COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO COUNTYWIDE EXTENDED AREA TELEPHONE SERVICE FOR SUBSCRIBERS IN BULLITT COUNTY, KENTUCKY	) CASE NO. 9681

O R D E R

During the 1986 session of the Kentucky General Assembly, considerable interest was expressed by several legislators concerning the feasibility of providing Countywide Extended Area Service ("Countywide EAS"), in four particular counties, one of which is Bullitt County. In response to this interest, the Commission instituted this investigation to study the feasibility of providing Countywide EAS within Bullitt County and the desire of Bullitt County telephone subscribers for that service.

In considering the implementation of any type of Extended Area Service ("EAS") in a given area, the Commission utilizes its EAS Guidelines, which were incorporated into this case by Order dated September 26, 1986. The EAS Guidelines are a step-by-step process in which criteria for each step are specified and must be successfully satisfied to continue consideration of EAS. Given the interest expressed by the legislators concerning Countywide EAS, the Commission found that a deviation from the EAS Guidelines was warranted. The first two steps, the initial petition and collection of signatures, were deemed to be satisfied by the

interest expressed by the General Assembly. Therefore, the process proceeded directly to Step 3, the traffic studies, as well as Steps 4 and 5, the public hearing and cost studies.

The telephone companies involved in the instant matter were ALLTEL Kentucky, Inc. ("ALLTEL") and South Central Bell Telephone Company ("SCB"). ALLTEL and SCB performed and submitted the required traffic and cost studies, including a summary of community of interest factors and the cost per subscriber in each telephone exchange in accordance with the EAS Guidelines.

On March 4, 1987, Representative John Harper filed a letter with the Commission requesting that the investigation of Countywide EAS be changed to County Seat Extended Area Service ("County Seat EAS"), wherein the Commission would investigate primarily the issue of telephone subscribers having EAS with their county seat. Representative Harper requested two types of studies to be performed: "1-way county specific" and "2-way total exchange to total exchange." In this case "1-way county specific" would allow any Bullitt County subscriber to call Shepherdsville, the county seat. In addition to the issue of County Seat EAS, Representative Harper also requested that the Commission investigate the provision of EAS between the Fern Creek and Mt. Washington exchanges. Appendix A, attached hereto and made a part hereof, summarizes the specific request.

By Order dated April 30, 1987, the Commission directed ALLTEL and SCB to conduct the traffic and cost studies necessary to address Representative Harper's request. Following submission of this information, a public hearing was conducted on June 23, 1987.

All of the issues concerning County Seat EAS for Bullitt County were presented and examined. The issues included the geographical area involved, the plant and equipment necessary to provide the service, and the costs to provide the service.

By Order dated September 8, 1987, ALLTEL and SCB were directed to mail specified survey letters containing ballot cards for polling their respective subscribers concerning the "2-way total exchange to total exchange" issue. The letters and ballots asked the subscribers if they desired toll-free telephone service between the exchanges as shown on Appendix A, and indicated the associated monthly costs per exchange for that toll-free service. The additional monthly costs per exchange are set forth in Appendix B, attached hereto and made a part hereof.

Fern Creek and Valley Station subscribers were surveyed utilizing statistical sampling techniques. Those subscribers polled mailed the ballot cards to the Commission, which compiled the results. The results of the survey clearly indicate that the majority of the subscribers polled rejected the proposed plan in each instance. See Appendix C, attached hereto and made a part hereof.

DISCUSSION

In reaching a decision in this case, or in any EAS case, the Commission must consider what is involved in providing EAS and recognize that increased costs are often involved. Basically, there are two broad categories of telephone service, those being intra-exchange and inter-exchange. Further, inter-exchange service may be broken down into either toll service or EAS.

Historically, toll service has been considered a fair and equitable means of providing service between exchanges, since only those who utilize that service pay the charges.

It is impossible to separate intra-exchange and toll service as distinct undertakings of a telephone utility. The two services complement each other. Their combined revenues are necessary to meet the utility's revenue requirements and to allow the basic intra-exchange rate to be maintained at a reasonable level so that all customers who desire phone service can afford it. When the concept of EAS is introduced, this balance is of necessity distorted. While EAS is often referred to as "free" calling between exchanges, this is not true. The toll revenue eliminated by the initiation of EAS must be regained through increased revenues derived from basic exchange rates. Without the ability to recapture the lost toll revenue, the utility will be unable to meet the revenue requirements previously approved by the Commission.

