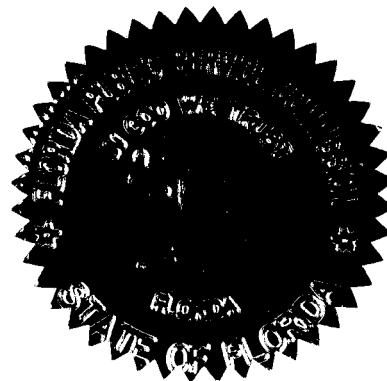


BEFORE THE
FLORIDA PUBLIC SERVICE COMMISSION

In the Matter of : UNDOCKETED
The role of power companies :
in telecommunications :



PROCEEDINGS: STAFF WORKSHOP

CONDUCTED BY: ELTON HOWELL

DATE: Thursday, July 29, 1999

TIME: Noticed at 9:30 a.m.

PLACE: Betty Easley Conference Center
Room 148
4075 Esplanade Way
Tallahassee, Florida

TRANSCRIBED
FROM TAPE BY: JOY KELLY, CSR, RPR
FPSC Division of Records & Reporting
Bureau Chief, Reporting

DOCUMENT NUMBER-DATE

09262 AUG-4 99

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1 **IN ATTENDANCE:**

2 **DON McDONALD**, FPSC Division of
3 Communications.

4 **DONNA CLEMONS**, FPSC Division of Legal
5 Services.

6 **CONNIE KUMMER**, FPSC Division of Electric &
7 Gas.

8 **ELIZABETH WALKER and WES BAILEY**, Progress
9 Telecom.

10 **ED HOFFMAN and ED REGAN**, Gainesville
11 Regional Utilities.

12 **SAM WATERS**, Florida Power & Light Company.

13 **WAYNE ELLIS**, Southern Telecom.

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1 (Side 1 of tape.)

2 MR. HOWELL: I welcome you to this workshop
3 on the role of electric power companies in the telecom
4 or telecommunications arena.

5 I'll ask the Staff up here who is on this
6 board up here to state their names and the departments
7 that they work for.

8 MR. McDONALD: Don McDonald, Division of
9 Telecommunications.

10 MS. CLEMONS: Donna Clemons, Division of
11 Legal Services.

12 MS. KUMMER: Connie Kummer, Electric and
13 Gas.

14 MR. HOWELL: We've made available to you
15 also some handouts up there at the barricade if you
16 wish to have copies of it and it shows the agenda
17 schedule. And for those of you who have not signed
18 this in yet, we would like you to sign in on the
19 sign-in sheet. Of course, there will be an
20 opportunity for any of you to speak if you would like
21 to make a presentation or have comments after the
22 workshop presentations.

23 And during the question and answer period we
24 ask that you state your name and the company you're
25 representing as we are recording this and it will be

1 easier for us to associate your comments and opinions
2 if we need to resource them later.

3 We have three speakers here this morning.
4 Two will be from private investor-owned and one will
5 be from the municipal-owned power company.

6 Since this workshop is designed to explore
7 the possible contributions the utility companies make
8 to advance the choice for the consumer in this new
9 competitive market, we've invited power companies,
10 utilities, as well as other interested parties,
11 including CLECs, ILECs, to participate in this
12 workshop.

13 So at this juncture, I would like to ask the
14 first speaker, whoever wishes to be the first, to come
15 forward to make their presentation. Is that Wes
16 Bailey? Do you have need for projection? Okay. We
17 have here a remote microphone, a lapel mike that you
18 can wear.

19 Good morning, sir. Well, thank you very
20 much.

21 **MS. WALKER:** Good morning ladies and
22 gentlemen. My name is Elizabeth Walker and I am the
23 Director of Sales and Marketing for Progress Telecom.

24 The presentation that we have -- that we are
25 about to present gives you an overview on

1 Progress Telecom, a bit about our history, what we're
2 doing in the marketplace, some overview on our
3 network, and also we're going to talk to some of the
4 challenges to date and the reason why we're doing what
5 we're doing in the telecom forum. Okay?

6 I have to apologize to our audience, I
7 didn't think there would be this many people here so
8 we didn't do a lot of copies of the presentation. We
9 thought it would be a smaller forum. Okay.

10 To my right is Wes Bailey, and he is our
11 counsel for Progress Telecom, and he will also be
12 talking to some of our issues. Okay.

13 To begin with, Florida Progress Corporation
14 is our parent company. Florida Progress Corporation
15 also has Florida Power and Progress Capital Holdings.
16 We directly report up through Progress Capital
17 Holdings, along with the Electrical Fuels Corporation,
18 Progress Telecom Corp, and we have other deregulated
19 operations that all go up through Progress Capital
20 Holdings into Florida Progress Corporation.

21 A little history of our telecom. Our
22 internal network infrastructure started to be
23 developed for the Power Corp in 1950. The original
24 reason was the inability of local carriers to provide
25 access and reliability to many of Florida Power's

1 remote locations.

2 We have been providing service to external
3 telecom customers for over 13 years. In the mid
4 '80's, when wireless became quite active in our area,
5 we started leasing tower attachments based to wireless
6 companies. In 1990 with deregulation we had a lot of
7 the carriers come into this particular part of the
8 country and we started leasing dark fiber routes to
9 those -- some particular carriers.

10 In '96 we had about over 25 different
11 carriers, including government, business entities,
12 leasing either attachment space from our towers or
13 dark fiber.

14 In 1996 we initiated the 400 Project with
15 four anchor tenants. And the 400 Project was we
16 upgraded our infrastructure fiber so that we could
17 serve the power company. And also what we did was put
18 spare fiber in so we could then lease it so that it
19 would subsidize the power company's cost to provide
20 state-of-the-art fiber-optic networks.

21 In October 1998 Progress Telecom was formed.
22 All of the telecom infrastructure was transferred from
23 the power company, Progress, over to Progress Telecom
24 and then in 1998 we applied, and were granted, for an
25 alternate access vendor's state certification. So in

1 '98 we became an AAV.

2 Currently our product offering is dark
3 fiber, broadband capacity services, wireless structure
4 attachments and custom services and the custom
5 services. Includes engineering, network operations,
6 design of networks, some permitting. We will take on
7 bills for people and do their permitting, engineering
8 and network construction.

9 Just as an overview so that everybody
10 understands that we're state-of-the-art, we're
11 actually featuring SONET network. We are DS-1 to OCN
12 technology and we're applying OC192 with DWDM which is
13 the latest -- dense wave digital multiplexing is the
14 latest technology for fiber and fiber access.

15 **MS. KUMMER:** You have to remember that not
16 all of us are telecom people.

17 **MS. WALKER:** Okay. Thank you.

18 **MS. KUMMER:** You're losing me.

19 **MS. WALKER:** Okay. Thank you.

20 Dense wave digital multiplexing, what it
21 allows you to do is it allows you to take small
22 quantities of fiber and put electronics on either end
23 so that you can switch large amounts of the data.
24 It's the newest technology in the access communication
25 world. And we just -- to show that we are

1 state-of-the-art and that we're doing it, so we're in
2 and can attract people who are doing large businesses
3 with large amounts of bandwidth, then we can provide
4 services that are current, up-to-date,
5 state-of-the-art. And that's how we're building our
6 network.

7 We have fully redundant architecture. And
8 what that means is when we put something in, we always
9 make sure that it's done so that if I installed or put
10 in fiber -- and like the fiber, that we do it in a
11 ring architecture so that if there's a fiber cut
12 anywhere, there's a second route it can take to get
13 back to the customer so the customer doesn't have
14 outages. Okay?

15 We, as I said, we're deploying all of the
16 next generation fiber. We're hoping we're going to
17 allow for future implementation of emerging
18 technologies by putting state-of-the-art in today.

19 Just an overview to let you know that we
20 take this business very seriously, and we understand
21 that in order to compete in this marketplace you have
22 to respond to customers and customer demands.
23 Consequently, we take maintenance and taking care of
24 our network very seriously. We have comprehensive
25 programs. We have a high standard of network

1 security. We do performance monitoring. We have a 7
2 by 24 monitoring center, realizing that on a lot of
3 our fiber is the power company's telecom. And because
4 of the importance of it, we give it high priority.
5 Because if we have a fiber cut, generally it has to do
6 with -- also the power company has a power cut and we
7 have to ensure that they get back in service as fast
8 as possible. So that same level of service we give to
9 all of our customers based on the fact we're all
10 riding the same network.

11 Our long-term network strategy is that we're
12 going to lease and build out diverse fiber routes
13 throughout Florida. Existing today we're generally in
14 our own service territory, although we do have
15 customers that we have out of our franchise territory,
16 out of our service territory, that we are partnering
17 with other utilities to provide service to.

