COMMONWEALTH OF KENTUCKY

BEFORE THE UTILITY REGULATORY COMMISSION

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In the Matter of:

THE TARIFF FILING OF SOUTH CENTRAL BELL TELEPHONE COMPANY RELATING TO SERIES 5000 CHANNELS (TELPAK)	)	CASE NO. 7294

and

NOTICE OF SOUTH CENTRAL BELL TELEPHONE COMPANY OF AN ADJUSTMENT IN ITS INTRASTATE RATES AND CHARGES FOR PRIVATE LINE CHANNEL SERVICES	)	CASE NO. 7314

ORDER

INTRODUCTION

Background

On November 8, 1978, South Central Bell Telephone Company made a tariff filing with the Commission, wherein it proposed revised regulations governing its Telpak service arrangement. The proposed regulations, subject to specified conditions, had the effect of restricting Telpak service to existing customers and limiting the ability of subscribers to expand Telpak service.

Subsequently, on November 29, 1978, the Department of Defense, through the Defense Communications Agency, representing all Federal Executive Agencies, petitioned the Commission to suspend the Telpak tariff filing and schedule the matter for a public hearing. On November 30, 1978, the Commission issued an Order suspending the Telpak tariff filing for investigation and hearing.

Thereafter, on December 29, 1978, South Central Bell filed an application with the Commission, wherein it proposed certain adjustments in its intrastate Private Line and Channel Services rates and charges, including Telpak.

In addition to proposing adjustments in its Private Line and Channel Services rates and charges, South Central Bell proposed to restructure its Private Line Service Tariff and introduce Customer Operating Center Service. The essential features of the tariff restructure were to redesignate channel services and redefine the traditional method of calculating line mileage charges.

On March 2, 1979, South Central Bell filed correspondence with the Commission, wherein it expressed its concurrence in a Commission request to consolidate the Telpak and Private Line proceedings and agreed to a waiver of the provisions of KRS 278.190, which would have permitted the proposed Telpak regulations to become effective on April 30, 1979. On March 23, 1979, the Commission issued an Order consolidating the two proceedings. On August 10, 1979, South Central Bell requested that certain telephone answering secretarial service facilities be transferred from Case No. 7348, then pending before the Commission, and made a part of the Private Line proceedings. On August 14, 1979, the Commission issued an Order effecting the requested transfer.

Intervention and Hearings

The Commission held public hearings on March 20, 1979, May 1, 1979, May 2, 1979, and September 11, 1979, for the purpose of determining the reasonableness of the proposed Telpak regulations and adjustment in Private Line and Channel Services rates and charges.

The following made application to the Commission and were granted leave to intervene in the Telpak and Private Line proceedings:

* On January 4, 1979, the Commonwealth of Kentucky, Office of the Attorney General, Consumer Protection Division.
* On March 5, 1979, the Department of Defense, Defense Communications Agency, representing all Federal Executive Agencies.
* On March 14, 1979, the Kentucky Telephone Answering Service Committee for Reasonable Rates, representing Answering Service, Inc., Louisville, Telephone Answering Service, Inc., Owensboro, Business Answering Service, Inc., Louisville, and associated telephone answering bureaus.
* On March 16, 1979, American District Telegraph Company, Louisville, F-M Corporation d/b/a Foell-McGee Alarm Company, Louisville, Midwestern Communications Systems, Inc. d/b/a Midwestern Alarms, Louisville, and A-Sonic-Guard, Inc., Louisville.

* On March 19, 1979, the Commonwealth of Kentucky, Department of Finance, Division of Telecommunications.
* On March 20, 1979, Planned Music of Kentucky, Inc., Louisville.

Requesting but not granted leave to intervene was Citizens Fidelity Corporation, Louisville.

Telpak

Telpak is a private line type of service. It is generally used by subscribers with extensive communication requirements, such as large commercial and industrial corporations, and various government agencies. Telpak channels may be used for voice, data, and other types of telecommunication. Channel capacity is available in bulk units of 12, 24, 60, or 240 equivalent voice grade channels. Telpak is not a unique type of private line service. Instead, it is a private line pricing arrangement whereby subscribers lease a quantity of channels and receive the benefit of lesser charges as compared to regular private line channel and comparable general service rates.

Private Line

In contrast to long distance and local exchange service, which are provided on a shared use basis, Private Line channels are dedicated to a sole user. Private Line channels can be either local or interexchange and may be used for voice, data, and other types of telecommunication. South Central Bell provides several channel types, available for generally distinct uses and typically used by an identifiable class of subscriber.

