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FEDERAL BUREAU OF INVESTIGATION

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Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C.

DA 93-951

In the Matter of)
)
Local Exchange Carriers' Rates,)
Terms, and Conditions for)
Expanded Interconnection for)
Special Access)

CC Docket No. 93-162

ORDER DESIGNATING ISSUES FOR INVESTIGATION

Adopted: July 23, 1993; Released: July 23, 1993

By the Acting Chief, Common Carrier Bureau:

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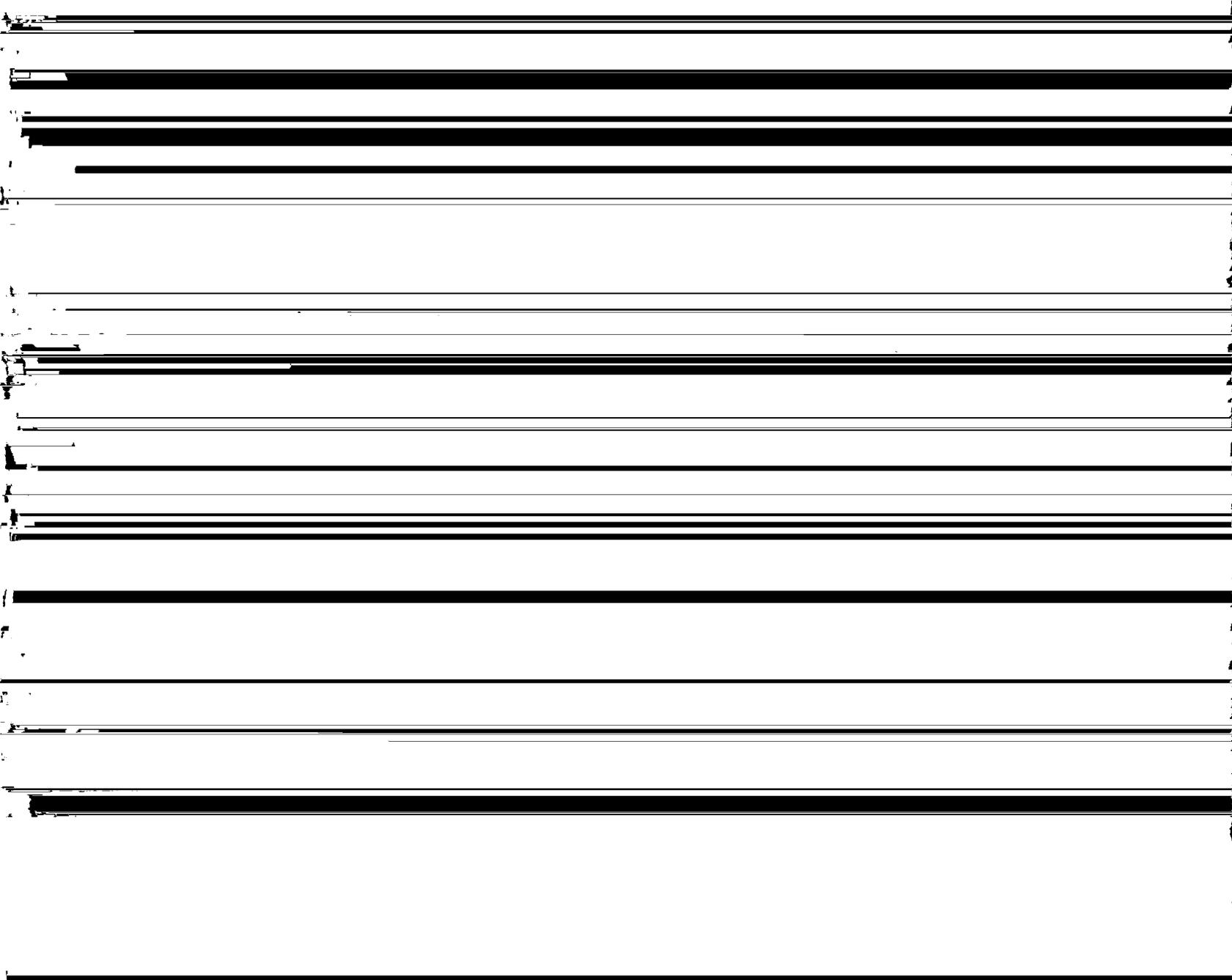
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VI. ORDERING CLAUSES 86

APPENDIX A Parties to Investigation

APPENDIX B Parties Filing Petitions to Reject or Suspend and Investigate



common line category as required by the GSF Order.³

3. In addition, we dealt with concerns raised by the parties regarding a number of terms and conditions. Specifically, we ordered certain LECs to file tariff revisions to comply with the filing requirements mandated in the Special Access Order⁴ for physical and virtual interconnection; waived the requirement to file rates, terms, and conditions for microwave interconnection pending reconsideration of the Special Access Order, provided that LECs tariff microwave interconnection where feasible in response to a bona fide request; ordered LECs to delete provisions prohibiting physical collocation in leased central offices (COs), but permitted LECs to file waiver requests for such circumstances; ordered LECs to delete any references to outside agreements; waived the requirement to provide two entry points to an interconnector where a LEC has two for itself, if one of those entry points is at capacity, pending reconsideration of the Special Access Order; and ordered LECs to delete provisions limiting more narrowly than the Special Access Order the type of equipment an interconnector may place in its cage.