18 Our local loop expansion and collocation
19 presence. Really what that means is we're going to
20 get to all of the buildings, be they the local
21 exchange carrier buildings or are some of the high
22 bandwidth user buildings, so we can provide service to
23 as many people and as many locations as we can. We're
24 designing a truly flexible network for growth. We
25 feel that we provide the best in class service and

1 support, and we have fully equipped points of presence
2 and regeneration facilities, which to this committee
3 probably is not as important as it is to the customers
4 who come and want service from us because they want to
5 make sure that we really are reliable.

6 Why did we become an access provider? Well,
7 generally when we decided to build the fiber 400
8 Project, we built it knowing that we had people who
9 wanted dark fiber in our particular serving territory.
10 It was very, very expensive to build, and the power
11 company -- like 25 mil to build, and the power company
12 didn't want to affect all of their customers by
13 sending the cost of this, passing it along to their
14 customers. So what happened was a business case was
15 done on how we could best facilitate the power
16 company; make sure that they had state-of-the-art;
17 upgrade a lot of the old technology that was now, you
18 know, hard to get parts for, et cetera, and do this
19 without affecting power customers. So what they did
20 was decided that the best fit was let's upgrade.
21 Let's put in some fiber. Let's do a little bit of
22 extra fiber and let's see, based on the extra fiber,
23 if we can pay for the Florida Power fiber so we don't
24 affect our rates.

25 The business of getting a CLEC into service

1 from the ground up is substantial; very costly as I'm
2 sure a lot of people know based on some of the media
3 articles, and the original Florida Power Corp business
4 plan did not support getting into CLEC services,
5 competitive local exchange carrier services.

6 The very fact that the serving territory
7 that we cover would mean that we would have to have
8 interconnect agreements with three separate incumbents
9 in our territory was a deterrent. The collocation
10 issue becomes very much more difficult if you are
11 trying to get access to end users.

12 There is, you know, some obligation or great
13 obligation to 911 coverage and ancillary services
14 like, you know, directory and 411 and operator
15 services. And the cost of doing that particular part
16 of the CLEC services didn't fit in with anything that
17 was happening in the power company. The easiest, best
18 fit, least impact to the power company and best case
19 for the dollars we needed to put into Progress Telecom
20 fit better in that we would provide the highway for
21 other people to come in and be able to get to the end
22 user. So what we decided that we would do is we would
23 provide the access so that any of the competitors now
24 who are interested in getting into Florida, we would
25 make it easier for them to come in based on the fact

1 we had a network, we were building a network,
2 contouring it, upgrading it, and that they, instead of
3 having to go through building their network, could
4 come to us to provide them with transport and fiber
5 services that would allow them easier entry into the
6 Florida market.

7 The challenges that we have had are, I'm
8 sure, challenges that most businesses in IT or telecom
9 today have. The fact that we have had problems hiring
10 qualified staff. We've -- you know, collocation with
11 the incumbents. Because we need to get into some of
12 the local exchange carrier's offices to hand off
13 traffic or to pick up traffic, we have had to go the
14 same route as anybody else; apply. There's sometimes
15 a 30-day waiting period to get an answer whether you
16 can get there, and then there's a 60 to 90-day waiting
17 period for them to allow you access into their
18 particular locations. And when you have customers who
19 are asking you to do something in 30 or 45 days, it
20 severely hampers the fact that you can provide that
21 level of service when you have to wait to be able to
22 collocate. And in some instances we've not been able
23 to collocate because there's a lot of people trying to
24 get into the marketplace and the LECs just don't have
25 enough room for all of the new entrants to collocate

1 in their particular offices.

2 The other challenge, of course, is providing
3 service out-of-territory. We, in our own serving
4 area, don't have as many challenges as we have when we
5 have a customer who wants to really use us for the
6 Orlando or the St. Pete to Tallahassee corridor. But
7 that's only part of a corridor that they want from
8 Miami, or part of a corridor that they want from over
9 in Orlando or Tampa. So that's been a bit of a
10 challenge. But it hasn't slowed us down in that we've
11 partnered with other utilities. We've gone to other
12 areas where we can, in effect, lease dark fiber from
13 somebody else so that we can connect it to our fiber
14 and then give it to the customer, so being as seamless
15 as possible.

16 We are working those issues based on as much
17 as possible partnerships. We find that partnerships
18 with other utilities -- some of the municipalities
19 we've talked to -- works really well for us. And
20 hopefully what we're doing is we're encouraging them
21 to use their infrastructure. We're helping them
22 understand how important it is and what they need to
23 do. And in effect, it's kind of a "We'll help you,
24 you'll help us, and we'll all share in the wealth of
25 the Florida network."

1 One of the other challenges of late has been
2 the availability of state-of-the-art equipment.
3 Obviously telecom just now, and anything to do with
4 Internet, anything to do with access, bandwidth is
5 very, very much in demand. So we've had problems with
6 suppliers, problems getting the equipment we want.
7 Nothing that slowed us down to the point that we
8 haven't been able to do business, but it is one of the
9 challenges, and one of the things that we have to deal
10 with on a day-to-day basis.

11 I guess, just in summary, we intend to
12 remain a Florida-based company. Our primary focus
13 will be to serve Florida and to facilitate easy and
14 fast access for telecom competition. We are very much
15 interested in serving all of Florida, but we need to
16 walk before we run. We have been in existence about
17 eight months and feel we're just getting our own
18 service area under control to where we can be
19 comfortable about providing customer service. And as
20 much as possible, when we get a request for an
21 out-of-territory service, we're doing our best to
22 provide that. But we intend to be -- to serve
23 Florida. That's our big intent.

24 I guess we're not really clear on, you know,
25 the PSC's role in implementing the Telecom Act and the

1 FCC orders. Wes can talk to that. But generally we
2 feel that although we're not a CLEC, we are not
3 dealing directly with the end user. We are providing
4 the ability for other CLECs, other Internet service
5 providers, other companies that need our particular
6 service to reach the end user. We're providing that
7 service. So indirectly we are affecting the end users
8 and we are facilitating competition within the Florida
9 area.

10 **MR. HOWELL:** Thank you very much. Wes.

11 **MR. BAILEY:** My name is Wes Bailey. I'm a
12 corporate counsel for Progress Telecom and also part
13 of the Florida Progress Legal Department.

14 And just really on that last point, I wanted
15 to stress a few things from our sort of electric
16 utility perspective; that we think it's important what
17 we're doing to promote competition in telecom, short
18 of going to the end user. We're not ready to make
19 that step. We may never make that step. But there's
20 a lot of benefits I think both to electric and
21 telecommunications customers from what we're doing.
22 Just simply remember that every household is a
23 consumer, both electric and telecom. So we really
24 look at what we do, the benefits to each. Benefits to
25 electric consumers that we see to this point of being

1 a facilities-based telecommunications provider.

2 Florida Power has early, early on had an
3 intense internal telecommunications need to monitor,
4 dispatch, control our power plants, metering, and so
5 we've really built up an internal telecommunications
6 network over the last 50 years that needs to be
7 state-of-the-art in order to provide reliable service
8 to our electric customers. And what, for example, the
9 Fiber 400 Project allowed us to do was to replace
10 older microwave technology, analog microwave
11 technology, with fiber-based systems. They're faster,
12 more reliable; not subject to interruptions and storms
13 and things like that. And part of that effort was to
14 go beyond just serving the internal communications
15 needs of Florida Power and looking to serve those of
16 competitive entrants into Florida; building excess
17 capacity in our systems that we don't necessarily need
18 but can be valuable to new entrants.

19 Part of what we also wanted to steer away
20 from was relying on the incumbent telephone companies.
21 We go to a lot of remote areas in the state with our
22 power plants and our service. What we really need is
23 a dedicated fiber-optic telecommunications network in
24 order to support our reliability concerns. And we've
25 done leasing at various times of fiber, but electric

1 utilities are sort of hands on. We want to operate,
2 install, maintain and control these systems to
3 guarantee that we have the reliability we need, again
4 to the benefit of our electric customers.

5 One of the side benefits that comes from all
6 this excess capacity is readily available redundant
7 circuits. You know, we may have other carriers on our
8 networks that pass by or over or through our
9 substations. If anything happens to our electronics
10 or our fiber, we have an ability to switch over and
11 have that same sort of reliable service while we're in
12 a maintenance phase or something like that.

13 And something that's been touched on a
14 couple of times is just the cost sharing, cost
15 shifting. It ends up reducing the burden to the
16 electric utility to -- for nominal amounts of
17 incremental investment, to have excess fiber that we
18 can lease and to gain those revenues to offset some of
19 the costs that would otherwise be supported by
20 electric customers.

21 We've got benefits to the telecommunications
22 consumers, we think, and as Elizabeth talked about, we
23 enable quick access to Florida markets. We also are
24 located in a lot of what you'd call second and third
25 tier cities by virtue of being the primary provider of

1 electric in those areas. And so we bring
2 state-of-the-art telecommunications facilities to
3 those second and third tier cities that might not
4 otherwise be connected to this Internet explosion and
5 all of the high tech aspects of the telecommunications
6 boom.