In its application of December 29, 1978, South Central Bell proposed to restructure and reprice its Private Line and Channel Services. The proposal to restructure the Private Line Service Tariff was based on an attempt by South Central Bell to improve administrative efficiency by more specifically identifying channels with the particular type of service involved; for example, alarm, telephone answering, and wired music. The proposal to reprice Private Line and Channel Services was based on an attempt by South Central Bell to rate channels and equipment according to current and anticipated costs.

Under the existing tariff, Private Line channels are charged on a mileage basis in increments of either one quarter (¼) or one (1) mile. Under the proposed tariff, a flat rate would apply for local channels within the same central office area and inside the base rate area. Interoffice and interexchange channels would continue to be charged on a mileage basis in increments of either one quarter (¼) or one (1) mile. However, under the proposed tariff a higher charge would apply for the initial mileage increment and each subsequent mileage increment.

The application of December 29, 1978, also proposed to introduce Customer Operating Center Service (COCS). COCS, like Telpak, is a bulk lease option that would be available to large quantity local channel users, primarily alarm and telephone answering services. The subscriber would be required to lease COCS capacity in increments of 50, 100, 200, 300, 400, 600, 900, or 1200 cable pairs and enter into a ten year termination liability.

In support of its Private Line application, South Central Bell submitted various summary documents from a repricing study it conducted. However, Telpak as a distinct service arrangement was not included in the repricing study. In addition, aside from Telpak, channels and channel series were not exhaustively inventoried. Instead, the repricing study was based on statistical samples of various channel types. Cost data used to reprice Private Line and Channel Services was based on current and anticipated costs during the study planning period.

In connection with its application of December 29, 1978, South Central Bell filed an Economic Impact Study identified as Exhibit 4. This exhibit indicated a total proposed revenue increase of approximately $6.041 million and a net annual benefit of $3.887 million, after adjustments for destimulation due to discontinuance of service, cross elastic effects, savings, and expenses. These figures were subsequently corrected at hearing to a total proposed revenue increase of approximately $6.651 million and a net annual benefit of $3.663 million.

On October 12, 1979, the Commission requested South Central Bell to comply with Commission administrative regulations and furnished a complete billing analysis, on the basis of which actual revenues from present and proposed rates could be determined. This information was furnished on December 18, 1979, and subsequently corrected by transmittal dated February 14, 1980. On the basis of subscriber accounts as of November 30, 1979, the proposed Private Line and Channel Services rate adjustment would produce a total annual revenue increase of approximately $6.340 million and an net annual benefit of $4.280 million, after adjustments for destimulation, cross elastic effects, savings, and expenses. These figures include approximately $86,000 in additional Telpak revenue and approximately $172,000 transferred from Case No. 7348.

OPINIONS AND FINDINGS

Telpak

During the proceedings in this matter, South Central Bell maintained that, on the basis of its Private Line and Channel Services repricing study, present Telpak rates and charges do not recover the cost of providing Telpak service; and that it should, therefore, be allowed to restrict Telpak service and be granted a Telpak rate adjustment, pending completion of a Telpak repricing study.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds:

1. The Commission acknowledges that Telpak is not a unique type of private line service. Indeed, the Commission is aware that South Central Bell combined Telpak with other Private Line and Channel Services in the repricing and revenue study summaries it furnished during the proceedings in this case.

2. The Commission acknowledges that Telpak is a private line pricing arrangement whereby subscribers lease a quantity of channels and receive the benefit of lesser charges, as compared to regular private line channel and comparable general service rates. However, the Commission finds that it has not been presented with information adequate to determining either the reasonableness or unreasonableness of this pricing arrangement. In this finding, the Commission acknowledges

3. The Commission is of the opinion that South Central Bell has heretofore recognized Telpak as a proper service arrangement and finds that it has not presented compelling evidence to the contrary. In the absence of such evidence, the Commission is of the opinion that Telpak service should not be restricted. The Commission, therefore, finds that the proposed revised Telpak regulations should be denied.

4. The Commission is of the opinion that South Central Bell has not presented cost evidence satisfactory to determining the reasonableness of the proposed Telpak rate adjustment. Therefore, the Commission finds that the proposed $86,000 increase in Telpak revenues should be denied.

5. The Commission has been unable to find any justification furnished by South Central Bell in this or any prior proceeding for its Telpak pricing structure. In addition, the Commission acknowledges proceedings before the Federal Communications Commission which suggest that Telpak rates and charges may not be compensatory. Therefore, the Commission encourages South Central Bell to conduct a Telpak cost study suitable to determining actual costs for rate-making purposes.