III. ISSUES DESIGNATED FOR INVESTIGATION

4. The following issues are designated for investigation:

A. Are the rate levels established in the LECs' physical and virtual expanded interconnection tariffs excessive?

5. Pleadings. Physical Collocation. In addition to the arguments reviewed in the Special Access Tariff Order, the petitioners⁵ challenge the reasonableness of the rate levels for expanded interconnection proposed by the LECs on a number of grounds. First, petitioners contend that the LECs' rates for virtually every rate element are too high. For example, petitioners object to the level of the LECs' nonrecurring charges for engineering and design,⁶ space buildout and cage construction,⁷ and cross-connection.⁸ Petitioners further contend that the LECs have not provided sufficient cost support for

³ Amendment of the Part 69 Allocation of General Support Facility Costs, 8 FCC Rcd 3697 (1983) (GSF Order).

⁴ Expanded Interconnection with Local Telephone Company Facilities, 7 FCC Rcd 7369 (1992) (Special Access Order), recon., 8 FCC Rcd 127 (1992), pets. for recon. pending, appeal pending sub nom. Bell Atlantic Corp. v. FCC, No. 92-1619 (D.C. Cir., filed Nov. 25, 1992).

⁵ Appendix B provides the full and abbreviated names of these petitioners as used in this Order.

⁶ See, e.g., ALTS Petition at 11; MFS Petition at 14-15; Sprint Petition at 7-8; TDL Petition at 3-4; Teleport Petition at App. A Item 22.

⁷ See, e.g., Ad Hoc Petition at 17-19; ALTS Petition at 16; MFS Petition at 28-31; Teleport Petition at App. A Item 22.

⁸ See, e.g., Ad Hoc Petition at 23-24.

their rates and that, in many instances, they are double recovering costs.⁹ In addition, petitioners complain about the extreme variability of rates from one LEC to another, and argue that this variability indicates the higher rates are excessive.¹⁰ The LECs respond

justified and reasonable, and that they are not double recovering costs.²¹

7. In addition, petitioners charge that several LECs are trying to pad their costs by requiring unnecessary equipment such as repeaters²² and point of termination (POT) bays,²³ making unnecessary changes to the structure of their central offices to

rate, and Ameritech then leases the equipment back to the interconnector at the leased rate (i.e., list price amortized over three years) plus overhead.³² MFS states that interconnectors should be permitted to purchase their own interconnection equipment and provide it to Ameritech without paying a recurring charge, with the costs associated with the installation and maintenance of the equipment recovered through Ameritech's tariffed labor rates.³³ PUCO asserts that it is inappropriate to add general overhead loadings to leased equipment rate and questions the amortization time period used in calculating the lease rate.³⁴

10. MFS also finds unreasonable Ameritech's requirement that electronic equipment installed for an interconnector must include all components to provide service at full capacity, instead of permitting the interconnector to install only those muldems and line cards necessary to provide the capacity of service immediately required.³⁵ In addition, MFS opposes Ameritech's requirement that an interconnector warehouse spare parts in each central office in which it is collocated.³⁶ MFS asserts that an interconnector should be permitted to maintain spare parts at the interconnector's premise and to deliver them to Ameritech on an as-needed basis.³⁷

11. Ameritech replies that its virtual collocation tariff is reasonable, defending its rates and its equipment lease-leaseback provisions.³⁸

12. Petitioners also find excessive Bell Atlantic's virtual collocation rates. They charge that Bell Atlantic's virtual collocation rates reflect cost estimates that conflict with cost support material Bell Atlantic provided to the Commission regarding DS3 volume and term discount cost support.³⁹ ALTS argues that the Commission should order Bell Atlantic to refile rates consistent with those used to establish their tariffed DS1 and DS3 service.⁴⁰

13. Discussion. We have reviewed the arguments of the parties and find that investigation is warranted. To assist in our resolution of this issue, we direct the LECs

³² MFS Petition at 33; PUCO Petition at 15-16.

³³ MFS Petition at 34-35.

³⁴ PUCO Petition at 15-16.

³⁵ MFS Petition at 33-34.

³⁶ *Id.* at 34.

³⁷ *Id.* at 35.

³⁸ Ameritech Reply at 21, 39-40.

³⁹ MFS Petition at 35; ALTS Petition at 15.

⁴⁰ ALTS Petition at 16.

to provide the following information:

General Support Requirements

(a) **Tariff Review Plan**

14. The provision of basic cost information in a uniform format will greatly facilitate analysis of the rates under investigation. Therefore, as part of their Direct Cases, LECs must provide certain cost support data in a uniform format, as specified in the Tariff Review Plan (TRP) in Appendix C of this Order. The data include disaggregated unit investments and expenses for the most important recurring and nonrecurring expanded interconnection rate elements.

15. Petitioners made allegations of "cost padding" and double recovery of costs against the LECs, to which the LECs responded. These issues have arisen partly because of the variety of rate structures adopted by the LECs and the confusion regarding exactly what costs are associated with particular rate elements. In order to facilitate our analysis of these issues, the TRP disaggregates expanded interconnection service into the following broad categories or "functions": (1) Entrance Facility Installation Function;⁴¹ (2) Entrance Facility Space Function;⁴² (3) Common Construction Function;⁴³ (4) Construction Provisioning Function;⁴⁴ (5) Interconnector-Specific Construction Function;⁴⁵ (6) Floor

⁴¹ The Entrance Facility Installation Function includes the costs of installing an interconnection arrangement from the manhole to the interconnector's space. The term "interconnector's space" refers to the central office area where the interconnector's cage would ordinarily be. Because some LECs do not require interconnectors to use cages, we are adopting the more general term "interconnector's space" instead of "interconnector's cage."

⁴² The Entrance Facility Space Function includes the costs of conduit, vault, riser, and similar space used to support an interconnection arrangement from the manhole to the interconnector's space.

⁴³ The Common Construction Function includes costs related to central office construction required for provision of collocation services that cannot be attributed to a specific interconnector, including (1) all design, engineering and project management for common construction; and (2) all actual common construction, e.g., common environmental conditioning, common lighting, common floor reconditioning. Costs related to direct current (DC) power installation and security installation must be excluded.

⁴⁴ The Construction Provisioning Function includes the costs of ordering and provisioning the interconnector's space and cage, i.e., interconnector-specific costs associated with service order processing, pre-construction survey, design and engineering, space preparation, and construction management and coordination.

⁴⁵ The Interconnector-Specific Construction Function includes costs for interconnector-specific space construction, e.g., cage construction, cage lighting, and alternating current (AC)

17. Conversely, in some instances, a rate element may include costs for more than one function.⁵⁶ In such an instance, the LEC must partition the costs among the relevant functions, derive illustrative rates based on those partitioned costs, and display the partitioned costs and illustrative rates on the relevant TRP pages. The unit costs and illustrative rates⁵⁷ for partitioned rate elements must be calculated using the same unit of measurement (e.g., feet, fuse amps, circuit orders, collocation requests) as the filed, unpartitioned rate element. Further, the sum of the partitioned unit costs must equal the unit cost of the filed, unpartitioned rate element, and the sum of the illustrative partitioned rates must equal the rate for the filed, unpartitioned rate element.⁵⁸ Most companies have at least some rate elements that include more than one function.⁵⁹

18. Each LEC should also append a chart to its TRP which lists each rate element that is partitioned and demonstrates that the sum of the unit costs and rates of the partitioned parts equals the unit cost and rate, respectively, of the unpartitioned rate.

to accommodate many rate elements, but charts containing additional columns may be added by the LECs as needed. Also, each function has a separate TRP chart for recurring and nonrecurring rates.

⁵⁶ For instance, some companies may recover power installation costs in floor space charges, or termination equipment costs in interconnector-specific construction charges.

⁵⁷ Rates may exceed unit costs due to the inclusion of overheads.

⁵⁸ For instance, assume a company has a rate element entitled "Central Office Floor Space" with a recurring rate of \$5.00 per square foot that recovers the costs of both floor space and DC power installation. As described in the TRP charts, floor space and DC power installation are separate functions. Therefore, for TRP purposes, the company must partition the Central Office Floor Space rate element into two separate rate elements. The unit costs associated with the floor space function would be displayed, along with an illustrative floor space rate, on the TRP chart for the floor space function. Similarly, the unit costs associated with the DC power installation function would be displayed, along with an illustrative DC power installation rate, on the TRP chart for the DC power installation function. Because the company has chosen to assess its Central Office Floor Space rate on a "per square foot" basis, the illustrative rates for the partitioned rate elements would be set on the same "per square foot" basis. Further, the sum of the illustrative rates (and unit costs) of the partitioned rate elements would equal the filed, unpartitioned rate (and unit cost). Thus, if the partitioned rate for the floor space function were \$4.00 per square foot and the partitioned rate for the DC power installation function were \$1.00 per square foot, the sum would be \$5.00 per square foot, the filed rate for the Central Office Floor Space charge. For purposes of clarity, the original name of the rate element, appended with the word "partitioned" ("Central Office Floor Space - partitioned") must appear as a column title on the TRP charts for both the floor space function and the DC power installation function.

⁵⁹ The requirement to file partitioned cost data does not include a requirement to refile tariffed rates to reflect the functions identified in the TRP. The TRP filing is intended only to aid the Bureau's cost analysis and does not mandate a uniform rate structure.

19. For each function, the TRP requires a complete list of plant and equipment, including the name of the plant or equipment item, the associated Part 32 account numbers, gross investment amounts, and estimated depreciable lives. Detailed expense and tax information, including the name of the expense or tax, the Part 32 account number, and expense or tax amount, is also required.

20. The TRP includes both a recurring rate chart and a nonrecurring rate chart for each function. In most cases, a particular function lends itself to cost recovery through either a recurring rate or a nonrecurring rate, but not both. Both charts have been provided, however, to accommodate special cases that arise from instances in which LECs have filed unusual rate structures or from the partitioning requirements discussed above.

21. To the extent that virtual collocation rates differ from physical collocation rates, they should be supported by their own set of TRP charts. The chart formats should be identical to those described above, except that the term "-- Virtual" should be appended to the title of the chart. Also, rates for equipment tariffed under virtual collocation arrangements should be supported in a chart entitled "Termination Equipment -- Virtual."

22. The TRP should be provided in both hardcopy and in LOTUS 1-2-3 computer format. Diskettes with the LOTUS worksheet file will be made available to the LECs and interested parties for this purpose.

(h) Itemized Cost Information

overheads for comparable services.⁶⁰ LECs must provide the following specific information. First, each LEC must provide the overhead amounts or overhead factors used to develop each rate element of expanded interconnection service, explain the basis of the overhead amounts or factors, and explain how they were derived. In addition, LECs should justify any "rounding" of costs included in the filed rates. LECs should provide numbers and associated sources used to compute any overhead ratios. To the extent that overheads vary among expanded interconnection rate elements, the LEC should explain why. Second, each LEC must provide overhead factors for all DS1 and DS3 services it offers, on a service-by-service basis. Thus, overheads for generic DS1 and DS3 services, as well as discounted volume and term services and specialized services, must be provided. LECs should explain the basis for any difference in overheads (1) among the various DS1 and DS3 services; and (2) between DS1 and DS3 services on the one hand and expanded interconnection services on the other. Third, LECs should explain to what extent expanded interconnection overhead costs were adjusted to prevent double-recovery of overheads by expanded interconnection rate elements, as described in the Special Access Tariff Order.⁶¹

2) It appears that some LECs have used "closure factors" in order to include overhead amounts in expanded interconnection rates.⁶² Closure factors are the ratio between revenues and prospective direct costs for a particular category of service, such as special access, and are applied to the direct costs of a new service (e.g., expanded interconnection) in order to determine rates. LECs that have used closure factors should explain how the use of closure factors results in reasonable estimates of overhead costs for expanded interconnection.

