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October 12, 1994

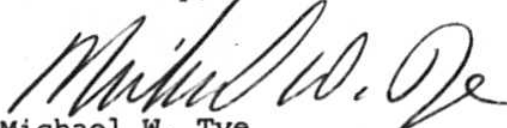
Mrs. Blanca S. Bayo, Director
Division of Records and Reporting
Florida Public Service Commission
101 East Gaines Street
Tallahassee, Florida 32399

Re: Docket No. **921074-TP**

Dear Mrs. Bayo:

Enclosed for filing in the above referenced docket are an original and fifteen (15) copies of AT&T's Brief. Copies of the foregoing are being served on all parties of record in accordance with the attached Certificate of Service.

Yours truly,


Michael W. Tye

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Attachments

cc: J. P. Spooner, Jr.
Parties of Record

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In re: Expanded Interconnection) Phase II and Local Transport) Restructure) <hr style="width: 40%; margin-left: 0;"/>) DOCKET NO. 922074-EP) DOCKET NO. 930955-TL) DOCKET NO. 940014-TL) DOCKET NO. 940020-TL) DOCKET NO. 931196-TL) DOCKET NO. 940190-TL) SUBMITTED FOR FILING:) October 12, 1994
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BRIEF OF AT&T COMMUNICATIONS OF THE SOUTHERN STATES, INC.

AT&T Communications of the Southern States, Inc. (hereinafter "AT&T"), pursuant to Rule 25-22.056, Florida Administrative Code, and the directive of the Florida Public Service Commission (hereinafter the "Commission"), files this post-hearing brief in the above-referenced docket and respectfully requests that the Commission adopt the positions advocated herein.

Proceedings to Date

This case comes before the Commission as the result of a petition filed by Intermedia Communications of Florida, Inc. (hereinafter "Intermedia") requesting an order requiring the Local Exchange Companies (hereinafter the "LECs") to permit Alternative Access Vendors (hereinafter "AAVs") to provide authorized service through collocation arrangements in LEC central offices. In order to address the issues presented by the question of expanded

interconnection, this proceeding was divided into two phases. Phase I, which involved the question of Private Line and Special Access expanded interconnection, has previously been decided by the Commission. Phase II, which involves the question of expanded interconnection in conjunction with the provision of switched access services, was heard by the Commission on August 22-24, 1994.

In addition to Phase II of the expanded interconnection docket, various LEC filings with respect to the restructure of Local Transport Charges (hereinafter "LTCs") are also pending before the Commission. The Commission determined that such cases should be consolidated with Phase II of the expanded interconnection case for hearing and decision. Consequently, a number of the issues addressed at the August 22-24 hearings concerned LTC restructure. The issues in the consolidated dockets are now properly before the Commission for decision.

Basic Position of AT&T

AT&T's basic position in this proceeding is that the Commission should find expanded interconnection for switched access to be in the public interest and should take the necessary steps to expedite its implementation. Expanded interconnection is the next logical step towards the introduction of competition into one of the remaining monopoly preserves of the LECs. Expanded interconnection

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will facilitate competition in the market for switched access services by allowing end user customers greater opportunity to reach competing access suppliers, thus bringing the benefits of competition to a larger number of special access customers. Expanded interconnection clearly serves the public interest, and its implementation should be immediately ordered by the Commission.

AT&T further supports the restructure of LTCs consistent with the structure recently approved by the FCC. Such restructure will more accurately reflect the underlying costs associated with the provision of transport services. Additionally, the restructure will facilitate the introduction of expanded interconnection services. In approving restructured LTCs, the Commission should seek to maintain revenue neutrality for the respective LECs with respect to the provision of local transport service.

Discussion of Issues

At the beginning of the hearings in this case, the Commission voted to approve stipulations which had previously been entered into by the parties with respect to Issues 1, 2, 9, 11, and 13. Consequently, discussion of those issues has been omitted from this brief.

