

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO INTRALATA TOLL )  
COMPETITION, AN APPROPRIATE )  
COMPENSATION SCHEME FOR COMPLETION ) ADMINISTRATIVE  
OF INTRALATA CALLS BY INTEREXCHANGE ) CASE NO. 323  
CARRIERS, AND WATS JURISDICTIONALITY )

O R D E R

IT IS ORDERED that all parties shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, by May 5, 1989. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. If the information cannot be provided by this date, each party should submit a motion for an extension of time stating the reason delay is necessary and include a date by which it will be furnished. Such motion will be considered by the Commission.

INDEPENDENT TELEPHONE GROUP

Questions for William W. Magruder on Joint Motion of a Coalition of Local Exchange Carriers and Interexchange Carriers

1. On page 1 of the Joint Motion, reference is made to the "consumer benefits of such competition." Identify these benefits.
2. On page 2 of the Joint Motion, it is stated that "the non-traffic sensitive (NTS) revenue level is initially authorized and subsequently administered uniquely for each local exchange company." Who would administer the NTS pool?
3. Why were terminating access minutes chosen as the allocator?
4. Were South Central Bell ("SCB") and the Attorney General invited to participate in developing the Joint Motion? If no, why not? If yes, why didn't they participate in the Joint Motion?
5. What is the rationale for the phase-in of competitive offerings in the Schedule of IntraLATA competition?

ALLTEL KENTUCKY, INC.

Questions for Steven R. Mowery

1. On page 3 of your testimony, you state that the Commission should consider the impact of intraLATA competition on the continued viability of universal service. In your opinion, what effect would intraLATA competition have on the goal of universal service?
2. On page 2 of your testimony, you state that "It is important to note that as toll prices are driven downward towards cost over time, it is obvious that the existing contribution that toll services make to local services would diminish resulting in

upward pressure on basic local rates." Do you agree that growth in the volume of toll calls could offset the decrease in contribution per call? If yes, explain. If no, why not?

3. On page 5 of your testimony, you state that all competitors should be allowed to compete on a "level playing field." Given the dominance of the LECs, how can new competitors face a level playing field?

4. On page 6, you state that "If regulation is a substitute for competition, overall regulatory control should be relaxed to the extent that competition develops." Do you have specific recommendations on how to relax overall regulatory control?

5. On page 7 of your testimony, you state that "Conversely, less sophisticated users of these services would no doubt experience some level of confusion regarding the variety of options available and may or may not make the best economic or operational choice for their particular situation." How would you educate customers to overcome this confusion?

6. On page 7, you state that you expect competition to develop first for the large business customers, followed by competition for the small business and residential customers in the larger metropolitan areas, and lastly for the small business and residential customers in the rural areas. Provide the rationale for this progression.

7. On page 11 of your testimony, you state that "We would . . . propose to mirror our interstate access rates for intrastate interLATA service, again with the exception of the

Carrier Common Line Charge." What is the economic rationale for mirroring the prices?

8. On page 13 of your testimony, you state that "If the Commission adopts a policy of intraLATA competition, a transition period would be required to permit the LECs to prepare for intraLATA competition." What steps would the LECs have to take to prepare for competition?

SOUTH CENTRAL BELL TELEPHONE COMPANY

1. In SCB's opinion, what would be the effect of competition on universal service?

2. In your response to Item 1 of the October 6, 1988 Order, you state that if the Commission authorizes some form of intraLATA competition, it must, at an absolute minimum, permit SCB to retain 1+ and 0+ exclusivity within the LATA. Why? Give reasons.

3. In response to Item 1 of the October 6, 1988 Order, you state that "To effect this loss, the Commission should consider the need for an overall increase in local exchange revenues accomplished through implementation of usage sensitive rate designs." Provide your reasons for this assessment.

4. In response to Item 1 of the October 6, 1988 Order, you state that "Competition will adversely affect the current independent company compensation arrangements and the Commission will have to address the resulting revenue needs of the LECs." Does SCB have any recommendations on how to address these needs if intraLATA competition is approved?

5. In response to Item 1 of the Order dated October 6, 1988, you state that "Competition will drive toll rates closer to cost resulting in a loss of contribution to residually priced services, principally residential exchange access." Does SCB have any data that shows an increase in volume in toll calls? Is it possible that a loss in individual contribution could be offset by increasing numbers of toll calls?

6. Does SCB have specific recommendation on filing requirements for new entrants if intraLATA competition is permitted?

7. In response to Item 4a of the October 6, 1988 Order, you state that the intraLATA segment of the total long-distance market is relatively small. Provide data that supports this statement.

8. In response to Item 7 of the October 6, 1988 Order, you state that "Universal usage sensitive pricing would distribute these effects equitably and efficiently among all customers." Provide the rationale for this statement.

9. In response to Item 8 of the October 6, 1988 Order, you state that a separate intraLATA access charge system for application to interexchange carriers would not be necessary if intraLATA pricing of structure and rate changes identified as necessary in a transition plan are accomplished. Provide the rationale for this statement.

10. In response to Item 14 of the October 6, 1988 Order, you state that the "competitive disadvantage to SCB as a result of

service area limitations must also be addressed." What are your recommendations for addressing this issue?

11. In response to Item 16 of the October 6, 1988 Order, you stated that the Commission should permit reductions in intraLATA toll rates of LECs with offsetting increases in basic exchange rates or rates for other services that are priced below cost. Identify those services that are priced below cost.

12. In your responses to the Commission's Order dated October 6, 1988, witnesses to sponsor each response were not identified as requested. Identify the witness(es) who will sponsor each response of the March 10, 1989 filing.

CONTEL OF KENTUCKY, INC.

Questions for Douglas Fulp, II

1. On page 6 of your response to the October 6, 1988 Order, you state that "any movement of toll rates toward their relevant economic cost will create a revenue shortfall that must be recouped from other sources (i.e., local exchange rates)." Is it possible that an increase in the volume of toll calls will offset a decrease in per call contribution. Provide the rationale for your answer.

2. In your opinion, what would be the impact of intraLATA competition on universal service?

3. On page 14 of your response to the October 6, 1988 Order, you state that "The objective of the transition period is to allow the Commission, LECs and IXCs an opportunity to better evaluate the impact and benefits of competition to customers in

the Commonwealth of Kentucky." What steps would your company take to prepare for intraLATA competition during the transition period?

AMERICALL, ET AL.

Questions for Ben Johnson

1. In response to question 1 of the Commission's Order dated October 6, 1988, you identify a number of factors the Commission should consider in determining if intraLATA competition is in the public interest. How would you describe the current status of each factor in the Kentucky telecommunications market?

2. In response to question 2 of the Commission's Order dated October 6, 1988, you state that facilities based competition may or may not contribute additional benefits, depending upon the specific characteristics of the routes and markets in question. Provide examples to illustrate this position.

3. Provide reasons for the position presented in response to question 3 of the October 6, 1988 Order.

4. In response to question 16 of the Commission's Order dated October 6, 1988, you state that "effective retail competition tends to stimulate increased toll calling and improved efficiency, thereby benefiting the LECs over the long term, and potentially increase toll support for universal service." Provide examples of states in which this has occurred.

CINCINNATI BELL TELEPHONE COMPANY

Questions for James J. McCarthy

1. On page 3 of your response to the Commission's Order dated October 6, 1988, you state that the Commission should take

all public interest factors into account. Identify the public interest factors.

2. On page 4 of your response to the Commission's Order dated October 6, 1988, you state that "If intraLATA competition by IXCs is allowed, the LECs must have the same market flexibility that their competitors have and must be subject to the same legal and regulatory oversight." Do you agree that the LEC will retain local monopoly service? How should consumers be protected from abuse of this monopoly service?

3. On page 8 of your response to the October 6, 1988 Order, you state that Cincinnati Bell has been operating in an intraLATA competitive environment in its Ohio and interstate markets; therefore, Cincinnati Bell does have some experience in dealing with the problems and opportunities presented by competition. Identify specific problems and opportunities that Cincinnati Bell has experienced from intraLATA competition in Ohio.

AT&T COMMUNICATIONS OF THE SOUTH CENTRAL STATES, INC.

Questions for L. G. Sather

1. In response to question 1 of the Commission's October 6, 1988 Order, you state that "the proposed Joint Motion promotes universal service, while at the same time it allows the benefits from a more competitive environment to accrue to Kentucky consumers." How does the proposed Joint Motion promote universal service?

2. In response to question 4 of the Commission's October 6, 1988 Order, you state that "AT&T believes that with appropriate

safeguards the LECs should be afforded some flexibility in pricing their toll services." Provide examples of appropriate safeguards.

3. In your response to question 4b of the Commission's Order dated October 6, 1988, you state that "For carriers providing only competitive services there is no justification for a dominant or non-dominant status." Provide your reasons for this position.

4. In response to question 12 of the Commission's October 6, 1988 Order, you state that "Under the constraints of its 'dominant carrier' classification, AT&T has not been able to react to market demands as quickly as our competitors." Provide specific examples that illustrate this position.

5. In response to question 12 of the Commission's October 6, 1988 Order, you state that "Regarding the effectiveness of the regulated competition now enjoyed in Kentucky, AT&T believes that it has provided some limited benefits to Kentucky toll consumers." Identify the benefits.

