

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

THE COMPLAINT OF MRS. ANGIE)
MANY AGAINST SOUTH CENTRAL) CASE NO. 8141
BELL TELEPHONE COMPANY)

ORDER

I. Nature of Proceeding

In Case No. 8141 the Commission has before it an issue whose significance extends far beyond this Case: how the costs to provide service to new subscribers are to be allocated. Although this issue has faced utilities and regulatory agencies for as long as there have been utilities, it is increasingly important and vexing, and will become more so, as the costs to extend service rise, and as utility revenues from lucrative services, available for cross-subsidy, decline relatively and perhaps even absolutely.

On August 16, 1979, the Commission received a letter from Mrs. Angie Many, Stanton, Kentucky, concerning her efforts to obtain telephone service from South Central Bell Telephone Company (Bell). Mrs. Many discussed the need for service at her residence, approximately four miles East of Nada on Highway 77 in the Daniel Boone National Forest, and the unavailability of telephone service in the general area.

After further correspondence, on June 9, 1980, the Commission received a letter from Bell advising that under Section A-5 of its tariff, applicants for initial service would be required to

pay their appropriate share of the cost of construction needed to place cable in the area.

The Commission, after considering the correspondence and being advised, ordered that the matter be set for hearing on March 12, 1981, at 2:30 p.m. Eastern Standard Time, in the Commission's offices at Frankfort, Kentucky. The hearing was held as scheduled, and all parties of interest were given the opportunity to be heard. The Division of Consumer Intervention of the Attorney General's Office intervened on behalf of consumers.

II. Findings of Fact

Mrs. Many and other potential subscribers made various applications for telephone service. In one case, application for service had been made as early as the middle 1960's. Mrs. Many and others believed that eight persons wanted phone service, specifically, eight residence services, one business service and one public coin telephone. Three persons testified that they wanted telephone service and written statements from two other persons who desired service were also filed.

The cost of providing telephone service to the area would be approximately \$35,000, in addition to the expenses already incurred for existing facilities which would be used. Bell had been reluctant to place facilities in the area not only because of the high cost, but also because of the possibility of the area being flooded or of the property being condemned by the United States Forest Service. However, it was shown that these two threats had been removed and that the present property owners will be able to keep their homes and land, although future growth in the

area appears to be extremely limited because of the desire of the Forest Service to preserve the original nature of the area as much as possible.

Bell's current average investment in outside plant to provide service to its rural customers is approximately \$3,500 per customer, compared with approximately \$900 per urban customer. Because few potential customers reside near Mrs. Many and subscriber growth in the area is expected to be limited, Bell was reluctant to incur the expenses to provide service, since such expenses would have to be recovered largely from Bell's other subscribers. For this reason, Bell felt that the cost of providing service to them should be borne by the applicants themselves in accordance with Section A-5 of Bell's tariff.

Under the peculiar facts of this case, the Commission does not question Bell's good faith in this matter. However, the situation has now changed -- since it appears that the present homeowners will be allowed to keep their homes -- and the issue thus becomes one of developing and implementing a plan to provide telephone service to the area.

The Commission is also aware that the telephone industry faces an uncertain future. The advent of competition in the profitable areas of long distance message telecommunication service and terminal equipment has reduced, and will continue to reduce, the revenues which are available to help offset the cost of providing local basic service. In addition, deregulation of portions of the communications industry, which is currently being considered by the United States Congress and by the Federal

Communications Commission, appears likely to place further pressure on local basic service to pay more of its own costs. In effect, the trend is toward compelling "cost causers," more so than in the past, to be the "cost payers."

This Commission remains committed, however, to the concept of universal telephone service at an affordable cost. Therefore, a balance must be struck between the opposing forces of high cost and the need for telephone service. In effect, Bell should be required to provide the same level of expenditures to these applicants as it spends, on average, for other rural customers. At the same time, if there are insufficient applicants to lower the cost per subscriber to the rural average, then those who do apply should pay the difference in costs to obtain the service.

A public coin telephone would provide an important public service, and therefore it is not unreasonable to require Bell to incur the cost of providing that service. However, the decision to install the public coin telephone should properly be a company management decision, based upon a study of the particular situation, and not a decision mandated by the Commission.