ISSUE 3: Under what circumstances should the Commission impose the same or different forms and conditions of expanded interconnection than the FCC?

***** Summary of AT&T's Position:** Recognizing the FCC action of July 14, 1994 (modifying its previous orders regarding collocation), AT&T is not aware of any circumstances that should cause this Commission to prescribe different forms or conditions of expanded interconnection than the FCC. ***

Discussion: AT&T recognizes the fact that a dual system of expanded interconnection which incorporates one set of standards at the federal level and another set of standards at the state level is simply unworkable in most cases. This is due to the fact that, in most cases, the same facilities are used to provide both interstate and intrastate services. Given that fact, a dual set of standards would only lead to disputes as to the jurisdictional nature of the facilities in question and would create the opportunity for participants in expanded interconnection to play one set of standards against the other. The Commission implicitly recognized this problem in Phase I of Docket No. 921074-TP when it adopted essentially the same standards for intrastate expanded interconnection as those adopted by the FCC.

ISSUE 4: Is expanded interconnection for switched access in the public interest?

***** Summary of AT&T's Position: Yes. The adoption of expanded interconnection will facilitate the beginning of competition within the local exchange and will benefit consumers in much the same way as competition in other aspects of the telecommunications industry. *****

Discussion: Both this Commission and the Florida Legislature have recognized that competition benefits consumers. Essentially, competition facilitates customer choice and the development and production of new and innovative services designed or tailored to meet particular customer needs. Competition fosters better price performance as competing vendors vie for customers in the open marketplace, and also assists regulators in regulating the LECs by encouraging those companies to become more efficient and responsive to customer needs.¹

Expanded interconnection will facilitate bringing the benefits of competition to consumers because it will allow customers to utilize the loop facilities of the LECs for connection to the LEC central office and then select among available access providers for provision of the switched transport services connecting the central office to the

¹ Tr. Vol. I, Guedel, p. 126.

desired interexchange carrier (hereinafter "IXC") point of presence (hereinafter "POP"). Consequently, expanded interconnection will bring the benefits of switched access competition to a greater number of customers than would be possible with the traditional AAV end-to-end service.²

In deciding this question, the Commission should remain mindful of the mandates of the Florida Legislature with respect to telecommunications competition. The Legislature has directed the Commission, among other things, to use its regulatory authority to:

"Encourage cost-effective technological innovation and competition in the telecommunications industry if doing so will benefit the public by making modern and adequate telecommunications services available at reasonable prices."³

Approval of expanded interconnection in this case is consistent with these goals.

ISSUE 5: Is the offering of dedicated and switched services between non-affiliated entities by non-LECs in the public interest?

***** Summary of AT&T's Position:** Yes. This also represents a potential for the introduction of some competition within

² Tr. Vol. I, Guedel, p. 123.

³ Section 364.01(3)(c), Florida Statutes.

the local exchange. It is in the public interest for the same reasons discussed in AT&T's discussion of Issue 4.***

ISSUE 6: Does Chapter 364, Florida Statutes allow the Commission to require expanded interconnection for switched access?

***** Summary of AT&T's Position:** AT&T takes no position on this issue at this time.***

ISSUE 7: Does a physical collocation mandate raise federal or state constitutional questions about the taking or confiscation of LEC property?

***** Summary of AT&T's Position:** The recent ruling of the United States Court of Appeals for the D.C. Circuit held that the FCC's physical collocation mandate did constitute an impermissible taking under federal law. ***

ISSUE 8: Should the Commission require physical and/or virtual collocation for switched access expanded interconnection?

***** Summary of AT&T's Position:** Consistent with the action taken by the FCC on July 14, 1994, the Commission should order the LECs to provide switched access expanded

interconnection through virtual collocation except in offices in which the LECs choose to offer physical collocation.***

ISSUE 12: Should collocators be required to allow LECs and other parties to interconnect with their networks?