7 So really, just generally, we'd say we
8 provide a lot of efficiencies to the end users and a
9 lot of efficiencies to the new entrants in the telecom
10 industry in the state of Florida.

11 I skipped over one point. The alternative
12 access vendor. We see that as providing an
13 opportunity to go beyond just carriers at some point
14 to serve business entities in the state of Florida
15 through bypass services and dedicated, private line
16 services between companies. And to the extent that
17 we're -- you know, we have facilities close by or we
18 can build cost effectively, we can offer those sort of
19 internal communications needs that we're so good at
20 with Florida Power, we can actually extend those to
21 the other companies in the state of Florida that have
22 multiple locations and things like that.

23 One of the things that's very nice about
24 that is that the PSC has carved out a lot of the
25 extensive obligations or requirements that apply to

1 CLECs or ALECs, and giving AAV vendors an opportunity
2 to provide these services without getting knee deep in
3 regulations. And that's comforting to a new company
4 in telecom rather than having to jump in the deep end.

5 Benefits to consumers in general. You know,
6 we've tried to -- some of these are maybe a little bit
7 vague, but think about collocation of all of these
8 facilities. We've got transmission corridors for
9 electric. We've got distribution lines around the
10 state, and we've seen a lot of builds using our
11 distribution systems. And, you know, to the extent
12 they can collocate on the same facilities, I think
13 everyone has seen that as a benefit. Now, there's
14 been some dispute over what rates, you know, utilities
15 can collect for that. But we've seen that, also, as
16 an opportunity to build out telecommunications
17 infrastructure using existing electric infrastructure
18 and that brings efficiencies and speed to market that,
19 I think, that fits a lot of people.

20 One of the neat things about building in the
21 electric's space or on electric facilities is it
22 provides over -- our overhead systems, we can see as
23 providing statewide, industrywide diversity rather
24 than everyone being located in DOT right-of-way, or an
25 underground or along railroads. You have alternatives

1 where fiber optics are not all buried and so one
2 backhoe accident, or something like that, doesn't
3 interrupt what could be a major pipeline for a lot of
4 telecommunications. So we see that sort of diversity.
5 We're bringing diversity to the Florida market from a
6 reliability standpoint.

7 And then touching on what I said before,
8 second and third tier cities. We're bringing what we
9 call state-of-the-art telecommunications services that
10 allow a lot of these cities to participate in
11 technology-driven economic development, bringing
12 Internet and broadband capacity and just excess
13 capacity to these markets that might not otherwise be
14 a target for some of the incumbents or other major
15 carriers from out of state; nationwide carriers. We
16 can help do that.

17 And, you know, as an example, we've talked
18 to the city of St. Pete and they are pretty excited
19 about a telecommunications effort being located in
20 their city, you know, really attracting high tech
21 companies to the city of St. Pete because we can
22 provide alternatives competitive access, bypass
23 alternative access vendor services, so there's a lot
24 of enthusiasm I think to see electric utilities get
25 into this.

1 So I think those are some of the benefits I
2 want to emphasize from what we're doing at this point.
3 And if we never take the next step, I think those are
4 still valuable contributions to telecom. So that
5 wraps up our presentation.

6 **MR. HOWELL:** I have one question if you
7 don't mind. In terms of turnkey operations, do you
8 also provide those kinds of services to other telecom
9 groups, like third-party interests, establishing and
10 setting up equipment-based facilities for them?

11 **MR. BAILEY:** We do. We have -- and I hope I
12 have it correctly -- on the Florida Power website,
13 www.FPC.com. there's an arrow to another part of our
14 group. Energy Delivery has a group called Project
15 Solution and they have to nice website I was just at
16 yet going through. Of all the other services that
17 Energy Delivery provides to Progress Telecom, the
18 Florida Power group, the poles and wires company, they
19 can provide to Progress Telecom, and also provides to
20 a lot of other companies, construction of towers,
21 attachment of wireless facilities, construction of
22 distribution systems, underbuild -- you know,
23 underground construction. So they do a lot of things.
24 And I don't have the website printed out, but there's
25 quite a lot they do that they are available to do for

1 any telecom company coming into the state.

2 **MS. WALKER:** Some of the things that we do
3 also to facilitate entry is if we have a provider who
4 wants a route from here to Tallahassee to St. Pete,
5 and they -- every so many miles they need regeneration
6 facilities on the fiber, because we have substations
7 and -- where we have property and land on the line, we
8 have come up with a product where we will drop a
9 module in that allows them to put their equipment in
10 to power it to monitor it. And that is part of the
11 service that we provide where they'd have to go
12 somewhere else and get it if they were building. If
13 they were not coming to us for the service, they'd
14 have, you know, go through, figuring out where they
15 are going to put that stuff. Because we already have
16 the network in and most of these substations have
17 availability of space, then we can, in very short
18 order, provide that service -- of course, at a cost --
19 and lease it to them. And that has become very
20 attractive with some of the big providers. We've done
21 that with one customer most recently in about eight
22 sites from Tallahassee down. So that is all part and
23 parcel of we are trying to facilitate their entry,
24 including, as Wes just said -- you know, it's very
25 difficult to do planning and engineering in our part

1 of the world. And we also provide that service. We
2 have been doing it for the power company for a very
3 long time. We understand the environmental issues and
4 the issues -- geographic issues, and we do provide
5 that service, that engineering, planning, design
6 service to people coming in who want to compete in our
7 particular area.

8 **MR. HOWELL:** Thank you. Does anyone else
9 have any questions? Thank you very much. I think our
10 next guest speaker will be from the Gainesville
11 Regional Utilities. Is that GRU.com?

12 **MR. HOFFMAN:** Good morning. My name is
13 Ed Hoffman. I'm with Gainesville Regional Utilities.
14 I'm the business manager for the telecommunications
15 utility that we have there, which we call GRU.com. I
16 have with me today Ed Regan, who's the director of
17 strategic planning for G.R.U. and works with us in
18 getting our telecommunications business basically,
19 which is a start-up business off the ground.

20 I think as most of you know, G.R.U. is a
21 municipal utility. We're a pretty full-service
22 utility. We have electric, gas, water, wastewater and
23 most recently, starting in about 1995,
24 telecommunications services.

25 I did provide a handout that I left on the

1 table over there which provides some background
2 information on our telecom operation and some of the
3 detail I'm not going to get into today. I'm going to
4 try to stick to the agenda issues that you raised.

5 Basically GRU.com has three lines of
6 business. We are what's known in the industry as a
7 competitive access provider. We utilize our network
8 to provide high bandwidth private line and special
9 access services almost exclusively in Gainesville and
10 Alachua County.

11 Another line of business, we are an Internet
12 service provider. We provide dial-up and dedicated
13 Internet access. The dedicated piece is provided, to
14 a great extent, over our fiber-optic network. The
15 dial-up, we have a hub where we provide that service
16 out of our administration building.

17 The third line of business is tower space
18 leasing. We primarily lease space to wireless
19 providers. We have about ten sites around Gainesville
20 towers, or water towers, where we lease space for them
21 to put their antennas.

22 We're in the process of installing our
23 fourth business line, and it's a trunking radio
24 offering, which should be available in the first
25 quarter of 2000. And it's going to be restricted use

1 to government entities because of license
2 restrictions, but that will give us a wireless
3 product, too, in the area.

4 Today I'm going to focus on our
5 telecommunications operations which is really our
6 competitive access provider business.

7 The GRU.com network, I mentioned we're
8 primarily a fiber-optic network. We have about 200
9 line miles of fiber in and around Gainesville. It's
10 what's called a SONET facility. SONET is a
11 standard -- it's a ringed architecture which provides
12 protection in case the circuit goes down on one side.
13 It's protected going the other direction. Our network
14 consists of transport rings, carrier rings and access
15 rings which ultimately go out to customer premises.
16 We utilize Nortel equipment primarily. Our backbone
17 is what is known in the industry as OC48, which is a
18 bandwidth speed. A very high bandwidth speed. That's
19 the transport component. But we also use OC12, OC3
20 express, and Nortel jungle mux which is a
21 distribution-type product for our signals.

22 We today sell only bandwidth. By that I
23 mean we don't do dark fiber leasing. If you want a
24 1.5 megabit circuit on our fiber. We can give it to
25 you, but we will not provide to any customer dark

1 fiber.

2 We're licensed by the Public Service
3 Commission as an alternative access vendor as well as
4 an alternative local exchange carrier or ALEC. But we
5 really make very limited use today of our ALEC
6 certificate.

7 I mentioned that we have all of these
8 different lines of business and that I would focus on
9 telecommunications, and, again, that's the competitive
10 access provider business, where we do high bandwidth,
11 private line and special access services. And
12 basically what we're doing is taking a customer from
13 one location who wants to connect possibly his data
14 network, his computers where he has an outlying
15 building on the other side of town, we're putting him
16 on our fiber so that his two buildings can operate as
17 though they were at the same location with whatever
18 level of bandwidth throughput on that they would like.