(d) Sample Price Outs

1) Although expanded interconnection service is sold on an individual rate element basis, the cost of the overall service is a significant factor that interconnectors consider when deciding whether and to what extent to order interconnection service. In order to gauge the overall service cost of a sample interconnection configuration, we require that each LEC provide "price outs" for the provision of 100 DS1s, as specified in the Sample Price Out Chart in Appendix D of this Order. To calculate the price out, LECs should assume that nonrecurring costs will be amortized over a 5-year period at an 11.25 percent interest rate and that 100 square feet of cage space will be utilized. LECs also should make reasonable assumptions regarding LEC-specific variables (e.g., cable lengths) that must be specified to calculate the price out and identify those assumptions in their filings. LECs may provide additional sample price outs using other assumptions, if they wish, but should explain the basis for these assumptions. The Price Out Charts should be provided in both hardcopy and in LOTUS 1-2-3 computer format. Diskettes with the LOTUS worksheet file will be made available to the LECs and interested parties for this purpose.

⁶⁰ See Special Access Order, 7 FCC Rcd at 7429, ¶ 128.

⁶¹ See Special Access Tariff Order, *supra* note 1, ¶¶ 31-38.

⁶² For instance, SWB appears to have used closure factors to set expanded interconnection rates.

Individual Rate Elements

(e) Nonrecurring Charges for Recurring Costs

1) Typically, nonrecurring charges recover one-time labor costs or one-time capital outlays. However, certain carriers computed nonrecurring charges for central office construction, power installation, or other rate elements based on the present discounted value of recurring costs associated with the capital outlay.⁶³ The recurring costs included depreciation expense, cost of money, taxes, and, in some cases, maintenance expense. Although discounting depreciation expense and cost of money over the life of a capital investment will merely yield the original value of the capital outlay, addition of the discounted value of other recurring expenses, such as maintenance expenses and taxes, will result in nonrecurring charges that exceed the original capital outlay. Any LEC that developed nonrecurring charges based on discounted taxes, maintenance, or costs other than depreciation expense and cost of money should explain why such rate development is reasonable. Such LECs should also justify the amortization period which they have selected for calculating the present discounted value. Further, if the discount rate used to calculate the present discounted value of recurring costs differs from the interest rate used to calculate the cost of money, or if the depreciable life differs from the period over which the present discounted value is computed, over-recovery could result. Therefore, LECs should also provide the discount rate, the interest rate, the depreciable life, and the time period for computing the present discounted value used in their calculations and justify any difference.

(f) Floor Space Charges

1) All LECs should quantify the difference between the cost at book value (embedded cost) and the cost at market value (current or prospective costs) of land and building associated with central offices that offer expanded interconnection service. Each LEC should provide estimates of the average cost per square foot under each method and justify the method it selected in setting its floor space charges.

2) LECs that have added maintenance costs, administrative costs, or other costs to the market value rental rates to determine filed floor space rates should explain why the market rental rates used did not already include these costs. In addition, SWB multiplied the ratio of Telephone Exchange building construction costs to Office building construction costs, which was derived from data published by R.S. Means, by the average downtown office space rental rate from data published by the Building Owners and Managers Association (BOMA). SWB should explain whether the BOMA rental rates include overheads. If so, SWB should specify which overheads are included and should explain why those overheads vary between Telephone Exchange buildings and Office

⁶³ See Special Access Tariff Order, supra note 1, ¶¶ 43-45, regarding the rate development

buildings.

3) Companies that based their floor space rates on data from the R.S. Means publication, the BOMA publication, or any other similar publication should provide copies of the relevant pages of these publications. Included in these pages should be any information regarding whether the publications' rental rates include any property taxes, overhead loadings, utility costs, or tenant accommodation costs. LECs should also document any adjustments they made to the data reflected in these publications.

4) Companies that based their floor space rates on the costs in a sample of central offices rather than all central offices should explain the basis on which they chose their sample. In particular, companies should identify the cities and central offices used in the sample and how the costs of these cities and central offices were averaged.

(g) Power Charges

1) All LECs should provide the equations used to compute the costs of the AC power cost included in the cost of DC power. The LECs should explain all variables and parameters used in the equations.

2) SWB should explain why is it necessary for an interconnector to purchase both POT Power service and DC Power service and should explain why these charges are not duplicative. SWB should also define and provide the "in-place factors" applied to vendor prices to obtain the investment amounts for the POT Power Arrangement rate element. SWB should explain how these factors were derived and why it is reasonable to apply these factors to determine investment amounts.

3) BellSouth includes investment in its Interconnection Floor Space rate element for two 40 ampere feeds for both "electronic digital power" and "electronic analog power." BellSouth should explain why both of these forms of power are necessary.

(h) Cross-Connection Charges and Termination Equipment Charges

1) Some companies include repeaters⁶⁴ in provision of cross-connection service. All LECs should state what percentage of cross-connected circuits are assumed to require repeaters for the purposes of calculating cross-connection charges. LECs that use repeaters or similar equipment in provision of cross-connection service should explain why such equipment is necessary. Bell Atlantic, which apparently uses repeaters on every cross-connected circuit, should explain why a repeater is needed for every cross-connected circuit and should estimate the portion (in dollars) of its physical connection rate that is attributable to the inclusion of repeaters.

2) Cross connection charges and termination equipment charges may reflect the LEC's choice of either a centralized (undedicated) or distributed (dedicated) collocation configuration. For instance, fewer repeaters may be required for a centralized system.