*** **Summary of AT&T's Position:** No. The purpose of expanded interconnection is to facilitate the entry of potential competitors into the monopoly preserves of the LECs. Because none of those potential competitors possess a monopoly, interconnection requirements are not necessary, and, in fact, would tend to frustrate rather than encourage the development of competition.***

Discussion: The question of reciprocal interconnection requirements was addressed by this Commission in Phase I of this very docket. In Order No. PSC-94-0285-FOF-TP, issued in Phase I of this docket on March 10, 1994, the Commission rejected the notion of requiring non-LECs to permit LECs and other parties to interconnect with their networks. The Commission's decision was articulated as follows:

" Upon review it appears that symmetrical treatment might be appropriate in a more mature environment. However, at this juncture, we find mandated symmetrical treatment to be inappropriate in an asymmetrical market where the

LECs are the dominant provider of local access services and the owner of the bottleneck facilities. Therefore, we shall not mandate that collocators permit LECs and other parties to interconnect with their networks. Instead, we simply encourage collocators to allow LECs and other parties to interconnect with their networks."⁴

The same reasons which led the Commission to reject reciprocal interconnection requirements for special access in Phase I of this docket apply equally to this phase of the case. Clearly, the purpose of expanded interconnection is to facilitate the entry of potential competitors into the monopoly preserves of the LECs. Because none of those competitors possess a monopoly, reciprocal interconnection requirements are not necessary, and, in fact, would tend to frustrate rather than encourage the development of competition.⁵

It is important to note that AT&T does not oppose the concept of reciprocal collocation. What AT&T opposes is the concept of mandatory reciprocal collocation.⁶ As AT&T's Witness Guedel pointed out, there is a financial incentive for competitive carriers to allow reciprocal collocation by LECs and other parties if space is available that would

⁴ Order No. PSC-94-0285-FOF-TP; 94 FPSC 3:399 at pp. 412-413.

⁵ Tr. Vol. I, Guedel, pp. 125-126.

⁶ Tr. Vol. I, Guedel, p. 145.

otherwise sit idle.⁷ In fact, AT&T has entertained at least one customer request for interconnection in the past, but the customer decided to pursue another option.⁸ That is the way competitive markets work. Customers are given options and they choose the option which best fits their needs.

The situation is far different, however, in a monopoly environment where the LECs retain exclusive control of bottleneck facilities. In the monopoly environment, customers often have no options other than to do business with the LEC. For that reason, it is entirely appropriate, as the Commission found in Phase I of this case, to impose interconnection requirements on the LECs while declining to mandate reciprocal requirements on non-LEC interconnectors who possess no monopoly power and who exercise no control over bottleneck facilities.

ISSUE 14: Should all switched access transport providers be required to file tariffs?

***** Summary of AT&T's Position: AT&T has no position on this issue at this time.*****

⁷ Tr. Vol. I, Guedel, p. 151.

⁸ Tr. Vol. I, Guedel, p. 146.

ISSUE 15: Should the proposed LEC flexible pricing plans for private line and special access services be approved?

***** Summary of AT&T's Position:** AT&T does not oppose the approval of "zone pricing" plans consistent with plans approved by the FCC, provided that the LECs meet all of the other requirements for expanded interconnection and collocation as prescribed by the FCC.***

ISSUE 16: Should the LECs' proposed intrastate private line and special access expanded interconnection tariffs be approved?

***** Summary of AT&T's Position:** AT&T does not oppose approval of LEC tariffs filed to meet the requirements of this Commission's order in Phase I of this docket (Order PSC-94-0285-FOF-TP), or a modification of the Phase I order consistent with the FCC actions of July 14, 1994, regarding expanded interconnection. ***

ISSUE 17: Should the LECs' proposed intrastate switched access interconnection tariffs be approved?

***** Summary of AT&T's Position:** While AT&T would encourage the LECs to offer physical collocation arrangements as originally ordered by the FCC, AT&T would not oppose the approval of LEC tariffs modified to incorporate the changes

that the FCC ordered with respect to interstate interconnection in its action of July 14, 1994.***

ISSUE 18: Should the LECs be granted additional pricing flexibility? If so, what should it be?