III. Conclusions

Based upon the foregoing, the Commission concludes that the following plan should be adopted:

- 1) Mrs. Angie Many and other persons residing in her immediate vicinity desiring telephone service should make application to Bell for service within 60 days of the date of this order;
- 2) Applicants for such service should be required to provide a reasonable deposit of \$75.00, and to sign a contract under

which they would guarantee to take and pay for telephone service for a period of two years once such service is actually available, with the inclusion of an appropriate clause providing for cancellation in event of death or a bona fide change of residence out of the area;

3) After the number of applicants has been determined, Bell should recalculate the construction costs and recurring maintenance fees. In doing so, Bell should provide toward construction costs an allowance of \$3,500 for each applicant plus an allowance of \$3,500 for the provision of public coin service, whether or not Bell decides to install that service. In addition, under the facts of this case only, Bell should provide toward recurring maintenance fees an allowance of ten percent for each applicant, considering the public telephone to be an applicant. Finally, if total allowances -- including the public coin telephone as one of the allowances -- equal or exceed the total cost, there would be no construction costs or recurring maintenance fees charged to applicants. If, however, total costs or fees exceed total allowances, the differences are to be apportioned equally among the applicants;

4) Should any applicant for service require construction on private property in excess of the 300 foot allowance specified in Section A-5 of Bell's tariff, then those construction charges and monthly recurring fees shall be calculated separately and be applicable only to that applicant;

5) Following calculation of the costs as provided in paragraph (3) above, Bell should inform applicants of any applicable

charges, and if applicants agree, then Bell should program this work into its 1982 construction budget, to be completed not later than June 30, 1982. If only a portion of the applicants agree to pay the calculated charges, then Bell should recalculate in accordance with paragraph (3) above and seek to obtain agreement among such remaining applicants;

6) If no agreement can be reached in accordance with these findings, then all deposits should be refunded and all contracts with applicants should be negated;

7) Bell should study the possibility of installing a public coin phone, but should be required to contribute \$3,500 of the construction charges plus recurring maintenance fees, whether or not the decision is made to install a public coin phone.

IV. Order

IT IS THEREFORE ORDERED that within 60 days of the date of this Order, Mrs. Angie Many and other persons desiring telephone service who reside in her immediate vicinity shall make application for such service with South Central Bell Telephone Company, in accordance with paragraphs (1) and (2) of this Order.

IT IS FURTHER ORDERED that after this 60-day period, South Central Bell shall calculate the applicable construction charges and recurring maintenance fees in accordance with paragraphs (3) and (4) of this Order, and further that all charges shall be based on the charges testified to at the public hearing of March 12, 1981.

IT IS FURTHER ORDERED that after this 60-day period, South Central Bell shall provide applicants within 30 days of that date

with the information called for by paragraph (5) of this Order: and, if agreement is reached, that telephone service shall be provided not later than June 30, 1982.

IT IS FURTHER ORDERED that if the agreement requires the applicants to contribute to the cost of construction, each applicant so agreeing shall further contract to pay his or her share of any construction charges and recurring fees, such construction charges to be paid prior to the beginning of construction, and such recurring charges to be paid monthly for a minimum of two years, or as long as service is provided to that residence, if longer than two years.

IT IS FURTHER ORDERED that until a number of subscribers is reached so that total allowances would equal or exceed construction costs as provided in paragraph (3) of this Order, South Central Bell shall extend service to a new customer in the area in question on the same terms as it is required by this Order to extend it to the applicants with the understanding that any contribution toward construction and recurring maintenance fees required to be made by such new customer is to be paid pro rata over to the applicants who originally paid such costs.

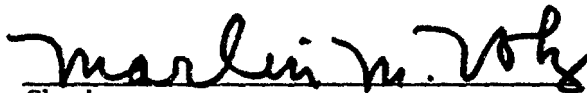
IT IS FURTHER ORDERED that if within a two-year period from the date of this Order, sufficient qualified subscribers are obtained so that total allowances would equal or exceed construction costs as provided in paragraph (3) of this Order, South Central Bell shall return to each person without interest the amount of any construction and recurring maintenance fees paid by him or her.

IT IS FURTHER ORDERED that should no agreement for service be reached, South Central Bell shall refund all deposits and negate all contracts with the applicants, in accordance with paragraph (6) of this Order.

IT IS FURTHER ORDERED that if agreement is reached, South Central Bell shall undertake a study to determine if public coin telephone service should be provided in accordance with paragraph (7) of this Order.

Done at Frankfort, Kentucky, this 27th day of March, 1981.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary