis and should be eliminated.

AWS: The Joint Proposal filed by Florida Ad Hoc, AT&T, MCI, Sprint and AWS should be approved as the best use for this final, unspecified rate reduction. The alternative proposals of BellSouth, Public Counsel, FCTA and Palm Beach Newspapers should be rejected.

FEA: BellSouth's proposed plan for distributing a \$48 million revenue reduction among services has several important infirmities.

AD HOC: This proceeding represents perhaps the Commission's last opportunity to make significant changes in BellSouth's rate structure in order to eliminate competitive imbalances and to pave the way for a level playing field. Ad Hoc believes, that as a general proposition, the pricing of BellSouth's services should employ consistent methodology, and should incorporate relatively equal contribution levels for all services, including competing services such as PBX service with DID, which compete with BellSouth's ESSX service. However, past differences in the methodologies used to price PBX service has rendered it incapable of effectively competing with ESSX. PBX and DID service should accordingly be repriced in order to allow a competitive market to develop.

FCTA: A portion of the unallocated \$48 million in BellSouth rate reductions should be utilized to directly promote local exchange competition. IXCs, pay telephone providers and others have benefitted greatly from price reductions as a result of this docket. However, those

reductions do not necessarily move Florida closer toward a competitive local exchange market. Now that BellSouth has elected price regulation, there will be no more traditional rate cases. Competition will increasingly be relied upon to check inappropriate behavior by the dominant carrier. Market forces should be stimulated by the Commission, wherever possible, to constrain and lower prices.

FCTA's proposal uses only a portion of the unallocated rate reduction to eliminate barriers to local exchange competition. FCTA proposes that a portion of the reductions should be utilized to eliminate or reduce the non-recurring charges for local interconnection trunks that ALECs order from BellSouth and non-recurring charges for dedicated, switched circuits ALECs order out of the BellSouth Access Tariff

FIXCA: The Commission should approve the Joint Proposal sponsored by ATT, MCI, Sprint, FIXCA, Ad Hoc and McCaw. At the core of this proposal is an access charge reduction. Such a reduction in access charges is now a policy imperative due to the recent passage of the federal Telecommunications Act of 1996 (Act).

The main benefits of the Act can only be realized if BellSouth's carrier charges, including access, are cost-based. This will allow there to be competitively drawn local calling areas based on the demands of the market place. Due to the provisions of the Florida telecommunications law, this may be the Commission's last and best chance to achieve the needed access reform so that the benefits of local competition can be realized.

The Commission should use this opportunity to apply a portion of the unspecified refund to eliminate the "residual interconnection charge" (RIC). As the Commission has previously recognized, this charge has no cost basis and should be eliminated.

ICI: The reductions at issue here are available because BellSouth had earnings beyond its revenue cap. Thus, in determining the reductions to implement, the Commission should attempt to benefit ratepayers generally by promoting competition and ensuring that resulting rates are more cost-based. BellSouth must not be allowed to use these reductions to widen its competitive advantage

while providing little or no relief for the average rate payer.

In evaluating the various proposals, the Commission should embrace four basic principles. First, given that we are on the threshold of a more competitive environment for the provision of local exchange telecommunication services, the Commission should avoid doing any harm to that competitive environment. Second, the Commission should prefer rate reductions that actually promote competition. Third, the Commission should prefer rate reductions that are cost-based when they meet the first two principles; i.e., when they do no harm and tend to promote competition. And fourth, the Commission should prefer rate reductions that benefit customers generally as opposed to reductions that benefit a narrow slice of customers.

MCI: This proceeding to dispose of approximately \$48 million in BellSouth overearnings represents the Commission's last opportunity to mandate rate reductions to services which the Commission has long recognized as requiring rate reductions. With the elimination of the local exchange monopoly, and the substantial deregulation of that former monopoly under federal and state law, the Commission will be called upon to establish cost-based rates for competitive telecommunications firms to interconnect with the BellSouth network. The Commission should use this opportunity to reduce BellSouth's switched access and mobile interconnection rates, as well as to reduce and restructure PBX and DID rates as recommended in the Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

PBNI: BellSouth's N11 service tariff should be changed so that the N11 customers pay a flat charge of \$0.01 per minute or the current monthly minimum, whichever is greater. This change would make N11 service more cost-based, which would eliminate the cross-subsidy being provided by N11 service customers to other ratepayers while still guaranteeing BellSouth a fair return. Additionally, this lower rate would create an appropriate environment for unique, local-based information services to either flourish or fail based on their value to the market. Making N11 service more cost-based as proposed is a low cost, no-risk, and potentially high gain proposal.

SPRINT: The Commission should adopt the Joint Proposal of FIXCA, AT&T, MCI, Sprint and AT&T Wireless ("Joint Proposal") to implement the \$48 million rate reduction approved by the Commission in Order No. PSC-94-0172-FOF-TL. The rate reductions should be accomplished by elimination of the RIC from access charges, and by reductions in PBX trunk rates, DID service rates and mobile interconnection rates as specified in the Joint Proposal. BellSouth's proposal to target reductions in services where competition is anticipated should be rejected.

OPC: The Commission should set aside \$2 million per year of the unspecified rate reduction to address possible adverse effects resulting from mandatory area code changes. If the Commission applies some of the unspecified rate reductions to access charges, the Commission should require IXC's to flow through the reductions to their basic toll rates (MTS).

STAFF: Staff's positions are preliminary and based on materials filed by the parties and on discovery. The preliminary positions are offered to assist the parties in preparing for the hearing. Staff's final positions will be based upon all the evidence in the record and may differ from the preliminary positions.

VI. ISSUES AND POSITIONS

ISSUE 1: Below are listed the proposals of various interested parties to this proceeding with respect to the disposition of the scheduled 1996 unspecified rate reductions. Which, if any, should be approved?

| A) | BellSouth Telecommunications, Inc.: | <u>Millions</u> |
|-----------|---|------------------------|
| 1) | Reduce switched access (introduce zone density) | \$16.40 |
| 2) | Reduce PBX rates and introduce term contracts | 13.45 |
| 3) | Waive certain business and residential Secondary Service Order charges | 5.81 |
| 4) | Reduce First Line Connection charge (Business) | 3.22 |
| 5) | Introduce Area Plus for Business | 2.25 |
| 6) | Eliminate usage charge on Remote Call Forwarding | 2.01 |

| | | |
|-----|--|------------|
| 7) | Reduce DID recurring and non-recurring charges | 1.88 |
| 8) | Credit for ECS routes implemented | 1.10 |
| 9) | Reduce Business Line monthly rates in Rate Group 12 | .62 |
| 10) | Reduce Megalink interoffice rates | .58 |
| 11) | Reduce WATS and 800 Service access line charges | .36 |
| 12) | Eliminate the Secondary Service Order charge for WatsSaver | .30 |
| 13) | Reduce SNAC charges for Business | .07 |
| 14) | Reduce DS-1 interoffice mileage rates | <u>.04</u> |

\$48.09

B) Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications: Millions

| | | |
|----|---|-------------|
| 1) | Reduce PBX and DID trunk charges | \$11.00 |
| 2) | Eliminate the Residual Interconnection Charge | 35.00 |
| 3) | Reduce mobile interconnection rates | <u>2.00</u> |

\$48.00

C) Public Counsel:

Establish a reserve fund to assist BellSouth Telecommunication, Inc. customers who have experienced problems with conversion to the 954 NPA.

D) FCTA:

Eliminate or reduce nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

E) Palm Beach Newspapers, Inc./Florida Today:

Reduce BellSouth's N11 service tariff so that the N11 customers pay a flat charge of one cent per minute, or the current monthly minimum, whichever is greater.

POSITIONS:

SBT: 1(A) BellSouth's proposal should be approved. 1(B) The Joint Proposal should not be approved because it is speculative and benefits only a small number of

consumers. 1(C) Public Counsel's proposal should not be approved because it is unnecessary. 1(D) The FCTA's proposal should not be approved because it conveys a small benefit to a special interest group. 1(E) The Palm Beach Newspapers, Inc./Florida Today's proposal should not be approved because it conveys a small benefit to a special interest group.