An additional factor which must be considered is that the introduction of EAS tends to increase a utility's revenue requirements due to the generation of additional telephone traffic. By eliminating the specific toll charge for each call in an EAS route, the subscribers tend to make more and longer calls. An increase in calling volume requires additional capital investment in plant and equipment by the utility, usually in the form of more facilities dedicated exclusively to providing the particular EAS involved. The additional costs of these facilities

must ultimately be distributed among and borne by the ratepayers or the exchanges involved.

The net result of the various factors involved in providing EAS is that EAS may not be desirable or economically feasible in every case. Since telephone rates are affected by the cost of providing the service, it may not be in the public interest to direct that EAS be provided. For these reasons, the Commission has determined that the fairest and most equitable way at the present time to determine the public interest issue as it relates to EAS is to allow subscribers to make their own determination through the ballot process.

In this case, subscribers have been surveyed concerning both their desire for the proposed service and their willingness to pay the additional costs of providing that service. For each of the proposed EAS routes, the majority of those subscribers voting have rejected the plans, as shown by the summary illustrated on Appendix C to this Order. Furthermore, the traffic studies performed in Step 3 failed to show the community of interest factors normally required by the EAS Guidelines. Therefore the public interest would not be served by initiating the proposed EAS routes since the majority of subscribers voting have determined that they do not want this service with the associated additional costs.

The Commission further finds that since the "2-way total exchange to total exchange" survey was not accepted by the majority of voting subscribers with the associated costs, then the "1-way county specific to Shepherdsville" survey would also not be

accepted due to a much higher cost per subscriber, as reflected in Appendix B. As an example, SCB's Lebanon Junction to Shepherdsville rate additive for "2-way total exchange to total exchange" would be $5.20 per month per residential access line. The majority of voting subscribers, having rejected this plan, would be expected to reject a "1-way county specific" plan from Lebanon Junction to Shepherdsville with a rate additive of $8.02 per month per residential access line.

Although this EAS investigation will be dismissed, the Commission continues to be concerned with the provision of EAS. Citizens in many areas of Kentucky have expressed their desire for enlarged or additional toll-free calling areas. The Commission has instituted an internal "EAS Task Force" and will continue to address this problem area, with the goal being to develop service offerings which will address the concerns, while not placing an undue or unjust burden on those subscribers who will not benefit from those service offerings.

FINDINGS AND ORDER

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

1. The majority of subscribers responding to the survey have rejected the proposed EAS for each of the plans available.

2. The traffic studies performed in this investigation do not demonstrate the community of interest factors normally required by the EAS Guidelines to continue consideration of an EAS route.

3. The public interest would not be served by instituting EAS routes when the subscriber surveys have rejected EAS, and the traffic surveys do not demonstrate the requisite community of interest factors.

4. This investigation should be closed.

IT IS THEREFORE ORDERED that this case be and it hereby is dismissed.

Done at Frankfort, Kentucky, this 18th day of May, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 9681, DATED 5/18/88

BULLITT COUNTY

1-way county specific to Shepherdsville

(for those subscribers residing in Bullitt County)

Lebanon Junction Bullitt County customers to Shepherdsville
West Point Bullitt County customers to Shepherdsville
Valley Station Bullitt County customers to Shepherdsville
Fern Creek Bullitt County customers to Shepherdsville
Fern Creek Bullitt County customers to Mt. Washington

2-way total exchange to total exchange

Lebanon Junction total exchange to Shepherdsville total exchange
West Point total exchange to Shepherdsville total exchange
Valley Station total exchange to Shepherdsville total exchange
Fern Creek total exchange to Shepherdsville total exchange
Fern Creek total exchange to Mt. Washington total exchange