*** **Summary of AT&T's Position:** AT&T does not oppose approval of "zone pricing" plans consistent with plans approved by the FCC, provided that the LECs meet all of the other requirements for expanded interconnection and collocation as prescribed by the FCC.***

ISSUE 19: Should the Commission modify its pricing and rate structure regarding switched access transport service?

- a) With the implementation of switched expanded interconnection.
- b) Without the implementation of switched expanded interconnection.

*** **Summary of AT&T's Position:** Yes, in either case.***

ISSUE 20: If the Commission changes its policy on the pricing and rate structure of switched transport service, which of the following should the new policy be based on:

- a) The intrastate pricing and rate structure of local transport should mirror each LEC's interstate filing, respectively.

b) The intrastate pricing and rate structure of local transport should be determined by competitive conditions in the transport market.

c) The intrastate pricing and rate structure of local transport should reflect the underlying cost based structure.

d) The intrastate pricing and rate structure of local transport should reflect other methods.

*** Summary of AT&T's Position: The Commission should approve rates that: 1) track the relationship approved by the FCC, 2) maintain revenue neutrality with respect to the intrastate transport service for each LEC, and 3) are calculated based upon existing rather than hypothetical network configurations.***

Discussion: Initially, LTCs were subject to the "equal charge" requirement of the Modification of Final Judgment (hereinafter the "MFJ"), the court decree under which AT&T divested itself of the Bell Operating Companies. That rule required that the charges for local transport service be equal per unit of traffic. The rule, however, ignored the fact that the cost of providing those units might differ depending upon the network configuration used to serve a particular IXC. The "equal charge" rule was an effort to encourage competition in the interexchange market at a time when AT&T's share of that market was exceptionally high. However, the need for the rule was recognized as temporary,

and the MFJ specified an expiration date of September 1, 1991.⁹

Upon the expiration of the "equal charge" rule, the FCC sought to implement a more cost-causative structure for local transport rate elements. Following an extensive investigation, the FCC adopted its interim transport restructure. That structure sought to balance the following objectives:

1. The encouragement of the efficient use of transport facilities by allowing pricing which reflects costs;
2. The facilitation of full and fair interexchange competition; and
3. The avoidance of interference with the development of interstate access competition.

The structure and the associated prices became effective on December 30, 1993.¹⁰

The structure adopted by the FCC was intended to be "interim" in nature in recognition of a need for ongoing investigation of the issues surrounding local transport. The FCC sought to monitor its effects through implementation and to gather additional data prior to confirming a "long

⁹ Tr. vol. I, Guedel, pp. 114-115.

¹⁰ Tr. Vol. I, Guedel, pp. 116-117.

term" solution. Consequently, the FCC has anticipated that its structure will remain effective for about two years, during which time the FCC will continue its investigation and seek further comment from the parties regarding price and structure issues.¹¹

AT&T submits that, in the interests of uniformity and consistency, the Commission should approve an intrastate rate structure that mirrors the interstate structure approved by the FCC. Such structure will more accurately reflect the underlying costs associated with the provision of access services and will facilitate the introduction of expanded interconnection services.¹²

There is one element of the revised LTC structure, however, that AT&T believes demands particular scrutiny. While most of the elements of the revised structure reflect charges for actual facilities used, the Residual Interconnection Charge (hereinafter the "RIC") is not a cost-based rate element. The RIC is simply a contribution element paid by all access customers that interconnect to the LEC switched network.¹³ The RIC was established as a "keep whole" element.¹⁴ As such, it is a rate element with

¹¹ Tr. Vol. I, Guedel, p. 117.

¹² Tr. Vol. I, Guedel, p. 122.

¹³ Tr. Vol. I, Guedel, p. 118.