ATT: The Commission should adopt proposal "B" - the joint proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

AWS: The Commission should approve the Joint Proposal as it is the only proposal that provides substantial benefits to ratepayers. Intrastate access charges and mobile interconnection rates are priced substantially in excess of cost, and PBX/DID rates are priced significantly higher than the equivalent BellSouth end user service. As monopoly services, movement of these prices closer to cost will maximize the most efficient use of the network and lead to lower rates and new and improved service offerings. Implementation of the BellSouth proposal would likely impair the development of competition. The BellSouth proposals are targeted to unfairly protecting and expanding BellSouth's customer base in the face of competition. As for the other proposals, they are unnecessary and inappropriate at this time given the more important benefits that arise from reducing the rates identified in the Joint Proposal.

FEA: The Commission should adopt the joint proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

AD HOC: The Joint Proposal of ATT, MCI, Sprint, FIXCA, Ad Hoc and McCaw should be approved. Among other things, this proposal incorporates a PBX and DID reduction that is needed to correct an anticompetitive price imbalance that has hindered effective competition between independent PBX vendors and BellSouth's ESSX service. Florida's business customers have suffered as a result. (Metcalfe)

FCTA: FCTA's proposal should be approved.

FIXCA: The Joint Proposal of ATT, MCI, Sprint, FIXCA, Ad Hoc and McCaw should be approved. This proposal calls for an access charge reduction, through the elimination of the RIC, which will move BellSouth's carrier charges toward

a cost basis and hasten the benefits of the federal Telecommunications Act of 1996. (Gillan)

ICI:

- A) BellSouth: millions
1) Reduce switched access (introduce zone density) \$16.40

Intermedia recommends that the Commission reject this proposal. Although zone density pricing is in theory a more cost-based approach to setting the affected rates, BellSouth's proposal would tend to be anti-competitive.

- 2) Reduce PBX rates and introduce term contracts 13.45

The Commission should reject this proposal as anti-competitive. PBX trunks are a very competitive service and concentrating rate reductions in this area would only enhance BellSouth's current competitive advantage. Moreover, ICI adamantly opposes reduction of PBX rates through the term contracts. This is another in a series of recent actions by BellSouth to lock up market share.

- 3) Waive certain business and residential Secondary Service Order charges 5.81

Intermedia opposes the waiver of these charges. Waiver of charges would promote BellSouth's position in the market by providing a below cost discount to prospective customers and is thus anti-competitive.

- 4) Reduce First Line Connection charge (Business) 3.22

Intermedia opposes the reduction of these charges. Rather than benefit ratepayers generally, these reductions target business customers to give BellSouth an unnecessary advantage in the market place. This proposal would impede competition rather than promote it.

Intermedia also opposes those reductions because they do not appear to be cost-based.

- 5) Introduce Area Plus for Business 2.25

Intermedia opposes this proposal. Rather than benefit ratepayers generally, the proposed reduction would target business customers to give BellSouth an unnecessary advantage in the market place. Thus, this proposal would impede competition rather than promote it.

- 6) Eliminate usage charge on Remote Call Forwarding 2.01

Intermedia supports the reduction of the recurring rates for remote call forwarding, but only where such call forwarding is associated with number portability. Facilitating number portability promotes competition and benefits ratepayers generally.

- 7) Reduce DID recurring and non-recurring charges 1.88

Intermedia opposes this proposal as it would only widen BellSouth's competitive advantage. BellSouth has decided to reduce these rates and charges at this time for the same reason it has proposed PBX rate reductions: to lock out competition.

- 8) Credit for ECS routes implemented 1.10

Intermedia does not oppose this proposal. The Commission has previously determined the ECS routes in question to be in the public interest.

- 9) Reduce Business Line monthly rates
in Rate Group 12 .62

Intermedia opposes this proposal. BellSouth proposes reducing the Rate Group 12 monthly flat rate from \$29.10 to \$29.00. BellSouth states that the rate exceeds their cost and reducing the rate brings it in line with the proposed PBX trunk rates (under the 49-to-60 month contract). Intermedia believes that while business rates may need to be reduced, basing the proposed reductions on inappropriate reductions in PBX rates would not promote competition or benefit the public generally.