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 9681 DATED 5/18/88

BULLITT COUNTY
COST STUDY SUMMARY

ALLTEL

	Additional monthly rates required			
	Shepherdsville Exchange		Mt. Washington Exchange	
Type of Service	(1) Plan 1	(2) Plan 2	(3) Plan 1	(4) Plan 2
Business:				
PBX Trunks	$ 2.20	$ 7.05	$ 1.30	$ 5.40
1-Party Multiline: Rotary	1.30	4.25	.75	3.25
: Non-Rotary	1.10	3.55	.65	2.70
1-Party Non-Multiline	1.05	3.30	.65	2.50
4-Party Rural	.80	2.55	.45	1.95
Semi-Public Guarantee	1.05	3.55	.65	2.70
Residence:				
1-Party	.60	1.95	.35	1.50
2-Party	.30	.95	.20	.75
4-Party	.50	1.65	.30	1.25
4-Party Rural	.50	1.65	.30	1.25

(1) Plan 1 in the Shepherdsville Exchange column is "1-way county specific" service from Fern Creek, Lebanon Junction, Valley Station, and West Point to Shepherdsville.

(2) Plan 2 in the Shepherdsville Exchange column is "2-way total exchange to total exchange" service involving Fern Creek, Lebanon Junction, Valley Station, West Point, and Shepherdsville.

(3) Plan 1 in the Mt. Washington Exchange column is "1-way specific" service from Fern Creek to Mt. Washington.

(4) Plan 2 in the Mt. Washington Exchange column is "2-way total exchange to total exchange" service involving Fern Creek and Mt. Washington.

(5) A study was not requested nor conducted pertaining to "1-way specific" from Mt. Washington to Fern Creek.

(6) Please note that under Plan 1 neither Shepherdsville nor Mt. Washington will be charged. These dollar amounts represent ALLTEL's cost of equipment and these amounts will be charged to South Central Bell. ALLTEL customers will not gain additional benefit from Plan 1.

BULLITT

COST STUDY SUMMARY

South Central Bell

From	To	Additional monthly rates required (1) Plan 1	(2) Plan 2
Lebanon Junction	- Shepherdsville	$ 8.02	$ 5.20
West Point	- Shepherdsville	6.86	2.08
Valley Station	- Shepherdsville	8.49	.33
Fern Creek	- Shepherdsville	4.99	.60
Fern Creek	- Mt. Washington	10.23	.90
Fern Creek	- Mt. Washington and Shepherdsville combined	15.00	1.18

(1) Plan 1 is a "1-way county specific" tc Shepherdsville service, or "1-way county specific" from Fern Creek to Mt. Washington service.

(2) Plan 2 is a "2-way total exchange to total exchange" service.

(3) The Plan 1 dollar amounts represent the South Central Bell customers' monthly additional costs including ALLTEL's cost of equipment. The details of this would be negotiated between ALLTEL and South Central Bell, and would require final approval by the Commission.

APPENDIX C

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION IN CASE NO. 9681, DATED 5/18/88

SURVEY RESULTS

Bullitt County EAS

"2-way total exchange to total exchange"

ALLTEL

Mt. Washington	- Surveyed	-	3,098
	Responded	-	1,840
	Yes		1,118
	No		694
Shepherdsville	- Surveyed	-	5,268
	Responded	-	2,764
	Yes		1,615
	No		1,077

South Central Bell

Fern Creek	- Surveyed	-	2,420	(Statistical survey of 9,908 accounts)
	Responded	-	1,286	
	Option A		262	(Extrapolated from 34 "A" votes) (34 ÷ 1,286) x 9,908 = 262
	Option B		532	(Extrapolated from 69 "B" votes) (69 ÷ 1,286) x 9,908 = 532
	Option C		1,603	(Extrapolated from 208 "C" votes) (208 ÷ 1,286) x 9,908 = 1,603
	Option D (No)		7,412	(Extrapolated from 962 no votes) (962 ÷ 1,286) x 9,908 = 7,412
Lebanon Junction	- Surveyed	-	1,084	
	Responded	-	697	
	Yes		310	
	No		358	

Valley Station	- Surveyed	- 2,757	(Statistical survey of 20,191 accounts)
	Responded	- 1,304	
	Yes	4,543	(Extrapolated from 293 yes votes) (293 ÷ 1,304) x 20,191 = 293
	No	15,567	(Extrapolated from 1,006 no votes) (1,006 ÷ 1,304) x 20,191 = 293

SURVEY RESULTS

Bullitt County EAS

"2-way total exchange to total exchange"

West Point	- Surveyed	- 761
	Responded	- 470
	Yes	186
	No	278

Totals - All options considered

Yes	**10,168**
No	**25,386**