19 The products that we offer today are
20 primarily DS-1, which is 1.5 megabits per second
21 service, 10 megabits Ethernet or Ethernet clouds where
22 you can put various different buildings on the same
23 cloud so they can operate together. DS-3, which is
24 yet a high bandwidth, and we even have some OC3
25 capacity services which are fairly high for a small

1 community like Gainesville or a medium sized community
2 like Gainesville.

3 We have equipment that we have collocated at
4 most of the interexchange carriers or long distance
5 carriers that serve Gainesville. We also have
6 equipment located at the BellSouth-Gainesville main
7 central office. We don't offer local exchange
8 telephone services or telecom service today, basically
9 dial tone. We don't offer those. What we used our
10 ALEC license for, however, was to get into an
11 interconnection agreement with BellSouth, who is the
12 local exchange carrier that serves the Gainesville
13 area. And what that Interconnection Agreement allowed
14 us to do then was to resell their services, or to buy
15 what are called unbundled network elements. And
16 basically what we do, using the BellSouth network,
17 since we have our own equipment collocated at their
18 central office, if there's a customer location that we
19 can't reach with our fiber, we can use their
20 facilities, their local loop to bring that customer's
21 transport back to the central office and there it can
22 be cross-connected on to our equipment, and we can
23 delivery the other end to that other building on the
24 other side of town on our fiber. So where we can't
25 always reach a customer, we can use some of

1 BellSouth's facilities to serve the customer's needs.

2 The typical customers that we have for our
3 cap business are other carriers. There are other
4 carriers in town that use us as their local loop
5 provider to get out to their customers. People like
6 University of Florida where they need to connect
7 outlying buildings off campus to the main campus
8 computers. The hospitals in Gainesville doing the
9 same thing with clinics and doctors' offices, bringing
10 those signals back to their computer network at the
11 hospitals. And we have a fairly substantial business
12 going with wireless providers, the cellular telephone
13 and the PCS companies where we transport their
14 services back from those tower sites, from the cell
15 sites to their switch, so they can exchange calls with
16 the public switched network.

17 That is basically what we're doing in the
18 telecom arena today. Again, it's not local exchange
19 but it is private line, point-to-point type services.

20 On the agenda for today you asked us to
21 address obstacles for the entry in the
22 telecommunications services arena. And I thought the
23 best way to do that might be to talk a little bit
24 about our experiences as we got into the
25 telecommunications business, because I think it's sort

1 of the lessons learned might be important.

2 I mentioned we are collocated with most of
3 the interexchange carriers that serve Gainesville. We
4 actually have collocations of OC12 equipment in all
5 but one of the interexchange carriers, what they call
6 POPs or points of presence, the major ones. And it
7 really was a significant effort to get those
8 collocations. It took us two to three years in one
9 case. The problem is not some of these newer carriers
10 that are very interested in collocating, but the old
11 line major carriers, the household names that are
12 national providers are very difficult to work with.
13 Initially they had very little interest in even
14 talking to us. We weren't on their radar screens and
15 they didn't really need any local loop from us. We
16 were very persistent and finally they sent us the
17 contracts that would be used for collocating and work
18 with them for service. Those contracts are extremely
19 voluminous. The conditions were very difficult for us
20 to meet, and the contracts were extremely one-sided.

21 They also placed several restrictions on us,
22 the way we had to operate to work with them. Probably
23 the biggest restriction for us was the contract
24 doesn't allow us to take our customers to them. In
25 other words, we can't sign up a local business and

1 say, "You want so and so's long distance service?
2 We'll get you to them and do that." It had to be
3 their customer and then they would pay us -- the long
4 distance carrier would pay us for the local loop or
5 the transport to that customer's location.

6 And the pricing that was set forth in the
7 contracts was extremely low, almost to the point where
8 it hardly makes its worthwhile to provide the service.
9 Because what they were basically doing was using the
10 BellSouth local loop tariffs, the lowest rates they
11 could find which are for the highest volumes, volumes
12 that don't even exist in communities like Gainesville,
13 and then requiring us to give them discounts off
14 those. So they were buying one or two services but
15 pricing them like they were for thousands of services
16 and then discounting them. So we really haven't done
17 a whole lot of business, although we are collocated
18 with some of these folks.

19 Also as a municipality we had a few other
20 problems with contracts. Because of the Florida
21 Statutes and the Constitution there are certain things
22 we can't do with regard to indemnification, and the
23 fact that we're self-insured created a problem. We
24 had to go out and buy a special insurance policy,
25 which was quite costly. But still we needed these

1 collocations to exchange traffic. And it's very
2 important that if you're going to be a competitive
3 access provider, you have these collocations.

4 From my discussions with some of these folks
5 today that are there, and because of the
6 reorganizations that have gone on in a lot of the
7 larger national IXCs and the consolidations where they
8 are buying up other competitive access providers
9 themselves, I have my doubts that unless there's some
10 changes in the way the utilities are able to deal with
11 these folks to get collocations that somebody just
12 getting into the business today could actually get --
13 a small municipality could get their equipment
14 collocated, I have my doubts that it would happen, or
15 even a small competitive access provider.

16 So we finally did get the collocations we
17 basically needed there with the interexchange
18 carriers. The next thing we needed to do was get
19 collocation with BellSouth. And today we have two
20 OC48 nodes and two OC12 nodes collocated in the
21 Gainesville main central office, one of two central
22 offices in the community and the Gainesville main CO
23 is the primary one, so it's the main one we needed to
24 be in. That was somewhat easier. I think it's
25 because of the regulatory pressures that BellSouth and

1 the other incumbent local exchange carriers feel for
2 allowing people to collocate.

3 We did have to file a collocation
4 application, wait for approval, and it still took
5 about four months to get our first piece of equipment
6 collocated there. We have what's called a virtual
7 collocation. And what that means is that we have to
8 provide them with the equipment but we can't really
9 install it. We have to use a Bell certified
10 installer, contractor, to put that equipment in and
11 configure that equipment for the type of services we
12 think we're going to provide. And we really can't
13 touch that equipment. Once it's in there, we just
14 send in orders and they do all of the interconnections
15 to our equipment. And even now that's creating
16 problems for us because today, in fact, we're running
17 very low on DS-1 capacity. We have plenty of other
18 capacity and all we would have to do is switch out
19 some cards but what that's going to mean is we're
20 going to have to file another application and wait
21 another four months for the changes to be made so that
22 we can have the capacity we need to provide services.
23 So there's ways around it in terms of what's called
24 muxing, bringing DS-1s in on one side and putting them
25 on DS-3s on the other side. But that's not the

1 easiest solution for us.

2 But in any event, that is a problem we have
3 had where we have to change out equipment and can't
4 touch it. We could have done what's called a physical
5 collocation where there are still restrictions on how
6 we can work in the Bell central office, but those were
7 much more expensive, at least at the time. Today I
8 think some of those restrictions have been eased
9 through possibly the Public Service Commission, FCC
10 activities, and we may be looking at switching our
11 virtual collocations to physical at some point in the
12 near future.

13 We did get the collocations with BellSouth.
14 We also had then, though, to get an Interconnection
15 Agreement with BellSouth and that was needed so that
16 we could actually use the collocated equipment so we
17 could buy unbundled network elements from them and do
18 resale services. That wasn't too bad. It took about
19 two months to get that contract in place. We did need
20 our alternative local exchange carrier certificate for
21 that, which was not a problem, but we also had to
22 apply for a number of codes and identifiers and things
23 to different entities that many of these -- today I
24 have no idea what they are used for but we have a lot
25 of numbers that represent who we are to BellSouth.

1 Again, the agreement was very voluminous for
2 interconnection services. The discussions we had with
3 Bell were billed by them as a negotiation, but it was
4 from our perspective nothing more than a take-it-or-
5 leave-it type situation, and the pricing was basically
6 dictated to us for unbundled network elements and for
7 resale services.

8 Still, I think we're getting the same deal
9 that most competitive access providers, ALECs would
10 get from Bell, so I don't feel like we're being
11 singled out in any way.

12 Once we had the Interconnection Agreement
13 and the collocations, we thought, well, now we're
14 ready to sell services using some of the Bell network
15 in our collocated facilities. For the Bell side of it
16 we found, though, that we had to work now through the
17 interconnection services account team out of
18 Birmingham --

19 (Side 1 of tape ends)

20 (Side 2 of tape)

21 We had to go to people in Birmingham. And
22 to place orders we had to work through ordering groups
23 that are in Atlanta and Birmingham as well. The
24 orders are submitted on forms called Local Service
25 Requests, or Access Service Request forms, and these

1 are extremely complex series of forms. Consists of
2 many pages, depending on the types of services you're
3 going to buy. Full of Bellcore codes most of which
4 would mean nothing to anyone in this room -- most of
5 which don't mean anything to me, we only use some of
6 them. And if you fill out these forms and send them
7 in and you want to change something, well, you have to
8 submit a supplement to the form. If you want to
9 cancel the service, you have to submit a supplement.
10 If you've made an error you have to submit a
11 supplement and that always starts the clock over for
12 delivery of the Bell component of the service, the
13 unbundled element.

14 The accounting that we were provided in
15 Birmingham consists of an account manager and a system
16 designer. The account manager is basically a
17 salesman. We have had three of them in the last
18 year. They keep reassigning them. The system
19 designer is supposed to be an expert on the products
20 and the forms and we have had four of those in the
21 last year. The current system designer came from
22 BellSouth Mobility and I'm convinced I know more about
23 the forms and the ordering than he does, but he is
24 learning and they do try to be helpful.

25 Initially, billing was a problem. That

1 settled down somewhat with Bell. We do have five
2 different billing account numbers that we have been
3 assigned for the cap services we're buying. The bills
4 are extremely lengthy. They take substantial review
5 time on our part. Actually the length of the bill is
6 probably a benefit. The USOC codes that are presented
7 with the charges, the very excruciating detail. It's
8 actually easier to figure out why you're being billed
9 incorrectly, if you are. We have numerous disputes on
10 the billing that were filed with Bell. The contract
11 requires we make the payment no matter what and then
12 submit the dispute form, and we receive credits on our
13 future bills if our disputes are approved. We still
14 have some outstanding disputes and we continue to
15 disagree on some charges. I don't think we're ever
16 going to reach agreement on some of the things that we
17 have been billed for.

18 I guess my concern on the billing side is
19 simply that if we were doing local exchange services
20 with all of its complexity and the volume, we're doing
21 very simple services, and very straightforward
22 services, I would be very concerned about the billing
23 situation, that it could get straightened out and we
24 could handle it.

25 Also on the agenda, you asked for plans for

1 entering the telecommunications area and there I
2 assume that you might have been getting at the entry
3 into the local exchange service arena. And G.R.U. has
4 evaluated that from time to time and continues to
5 evaluate it, but we really haven't made any
6 commitments at this point in time. Obviously, the
7 providers that can provide not only data services
8 primarily as we are, voice services and video services
9 over one platform are probably going to be the most
10 successful. We would like to do that but there are a
11 lot of pitfalls that we just haven't determined we can
12 overcome yet.

13 There's really two ways we could provide
14 local exchange services. We could provide them as a
15 reseller of BellSouth services or as a
16 facilities-based provider.

17 As a reseller, we could do that under that
18 Interconnection Agreement that we have. We'd have no
19 capital investment but we would take on the
20 responsibilities for marketing to the customer,
21 ordering through the form process, customer service
22 and billing. And, again, the ordering process I think
23 would be worse than it is already for us with local
24 exchange services, and we'd have to hire and train
25 clerks to handle the volume in the ordering side.

1 The billing that we'd have to do now for
2 local exchange is much more complex than for
3 competitive access services and we've looked at our
4 utility billing system that generates our bills for
5 other utility services and there's just no way it
6 could be modified to handle telecom billing. So it
7 would be quite expensive to get into the business.

8 And then the contract discounts for
9 reselling local exchange services are pretty minimal
10 given all of the costs that we incur. Basically we'd
11 give a 17% discount for business services and a 21%
12 discount for residential local exchange service. It's
13 very doubtful to us we could even break even at those
14 discounts.

15 The other way that we could provide local
16 exchange services, dial tone, would be as a
17 facilities-based provider, which means we'd either
18 have to put in our own switch or we'd have to work
19 with somebody, a partner, a partner that already has a
20 switch. Doing this would take substantial commitment
21 on our part, not only capital to buy the switch, but
22 additional manpower, technical manpower to operate it
23 and provision it, and then a lot of management time.
24 So it's a much more complex business than what we're
25 in today.

1 And then the switch obviously is only half
2 the problem. Now, you have to get the loop, the lines
3 out to the customer premises to deliver the local
4 exchange services on, and we can buy unbundled
5 elements from Bell to get to the customer. The
6 two-wire loops you need to complete phone call,
7 however, are still pretty expensive. There's \$140
8 one-time charge, and then a \$17 a month charge just to
9 get from the CO out to a residence to buy that
10 two-pair copper line. That's pretty expensive when
11 you've got to combine that with your own facilities
12 and a switch.

13 Four-wire loop, which would give you two
14 lines into a house, would be about \$30 a month under
15 our contract. Again, pretty expensive.

16 I guess, in conclusion, from my
17 perspective -- and this is simply from mine -- if you
18 want competition by utilities in the local exchange
19 arena, and even to a large extent in the competitive
20 access arena, there are a few areas you need to look
21 at. One is the practices of the interexchange
22 carrier. There's a lot of focus on the local exchange
23 side but we need those collocations with the
24 interexchange carriers and we need good working
25 agreements with them that we can both benefit and pass

1 traffic. You also need to look at the incumbent LEC's
2 ordering processes and provisioning systems. I find
3 them to be overly complex, and the software that they
4 provided to assist us just is not -- just falls short.
5 We're not using their ordering systems they are using
6 internally. We're using ordering systems that have
7 been designed for CLECs or ALECs.

8 A third, point I think you need to work on
9 streamlining collocations into the incumbent local
10 exchange carriers. We need quicker access, more
11 flexibility of getting out -- add our equipment that's
12 collocated there. In Gainesville we just had, as I
13 mentioned, one major central office, the Gainesville
14 main. There's another one but it serves a small
15 portion of the community. But some communities, some
16 smaller communities have as many as five central
17 offices and they are going to have to collocate
18 equipment in each one of those to be effective. I
19 would hate to have that problem. Our problem is much
20 less having only two central offices in Gainesville.

21 A fourth point, I believe you need to look
22 at unbundling further. The local exchange carrier's
23 service is basically deeper into the network. It
24 seems to me if I can physically connect it to our
25 fiber at some point in their network it should be

1 allowed to be done.

2 We strongly need to go further building
3 entry facilities and to reach residential communities,
4 multifamily dwelling units as well as just subdivision
5 type areas, we need access to the local exchange
6 carrier's copper that they already have in the ground.
7 The only way we can get at it is from the central
8 office through the \$17 loops I mentioned. Yet, if we
9 could take our fiber and cross-connect it at their
10 Slick which feeds the communities, we'd have a much
11 better chance of competing and providing local
12 exchange services.

13 For commercial buildings we need access to
14 their conduit. They often have spare conduits that
15 run into buildings, oftentimes put two when they build
16 a commercial building. Being a new player what we
17 have to do is bore under a parking lot. It could be a
18 long way. Very expensive for us to put additional
19 conduit into the building. We need to have some
20 access to their conduit for commercial buildings so we
21 can get our fiber in.

22 And the last point, the local exchange
23 carrier's charges need to be reviewed. I think that
24 gets pretty much focussed but there really just isn't
25 enough margin in these amounts in the contracts to

1 make it cost-effective for us to resell local exchange
2 services or to buy some of these services that are
3 advertised to us.

4 That concludes my comments. I don't know,
5 Ed, if you had any others.

6 **MR. REGAN:** There's one other area that some
7 of your staff have been working on, and that's a new
8 service that's rolling out called ADSL services. And
9 one of the problems we're having is that BellSouth.net
10 buys packages of 40,000 ADSL lines at a time at
11 tremendously discounted prices and we don't think --
12 the market for ADSL in Gainesville might be a couple
13 thousand. And there's no way we can compete with
14 those kinds of pricing. And that's just -- one of the
15 things that can help us would be if we were talking
16 about unbundling the network elements deeper into the
17 system, if we put a D slam -- put a piece of equipment
18 that would allow us to do our own DSL at the switch,
19 we have to buy the full capacity of the lines going
20 out to the homes, including the phone, the dial tone
21 part of it, which makes it very expensive to do D
22 slams when you're only using part of the line for
23 data. That's something that's just recently emerged.
24 I know that some other staff are worrying about that
25 and I just wanted to make sure you knew about that

1 problem and that issue.

2 **MR. HOWELL:** Anyone have any questions?
3 Anyone else like to add to what's already been spoken
4 on?

5 Okay, I guess the next speaker -- how about
6 Florida Power and Light.

7 **MR. WATERS:** Good morning. My name is Sam
8 Waters. I'm Director of Regulatory Affairs at Florida
9 Power and Light. And I think you'll find, compared to
10 the previous speakers, I'm woefully ignorant about
11 telecommunications acronyms and terms in general.

12 I don't have a formal presentation this
13 morning, but I would like to address the questions you
14 have raised in the Workshop Notice and give you a
15 little background on what FPL is currently doing. I
16 think also in comparison to the previous speakers
17 you'll find that FPL is probably, in the business
18 sense, a step or two behind the activities you've
19 heard. We do not have a separate telecommunications
20 affiliate at the moment. We're not in some of the
21 businesses you've heard about. I'll give you a little
22 background on what we do have. And my comments will
23 be fairly brief this morning.

