

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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|------------------------------------|---|----------|
| AN INVESTIGATION OF THE PROVISION |) | |
| OF FOUR-PARTY SERVICE AND EIGHT- |) | CASE NO. |
| PARTY SERVICE BY PEOPLES RURAL |) | 91-168 |
| TELEPHONE COOPERATIVE CORPORATION, |) | |
| INC. |) | |

O R D E R

The Commission herein initiates an investigation into the reasonableness of eliminating all four-party service and eight-party service in the service area of Peoples Rural Telephone Cooperative Corporation, Inc. ("Peoples RTCC"). By Order entered April 1, 1991, the Commission required Contel of Kentucky, Inc. ("Contel") to eliminate four-party service and mileage charges within its service area in Kentucky.¹ A copy of this Order is attached. The Commission found that it was not willing to accept a telecommunications infrastructure in Kentucky which is unable to provide its citizens with the highest level of telephone service. The Commission is concerned that all Kentuckians are not currently able to receive state-of-the-art telecommunications service, particularly in this era of emerging technologies and services which are currently available in other areas of Kentucky.

¹ Case No. 90-167, An Investigation of Contel of Kentucky, Inc.'s Provision of Telephone Service and Service Quality.

Further, the Commission is aware that the provision of quality telephone service is not possible without investment in up-to-date facilities.

Accordingly, IT IS THEREFORE ORDERED that, within 60 days of the date of this Order, Peoples RTCC shall file the following:

(a) a full description of all four-party service and eight-party service within its Kentucky service area;

(b) the number of customers with four-party and eight-party service by exchange;

(c) a detailed construction plan necessary to modernize all affected exchanges to eliminate four- and eight-party service;

(d) the earliest date by which four-party service and eight-party service can be eliminated; and

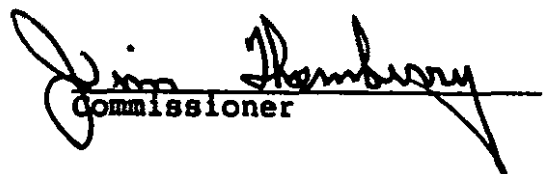
(e) the estimated impact on other local service rates as a result of eliminating four- and eight-party service, including calculations and assumptions used to support this estimate.

Done at Frankfort, Kentucky, this 30th day of May, 1991.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF CONTEL OF)
KENTUCKY, INC.'S PROVISION OF) CASE NO. 90-167
TELEPHONE SERVICE AND SERVICE)
QUALITY)

O R D E R

BACKGROUND

This case was established by Commission order dated June 22, 1990 to investigate numerous complaints from customers of Contel of Kentucky, Inc. ("Contel") including county and other public officials. The majority of the complaints addressed the inability of some rural customers to obtain one-party service in lieu of four-party service and the imposition of monthly mileage charges of \$1.25 per 1/4 mile for one-party service beyond base rate areas. We have heretofore expressed our concerns about the complaints and recognize that upgrading Contel's system would not likely be accomplished without cost.

On July 6, 1990, we ordered Contel to notify each of its customers via first class mail or bill insert of the investigation, inviting their participation and intervention in the proceeding.

The Attorney General of the Commonwealth of Kentucky, by and through his Utility and Rate Intervention Division, as well as residential patrons Lena Creech and Doris Bush, and Harlan County

Judge/Executive Delzinna Belcher are full intervenors and participated in the hearing in this case. In addition, several other Contel subscribers requested and were granted full intervention and numerous others requested and were granted limited intervention. While the overwhelming majority of these subscribers filed comments complaining about their four-party telephone service, some Contel subscribers filed letters indicating that their current four-party service was satisfactory.

By order dated October 11, 1990, a procedural schedule was established setting filing dates for data requests, responses and prefiled testimony, as well as setting a hearing for December 5, 1990.

DISCUSSION

Contel is a local exchange telephone company offering service in 42 exchanges in Kentucky. In 1985, Contel began a one-party upgrading program which included the elimination of mileage charges. It selected exchanges based on growth requirements, maintenance costs, service levels and the opportunity for operating expense reductions.¹ As of the end of 1990, 26 exchanges had been upgraded, with an additional exchange upgrade scheduled for completion in the first quarter of 1991.² However, 7,971 access lines, or 11.09 percent of Contel's total access

¹ Darden Direct Testimony and Exhibits filed November 30, 1990.

² Ibid., page 3.

lines, remained on four-party service in late 1990, and mileage charges were billed to 3,664 one-party access lines beyond the base rate area.³

Contel claimed that additional conversions should be implemented based on Contel's financial abilities and ongoing business planning.⁴ Contel admitted it was not committed to providing 100 percent one-party capability in all exchanges, but that it would phase in one-party conversion consistent with future planned upgrades if financial considerations were not prohibitive and customer demand favorable.⁵ Contel argued that if the Commission found an expedited conversion to be in the public interest, cost recovery should be made through a rate additive.⁶

The genesis of this proceeding was numerous complaints received by the Commission from Contel subscribers, primarily in 7 exchanges referred to as the Bee Springs Complex. In general, the complaints focused on high telephone bills due to mileage charges and difficulties in gaining access to the network because of bottlenecks on four-party lines. Contel submitted proof that four-party service does not inherently preclude subscribers from emergency 911 services, nor does it cause service problems such as line noise or inadvertent disconnection. Other proof indicated

³ Ibid., pages 3 and 4.

⁴ Duyen Le Direct Testimony filed November 30, 1990, page 4.

⁵ Wayne Bowen Direct Testimony filed November 30, 1990, page 5.

⁶ Duyen Le Direct Testimony filed November 30, 1990, page 4.

that advantages would accrue to subscribers if the modernization took place, including improvements in transmission quality, the elimination of operator intervention on long-distance calls, and the possibility of using answering machines and cordless telephone sets.

Contel's proof indicated that the estimated costs of modernization of the 14 exchanges in question would be approximately \$34.5 million. However, engineering studies have not been prepared to accurately project upgrading cost. The preliminary estimates include the change out from analog equipment to digital and the replacement of existing cable with fiber optics. According to Contel, this estimated cost results in an increase in basic local service rates of \$6 per subscriber per month to be spread over the entire Contel subscriber base. The cost to modernize the 7 exchanges in the Bee Springs Complex was estimated by Contel to be approximately \$21 million. These cost estimates are based on "broad gauge," or historical cost, estimation techniques. The Commission is not convinced that these costs would actually materialize.

Contel asserted that it could not complete modernization of the 14 exchanges in less than 3 years. The Bee Springs Complex modernization could be completed in 12-18 months.

It is apparent that Contel had no plans through 1993 to modernize any of the exchanges in question except the Clarkson exchange. Plans to modernize the Bee Springs Complex had previously been put on hold; however, because of this proceeding, Contel decided to survey subscribers in the Bee Springs Complex

regarding their desire for 100 percent one-party capability. Based upon the assumption that 51 percent of the subscribers surveyed would opt for such service, Contel planned to begin modernization in the latter part of 1991.

The Commission has considered the numerous problems associated with the provision of four-party service, eight-party service, and mileage charges in Contel's service area. The Commission finds that it is unreasonable for Contel to continue the provision of four- and eight-party service. In addition, because Contel's tariff requires that mileage charges be imposed on one-party service offered outside of the base rate area, the Commission believes that these mileage charges are also unreasonable.

The Commission is concerned that all of the citizens of Kentucky are not able to receive state-of-the-art telecommunications service, particularly in an era of emerging technologies and a plethora of services now available in other areas of the Commonwealth. We are not willing to accept a telecommunications infrastructure in this state which is unable to provide its citizens with the highest level of telephone service possible. The provision of quality telephone service is not possible without investment in up-to-date facilities and equipment.

Contel should upgrade all four- and eight-party service and eliminate mileage charges by no later than July 1, 1994. The Commission is aware of the construction and investment required to upgrade Contel's system, and finds that such construction is

needed and in the public interest. Contel should file whatever applications it deems necessary for rates to recover the costs of upgrading service and eliminating mileage charges.

By separate Orders, the Commission will initiate investigations into the elimination of all four- and eight-party service in Kentucky for all local exchange telephone companies currently providing such service.

IT IS THEREFORE ORDERED that:

1. Within 90 days of the date of this Order, Contel shall file detailed construction plans and specifications to modernize the 14 exchanges discussed in this Order to eliminate four- and eight-party service as well as mileage charges.

2. Subsequent to the beginning of construction, Contel shall file quarterly construction progress reports.

3. The construction ordered herein shall be completed no later than July 1, 1994. By July 1, 1994, there shall be no four- or eight-party service or mileage charges in Contel's service area.

4. Contel shall file any applications concerning rates that it deems necessary to enable it to accomplish the construction ordered herein in the time frame specified.

Done at Frankfort, Kentucky, this 1st day of April, 1991.

By the Commission

ATTEST:


Executive Director