- 10) Reduce Megalink interoffice rates .58

Intermedia supports this proposal. These reductions would bring the rates closer to costs and would be pro-competitive. In addition, the Commission should reduce LightGate, MegaLink and SynchroNet rates (local channel and interoffice rates). The corresponding High Capacity Service and Digital Data Access Service rate should also be reduced. Specifically, the Commission should require a flat-rated local channel and reduce inter-office rates (both fixed and per mile).

- 11) Reduce WATS and 800 Service access line charges .36

Intermedia opposes reduction of WATS & 800 Service Access Line charges for two basic reasons. First, these reductions would benefit only a small number of customers in a narrow slice of the competitive market. Second, the reductions do not appear to be cost-based. BellSouth apparently believed that these access line charges were necessary to cover the costs associated with adding WATS and 800 Service. There has been no demonstration that the underlying costs of these services have decreased. Reductions of charges that benefit only a few consumers and that are not cost-based are likely anti-competitive.

- 12) Eliminate the Secondary Service Order charge for WatsSaver .30

Intermedia does not support the elimination of the Secondary Service Order charge for WatsSaver. BellSouth is again proposing a rate reduction that would neither be cost-based, nor benefit the general body of ratepayers.

- 13) Reduce SNAC charges for Business .07

Intermedia supports this proposal. These reductions would bring the rates closer to costs, and is pro-competitive.

- 14) Reduce DS-1 interoffice mileage rates .04
\$48.09

Intermedia supports this proposal, as it would also would bring the rates closer to costs and is pro-competitive.

- B) Joint Proposal of ATT, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications:

- 1) Reduce PBX and DID trunk charges millions
\$11.00

Intermedia opposes this proposal. The restructure of PBX rates and the elimination or reduction of NRCs provide little or no relief for the average rate payer and only improve BellSouth's competitive advantage.

- 2) Eliminate the Residual Interconnection Charge 35.00

Intermedia does not oppose elimination of the RIC. Our only concern with that if the RIC is entirely eliminated, the

lion's share of the available revenues will have been used to reduce access charges. As a matter of policy, the Commission might choose to use some of that \$35 million elsewhere. Intermedia does support FIXCA's basic point, however, that access charges need to be driven further toward costs as soon as possible.

- 3) Reduce mobile interconnection rates 2.00
\$48.00

Intermedia does not oppose this proposal. This proposal would bring mobile interconnection usage rates closer to cost, which is pro-competitive.

- C) Public Counsel:
Establish a reserve fund to assist BST customers who have experienced problems with conversion to the 954 NPA.

No position on that issue at this time.

- D) FCTA:
Eliminate nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

Intermedia supports this proposal. These reductions would facilitate interconnection and thus would promote competition.

- E) Palm Beach Newspapers, Inc./Florida Today:
Reduce usage rates for N11 service to \$.02 per minute.

ICI does not oppose this proposal.

MCI:

- A) BellSouth Telecommunications, Inc.: \$48.00 million

The Commission should not approve the BellSouth proposal. The BellSouth proposal, in large part, is to reduce service ordering charges and other non-recurring charges to attract customers to take additional services from BellSouth. While this may be an appropriate pricing response in a competitive market, these strategic pricing initiatives should be funded by BellSouth's shareholders and not with overearnings obtained from past ratepayers. BellSouth's proposal to fund contract pricing for PBX services should also be rejected as being an anticompetitive attempt to lock in PBX customers with ratepayer dollars on the eve of competitive choice for those customers. BellSouth's proposal to deaverage its switched access rates should also be rejected as being discriminatory.

There may be some rational basis to charge different rates where there exist cost differences, but BellSouth's proposal is to deaverage the RIC and CCL, which have no basis in cost.

- B) Joint Proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications: \$48.00 million

The Commission should adopt the Joint Proposal. The Commission has previously recognized that BellSouth's Residual Interconnect Charge has no basis in the cost to provide switched access services and was established as a charge to collect a revenue requirement. The Commission has further recognized that BellSouth is now price regulated and that revenue requirements are neither consistent with nor relevant to price regulation. It is particularly appropriate to eliminate this "revenue requirement" charge with BellSouth overearnings established in a regulatory environment when BellSouth was rate base rate of return regulated.