24 FPL has about 1600 miles of fiber on its
25 system, primarily for utility use. The fiber runs the

1 full span of FPL's system, and for those of you who
2 are not as familiar with FPL's system, we cover a
3 territory from south of Jacksonville all the way down
4 the east coast through and including Miami-Dade
5 County. On the west coast we run from the
6 Sarasota-Bradenton area down south through the Fort
7 Myers area. The 1600 miles of fiber is looped across
8 the state so it forms a complete loop through our
9 system for reliability purposes. Our primary uses of
10 that are for the utility. It's for internal
11 communications, videoconferencing, education. We also
12 connect our power plants to the fiber system for
13 dispatch and control, load management, system
14 reliability and other uses. We are in the business of
15 leasing dark fiber to registered telecommunications
16 companies in Florida. I would say at the current time
17 that is the extent of our telecommunications
18 activities outside of the utility. We are I guess
19 what is referred to in the business as a carrier's
20 carrier. We're in the wholesale business. We do not
21 have any plans at this time to be in the retail
22 telecommunications business. I think it would be fair
23 to say that there's probably not an electric company
24 in the country that hasn't considered it at one time
25 or another. It's certainly a hot topic. Many of us

1 have fiber capabilities. We discussed it internally,
2 but at this time we have no plans to go in the retail
3 business. We're strictly a wholesaler at the moment.

4 I think in looking at obstacles, it's a
5 little hard to address since we haven't made any
6 decision to go into that business. But there are a
7 couple of threshold questions I think we would have to
8 address, and will have to address in the future. A
9 lot of that has to do with treatment of the assets
10 that we have and whether or not it makes sense as an
11 electric utility to make any investments in
12 telecommunications facilities as an electric utility,
13 or whether it would be inappropriate, formation of an
14 affiliate, for example, to do that, and how existing
15 assets would be treated at the time we did that.
16 Whether or not it would be appropriate to spin off or
17 allocate utility assets to the affiliate and how that
18 might be done. So that would be the first, I think,
19 threshold question that we would have. Beyond that
20 there are the obvious considerations I think you have
21 going into any new business, which includes staffing
22 and investment and so on that would have to be made,
23 and whether it's appropriate or makes business sense
24 for us to go into those businesses. And we're simply
25 not there yet.

1 There's a question as to whether we plan to
2 expand in telecommunications beyond our company's
3 service areas. I guess in leasing I'm not sure how to
4 answer that question -- in leasing dark fiber I guess
5 you could say the other carriers may be in areas that
6 are beyond our service territory. We ourselves are not
7 other than the leasing itself, and have no plans
8 beyond that at this time.

9 I think with those general remarks, I think
10 I've addressed most of your questions. As I said,
11 we're probably a step or two behind what you've heard
12 from the other companies. Our system is primarily
13 internalized right now and used for internal purposes
14 other than the leasing of the dark fiber.

15 **MR. HOWELL:** You sure did that in a hurry.

16 **MR. WATERS:** That was my intent.

17 **MR. HOWELL:** Do you have any questions of
18 the board here?

19 **MR. WATERS:** No, I don't think so. I think
20 we certainly appreciate the opportunity to hear what
21 companies are doing in this area and I understand the
22 interest. I guess I would add a little bit to my
23 comments. There's a lot of uncertainty in our own
24 business right now. We have enough uncertainty to
25 deal with in the electric world that I think would

1 certainly impact any decisions we'd make on the
2 telecommunications side. We're waiting to see what
3 our own structure is going to look like, and I think
4 that will have to play off any decisions we might
5 make.

6 **MR. HOWELL:** Thank you very much. We're
7 right on schedule, as some would say. Southern
8 Telecom, Wayne Ellis.

9 **MR. ELLIS:** Is this mike okay? Am I coming
10 in confused and stupid? Okay.

11 I am going to take a little bit, another
12 approach than what you've heard so far. I want to try
13 to address both the Commission and the audience, and
14 if there's questions along the way, or at the end, I
15 certainly would encourage those.

16 First, Connie, I can relate to your comment
17 about acronyms, and many of you know the term, the
18 acronym, "DUG, dumb ole utility guy." until a few
19 months ago that's what I was and now I'm a tele-DUG
20 and it's even worse. The acronyms are really
21 mind-boggling sometimes.

22 I think that you'll find that Southern
23 Telecom is somewhere between what I heard folks at
24 Florida Progress talking about and what I just heard
25 FPL talking about. I'm going to attempt to address

1 four out of the five questions that the Commission
2 asked that we address. I cannot address the fifth
3 question about municipal utilities other than we'd
4 love for them to be our customers, but you certainly
5 have a uniqueness that being an investor-owned utility
6 we don't face the same issues that you do,
7 particularly in the telecommunications arena. And I'm
8 not specifically going to address these questions.
9 I'm going to go through a presentation that I think
10 will answer bits and pieces of each one of those
11 questions.

12 If you would, as I go through the
13 presentation, keep in mind several things. Southern
14 Company, unlike any other investor-owned utility in
15 Florida is a Public Utility Holding Company Act of
16 1935 Utility, affectionately known as a PUCA utility.
17 And that has presented us some unique challenges.
18 Therefore, we're in somewhat of a different regulatory
19 arena at the federal and FCC level than FPL and
20 Florida Progress. Being one of 12 registered holding
21 companies in the United States, there are about eight
22 electric and four natural gas utilities that are
23 subject to that Act from '35, that has really
24 checkmated, until recently, our opportunity to do much
25 outside of the core business of electricity.

1 Very briefly, what that always meant is that
2 if you wanted to do anything other than the electric
3 utility business, you had to go and amend what's
4 called an U-1 which is filed with the FCC, and that's
5 a very laborious and long process of -- believe it or
6 not, more laborious what I heard Gainesville describe
7 of getting collocation. It's a very protracted
8 process. So that has held us up and that's why we're
9 between where Florida Progress is and FPL. You'll see
10 only recently we're just a mere babe in the woods in
11 getting into the telecommunications arena.

12 Number two, let me tell you who we are not.
13 Southern Telecommunications is a brand new company.
14 We are not another subsidiary of Southern Company
15 called Southern Communications. You may be -- those
16 you particular in northwest Florida may be familiar
17 with Southern Communications. That is a separate
18 subsidiary. It's our wireless company that's
19 operating solely in the 800 megahertz frequency range.
20 It's a product called Southern Link. One of their
21 competitors is Nextel, to give you an appreciation of
22 the kind of product they have. And that is the only
23 thing that they are in. We got into that business
24 primarily so that when a hurricane came and hit Gulf
25 Power and we need to send crews from the north Georgia

1 mountains that when they came down they could speak on
2 the same telecommunications systems. As is turned out
3 there was some excess capacity that we could also
4 market to primarily governmental and fleet and
5 contract-type operations. So keep that in mind.
6 That's often a confusing point.

7 Also Telecom Act of 1996 is important for
8 us. Remember I said that we were a PUCA utility from
9 '35. The Telecom Act of '96 which many of us thought
10 it was -- it was indeed all about competition in the
11 telecommunications arena, long distance competition,
12 local competition, a less well known aspect of the
13 Telecom Act of '96 was that the Telecom Act of '96
14 amended the Public Utilities Holding Company Act of
15 1935 and allowed those 12 registered holding
16 companies, that when it came to telecommunications,
17 that we were exempt from FCC oversight, and,
18 therefore, you'll see in a slide I've got, we've given
19 rise to something called an ETC. You thought that
20 meant "et cetera," but it also means "exempt
21 telecommunications company." So an ETC is yet another
22 unique animal, acronym that we're going to hear about
23 today.

24 And a final thing -- and not unlike a lot of
25 what I've already heard, particularly from the

1 investor-owned utilities, Southern Company for many,
2 many years has been investing in telecommunications
3 infrastructure. We're primarily in Georgia, most of
4 Alabama, southern Mississippi and the Panhandle of
5 Florida, particularly at least for our core domestic
6 operations, and obviously No. 1 by a long shot, and
7 that footprint is BellSouth as far as the investment
8 in infrastructure. But Southern Communications our
9 private network makes us number two, but we're way
10 number two, we're way down there. But the point being
11 is that to run a utility that large, it's taken large
12 investments going all the way back to the '30s and
13 '40s starting with the systems back then, migrating
14 through microwave and today through to wireless and to
15 fiber optics. In fact, as you'll see in a moment to
16 the point now we have over 3500 route miles in that
17 service territory simply to run the private network
18 known as the Southern Company.

19 Okay. A little bit more about what is an
20 ETC. I've already spoken to what gave rise to it and
21 that it was an unique animal on the backside of the
22 Telecom Act of 1996. One thing that is -- another
23 thing I have to remind folks, when they understand
24 that we're an ETC, they say, "Oh, you're the
25 unregulated company that Southern Company has."