#### MCI TELECOMMUNICATIONS CORPORATION

##### Questions for William Beard

1. On page 4 of your testimony, you state that "AT&T's Megacom and Sprint's UltraWATS compete directly with MCI's Prism I and Prism II Services. These competing services provide further evidence of the high level of competition that presently exists in the interstate and the Kentucky interLATA markets." Do you have any 1988 data to support this statement? If yes, provide it. If not, identify when it will be available.

2. On page 6 of your testimony, you state that "All of the information available clearly indicates that a competitive intraLATA market is in the best interest of Kentucky consumers." Provide the factual basis for this statement.

3. On page 6 of your testimony, you state that "All of the information available clearly indicates that a competitive intraLATA market is in the best interest of Kentucky consumers." You further state that "If the only problem with intraLATA competition is money, that problem can be solved through an adjustment in LEC rates." Explain how the benefits of intraLATA competition offset the cost of higher local rates.

4. In your testimony, you state that "If intraLATA competition results in a higher level of contribution being received, then there is no negative impact upon local rates." Do you anticipate that intraLATA competition will result in a higher level of contribution? If yes, provide rationale.

5. On page 14 of your testimony, you state while your company has been offering non-switched access NTS services the local exchange companies have been building new plant in response to the demand for additional capacity. Provide the source of information for this conclusion.

6. On page 16 of your testimony, you state that "MCI believes that full competition in the intraLATA market will also stimulate additional traffic." Does MCI have any studies or data to support this statement. If yes, provide. If no, what is the basis for this statement?

Questions for Nina W. Cornell

1. On page 4 of your testimony, you identify four benefits of competition to society. There are several states that have already introduced intraLATA competition. Provide specific examples of these benefits that have occurred in states that already have intraLATA competition.

2. On page 9 of your testimony, you state that "By itself, access to the Kentucky intraLATA market is probably not sufficient to spur the rapid development of new technologies that would better serve the intraLATA market." Provide examples of the new technologies to which you are referring.

3. On page 10 of your testimony, you state that "Limiting the interexchange carriers to the carriage of interLATA traffic will preclude efficient uses of their networks and deter optimal growth and changes to their networks." Provide examples of the efficient use of interexchange networks.

4. On page 12 of your testimony, you state that "Finally, the Commission can eliminate any possibility of harm to local exchange carriers by properly structuring access charges for intraLATA traffic and the toll rates of local exchange companies." Do you have specific recommendations on how to structure access charges to eliminate any possibility of harm to LECs? Provide these recommendations.

5. On pages 14 through 21 of your testimony, you discuss the concept of using the basic building blocks of SCB's network to structure a nondiscriminatory access pricing system. Identify any states that are using this system. Describe their experience with

this system. Include successes and problems with the basic building block concept in your description.

6. On page 22 of your testimony, you state that "It is very misleading to look only at revenues when trying to understand the impact of intraLATA entry on local exchange companies or local exchange rates." Provide the reasons it is misleading.

7. On page 23 of your testimony, you state that "Interexchange carrier intraLATA toll traffic will be carried mostly on facilities acquired from SCB. This is borne out by evidence from other states that have authorized intraLATA competition." Identify the states and provide data that illustrates this point.

#### GTE SOUTH INCORPORATED

##### Questions for Norman L. Farmer

1. On page 3 of your testimony, you state that "GTE believes from a short term perspective that because LECs have not been able to effectively transition costs or therefore effectively prepare to meet competition, competition should not be allowed." How would you define short term in this context? What steps do LECs need to take to effectively prepare to meet competition?

2. On page 3 of your testimony, you state "Additionally, given the advances in technology, a policy of not allowing intraLATA competition is administratively unworkable in the long run." Identify the advances in technology to which you refer. Give your reasons for saying a policy of not allowing intraLATA competition is administratively unworkable in the long run.

3. On page 7 of your testimony, you state that "At a minimum, the LECs should be given more regulatory flexibility in the toll market than currently exists for the pricing of local services." Do you have specific recommendations to give the LECs more flexibility?

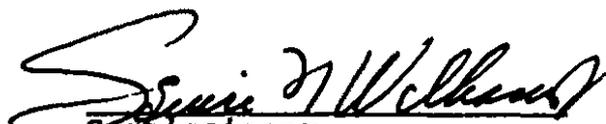
4. On page 10 of your testimony, you state that "If repricing is accomplished prior to the authorization of competition, then the increase in local services prices can be minimized." What are your recommendations concerning repricing? How much time would be required to implement these changes?

Done at Frankfort, Kentucky, this 7th day of April, 1989.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

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Executive Director