

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF CINCINNATI)
BELL TELEPHONE COMPANY TO REVISE ITS) CASE NO. 91-013
EXCHANGE RATE TARIFF, PSCK NO. 1)

O R D E R

On December 26, 1990, Cincinnati Bell Telephone Company ("Cincinnati Bell") made a tariff filing with the Commission proposing various revisions to its Exchange Rate Tariff and removing the moratorium on optional measured service imposed in Case Nos. 9353¹ and 9355.² Also, Cincinnati Bell requested an informal conference with the Commission's Staff to discuss the proposed tariff revisions and requested a waiver of the pricing methodology outlined in Administrative Case No. 285.³

The proposed tariff revisions include:

1. Elimination of the residence standard measured service option and renaming the residence low use measured service option as the residence individual line measured service option.

¹ Case No. 9353, The Application of Cincinnati Bell Telephone Company for Authority to Increase and Adjust its Rates and Charges and to Change Regulations and Practices Affecting the Same.

² Case No. 9355, The Application of Cincinnati Bell Telephone Company to Reflect Changes in Rate and Text.

³ Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky.

Existing standard measured service customers would be allowed to select an alternative service. Elimination of the standard measured service option is designed to comply with Administrative Case No. 285, which limits local exchange carriers to one measured service option.⁴

2. Change the rates for off-peak usage to zero as required in Administrative Case No. 285.⁵ The existing tariff provides for a 50 percent discount for off-peak usage, defined as 9:00 p.m. to but not including 8:00 a.m. Monday through Friday and all day Saturday, Sunday, and certain specified holidays. The proposed tariff provides a 100 percent discount for these time periods.

3. The correction of a typographical error to correctly show the rate for additional messages over the message allowance for message rate service as \$.14 (fourteen cents) rather than \$14.00.

Cincinnati Bell does not propose to change on-peak measured service usage rates and applicable measured service line charges. Also, local calling areas and other exchange rate services - i.e., flat and message rate services - would not change as a result of the tariff filing.

As originally filed, Cincinnati Bell's optional measured service offering was available to customers served under exchange

⁴ Ibid., Order dated October 25, 1990, page 26.

⁵ Ibid., page 28.

rate schedules 5 and 5A.⁶ These rate schedules apply to the Kentucky Metropolitan, Alexandria, Boone, Independence, and Walton exchanges, which serve approximately 90 percent of Cincinnati Bell's residence access lines.⁷ Cincinnati Bell proposes to resume offering optional measured service in these exchanges. The list of exchanges where Cincinnati Bell intends to offer optional measured service is consistent with a requirement specified in Administrative Case No. 285.⁸

Cincinnati Bell indicates that it will begin offering optional measured service to new customers and develop promotional materials upon approval of its tariff filing by the Commission. Also, Cincinnati Bell indicates that it will collect and provide the Commission with various forms of calling data for use in evaluating the impact of optional measured service. As above, local exchange carriers were required to advise the commission regarding consumer information and data collection in Administrative Case No. 285.⁹

As discussed above, except for elimination of the residence standard measured service option and zero rating of off-peak usage, Cincinnati Bell does not propose to change existing measured service rates or rate structure. Instead, Cincinnati

⁶ When the moratorium on measured service was imposed, existing customers were allowed to retain measured service. Although customer attrition has occurred, Cincinnati Bell indicates that 322 access lines were still served on a measured service basis as of November 30, 1990. See Attachment to Tariff Transmittal Letter dated December 21, 1990, page 1.

⁷ Ibid., page 2.

Bell requests a waiver of the pricing methodology outlined in Administrative Case No. 285, stating:

Although the current rates were not developed under this methodology, Cincinnati Bell Telephone's current rates were initially developed based on incremental costs. The above changes balance the compliance requirements of the Case No. 285 Order with the desire to continue serving existing customers and offer additional customers the choice of optional measured service. Cincinnati Bell Telephone has existing optional measured service customers and the rates that are in place have been accepted by those customers. If Cincinnati Bell Telephone recalculates optional measured service rates using the methodology in the Case No. 285 Order, the average monthly rate for the current optional measured service customers will exceed the current single party flat rate. Under this scenario, Cincinnati Bell Telephone would be forced to request permission to withdraw the optional measured service since it would provide no benefit to Kentucky subscribers.¹⁰

In Administrative Case No. 285, the Commission allowed optional measured service subject to the condition that "rates for flat rate service will not change as a result of a carrier exercising its option to provide local measured service."¹¹ To implement this condition, the Commission outlined a pricing methodology designed to insulate rate-payers from revenue requirement increments and reapportionments that might otherwise result from the introduction of local measured service.¹²

⁸ Administrative Case No. 285, Order dated October 25, 1990, page 29.

⁹ Ibid.

¹⁰ Attachment to Tariff Transmittal Letter dated December 21, 1990, page 2.

¹¹ Administrative Case No. 285, Order dated October 25, 1990, page 26.

¹² Ibid., pages 27-28.

Cincinnati Bell's proposed rates and rate design are not consistent with this pricing methodology.

Cincinnati Bell did not submit measured service usage estimates in Administrative Case No. 285 or in this case to support its tariff filing. Instead, Cincinnati Bell proposes to re-implement existing usage rates that are substantially higher than incremental usage costs identified in Administrative Case No. 285, despite the requirement that usage rates be priced at incremental costs plus a reasonable contribution.¹³ At least arguably, therefore, the proposed usage rates are not appropriate. Perhaps more importantly, the proposed measured service line charges are not consistent with the secondary residual principle outlined in Administrative Case No. 285.¹⁴ For example, Cincinnati Bell's proposed residence measured service individual line charges are set at approximately 60 percent of the residence flat rate individual line charges, rather than being based on a stand-alone secondary residual revenue requirement allocated to measured service. Setting measured service line charges as proposed would result in precisely the situation the Commission desired to avoid - i.e., all other variables constant, revenue erosion from customer migration to an artificially attractive measured service option, resulting in higher than otherwise necessary local service rates and reapportionment of revenue requirement between flat rate and measured service customers.

¹³ Ibid., page 27.

¹⁴ Ibid.

Having been otherwise sufficiently advised, the Commission
HEREBY ORDERS that:

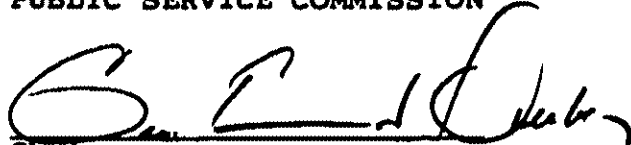
1. Cincinnati Bell's request for an informal conference with the Commission's Staff and request for a waiver of the pricing methodology outlined in Administrative Case No. 285 be and they are hereby denied.

2. Cincinnati Bell's tariff filing be and it hereby is denied, except insofar as it corrects typographical errors.

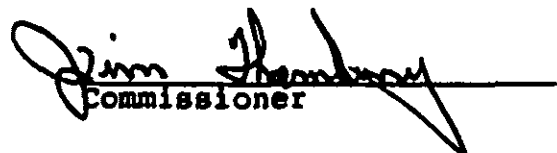
3. Cincinnati Bell shall file revised tariff pages to correct typographical errors identified in the tariff filing within 30 days from the date of this Order.

Done at Frankfort, Kentucky, this 3rd day of April, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director