¹⁴ Tr. Vol. I, Guedel, p. 119.

no direct underlying costs. For this reason, the RIC should ultimately be eliminated in both the federal and state jurisdictions.¹⁵ Indeed, one of the issues which the FCC intends to review during the two-year pendency of its "interim" LTC rate structure is the appropriateness and need for the RIC.¹⁶ However, despite these facts, in recognition of the limited scope of this docket, AT&T submits that the Commission should not delay the implementation of local transport restructure to address the issue of eliminating the RIC at this time.¹⁷ That question should appropriately be addressed in future cases.

ISSUE 21: Should the LECs' proposed local transport restructure tariffs be approved? If not, what changes should be made to the tariffs?

***** Summary of AT&T's Position:** The Commission should approve the rates and structure proposed by Southern Bell. Furthermore, the Commission should approve the structure and all rates except for the RIC filed by GTE Florida, Sprint/United, and Sprint/Centel. Those companies should be

¹⁵ Tr. Vol. I, Guedel, pp. 120-121.

¹⁶ Tr. Vol. I, Guedel, p. 117.

¹⁷ Tr. Vol. I, Guedel, p. 121.

ordered to refile a RIC which is based on a historical rather than a reconfigured network.***

Discussion: Several questions have been raised by the respective parties relative to this issue. AT&T will attempt to address each of those questions separately.

The Proposed Use of Reconfigured Networks

One of the principal goals which the Commission should seek in approving restructured LTC tariffs for the LECs is that of revenue neutrality. That is, the LEC should receive neither more or less revenue under the restructured tariffs than it would have received under the former rate structure. Southern Bell, through its filing in this docket, has complied with that principle (and with the methodology ordered by the FCC) by filing a set of rates which are based on a historical network configuration.¹⁸ GTE Florida Incorporated (hereinafter "GTEFL"), United Telephone Company of Florida (hereinafter "Sprint/United"), and Central Telephone Company of Florida (hereinafter "Sprint/Centel") have violated this principle (and departed from the methodology ordered by the FCC) by taking reconfigured networks into account in developing the intrastate rates which they have proposed. The filings of those companies should be revised prior to approval by this Commission.

¹⁸ Tr. Vol. 4, Hendrix, p. 514.

It is true that, in the restructured environment, some carriers may find that they can save some access expense by more efficiently utilizing the LEC access networks.¹⁹ In fact, that is one of the consumer benefits to be derived from LTC restructure. However, with the revenue neutral nature of the proposed restructure filing (with the RIC absorbing all revenue not estimated to be recovered from the facility-based elements), the LEC can inflate the level of the RIC by assuming instant (hypothetical) reconfiguration to an optimal network.²⁰ With this procedure, the LEC would be loading some of the revenue requirement currently being recovered from transport facility elements (i.e., DS1, DS3, and tandem) into the RIC.²¹

The simple fact is, however, that the optimally efficient network which some LECs have assumed does not exist today, and, in fact, may never exist. Moreover, while the current network remains, the LECs who assumed immediate reconfiguration in computing their respective RICs will be recovering their network costs from both the transport charges and the RIC. In short, this methodology would ensure an immediate recovery of revenue in excess of revenue neutrality.²² The FCC recognized this potential for over-

¹⁹ Tr. Vol. 7, Guedel, p. 851.

²⁰ Tr. Vol. 7, Guedel, p. 852.

²¹ Tr. Vol. 7, Guedel, p. 852.

²² Tr. Vol. 7, Guedel, p. 852.

recovery and directed the LECs to base their LTC charges on historical network configurations rather than on reconfigured networks. In fact, GTEFL, Sprint/United, and Sprint/Centel all proposed FCC tariffs which were based in some respect on reconfigured networks and the FCC rejected those filings.²³ This Commission should do likewise.