All LECs should explain whether they are using a centralized or distributed collocation configuration and the benefits and drawbacks (from both an engineering and cost perspective) associated with each kind of system.

3) All LECs that included a POT frame or POT bay as part of their investment for any rate element should explain why this piece of equipment is necessary for provision of interconnection service, and why cross-connection cannot instead be established directly from the interconnector's cage to their MDF. SWB should explain the "in-place factors" applied to vendor prices to obtain the investment amounts for the POT Frame rate element, Interconnection Arrangement rate element, and Transmission Arrangement rate element. SWB should describe how these factors were derived and why it is reasonable to apply these factors to determine investment amounts.

4) BellSouth computes investment for its DS1 and DS3 cross connect charges by dividing raw investment by 0.85, stating that this reflects the fact that typical central office digital circuit equipment is 85 percent utilized. BellSouth should explain how it determined this factor, and why its use is relevant for expanded interconnection service. BellSouth shall also explain why this factor should be applied to its "IFCPC labor function" included in the cost for this rate element.

(i) Security Charges

1) LECs should justify any security requirements they impose on interconnectors. LECs should address whether it is reasonable to require LEC-provided security escorts

B. Are the rate structures established in the LECs' expanded interconnection tariffs reasonable?

23. Pleadings. Ad Hoc contends that the Commission should not accept the differing rate structures proposed by the LECs and should instead prescribe a uniform rate structure. Ad Hoc recommends that the Commission prescribe the use of four basic rate elements (set-up charges, central office space construction charges, floor space rental rates, and electrical power charges) as the basis for all the LECs' expanded interconnection tariffs. Ad Hoc argues that significant deviations from this common rate structure should be permitted only when a LEC has shown that its particular cost structure is significantly different from the norm.⁶⁵ The LECs respond that the Special Access Order declined to prescribe a uniform rate structure.⁶⁶ United and Centel further argue that forcing LECs to develop a uniform tariff structure is inappropriate, uneconomical, and inefficient.⁶⁷

24. Petitioners also oppose the level of bundling in the LECs' tariffs. For example, Teleport objects to the lack of separately tariffed rate elements in many tariffs for space preparation, cage construction, building security modifications, frames, panels, cabling, and racks.⁶⁸ Similarly, Ad Hoc, MFS, and ALTS are opposed to including charges for equipment, construction costs, cabling, and racks in central office floor space rental rates, and want such items recovered through unbundled nonrecurring or recurring charges.⁶⁹ BellSouth responds that any party contending that floor space should be provided as an unbundled rate element advocates a position that has already been considered and rejected by the Commission.⁷⁰

25. MFS, ALTS, MCI, and PAC further object to the rate structures imposed by Bell Atlantic, Centel, and Pacific with respect to proration of construction charges.⁷¹ Teleport argues that SWB's construction rate element raises a similar concern.⁷² Under

⁶⁵ Ad Hoc Petition at 11-12.

⁶⁶ GTE Reply at 26-28; Nevada Bell Reply at 4-6; Pacific Reply at 52; United/Centel Reply at 7.

⁶⁷ United/Centel Reply at 7.

⁶⁸ Teleport Petition at App. A Item 22.

⁶⁹ Ad Hoc Petition at 20-21; ALTS Petition at 14; MFS Petition at 28.

⁷⁰ BellSouth Reply at 11 (citing Special Access Order, 7 FCC Rcd at 7445 ("...the provision of central office space for purposes of expanded interconnection properly must not be viewed in isolation, but rather as an integrated component of the overall expanded interconnection service."))

⁷¹ ALTS Petition at 10 n.17; MCI Petition at 15-16; MFS Petition at 12 & nn. 18-19; PAC Petition at 9-10.

⁷² Teleport Petition at App. A Item 22.

this structure, the full amount of the central office preparation costs will be charged to the first party to obtain collocation within a given central office unless additional parties obtain interconnection within one year, in which case prorated rebates will apply.⁷³ MFS and ALTS argue that such a rate structure is unreasonably discriminatory because it would place a disproportionate burden upon the first interconnector that enters a given office, while subsequent interconnectors would obtain identical service without paying construction or infrastructure charges.⁷⁴ MFS also asserts the provision is vague because an interconnector would not know at the time of interconnection how much of the infrastructure charge it would bear.⁷⁵ PAC contends that common costs should not be prorated according to the number of interconnectors, but according to the amount of space they occupy in the central office. Moreover, PAC asserts, there should be no time limit on crediting prorated charges.⁷⁶ Ad Hoc says that distinctions should be made between common construction costs that can be divided on a pro rata basis between several interconnectors, and interconnector-specific occupancy costs.⁷⁷ Ad Hoc wants all LECs to be required to prorate common costs, and notes that only Bell Atlantic and Pacific provide for proration of such costs.⁷⁸

26. Bell Atlantic replies that since it cannot determine how many interconnectors will seek interconnection in any given office, its proposal to charge the initial interconnector all of its costs for office preparation, and then require subsequent interconnectors to reimburse earlier ones for their proportionate share, will prevent other ratepayers from being burdened by unrecovered costs, while ensuring that the costs are not recovered twice should more interconnectors request space.⁷⁹ CBT argues that this type of provision is the most cost-causative method.⁸⁰ Pacific argues that the pro rata refund mechanism is a reasonable method because an averaged rate would require the LEC to deal with the uncertainty of developing a demand forecast.⁸¹ In contrast, NYNEX argues that it does not approach space preparation on a case-by-case basis, but rather distributes the costs of space in increments of 100 square feet. NYNEX thus argues that since the common preparation costs have been averaged they are the same for each interconnector,

⁷³ ALTS Petition at 10 n.17; MFS Petition at 12 & nn. 18-19; Teleport Petition at App. A Item 22 (also noting that SWB's charge for preparing the office is excessive).