1 Nothing could be further from the truth. We are
2 simply a noncore enterprise that is still very much
3 subject to a variety of regulatory bodies. As you can
4 see, just like all other telecommunications companies,
5 we have FCC issues, although FCC approval is not
6 required, we're still subject, like all other
7 companies, to a lot of the normal FCC oversight things
8 just being a business in the United States. And,
9 again, under the level playing field argument that was
10 presented, accepted and therefore, the Telecom Act
11 amended the PUCA Act of '35, we're subject to the same
12 rules and regulations as all other telecom companies,
13 whether it be a subsidiary of one of the other
14 investor-owned utilities or it be one of the
15 telecommunications giants in the United States. Same
16 rules and regulations.

17 The state Public Service Commission still
18 have very much an oversight over a company called
19 Southern Telecom. I've given some examples here.
20 We'll talk a bit more about something that's probably
21 unique to us called an interaffiliate agreement that
22 we have to address. It addresses cross-subsidy issues
23 and a few other things. Why did the electric utility
24 industry want an ETC? Why do we want to amend the
25 Act? It's very obvious.

1 Prior to the Telecom Act of '96, the
2 Southern Company did get involved in some joint
3 ventures with other fiber companies. In fact, looking
4 out here I see some of our customers and
5 counterparties in those contracts. But it was an
6 extraordinarily difficult thing in the late '80s and
7 early '90s. We used some other noncore subsidiaries
8 we had at the time. We went and we went forward to
9 the FCC and said we have this route segment from Point
10 A to Point B, and just like you heard earlier, in
11 order to offset capital expense that otherwise would
12 have to be borne by electric ratepayers that we wanted
13 to enter into these joint ventures and these
14 partnerships with these other telecommunications
15 providers and to enable us to get private network at a
16 low or no-cost basis.

17 That took in many case many, many years to
18 get just the U-1 amended up in New York before the
19 FCC. And I think you can appreciate today that were
20 you trying to do that today in the hypercompetitive
21 arena that we're in today, the opportunity and the
22 deal would pass you by. It would just take too long.
23 Be too long of a time to market for somebody like
24 Southern Company to get to the table and say we
25 finally got all of the regulatory hurdles bypassed at

1 the federal level, and, therefore, we can do the deal.
2 So that's again one of the reasons it's a quick
3 oversight.

4 I've already talked about the FCC and the
5 final things. The final two bullets are kind of on
6 the lines of the comments I heard from FPL,
7 uncertainty in the electric utility business. This is
8 another opportunity for us to look at other revenue
9 streams, other earning streams, for the stockholders
10 of Southern Company.

11 Okay. What is Southern Telecom doing? As I
12 said, we're somewhere in between some of the other
13 folks you've heard. The Telecom Act was enacted in
14 1996. The Southern Company did move forward in 1997
15 and formed just an on-page -- we filed all the
16 necessary registration and charter and that sort of
17 thing to form a company called Southern Telecom.
18 However, only in 1998 did we decide to give it
19 employees, to capitalize it, to give it a budget, and
20 to give it a mission to go forth and do some things in
21 this new telecommunications arena.

22 What we're currently doing, on the left-hand
23 side you've already heard similar types of things are
24 being done at other companies. It's in the fiber
25 leasing and the fiber construction and maintenance

1 business. We are not an a certified
2 telecommunications provider in our four-state area, as
3 you'll see in a few minutes. We're seeking that
4 actively. Therefore, not being certified, all we're
5 authorized to do is to do dark fiber leasing or dark
6 fiber selling or dark fiber contracting, those sorts
7 of things. We simply cannot offer capacity at this
8 point. So that's what we have been doing to this
9 point.

10 We'll talk about right side. The right side
11 is retail competition, retail issue. You're not going
12 to hear any time soon, or for a long time, about
13 Southern Company long distance or Southern Telecom ISP
14 or any of those kind of things. At least we feel like
15 we're a babe in the woods and the left-hand side is
16 kind of maybe where we're heading in our adolescence.
17 Maybe one day when we're adult many years down the
18 road we'll do the right-hand side. Quite frankly, on
19 the right-hand side, that is a market that is a very
20 competitive market, that as an electric utility we
21 know very little about. A lot of folks will say,
22 "Well, yes, but you've got all of this back office.
23 You've got these customer service centers and all of
24 these billing systems." It's a challenge every day to
25 meter kilowatt-hours directly and keep the lights on

1 and that sort of thing. And we're not convinced we
2 have got a competency that you could transfer over and
3 say this is answering questions about the electric
4 system; start answering questions about retail
5 telecommunications services we might offer as opposed
6 to metering kilowatt-hours. Start looking at marks,
7 six-second marks on a long distance service or
8 something like that. That simply is not anywhere
9 close to our core competency. So our thought process
10 is that's a competitive market. There's a lot of
11 folks out there that are beating their brains out to
12 win customers and to offer services and we say more
13 power to them, because as you're going to see, our
14 approach is at the end of the day somebody on retail
15 business, whether it be a collect, an ILEC, an
16 incumbent local exchange, or whether it be an
17 interexchange carrier or an ISP, any of those people,
18 they ultimately win a customer and they've got to
19 backhaul them. And, therefore, that's where we will
20 come in currently as a dark fiber entity; hopefully
21 once we are certified as a capacity, carrier's
22 carrier, wholesaler, that's the market that Southern
23 Telecom envisions that we're going after.

24 I thought I would show you a couple of
25 internal documents, because, quite frankly, I think

1 they answer some more of the questions that the
2 Commission has asked us to address and what are we
3 about. That's our mission, working on both behalf of
4 electric customers and our shareholders. I point out
5 that the left side is assets, right side is
6 competencies. The earlier question that was raised by
7 the Staff about do we do certain things on behalf of
8 other alternative exchange carriers or CLECs. Yes, we
9 do.

10 On the right-hand side, the Southern
11 Company, on a fully costed basis, we do occasionally
12 make available our telecommunications engineers, our
13 field service engineers, the crews that we have known
14 how to splice fiber-optic cable, that know how to work
15 on fiber optronics, electronics, those sorts of
16 things. Yes, we do occasionally make those available.

17 The left-hand side primarily, though, is
18 what we're about and that's assets. I mentioned
19 digital microwave because that's the old LEGACY system
20 and there's still a market for it, both in some cases
21 for low volume areas, and in some cases a temporary
22 fix until fiber is deployed. And then I think, as we
23 all know, wireless is all the rage, it's all the next
24 big thing, so there could be an opportunity to do the
25 same thing that we do in fiber optics with the same

1 business model applied to the wireless, different
2 technologies that are coming out today.

3 I'm getting close to the one you are looking
4 for which is close to the last slide, so hang on.

5 I didn't put this slide up here for you to
6 pay attention to the proper names, it's just look at
7 the blocks.

8 What is Southern Telecom? Don't get
9 worried, we're not a big company; we're a very small
10 companyment we're procedure proud of -- I was the
11 third employee that was hired back about ten months
12 ago, and we're very excited, we may double in the Year
13 2000 to six to eight employees. And I'm not going to
14 kid you, though, in that you certainly understand that
15 this is somewhat a virtual type of company and that it
16 uses outsourcing to get done a lot of the things we
17 need to get done we've talked about before:
18 construction, engineering, those sorts of things.
19 We're going to have to face many of the same issues
20 you've already heard discussed. But once we become
21 certified as far as back office and that sort of
22 thing, but right now what you see primarily is a
23 business development and sales organization and a
24 little back office operation.

25 And this is another -- I'm not shy about

1 telling you what our priorities are. It makes folks
2 nervous sometimes when I do this, but I want to point
3 out a few things I think, again, answer some of the
4 questions that the Commission ask we address.