The LECs that have proposed the use of reconfigured networks have sought to justify their departure from actual data by arguing that they will lose money if they set rates based on a historical network. This simply is not the case. In fact, the use of a reconfigured network will most likely ensure over-recovery by the LECs even in the long term.²⁴

The arguments which GTEFL, Sprint/United, and Sprint/Centel make in favor of using reconfigured networks in their LTC filings ignore several key elements of the telecommunications business. First, those LECs have ignored the fungability of the underlying plant involved in the provision of this service. That is, the facilities which may be foregone as a result of any network reconfiguration which may ultimately take place are generally re-usable. As long as telecommunications services continue to grow (and there is no indication that the growth experienced in the past will not continue), those facilities can be used by the

²³ Tr. Vol. 3, Lee, pp. 338-339; Ex. 44, Poag Deposition, pp. 44-45.

²⁴ Tr. Vol. 7, Guedel, p. 853.

LEC to provide additional services which will generate revenue to recover the costs associated with the facilities. However, if the LECs recover the costs of those facilities through an inflated RIC and also through rates for additional services, they will clearly recover their costs twice.²⁵

In addition to the fungability of underlying plant devoted to these services, the LECs who advocate use of reconfigured networks have ignored the fact that the RIC (which will be inflated by the considerations which they advocate) is a pure contribution element. In other words, the incremental cost of providing an additional minute of RIC is zero. Thus, if access minutes grow by 5% next year, the LEC would receive a 5% increase in revenue from the RIC with no associated increase in cost. This additional revenue would serve to offset potential losses from network reconfigurations.²⁶ By the same token, however, if the RIC is set at an inflated level due to assumed reconfigurations which never materialize, this growth results in over-recovery for the LECs.

AT&T submits that the Commission should adopt the historical approach to LTC restructure, just as was adopted by the FCC. A departure from that approach is quite likely to result in LEC overearnings, and those overearnings will

²⁵ Tr. Vol. 7, Guedel, p. 853.

²⁶ Tr. Vol. 7, Guedel, pp. 853-854.

come at the expense of long distance customers. If, on the other hand, the LECs can demonstrate, through actual experience, that they are unable to recover their costs through rates based on a historical network configuration, they are free to come before the Commission and seek rate adjustments in the future. At that time, the Commission will have the benefits of reviewing actual data rather than hypothetical data based on assumptions which may or may not be realized.

Sprint/Centel's Attempt to "Rate Rebalance"

In addition to the use of a reconfigured network in calculating the RIC that it has proposed in this proceeding, Sprint/Centel has made an attempt at "rate rebalancing" in its filing. That is, Sprint/Centel has taken its Busy Hour Minutes of Capacity Charge (hereinafter "BHMOC") and rolled that charge into the RIC that it is proposing in this case.²⁷ It is true that the BHMOC is an access rate element that has been targeted for reduction and eventual elimination by this Commission, but the approach which is been taken by Sprint/Centel is simply not what the Commission had in mind in its prior orders.

The BHMOC was targeted for elimination by this Commission because it is a non cost-based charge which was designed to recover a revenue shortfall resulting from the

²⁷ Ex. No. 44, Poag Deposition, p. 42.

initial implementation of intrastate access charges in Florida. As such, it is a pure contribution element with no associated costs. Other LECs have substantially reduced or eliminated their respective BHMOC elements over the years, but no LEC has ever simply rolled that charge into another element of its intrastate access tariff. Sprint/Centel should not be allowed to take such action in this case.

By seeking to recover existing BHMOC revenues through the RIC that it is proposing in this case, Sprint/Centel is simply attempting to disguise the problems of non cost-based access charges. The BHMOC has never been considered a part of the LTC rate structure, and there is no justification for recovering those revenues through the LTC structure that will be implemented as a result of this proceeding. Sprint/Centel's BHMOC should be eliminated in future proceedings, but it should not be recovered through a new access rate element as has been suggested here. Consequently, the Commission should order Sprint/Centel to refile a RIC which not only is based on a historical network configuration, but also is exclusive of BHMOC revenues.

GTEFL's Switched Access Discount Plan

As part of this case, GTEFL has suggested that the Commission consider a Switched Access Discount Plan (hereinafter "SADP") as a possible enhancement to LTC restructure. AT&T submits that the proposed SADP does not constitute appropriate pricing and should be rejected by the

Commission. Both the Term Plan and the Growth Plan options have the fatal flaw of not being cost-based. For a monopoly access supplier to discount the price it charges for access traffic (without making a demonstration that providing that access traffic creates a cost savings for the supplier) is both discriminatory and potentially anticompetitive.²⁸

Under GTEFL's Term Plan option, GTEFL proposes to discount switched access rates based on a customer's commitment of a certain percentage of its base period usage to GTEFL for a specified term. The percentage of base to be committed under the term ranges from 80% to 100%, and the term of the commitment varies from one to five years. No distinction is made under the plan for differences in the size of the customers' base period usage, nor for any absolute increase in the volume of participating customers' access minutes. The plan simply is not cost-based and, therefore, should not be approved by the Commission.²⁹

The Growth Plan option of the proposed SADP offers discounts to GTEFL's access customers based on the percentage of growth in switched access usage that those individual customers experience. On the whole, it favors customers with high growth rates. Under the plan, the potential exists for access customers with high growth rates to pay an effectively lower rate per minute for switched

²⁸ Tr. Vol. 7, Guedel, p. 855.

²⁹ Tr. Vol. 7, Guedel, p. 856.

access than customers with equal or greater overall access usage but lower percentage growth rates. This is economically unjustified and unreasonably discriminatory. Consequently, the plan should be rejected by the Commission.³⁰

The Interexchange Access Coalition Proposals

The Interexchange Access Coalition (hereinafter "IAC") has proposed that the respective LEC tariffs (including Southern Bell's tariff) be rejected by the Commission on the grounds that the DS-1 and DS-3 rates in those tariffs are not appropriately cost-based. While AT&T supports cost-based pricing, AT&T submits that IAC's proposal in this proceeding does not represent an appropriate cost-based pricing methodology and should be rejected for several reasons.

First, it is important to note that the facilities rates which have been proposed by the LECs in this case were developed on the same basis as the facilities rates that have been approved by the FCC. The FCC considered the same types of arguments that have been advanced by IAC in this docket when it approved the LEC facilities rates at the federal level, and those expressed concerns were weighed in

³⁰ Tr. Vol. 7, Guedel, pp. 856-857.

the FCC's final order.³¹ In recognition of those arguments, the FCC took the following actions:

1. It placed the majority of the contribution associated with transport into the RIC;
2. It loaded 80% of the revenue requirement associated with the tandem switching element into the RIC; and
3. It established pricing relationships between the direct trunking elements based on historical private line relationships.

Additionally, in order to ensure the reasonableness of its decisions, the FCC reviewed "shadow bills" created by the LECs to evaluate the impact of the proposed restructure on variously situated carriers. In essence, the FCC sought to strike a balance between the competing interests of many participants while moving towards cost-based pricing; characterizing its decision as "interim" in nature and recognizing the need for ongoing review.³² The same approach should be followed in this case.

The second reason that IAC's recommendations in this case should be rejected is that they would distort the cost-based pricing which IAC purports to achieve. Specifically, IAC suggests that a cost-based price for DS-1 facilities could be determined by adding the incremental cost of DS-3

³¹ Tr. Vol. 7, Guedel, p. 859.

³² Tr. Vol. 7, Guedel, pp. 859-860.

to DS-1 multiplexing to one twenty-eighth of the proposed price of DS-3 facilities. Under this proposal, purchasers of DS-3s would be required to pay the cost of providing the DS-3 plus some mark-up while purchasers of DS-1 facilities would only have to pay the incremental cost associated with the additional DS-1 facilities. The mark-up that would be associated with the additional DS-1 facilities (mark-up that is included in the proposed LEC rates) would be moved to the RIC or to some other "equal charge" recovery mechanism. Because the RIC is paid on a minute of use basis by all purchasers of transport, the DS-3 user would be forced to bear a portion of the mark-up that is presently included in the LEC's proposed DS-1 rates. Consequently, rather than furthering the goal of cost-based pricing, IAC's proposal really represents a scheme to perpetuate the non cost-based advantage inherent in the "equal charge" rule.³³

This leads to the third reason that IAC's proposal should be rejected. That is that the development of the various cost studies and analyses which would be necessary to fully implement IAC's proposal would unduly delay LTC restructure. During the period necessary to properly perform such studies and analyses, however, the "equal charge" rule, which is completely non cost-based, would remain in effect. Faced with the prospect of such delays and the attendant perpetuation of the "equal charge" rule,

³³ Tr. Vol. 7, Guedel, pp. 857-858.

this Commission should follow the lead of the FCC and approve the facilities rates proposed by the LECs in this proceeding. Those rates represent necessary movement towards full cost-based pricing of access services and should be implemented immediately. To the extent that refinements are necessary, those refinements can be made in future proceedings.

ISSUE 22: Should the Modified Access Based Compensation (MABC) agreement be modified to incorporate a revised transport structure (if local transport restructure is adopted) for intraLATA toll traffic between LECs?

***** Summary of AT&T's Position:** Yes. The LECs should settle with each other under the new transport rate levels and structure based upon actual facilities used. ***

ISSUE 23: How should the Commission's imputation guidelines be modified to reflect a revised transport structure (if local transport restructure is adopted)?

***** Summary of AT&T's Position:** A surrogate per minute rate for local transport would need to be developed for each LEC based upon its approved transport rates and the utilization of its network. The remainder of the current imputation guidelines should not be changed. ***

Discussion: Accommodations for the new LTC structure can be made within the existing access imputation guidelines by developing a surrogate per minute rate for local transport for each LEC based upon its approved network rates and the utilization of its network. The components of that surrogate would include the following:

1. The Residual Interconnection Charges (i.e., the RIC);
2. A percentage of the tandem charge (based on utilization of tandem switching); and
3. A per minute of use estimate for the trunking facilities.

The remainder of the current implementation guidelines need not and should not be changed.

Some of the LECs, in their testimony and/or Prehearing Statements, have taken the opportunity to attack the very concept of access imputation. However, the concept is well-settled in prior decisions of this Commission and should not be disturbed in this case. The access imputation guidelines were adopted in recognition of the fact that intrastate access charges are currently priced substantially in excess of costs and to allow the LEC (which is the only provider of switched access services within its service territory) to include only the cost of access services in its interexchange toll rates would give the LEC an unfair advantage over non-LEC providers of interexchange services. Consequently, the interests of consumers in insuring fair

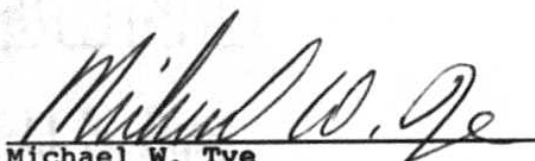
competition in the interexchange markets demand that the concept of access imputation not be disturbed in this or future proceedings.

The LTC restructure proposed in this case concerns but a small part of the total access charges which IXCs and their customers must pay for the completion of interexchange calls. Consequently, the minor revisions to the access imputation guidelines which have been suggested by AT&T are appropriate, but the intent of the guidelines should remain unchanged.

ISSUE 24: Should these docket be closed?

***** Summary of AT&T's Position:** Given appropriate action by the Commission, the dockets regarding LTC restructure can be closed, but the expanded interconnection docket should remain open to address continuing issues such as interconnection with switching equipment.***

Respectfully submitted this 12th day of October, 1994.



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DOCKET NO. 921074-TP

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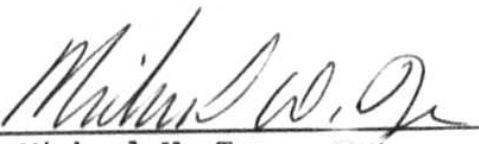
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