⁷⁴ ALTS Petition at 10 n.17; MFS Petition at 12 & n.18.

⁷⁵ MFS Petition at 11-12.

⁷⁶ PAC Petition at 9-10.

⁷⁷ Ad Hoc Petition at 14.

⁷⁸ Id. at 14-15, 20. See also Teleport Petition at App. A Item 22.

⁷⁹ Bell Atlantic Reply at App. A Item 4.

⁸⁰ CBT Reply at 16-17.

⁸¹ Pacific Reply at 9-12. See also GTE Reply at 14-15.

regardless of whether they were first or last into an office.⁸² In addition, Pacific defends its cessation of pro rata refunds after one year on the basis that after that period an interconnector will have received a significant return on its investment that outweighs the interconnector's need for a refund.⁸³

27. Petitioners also object to various tariff requirements that interconnectors pay some or all construction or other nonrecurring charges prior to commencement of the work.⁸⁴ Sprint asserts that it is not standard business practice to require payment in full for construction prior to the commencement of work.⁸⁵ BellSouth replies that petitioners objecting to paying one-time charges prior to commencement of construction want the LEC to finance the interconnector's operations through LEC capital budgets, which would divert funds LECs could use to provide other services to their own customers.⁸⁶

28. In addition, Sprint objects to the tariff provisions of several LECs that recover charges for office buildout and other items such as equipment through a one-time, nonrecurring charge, instead of through recurring charges. For example, Sprint notes that Ameritech uses 7 years and BellSouth uses 44.7 years for their net present value calculation to develop their office buildout NRC. Sprint argues that costs that are incurred this many years from the present should not be collected as an upfront charge.⁸⁷ Sprint also objects to SWB's tariff which requires the interconnector to purchase cross-connect and other equipment through upfront NRCs rather than through recurring charges.⁸⁸

29. Petitioners further argue that, in some cases, rates are structured in such a way that they do not reflect underlying costs. For example, Teleport asserts that, in some cases, DC power rates are applied on a basis that does not reflect actual power use. Teleport argues that the Commission should require LECs to offer power in units of ten amps as some LECs already do.⁸⁹ Pacific, which provides DC power in 40 amp increments, argues that this power increment prevents delays in provisioning extra power to an interconnector as the interconnector's needs grow. In addition, Pacific argues that

⁸² NYNEX Reply at 11.

⁸³ Pacific Reply at 9-12 (arguing that ALTS' proposal to amortize NRCs over 10 years.

its arrangement is less expensive to provide than measuring actual power used.⁹⁰

30. **Discussion.** We have reviewed the arguments of the parties and find that investigation is warranted. The Special Access Order states that, "at least initially, [the Commission] should not impose a detailed rate structure on the LECs" for expanded interconnection.⁹¹ Thus, we agree with the LECs that the Special Access Order did not prescribe a specific rate structure and that the LECs were given flexibility in its development. However, the Commission has a long-standing precedent that rates and rate structures must be cost-causative,⁹² and petitioners have raised issues that require additional exploration.

31. To assist in our resolution of this issue, we direct the LECs to provide the following information:

(a) LECs should address the question of whether the rate structures established in their expanded interconnection tariffs contain excessive bundling of rate elements. LECs that have not tariffed separate rate elements for items such as space preparation, cage construction, frames, panels, cabling, or racks, should explain what they did instead and why this is reasonable. LECs that bundle cage construction charges with space preparation charges should explain why it is reasonable to do so, and why having a separate cage construction charge is not a reasonable alternative. LECs that bundle other charges into their floor space rental rates should explain exactly what charges are included and why they believe it is appropriate to bundle the charges in this manner.

(b) LECs should justify the rate structures they have chosen to recover central office construction charges.

1) First, LECs that assess nonrecurring charges to recover interconnector-specific construction costs should explain how such a rate structure will avoid double recovery of costs. Construction may be of economic value long after the term of service desired by the original interconnector. Payment of the full amount of construction costs by the original interconnector may lead, therefore, to double recovery of costs if another interconnector pays for and uses the same construction after it has been vacated by the original interconnector. Also, any LEC that includes the present discounted value of future maintenance expenses in nonrecurring construction charges should explain why it is reasonable to do so.

2) Second, LECs should describe and justify the method by which they are recovering common construction costs. Some LECs are charging interconnectors a portion of common construction costs based on total estimated demand by interconnectors

⁹⁰ Pacific Reply at 22-23.

⁹¹ Special Access Order, 7 FCC Rcd at 7425.

⁹² See, e.g., Section 69.114(d) of the Commission's Rules, 47 C.F.R. Section 69.114(d) (charges for individual subelements shall be designed to reflect cost differences among subelements in a manner that complies with applicable Commission rules or decisions).

for central office space. Such LECs should explain and document their demand estimates. Other LECs charge common construction costs to the first interconnector, with a pro rata refund if other interconnectors take service within a specific time period. Such LECs should justify the time period they chose and explain why there should be any time limit on such refunds. LECs that charge the total amount of common construction to the first interconnector with no provision for a pro rata refund should explain why such a rate structure does not unreasonably disadvantage the first interconnector.

(c) SWB and other LECs that charge a NRC for equipment instead of recovering the cost of such equipment through recurring charges should explain why they believe this is reasonable. Such LECs should explain whether the equipment is dedicated for its full

exhaustion.⁹⁴ Ad Hoc, too, believes that 100 square foot parcels are reasonable.⁹⁵ In addition, Teleport objects to NYNEX's provision stating that the interconnector will be considered to have received 100 square feet even if the LEC delivers less. Teleport argues that if the space is less than requested, the interconnector must be billed only for what it actually receives.⁹⁶ LECs defend 100 square foot increments. For example, Lincoln contends that New York's interconnection experiences have shown that 100 square feet is enough to initiate interconnection without being cramped for space or having to expand prematurely.⁹⁷

33. Teleport also complains about the LECs' treatment of orders for additional space and the minimum size requirement for such space. Specifically, Teleport opposes the tariff provisions of Pacific and NYNEX which state that an order for additional space will be treated as a new order, which would require repetition of the entire ordering process. Teleport asserts that collocators should be able to request additional space through an addendum to the original agreement, with a simplified procedure, and that NRCs for additional space should be much lower than for initial space.⁹⁸ Pacific responds that it is reasonable to require the submission of a new order for additional space because this avoids the need for it to make potentially incorrect assumptions about the customer's needs regarding additional space and eliminates potential problems with establishing receipt of requests for "first-come first-served" provisioning. Pacific also asserts that its ordering process is not burdensome.⁹⁹

34. Teleport and ALTS further complain about requirements that additional space be added in 100 square foot increments. They assert that interconnectors may not need so much additional space and that this requirement may lead to faster exhaustion of interconnection space in central offices.¹⁰⁰ MFS asserts that where additional space is requested, a LEC should make best efforts to provide contiguous space, but at minimum must allocate space to permit direct cabling between non-contiguous spaces.¹⁰¹ Pacific replies that the assignment of space in 100 square foot increments is reasonable. Pacific asserts that irregular space increments create inefficient use of floor space since even

⁹⁴ MFS Petition at Att. F (Space Requirements/Restrictions).

⁹⁵ Ad Hoc Petition at 33.

⁹⁶ Teleport Petition at App. A Item 20. Teleport further contends that if the space is greater than requested, an interconnector should be billed only for what it actually ordered. *Id.*

⁹⁷ Lincoln Reply at 8-9. See also GTE Reply at 5; SWB Reply at 37.

⁹⁸ Teleport Petition at App. A Item 32 (favoring NYNEX's method of charging one half of its installation NRC for additional space).

⁹⁹ Pacific Reply at 43.

¹⁰⁰ ALTS Petition at App. D p.7; Teleport Petition at App. A Item 32.

¹⁰¹ MFS Petition at Att. F (Space Requirements/Restrictions).

these smaller spaces would require aisles and area for a point of termination. Pacific argues that the end result would be the allocation of the same overall space to interconnection without Pacific adequately recovering its costs.¹⁰²

35. Teleport and ALTS also object to US West's requirement that where additional contiguous space is ordered, the existing enclosure be removed and a new one constructed.¹⁰³ US West asserts that this is not its intention. US West contends that its intention is to rehabilitate the existing space such that it becomes a single space, not to

to prohibit augmentation of the existing enclosure where contiguous additional space is provided, and instead requires the existing enclosure be removed and a new one constructed, should explain why such a policy is reasonable. If the LEC does not intend this result, it should explain its intent and specify how it will revise its tariff to make that intent clear.

D. Are LECs tariff prohibitions against expanded interconnection with dark fiber service consistent with the Special Access Order?

37. Pleadings. TDL and ALTS object to the provision in US West's tariff prohibiting dark fiber from being connected to a collocated space.¹⁰⁵ ALTS asserts that the Special Access Order does not exclude any non-switched special access services from its ambit.¹⁰⁶ SWB responds that it is under no obligation to offer physical collocation in connection with SWB-provided dark fiber because its dark fiber tariff requires that dark fiber be terminated at a customer premise, and its expanded interconnection tariff specifies that an interconnector's collocated space will not be customer premise.¹⁰⁷ SWB and US West cite in support the Commission's statement in the dark fiber proceeding that the expanded interconnection rules "only require the BOCs to offer physical interconnection ... to customers seeking to interconnect their own special access transmission facilities at the BOC central office. ... They do not require the BOCs to offer physical collocation with BOC-provided dark fiber."¹⁰⁸

38. Discussion. The Special Access Order states that LECs must offer expanded interconnection with special access services¹⁰⁹ to all interconnectors that terminate their own special access transmission facilities at LEC central offices.¹¹⁰ We therefore find that investigation of whether LEC tariff prohibitions against expanded interconnection with dark fiber service are consistent with the Special Access Order is warranted. To assist in our resolution of this issue, we request the following information:

(a) Bell Atlantic, BellSouth, SWB, and US West (the only LECs currently required to provide dark fiber service) should specify whether their expanded interconnection tariffs prohibit or permit a collocator to cross-connect to LEC-provided dark fiber service

¹⁰⁵ TDL Petition at 9; ALTS Petition at App. D p.4.

¹⁰⁶ ALTS Petition at App. D p.4.

¹⁰⁷ SWB Reply at 48.

¹⁰⁸ SWB Response at 48 (quoting the Commission's Reply to US West's Writ of Mandamus regarding its Section 214 application to discontinue dark fiber service); US West Reply at 59 (quoting same).

¹⁰⁹ Special Access Order, 7 FCC Rcd at 7490 n.603.

¹¹⁰ See id., 7 FCC Rcd at 7372 ¶ 1; 47 C.F.R. §§ 64.1401(d)(2), (e)(2), & 64.1402(b); Expanded Interconnection with Local Telephone Company Facilities, 7 FCC Rcd 7740 (1992) ¶ 49.

in the same way in which an interconnector would cross-connect to LEC-provided DS1 or DS3 service. LECs arguing that they are not required to provide interconnection to dark fiber service in this manner should explain whether this is consistent with the Commission's statements in the Special Access Order and other proceedings.¹¹¹

E. Do the LECs' tariffs prevent interconnector control over channel assignment on the interconnectors' networks and, if so, is such an arrangement reasonable?

