

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION OF TOLL AND)
ACCESS CHARGE PRICING AND TOLL)
SETTLEMENT AGREEMENTS FOR TELE-) CASE NO. 8838
PHONE UTILITIES PURSUANT TO)
CHANGES TO BE EFFECTIVE)
JANUARY 1, 1984)

O R D E R

On January 1, 1984, two policies will become effective which will have a considerable impact on the entire telephone industry. The Order of the Federal Communications Commission ("FCC"), entered February 28, 1983, in Docket No. CC78-72, requires a change in the pricing of interstate long distance service. Currently, nationwide interstate long distance pricing is on a usage basis including both an allocation of fixed or nontraffic sensitive ("NTS") costs as well as variable or traffic sensitive costs. Under the FCC's Order, all telephone companies are to design tariffs, to be filed no later than October 3, 1983, which reflect a joint system of access charges for end users (customers) and interexchange toll carriers (e.g., American Telephone and Telegraph Company Interexchange and Microwave Communications, Inc.) to recover a portion of the allocated NTS costs on a fixed basis with the remaining allocated NTS costs and the variable costs to be recovered on the traditional usage basis.

This change affects all telephone companies under the jurisdiction of this Commission as well as all telephone companies nationwide. Certain tariffs must be common to all telephone companies while others are to be based on a particular telephone company's own costs. American Telephone and Telegraph Company, Inc., ("AT&T") is responsible for preparation and filing of the initial common tariffs for all companies except those which elect to file certain charges based on their own costs.

While this FCC access charge system is mandated only for the interstate toll portion of each telephone company's operations, certain features of the FCC plan and changes in technology with the attendant risk of bypass make it improbable that the telephone companies can expect to continue to recover all costs currently charged intrastate toll solely on a usage basis. Therefore, it is anticipated that tariffs will be filed separating the allocated intrastate toll NTS costs between access and usage charges in such ways that intrastate tariffs will mirror the interstate tariffs.

The second major change affecting the telephone industry is the divestiture by AT&T of its local operating companies. As a result of divestiture, the present toll settlement arrangements between South Central Bell ("SCB") and the other telephone companies will have to be modified.

The combined effect of the FCC Order in Docket No. CC78-72 and the AT&T divestiture places the Commission, the telephone companies under its jurisdiction and the public in a position of uncertainty. Combined interstate and intrastate toll revenues

currently account for a substantial portion of the revenues of each of the telephone companies in the Commonwealth. Moreover, the earnings and service of each of the telephone companies under this Commission's jurisdiction may be substantially changed. The potential consequence of these actions is of paramount concern. The Commission is therefore, establishing this case on intrastate access charges and toll revenue settlements and making each telephone company under its jurisdiction a party thereto. Persons desiring to intervene in this proceeding should file a motion with the Commission's Secretary within 30 days of the date of this Order, setting forth the grounds for the request including their status and interest.

As successor to SCB, AT&T will provide intrastate, inter-LATA toll service in this state. The Commission thus expects AT&T to be vitally interested in the outcome of this proceeding, particularly the possible establishment of a carrier's carrier charge like the FCC established. Given the obvious conflict of interest between AT&T and SCB, the Commission expects that AT&T and SCB will be separately represented in this proceeding. The Commission will not accept filings or testimony from SCB made on behalf of AT&T.

The Commission met with representatives of SCB during an informal public meeting on April 21, 1983, and was informed that SCB does not expect to file interstate or intrastate access tariffs until October 1983. Certain telephone companies in the state may not concur with the same common interstate tariffs as AT&T with the FCC under Docket No. CC78-72 nor the same common

intrastate access and usage tariffs as SCB with this Commission. Moreover, although SCB has had some discussions with the independent telephone companies in the state, negotiations are still in progress and a toll revenue settlement proposal before this Commission is anticipated no earlier than June 1983.

SCB has also informed the Commission that it currently plans to file a rate case in June 1983. While toll and access charges and settlements will materially affect the outcome of that proceeding, the Commission is of the opinion that the more appropriate procedure is to separate toll and access charges and settlements from the rate case for purposes of investigation. The record in this case will be incorporated by reference into the record in SCB's rate case.

The Commission recognizes that SCE and the other telephone companies under its jurisdiction are not presently prepared to present firm proposals regarding toll and access charges and settlement plans. Therefore it is premature to schedule hearings at this time. However, the Commission is also aware that SCB is investigating various alternatives regarding toll charges and access charges and has met with various representatives of other telephone companies under its jurisdiction regarding tentative settlement plans. Therefore, the Commission will require that the following information be filed as part of this case prior to scheduling hearings:

(1) SCB should file detailed explanations of all settlement alternatives it has investigated. SCB should provide copies of all proposals it has considered as a means of adopting a

future settlement procedure and agreement. The response should include a copy of all analyses and data pertaining to the various alternative proposals, including all reports, documents, correspondence and studies utilized. All assumptions inherent in these alternatives should be identified and fully defined. Moreover, the preliminary estimated revenue impact on SCB and each telephone company with which SCB settles for the years 1984, 1985, 1986, 1987 and 1988 should be filed under each alternative. The revenue impact should also show for these same years what the estimate would be assuming no change in the current method of settlement.

(2) SCF should file minutes of all meetings and a full description of all conversations held with the other telephone companies under this Commission's jurisdiction regarding tentative settlement plans.

(3) SCB or AT&T should file all preliminary reports required by the FCC in Docket No. CC78-72 regarding tentative or preliminary studies on its proposed interstate toll and access pricing.

(4) Any other telephone company under this Commission's jurisdiction that presently does not plan to concur in AT&T's common tariffs for interstate toll and access charge pricing should advise this Commission of its tentative proposals.

(5) SCB should file information regarding all alternatives currently under investigation regarding the repricing of intrastate toll and access charges. SCF should provide copies of all proposals considered by it as a means of repricing toll and

setting access charges. The response should include a copy of all analyses and data pertaining to the various alternative proposals, including all reports, documents, correspondence and studies utilized. Again SCB should identify and define all assumptions used, particularly those assumptions used to arrive at alternative charges to interexchange carriers.

(6) Any other telephone company under this Commission's jurisdiction that presently does not plan to concur in SCB's common tariff for intrastate toll and access charge pricing should advise the Commission of its tentative proposals and the various alternatives under study in the same detail as specified for SCB.

(7) SCB (and any other telephone company which presently does not plan to concur in SCB's common intrastate toll and access charges) should file preliminary cost studies on which alternative toll and access prices are based. All allocation factors (and the derivation of each allocation factor) separating NTS and traffic sensitive plant from other intrastate plant should be shown under each plant subaccount.

IT IS THEREFORE ORDERED that this case be and it hereby is established to investigate toll and access charge pricing and toll settlement procedures and that all telephone companies under the jurisdiction of this Commission be and they hereby are made parties to this procedure.

IT IS FURTHER ORDERED that the record in this case shall be incorporated by reference into the record in SCB's next rate case.

IT IS FURTHER ORDERED that the information outlined above shall be filed within 30 days of the date of this Order. This

information request is of a continuing nature and shall be updated within 10 days as new information becomes available.

Done at Frankfort, Kentucky, this 19th day of May, 1983.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary