

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DETARIFFING THE INSTALLATION) ADMINISTRATIVE
AND MAINTENANCE OF INSIDE WIRE) CASE NO. 305

O R D E R

Introduction

On January 13, 1987, Cincinnati Bell Telephone Company ("CBT") filed a motion for rehearing on certain issues addressed in this case by the Commission's Order of December 24, 1986. Also, on January 13, 1987, South Central Bell Telephone Company ("SCB") filed an application for hearing, if necessary, and for modification or clarification of the December 24, 1986, Order.

By Order dated February 2, 1987, CBT was granted rehearing on the following issues:

- (1) Rate uniformity, and
- (2) Requiring customer notification of maintenance of inside wire charges and that maintenance of inside wire can be obtained from non-LEC sources.

Further, both CBT and SCB were granted rehearing on Ordering paragraph 22 of the December 24, 1986, Order which stated:

LECs shall make every effort to correctly identify a reported service problem as being in the LEC's or customer's portion of the network and if the LEC incorrectly identifies a service problem as being the customer's responsibility, then the LEC should reimburse the customer for any reasonable expenses incurred to further isolate the source of the service problem.

On March 4, 1987, rehearing was held in the Commission's offices in Frankfort, Kentucky. The Attorney General's office was the sole intervenor present.

DISCUSSION

Rate Uniformity

The major area served by CBT is the Cincinnati Metropolitan Service Area ("CMSA"), which encompasses portions of Ohio, Indiana and Kentucky. Customers residing within the CMSA can call anywhere within this area for the same basic monthly rate, thus making the CMSA one of the largest local calling areas in the nation.

Historically, the Kentucky Commission has adopted the rates set by Ohio as the fair, just, and reasonable rates for the Kentucky customers residing in the CMSA. This rate-making approach recognized the CMSA as a single local service calling area and helped to foster area growth, benefiting customers in Kentucky and other jurisdictions.

In implementing rate uniformity within the CMSA, CBT has historically allocated utility plant and expenses to the Kentucky and Ohio jurisdictions on a "revenue split" basis which has been approved by both the Ohio and Kentucky Commissions in previous proceedings. The revenue split method is applicable when the revenue ratios reflect appropriate proportions of total plant and expenses and when rates required for service are substantially uniform in each jurisdiction. Rate uniformity and the revenue split method of separations are consistent with the concept of the

CMSA as a single local calling unit rather than the traditional multi-jurisdictional concept.

CBT has customarily made filings with the Ohio Commission prior to filing with the Kentucky Commission. This affords the Ohio Commission the opportunity to establish the rates for the CMSA which the Kentucky Commission can either accept or reject for the Kentucky jurisdictional portion of the CMSA. Acceptance of the Ohio rates maintains the rate uniformity/revenue split separation method while rejection of the Ohio rates would require this Commission to adopt the usage method of separation.

As part of this proceeding, CBT filed information which was previously supplied to the Ohio Commission in Case No. 86-927-TP-COI.¹ In the initial exhibit filed with this Commission, exclusive of amortization associated with embedded inside wire, CBT indicated that an actual contribution from inside wire services would be lost upon detariffing. Therefore, CBT stated that it should not be required to reduce basic exchange rates. However, upon further evaluation, CBT filed revised tariffs to reflect a 15 cent reduction in monthly basic access line rates for the purpose of promoting public understanding and acceptance. The revisions were filed in Ohio initially and subsequently in Kentucky. By Supplemental Finding and Order entered March 17, 1987, the Ohio Commission approved the 15 cent reduction to be effective March 1, 1987.

¹ In the Matter of the Commission's Investigation into the Detariffing of the Installation and Maintenance of Simple and Complex Inside Wire.

In light of the decision of the Ohio Commission, the Kentucky Commission must choose whether or not to accept rate uniformity for the CMSA. As has been expressed in other proceedings, this Commission is concerned with the differences in approach between the Kentucky and Ohio jurisdictions. This concern is augmented by CBT's presentation in this proceeding as identified below.

As part of its filing, CBT showed a loss of carrier common line revenue related to inside wire expenses that CBT contends are recovered through the carrier common line charge ("CCLC"). However, it has not proposed a corresponding reduction in the CCLC. In addition, while CBT purports that inside wire costs are recovered through the CCLC as set out in Part 69, CBT did not follow Part 69 of the FCC's Rules and Regulations to identify costs for the purpose of determining revenue requirements. Therefore, in the opinion of the Commission, all revenues associated with CBT's authorized CCLC should remain in regulated accounts.

Furthermore, CBT has proposed that part of its recurring inside wire charges be excluded from regulated revenues. Although actual figures are indeterminable, CBT has made an attempt to separate the revenues associated with the amortization of its embedded inside wire investment, which will remain on the regulated side, and revenues associated with inside wire services to be detariffed (i.e., new inside wire costs, appropriately expensed, and associated with embedded customer premises equipment). As a long-term result of this proposal revenue requirements will increase on the regulated side. Coincident with

this loss, the asserted loss of contribution, and the reduction of local rates, regulated revenue requirement will further increase as a result of detariffing.

Although CBT has contended that the revenue split method is beneficial to Kentucky ratepayers, the results of the analysis have not been followed in this instance, i.e., reducing local rates when an increase in local rates may be indicated as the result of a loss of contribution.

Nonetheless, upon CBT's contention of benefits to Kentucky, reduced administrative burden, and positive customer relations, the Commission concurs that rate uniformity within the CMSA should be approved at this time. However, the Commission is obligated to evaluate the effects of the revenue split method versus the usage method of separations with the occurrence of detariffing, new cost allocation rules, and implementation of a new Uniform System of Accounts, and differing jurisdictional access charges. Accordingly, in the future the Commission will be evaluating potential effects of such changes as they relate to the revenue split approach.

Customer Notification Requirements

Ordering paragraph No. 19 of the December 24, 1986, Order requires that LECs advise the customer of the possibility of maintenance of inside wire charges, in the event of reported service problems. Both CBT and SCB testified that they have been advising customers of these possibilities and are continuing to do so through customer education programs, consisting of direct mailings and advertising. Additionally, both LECs stated their

position that since maintenance of inside wire has been detariffed and is subject to competition, the Commission should not continue to impose regulatory requirements relative to customer notification.

After consideration of this matter, the Commission has determined that CBT and SCB have presented reasonable arguments in support of vacating ordering paragraph No. 19. Although the Commission desires to see competition flourish in this area, it would not be fair to place the LECs in the position of having to advise customers on a repetitive basis of competitive sources of wire maintenance, when no such requirement is placed on competitors. Additionally, since LECs may not disconnect regulated services for nonpayment of detariffed services, arrangement for charges and payment of such detariffed services should properly be a matter to be resolved between the LEC and its customers. Therefore the Commission will vacate ordering paragraph No. 19 of its December 24, 1986, Order in this matter for all LECs.

Reimbursements For Incorrect Problem Identification

Ordering paragraph No. 22 of the December 24, 1986, Order requires that if the LEC incorrectly identifies a service problem as being the customer's responsibility, then the LEC should reimburse the customer for any reasonable expenses incurred to further isolate the source of the service problem. CBT and SCB both requested that this ordering paragraph be deleted from the Order.

CBT testified that its General Exchange Tariff contains liability provisions adequate to protect customer interests. SCB testified that the requirement is unnecessary and impractical, and that the Commission cannot enforce the requirement for both practical and procedural reasons. SCB further argued that no evidence has been introduced indicating that problems have occurred or even would occur.

After consideration of this matter, the Commission has determined that CBT and SCB have presented reasonable arguments in support of vacating ordering paragraph No. 22. For both administrative and practical reasons, the resolution of liability in the event of incorrect problem identification will best be handled between the LEC and its customer. Therefore the Commission will vacate ordering paragraph No. 22 of its December 24, 1986, Order in this matter for all LECs.

FINDINGS AND ORDERS

After examining the evidence of record and being advised, the Commission is of the opinion and finds that:

1. The rates and charges approved by the Public Utilities Commission of Ohio in Case No. 86-927-TP-COI, are the fair, just, and reasonable rates to be charged by CBT for telephone service rendered to its Kentucky jurisdictional customers inside the CMSA and should be approved for service rendered on and after March 1, 1987.
2. All revenues associated with CBT's authorized CCLC should remain in regulated accounts.

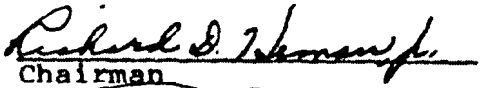
3. For the reasons specified in the discussion portion of this Order, ordering paragraph No. 19 of the December 24, 1986, Order should be vacated in its entirety.

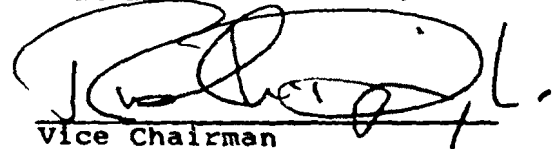
4. For the reasons specified in the discussion portion of this Order, ordering paragraph No. 22 of the December 24, 1986, Order should be vacated in its entirety.

Accordingly, each of the above findings is HEREBY ORDERED.

Done at Frankfort, Kentucky, this 7th day of May, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director