39. Pleadings. Teleport objects to provisions in the tariffs of Ameritech, GTE, and NYNEX that it claims prevent interconnectors from controlling their own channel assignments. Teleport asserts that interconnectors need to be able to control their own channel assignments in order to manage their networks. Teleport asserts that without channel assignment control, interconnectors are placed at a major competitive disadvantage to the LECs.¹¹² Teleport explains that channel assignment control refers to the physical termination point of a circuit. Teleport states that under expanded interconnection, circuits are hybrids consisting of a "tail" (usually a LEC-provided DS1 connecting an end user to a collocation arrangement at a LEC central office) that is cross-connected to a circuit that will be multiplexed with other circuits on the interconnector's network. Teleport states that this cross-connection is effected by utilizing a small cable on the LEC's MDF to connect a point designating the tail to a point designating an interconnector's circuit or channel. Teleport continues that this connection is made between two digital cross-connect panels on the MDF, one for the tail circuits, and one dedicated to the interconnector. Teleport states that each of the 56 DS1 points on these cross-connect panels, in accordance with the interconnector's projections, is pre-wired by the LEC to the interconnector's multiplexing equipment before any customers have signed on with the interconnector. Teleport contends that since the multiplexer is pre-wired, if the LEC has channel assignment control to a demarcation point that is between the MDF and the interconnector's equipment, such as a POT bay, the interconnector cannot design its own circuit and must wait instead for the LEC to tell it which of the 56 hardwired circuits will connect to the end user tail. In contrast, Teleport asserts that if an interconnector has channel assignment control beyond the POT bay and up to the MDF, it would immediately be able to design the network configuration between, for example, an interexchange carrier (IXC) and the LEC's MDF, and to tell the LEC which position on the MDF to connect the LEC-provided special access line to in order to complete the circuit.¹¹³

40. NYNEX responds that it only retains the right to channel assignment control to the point of termination and thus does not have control over how the interconnector

¹¹¹ We are not including as an issue under investigation the question raised by a number of parties concerning whether LECs are required to terminate their dark fiber offerings directly at an interconnector's collocated space without the use of a cross-connect element (i.e., whether an interconnector's collocated space is a customer premise to which dark fiber may be directly connected).

¹¹² Teleport Petition at App. A Item 8; Teleport July 2, 1993 Ex Parte.

¹¹³ Teleport July 2, 1993, Ex Parte.

assigns channels on the interconnector's network. NYNEX states that interconnectors can control their channel assignments at three points: at the POT bay, inside the multiplexing node, and at the interconnector's node in its own network.¹¹⁴ Ameritech also responds that it proposes to control the channel assignment only of its portion of jointly provided circuits.¹¹⁵ GTE states that it will revise its tariffs to permit interconnectors to control the assignment of channels.¹¹⁶

41. **Discussion.** We have reviewed the arguments of the parties and find that investigation is warranted. To assist in our resolution of this issue, we direct the LECs to provide the following information:

(a) LECs that contend they permit interconnectors to control their own channel assignments should explain to what point they maintain control of channel assignment on the LEC's network, and how this enables an interconnector to control channel assignment on the interconnector's network. LECs should provide a diagram illustrating this process.

(b) Ameritech, NYNEX, GTE, and any other LEC that appears to maintain control of channel assignment to the point of termination should identify specifically where the point of termination is (e.g., POT bay, LEC MDF) and whether this deprives interconnectors of control over channel assignment on the interconnector's network. If the point of termination is between the LEC MDF and the interconnector's equipment, LECs should specifically address the claim that such a point of termination deprives an interconnector of control over channel assignments on the interconnector's network. LECs should provide a diagram illustrating this process.

F. Are the LECs' provisions regarding warehousing or efficient use of space reasonable?

42. **Pleadings.** Ad Hoc, PAC, ALTS, Teleport, and TDL, collectively, object to Ameritech's, Bell Atlantic's, NYNEX's, Pacific's, and US West's tariff provisions prohibiting "warehousing" of space, mandating "efficient use" of space, and taking back "inefficiently used" space.¹¹⁷ Teleport also objects to the provisions in the tariffs of Ameritech, GTE, Pacific, and SWB requiring that the interconnection space must be used as a transmission node within 12, 6, 3, and 2 months, respectively, or the interconnector

¹¹⁴ NYNEX Reply at 30-31.

¹¹⁵ Ameritech Reply at 37.

¹¹⁶ GTE Reply at 26. Teleport contends that GTE has not revised its tariff as it stated it would. Teleport July 2, 1993, Ex Parte.

¹¹⁷ Ad Hoc Petition at 31; ALTS Petition at App.D p.5; PAC Petition at 8; TDL Petition at 7; Teleport Petition at App. A Item 20. Teleport also claims that a provision in NYNEX's tariff requiring interconnectors to use space within a "20% range" of a NYNEX space utilization standard is unwarranted. Teleport Petition at App. A Item 20.

will lose the unused space.¹¹⁸ TDL asserts that such provisions unreasonably restrict interconnectors to their initial equipment configurations, thereby precluding them from obtaining sufficient physical space to accommodate future growth.¹¹⁹ PAC argues that the concept of "efficient use" and the taking back of "inefficiently" used space are not contemplated by the Interconnection Order and should be rejected.¹²⁰ Teleport asserts that requirements for space utilization are not warranted,¹²¹ and that if they were to be imposed, they should be based on the number of cross-connections established, not the amount of floor space used; that they not be applied until 12 months after the interconnection space is turned over to the interconnector; and that they not be invoked without good cause.¹²²

43. Bell Atlantic replies that the Commission specifically allowed LECs to include