The Commission has also long recognized the anticompetitive pricing practices associated with PBX services versus the pricing of BellSouth's ESSX services. The Commission should use this last opportunity to correct those pricing disparities and reduce PBX trunk rates and DID services associated with PBX services. The Commission should also reduce the mobile interconnection charge.

- C) Public Counsel: Establish a reserve fund to assist BellSouth Telecommunication, Inc. customers who have experienced problems with conversion to the 954 NPA.

MCI has no position at this time.

- D) FTCA: Eliminate nonrecurring charges for interconnection trunks and special access circuits ordered by ALECs.

MCI has no position at this time.

- E) Palm Beach Newspapers, Inc./Florida Today: Reduce usage rates for N11 service to \$.02 per minute.

MCI has no position at this time.

PBNI: Reduce usage rates for N11 service to \$.01 per minute. Specifically, BellSouth's N11 tariff should be changed so that the N11 customer pays a flat rate of \$0.01 per minute or the current monthly minimum, whichever is greater.

SPRINT: The three components of the Joint Proposal should be approved.

- (1) The "make-whole" RIC rate element implemented under rate of return regulation should be eliminated.
- (2) Reduction of PBX and DID rates will help to achieve consistency between functionally equivalent services, particularly with BellSouth's ESSX service.
- (3) Reduction in mobile interconnection rates will achieve reasonable parity between IXC access charges and rates paid by mobile service providers.

OPC: The Commission should adopt the proposal by Mr. Garver and establish a reserve fund to assist customers of BellSouth Telecommunications, Inc., who experience problems with conversion to new area codes.

STAFF: Staff takes no position at this time.

ISSUE 2: To the extent the Commission does not approve the plans proposed by BellSouth, Public Counsel, FCTA, Palm Beach Newspapers, Inc./Florida Today and AT&T, MCI, Sprint, FIXCA, AD Hoc and McCaw, how should the Commission implement the scheduled rate reduction?

POSITIONS:

SBT: The Commission should approve BellSouth's proposal.

ATT: As noted in its response to Issue No. 1 above, AT&T encourages the Commission to adopt the joint proposal co-sponsored by AT&T in this docket (item "B" in Issue 1).

However, in making any selection, the Commission should focus its prescribed rate relief on those BellSouth rate elements or services that are: 1) recognized to be priced in excess of cost today, and 2) either not likely to be positively influenced by competition, or likely to frustrate competition if prices remain at current levels.

AWS: These final unspecified rate reductions should be used to address those rate categories where the current price is greatly in excess of cost, there is a competitive inequality between customer service classes, or important policy objectives can be advanced. Thus, funds should not be used to reduce prices already below cost or to give BellSouth a competitive advantage as competition is introduced into the local exchange market.

FEA: The Commission should adopt the joint proposal of AT&T, MCI, Sprint Communications, FIXCA, Ad Hoc and McCaw Communications.

AD HOC: No position at this time.

FCTA: FCTA takes no position at this time.

FIXCA: The Commission should approve the Joint Proposal as submitted by AT&T, MCI, Sprint, FIXCA, Ad Hoc and McCaw. (Gillan)

ICI: The Commission should also reduce (a) LightGate, MegaLink and SynchroNet rates (local channel and interoffice rates) and (b) the corresponding High Capacity Service and Digital Data Access Service rates. Specifically, the Commission should require a flat-rated local channel and reduce inter-office rates (both fixed and per mile). These proposals have not been advanced by any other party, yet would be an important pro-competitive, cost-based use of the available funds.

MCI: The Commission should approve the Joint Proposal. If it does not approve the Joint Proposal, it should ensure that the reductions are used to eliminate pricing anomalies and not to benefit BellSouth through strategic pricing of newly competitive services.

PBNI: However the Commission implements the rate reductions, it must avoid methods that have an anticompetitive effect.

SPRINT: The Joint Proposal should be adopted. No alternative plan is necessary.

OPC: If the Commission applies some of the unspecified rate reductions to access charges, the Commission should require IXC's to flow through the reductions to their basic toll rates (MTS). To the extent the Commission does not adopt any of the proposals, the Commission should reduce local rates.

STAFF: Staff takes no position at this time.

ISSUE 3: What should be the effective dates of the approved tariffs?

POSITIONS:

SBT: Tariffs were filed by BellSouth on May 31, 1996 to implement BellSouth's proposal in October, 1996.

ATT: The tariffs should be effective October 1, 1996.

AWS: Tariffs should be filed and implemented as soon as practical, but in no event in more than 30 days from the final order.

FEA: No position at this time.

AD HOC: No position at this time.

FCTA: As soon as possible, but no later than January 1, 1997.

FIXCA: No position at this time.

ICI: No position at this time.

MCI: The rate reductions should be effective on the date of the Commission's vote.

PBNI: No position at this time.

SPRINT: The rates approved by the Commission to implement the \$48 million reduction should be effective 30 days from the Commission's final order in the docket.

OPC: The tariffs should be effective as soon as possible.

STAFF: Pursuant to the terms of the stipulation, the rate reductions are effective October 1, 1996. In the event that the effective date is delayed, BellSouth Telecommunications will provide pro rata refunds for the period of the delay.

VII. EXHIBIT LIST

| <u>Witness</u> | <u>Proffered By</u> | <u>I.D. No.</u> | <u>Description</u> |
|----------------|---------------------|--------------------|---|
| Varner | BellSouth | _____ (AJV - 1) | Letter dated June 20, 1996 |
| Varner | BellSouth | _____ (AJV - 2) | GSST - Section A3 |
| Varner | BellSouth | _____ (AJV - 3) | ECS Routes |
| Hendrix | BellSouth | _____ (JDH - 1) | Florida FGD Switched Access Rate Comparison |
| Hendrix | BellSouth | _____ (JDH - 2) | Planned Zone Pricing |
| Hendrix | BellSouth | _____ (JDH - 3) | MTS Rates Compared to Switched Access Rates |

Parties and Staff reserve the right to identify additional exhibits for the purpose of cross-examination.

VIII. PROPOSED STIPULATIONS

None.

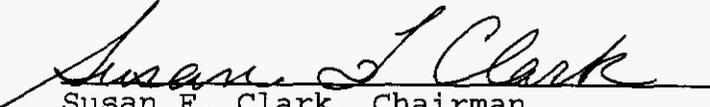
IX. PENDING MOTIONS

Intermedia's Motion for Leave to File Amended Direct Testimony of Thomas E. Allen is granted. Any party wishing to File rebuttal testimony addressing Mr. Allen's amended direct testimony or Intermedia's revised position may do so by October 17, 1996.

It is therefore,

ORDERED by Chairman Susan F. Clark, as Prehearing Officer, that this Prehearing Order shall govern the conduct of these proceedings as set forth above unless modified by the Commission.

By ORDER of Chairman Susan F. Clark , as Prehearing Officer,
this 24th day of October , 1996 .


Susan F. Clark, Chairman
and Prehearing Officer

(S E A L)

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NOTICE OF FURTHER PROCEEDINGS OR JUDICIAL REVIEW

The Florida Public Service Commission is required by Section 120.59(4), Florida Statutes, to notify parties of any administrative hearing or judicial review of Commission orders that is available under Sections 120.57 or 120.68, Florida Statutes, as well as the procedures and time limits that apply. This notice should not be construed to mean all requests for an administrative hearing or judicial review will be granted or result in the relief sought.

Any party adversely affected by this order, which is preliminary, procedural or intermediate in nature, may request: (1) reconsideration within 10 days pursuant to Rule 25-22.0376, Florida Administrative Code, if issued by a Prehearing Officer; (2) reconsideration within 15 days pursuant to Rule 25-22.060, Florida Administrative Code, if issued by the Commission; or (3) judicial review by the Florida Supreme Court, in the case of an electric, gas or telephone utility, or the First District Court of Appeal, in the case of a water or wastewater utility. A motion for reconsideration shall be filed with the Director, Division of Records and Reporting, in the form prescribed by Rule 25-22.060, Florida Administrative Code. Judicial review of a preliminary, procedural or intermediate ruling or order is available if review of the final action will not provide an adequate remedy. Such review may be requested from the appropriate court, as described above, pursuant to Rule 9.100, Florida Rules of Appellate Procedure.