Private Line

Throughout the proceedings in this case, South Central Bell maintained that its present Private Line and Channel Services rates and charges are not compensatory. South Central Bell presented the Commission with repricing study summaries and testimony in defense of its application to restructure and reprice Private Line services. Intervenor's presented the Commission with petitions and testimony suggesting that South Central Bell's repricing study methodology was inappropriate and misleading, and that the application for increased Private Line rates and charges should be dismissed.

The Commission, having considered the evidence of record and being advised, is of the opinion and finds:

1. The Commission is unsatisfied with and is not persuaded by South Central Bell's Private Line repricing study methodology and repricing results. The Commission is of the opinion that unacceptable sampling and repricing techniques were used, which may or may not accurately represent the actual distribution of Private Line services

and the actual cost of providing Private Line services. In this finding, the Commission acknowledges objections to the Private Line repricing study made by certain intervenor's in the case.

2. The Commission finds that the original and subsequently revised Private Line revenue summary provided by South Central Bell was unsatisfactory. This summary was based on projections and estimates from the Private Line repricing study, provided no justification for destimulation, cross elastic effects, and savings adjustments, and contained an error of approximately $288,000 in the net annual benefit calculation.

3. The Commission finds that the Private Line billing analysis provided by South Central Bell was properly computed, as amended. However, the Commission cautions that it is unwilling to approve either the method or the results of the study made to compute destimulation, cross elastic effects, and savings.

4. The Commission accepts that the Private Line billing analysis shows a total annual revenue increase of approximately $6.082 million and a net annual benefit of $3.865 million, exclusive of Telpak and facilities transferred from Case No. 7348.

5. The Commission is of the opinion that it has not been presented with cost evidence satisfactory to determining the reasonableness of the proposed Private Line rate adjustment. Therefore, the Commission finds that the proposed $6.082 million increase in Private Line revenues should be denied.

6. The Commission acknowledges that approval of the proposed Private Line tariff restructure might improve administrative efficiency. However, the Commission finds that a Private Line tariff restructure would result in substantially increased charges to some subscribers and decreased charges to other subscribers, entirely apart from the issue of additional revenue. Therefore, the Commission is of the opinion that the proposed Private Line tariff restructure could not be effected in a fair, just, and reasonable manner, and should be denied.

7. The Commission is of the opinion that South Central Bell has provided no cost justification to support separate rates for Customer Operating Center Service (COCS). The Commission notes that this service arrangement would be restricted to selected classes of customers, impose long term service liability on subscribers in an era of rapid technological progress, and has been properly objected to by certain intervenor's in the case. Therefore, the Commission finds that the proposed COCS service arrangement should be denied.

8. The Commission finds that the proposed $172,000 rate adjustment for secretarial service facilities transferred from Case No. 7348 is improper and should be denied.

9. The Commission acknowledges that present Private Line rates and charges were established some years ago. In addition, the Commission acknowledges proceedings before the Federal Communications Commission and other state commissions which suggest that Private Line rates and charges may not be compensatory. Therefore, the Commission encourages South Central Bell to conduct a Telpak cost study suitable to determining actual costs for rate-making purposes.

ORDERS

IT IS THEREFORE ORDERED that South Central Bell's tariff filing proposing revised regulations governing Telpak service is denied.

IT IS FURTHER ORDERED that South Central Bell's application to increase Telpak revenues in the amount of $86,000 is denied.

IT IS FURTHER ORDERED that South Central Bell's application to increase Private Line and Channel Service revenues in the amount of $6.082 million is denied.

IT IS FURTHER ORDERED that South Central Bell's application to restructure its Private Line Service Tariff is denied.

IT IS FURTHER ORDERED that South Central Bell's application to establish Customer Operating Center Service is denied.

IT IS FURTHER ORDERED that South Central Bell shall conduct a Private Line and Telpak cost study suitable to determining the actual cost of service for rate-making purposes and that this shall be included in any future rate adjustment application filed with the Commission.

IT IS FURTHER ORDERED that South Central Bell's application to increase secretarial service facilities revenues in the amount of $172,000 is denied.

Done at Frankfort, Kentucky, this the 19th day of February, 1980.

UTILITY REGULATORY COMMISSION

Richard D. Heyke
Chairman

Jams H. Guzman
Vice Chairman

Mary Ray Oaken
Commissioner

ATTEST:

Secretary