5 Number one, keep in mind as a shareholder
6 entity, number one, the objective we have is to make
7 money, and that there's no question getting back to
8 why do we get into the ETC business, it was to look at
9 additional and other and variety of revenue streams
10 other than the uncertain electric world that we're in.
11 We've got to hire people, but just like all other new
12 businesses, that's why you see here business
13 development manager and then the contracts manager.
14 These terms probably ring true to some folks who are
15 in the business, but interaffiliate agreements, again
16 probably unlike other investor-owned utilities in the
17 state the Telecom Act of '96, in addition to saying
18 that we're going to relieve the FCC of oversight of
19 your activities in the telecommunications arena.
20 However, we are requiring, and want the various state
21 Public Service Commissions, to ensure that there is an
22 interaffiliate agreement between the various operating
23 companies that are in each of those respective states
24 and Southern Telecom such that those transactions are
25 properly looked at, arm's-length transactions,

1 cross-subsidy issues, those sorts of things that I've
2 heard people, you know, kind of nibble at discussing
3 today are very specifically and forthrightly
4 addressed. I'm very pleased, Florida, a few months
5 ago, did approve an interaffiliate agreement between
6 Gulf Power, our local subsidiary here in the northwest
7 Panhandle, and Southern Telecom, and it addresses very
8 specifically the nature of the transactions between
9 Southern Telecom and Gulf Power. Let me also say a
10 question came up earlier about assets. The Southern
11 Company has no current -- first, Southern Telecom does
12 not own any assets that are used in the core business
13 and that is not our current model. We do not
14 envision, although there is the authority there and,
15 indeed, some ETCs and other jurisdictions -- I know
16 one that primarily comes to mind is in the Midwest,
17 American Electric Power has chosen to go that route.
18 That is not the current plans of the Southern Company.
19 All of the assets that are currently in the Southern
20 Company today in our various operating companies will
21 stay there. This is all about doing something new and
22 beyond that will require our own assets with
23 stockholder capital. So that is not what we intend to
24 do. But the interaffiliate agreements do address, for
25 example, asset transfers. If you ever were to get

1 into an asset transfer issue, it specifically
2 addresses that. It addresses services, goods and
3 those sorts of things.

4 The other thing I wanted to point out that's
5 over here, telecommunications service and
6 certification and carriers's carrier to once again
7 emphasize that we need to move up -- the dark fiber
8 business, as a lot of folks know, while it is a
9 profitable business, some folks would suggest it's
10 more a commodity type business, and the margins that
11 you can get there are not near what they are if you
12 move on up sort of the food chain to capacity, to
13 bandwidth and those sorts of things, and that's the
14 sort of thing that we would like to do at Southern
15 Telecom. And we've got to come before, in this case,
16 before the Public Service Commission in Florida to
17 apply to become certified. And once we get that
18 approved, then we'll be able to offer those services
19 in Florida.

20 And that concludes my remarks. That
21 hopefully was responsive to four of the five questions
22 that were posed. And I'm willing to entertain any
23 questions from anybody. Okay? I don't know if that's
24 good or bad. I've got questions.

25 (Unintelligible question from audience.)

1 **MR. ELLIS:** Southern Telecom is a direct
2 subsidiary of the Southern Company, but Bertram Sears
3 is not the president of Southern Company. That's Bill
4 Dalberg. He's just the president and CEO of Southern
5 Telecom. Actually he's actually the president and CEO
6 of a variety of other noncore small subsidiaries we
7 have. We have -- like any utility, we have a lot of
8 small subsidiaries, and he acts in a multiple
9 capacity. There was a question. Yes, ma'am.

10 (Unintelligible question asked from
11 audience.)

12 **MR. HOWELL:** Wayne, could you repeat her
13 question, because we're not recording it -- she
14 doesn't have a microphone.

15 **MR. ELLIS:** Right. The first question was
16 about whether Bertram Sears was the president of
17 Southern Company and he is not. He's just the
18 president of Southern Telecom.

19 And then her question was to the weight of
20 is there any way in which Southern Company, Southern
21 Telecom could lose its exempt status.

22 I don't know. I've never thought about it.
23 I'm certain, like anything, we could do something
24 egregious, you know, something really bad, and then
25 that -- whether we really did or not, folks here in

1 Gulf Power would keep me from doing that, even though
2 we haven't. They'd make sure that we weren't doing
3 things that were hurting them here in Gulf, in
4 Florida. So I don't know the full answer to that.
5 Some folks brought their attorney. I didn't bring our
6 general counsel today and I suppose he could have
7 answered that question.

8 As we're -- other questions, I thought that
9 both for the Commission Staff you might want to know
10 who we are. That's me and our two business
11 development people. I have a stack of that particular
12 slide that I'll leave here if people want to pick it
13 up and would welcome any kind of contact, telephone,
14 e-mail, whatever you want to do to further talk to us
15 to clarify any of the remarks we've made today. Or if
16 anybody would like to talk to us about business we're
17 in, we're more than happy to talk about that also.

18 **MR. HOWELL:** I have one more question for
19 you.

20 **MR. ELLIS:** Sure.

21 **MR. HOWELL:** You know, I was hoping to get
22 some response from cable TV companies, and I know that
23 high cap services and data links, and things that the
24 power companies are getting involved with and that's
25 part of the telecommunications services. But I

1 haven't heard any reference to coax services, video
2 too much. Do you have any answers to that?

3 **MR. ELLIS:** Well, first, as far as I know,
4 at least in my part of the world Southern Company,
5 Southern Company has no plans to get into the cable TV
6 business. Again, that's on the right-hand side.
7 That's in that shark-invested retail competition world
8 that we're not wanting to get into. Of course, we're
9 all, I think, in the electric utility industry
10 watching with great interest the activities of the
11 consolidation that's going on in cable TV and the
12 acquisition by AT&T and others of cable companies.
13 Because clearly, cable TV is one of the other
14 solutions to the last mile. That's what we look at
15 it. That gives me an opportunity to talk about some
16 other things you may or may not be aware of, but the
17 electric utility industry, certainly you can use
18 copper wire or fiber to the curb to get to the -- to
19 bridge that last mile. You can use -- some folks
20 suggest satellite. Some companies have business cases
21 and models built around microwave systems that get you
22 to the last mile. Certainly cable TV, but my concern
23 there is the investment upgrade that cable TV
24 business, a line is going to be staggering to me, I
25 mean the amount of money it's going to take to upgrade

1 it to a reliability standard that we've come to expect
2 with dial tone. I mean the last time I checked,
3 BellSouth on dial tone probably had like five 9s or
4 something like that and I think that's going to be
5 challenge when you go into cable TV or cable TV-type
6 technologies. I'm certain they feel like they can do
7 it or they would not be doing that.

8 The other thing I want to point out to you
9 that the electric utility industry is not standing
10 idle in that there are now four or five different
11 competing technologies that are looking at the notion
12 of power line carrier such that you would look at the
13 physical electric wires that carry our electricity
14 both from pole to pole and from the pole to the house
15 on the service wires, is there an opportunity there to
16 use a technology -- some people call it digital power
17 line carrier, other people call it PLC, power line
18 carrier -- if that technology does, indeed, mature and
19 take off and prove to be a viable way to bridge that
20 last mile, then I think that no, we won't for sure get
21 into cable TV because we'll perhaps have our own
22 solution. My own particular take is, by the way, an
23 opinion, is that it's no one thing is going to solve
24 that last mile. It's going to be a variety of
25 wireless, cable, power line carrier, plain old

1 telephone copper wires, some enhanced copper wires,
2 some fiber in some newer subdivisions. It will take
3 six or seven different things to deliver broadband to
4 the house.

5 MR. HOWELL: Does anyone -- I was thinking
6 that instead of having a break, we can just have any
7 open discussion right now that anyone would like to
8 ask questions. I'm also reminded to remind anyone
9 that came in that if they haven't signed the sign-up
10 sheet, we'd appreciate it if you would before you
11 leave, back on the podium by the rear door.

12 Anybody have any comments they would like to
13 make? If they do, please come up. All those
14 microphones there, we can have ten people going at
15 once.

16 No takers. All right then I guess what we
17 can do is summarize this. And my little short summary
18 is going to be number one, I appreciate everybody's
19 participation. I believe you've added a lot to our
20 education. And we take everything you've contributed
21 very seriously. And I have a little reminder here I
22 would like to, if you're not aware of it, some of you
23 have already expressed to me you have been to the
24 recent NARUC workshops up in San Francisco last week,
25 out in San Francisco, and there was a little

1 publication here -- I have about 20 copies if somebody
2 is interested in -- about the resolutions concerning
3 electric-telephone convergence written by one of the
4 first Commissioners and very highly respected Bob Rowe
5 (phonetic). And primarily I'll just sum up one little
6 paragraph for you.

7 That the NARUC encourages the establishment
8 of electricity telecommunications convergence in each
9 state, whether ETC or otherwise, and to develop and
10 implement a regulatory frame work to promote
11 facilities-based competition in the telecommunications
12 market. And that NARUC endorses the development of an
13 expedited review procedure, what he calls a rocket
14 docket, for review and approval of electricity-
15 telecommunications convergence entities.

16 So we have it there. I think we can close
17 this unless anybody has anything else they'd like to
18 say? And I have about 20 copies of this NARUC
19 resolution if you'd like to come up and get some here.
20 I'll keep my paperclip.

21 Thank you for coming.

22
23
24
25

1 STATE OF FLORIDA)

CERTIFICATE OF REPORTER

2 COUNTY OF LEON)

3 I, JOY KELLY, CSR, RPR, Chief, Bureau of
4 Reporting, Official Commission Reporter,

5 DO HEREBY CERTIFY that a tape was given to
6 me by Commission staff and that I transcribed the said
7 tape; and that this transcript, consisting of 67
8 pages, constitutes a true transcription of said tape.

9 DATED this 4th of August, 1999.

10 

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