

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF AT&T OF THE SOUTH CENTRAL)
STATES, INC. FOR REDUCED REGULATION)
OF INTRASTATE TELECOMMUNICATIONS) CASE NO. 92-297
SERVICES)

O R D E R

IT IS ORDERED that AT&T Communications of the South Central States, Inc. ("AT&T"), Sprint Communication Company L.P. ("Sprint"), and other intervening parties, where applicable, shall file the original and 12 copies of the following information with the Commission no later than February 12, 1993, with a copy to all parties of record. 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. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If the information cannot be provided by the stated date, the

parties should submit a motion for an extension of time stating the reason a delay is necessary and a date by which the information will be furnished. Such a motion will be considered by the Commission.

Questions for AT&T

1. What proportion of existing capacity in Kentucky is devoted to common carrier traffic? Provide a map illustrating and distinguishing common carrier and private carrier routes in Kentucky. Also, provide a table listing the ownership of the private carrier routes, if known.

2. With reference to AT&T's response to Item 14 of the Commission's November 6, 1992 Order, provide the following information:

a. Mark P. Sievers' testimony, filed on behalf of Sprint, page 12, lines 7 and 8, indicates that AT&T has 84 percent of the residential market share and 50 percent of the business market share. Does AT&T agree with those market share amounts? If not, state the correct market shares.

b. AT&T states it does not believe it is appropriate to consider separately residential and business competitive intensity. Based upon the difference in the two markets why should the Commission find there are not differences in competitive intensity? Elaborate.

c. AT&T states that consistency in regulatory methods for business and residential segments should be maintained. Assuming the Commission determines competitive pricing is

appropriate for business offerings only, would AT&T prefer to forego competitive business pricing to maintain consistency with rate of return ("ROR") pricing for residential regulation? Explain.

d. AT&T states that it has not considered maintaining tracking data by business share and residential share, and that such information is not necessary to meet market needs. Is knowledge of its respective business and residential market shares of no practical business importance? Explain. Reconcile this statement with the efforts in other competitive industries where businesses attempt to determine accurately both the numerical market share and the demographics of the market share.

3. With reference to AT&T's response to Item 33(c) of the Commission's November 6, 1992 Order:

a. AT&T states that it does not manage its long-distance business based upon any state's intrastate earnings. Will negative earnings in Kentucky have any bearing on a decision to file a Kentucky rate case? Explain.

b. State and explain the factors AT&T would consider in its decision to file a rate case in Kentucky.

4. With reference to L.G. Sather's prefiled testimony, page 11, line 23 through page 12, line 4:

a. Explain the statement that regulated utilities may increase their "bottom line" merely by increasing aggregate investment. Reconcile this statement with the normal rate-making procedure which would disallow a return on unnecessary or superfluous investment.

b. Explain the statement that there is little incentive to reduce operating expenses as they are recovered dollar for dollar. Reconcile this statement with the normal rate-making procedure that would disallow recovery of unnecessary or superfluous operating expenses.

5. With reference to L. G. Sather's prefiled testimony, page 13:

a. Provide any studies or calculations to support the statement "traditional utility rate base rate-of-return regulation when applied to today's AT&T does not have the same high level of correlation between consumer prices and investment that existed prior to divestiture."

b. Has the correlation between investment and operating income changed since divestiture? Elaborate and provide any supporting calculations or studies.

c. Explain how the statement that, "required prices of the utility's services were closely related to the level of investment in plant," reflects consideration of service usage. For example, if an investment generated sufficient usage of services, actual services price per unit might decrease even though operating income requirements would increase.

6. Assuming AT&T's petition to reduce reporting requirements were granted in full and if in the future the Commission found it necessary to resume regulation of AT&T, discuss the problems AT&T would encounter in reimplementing the current reporting requirements.

7. Under FCC price cap regulation, there are different price cap plans for different segments of the market in recognition of the different consumer toll service markets. Explain why Kentucky should not adopt a regulatory scheme consistent with varying service markets.

Questions for James K. Sharpe

8. In Administrative Case No. 323, Phase I,¹ the Commission adopted the regulatory program established in Administrative Case No. 273² for the intraLATA market. Thus far in this case, AT&T's filings have dealt with reduced regulation in the interLATA market and the justification for it. Clearly state AT&T's request for reduced regulation in the intraLATA market and the justification for it.

9. In your testimony you identify the factors the Commission considered in designating AT&T a dominant carrier. Was more importance given to one factor than another? If yes, rank the factors in importance and give the rationale. If not, give reasons why factors were equally important.

Questions for Sprint

10. On page 8 of its prefiled testimony, Sprint states that there is "a good deal" of evidence that the residential market is

¹ Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme For Completion of IntraLATA Calls By Interexchange Carriers, and WATS Jurisdictionality.

² Administrative Case No. 273, An Inquiry Into Inter- and IntraLATA Intrastate Competition in Toll and Related Services Markets in Kentucky.

subject to less competition than the business market. Provide copies of all articles, studies and other material which support this assertion.

11. On page 8 of its prefiled testimony, Sprint states that within any market segment, there are substantial numbers of customers who effectively cannot be lured away from AT&T, thus creating "pockets" of ineffective competition.

a. Does Sprint have every opportunity to contact and attempt to capture any existing or potential customer in the residential market? Explain.

b. Are there any impediments or barriers hampering Sprint's efforts to capture these customer "pockets," aside from apparent customer tastes and preferences? Explain.

c. Explain why a market is any less competitive if a firm is unable effectively to capture a competitor's customers or to compete on a nonprice basis by stressing product quality, service, convenience, reliability.

d. Explain why number portability is the key to making the 800 business market competitive.

12. On page 10 of its prefiled testimony, Sprint indicates that AT&T captured large percentages of the revenues generated by customers who indicated that their choice of long-distance carriers was primarily motivated by their resistance to change. Conversely, AT&T's share of revenues generated by price sensitive customers is much lower. Although consumers' preferences and tastes will affect

their demand for a specific product versus close substitutes, explain how consumers determine the competitiveness of a market.

Questions for AT&T and All Interexchange Carrier Intervenors

13. Does the effective competitiveness of a market depend upon factors other than firms' equal opportunity to compete for customers? Explain.

14. Are all Interexchange Carriers ("IXCs") able to compete on an equal basis for all existing toll service customers in Kentucky in the inter- as well as intraLATA markets? If not, identify the customer group(s) for which you are not able to compete with other IXCs on an equal basis and specifically explain why you are unable to do so.

15. For Message Toll Service ("MTS") and all other service offerings in Kentucky since divestiture, provide a graph and table listing rates, contribution, dates of rate changes, corresponding access charges and dates of access charge changes. Designate whether the service is primarily marketed to residential or business customers.

16. For MTS and all other services provide a table listing total annual minutes of use, revenue generated, access charges paid and contribution or profit.

17. Provide a table and map documenting the location of every point of presence that you currently have in Kentucky, as well as any that are in your construction planning cycle. Include targeted completion dates for projected projects.

18. List the exchanges you serve using feature group D for call origination.

19. List the exchanges you serve using feature group A or B for call origination.

20. List each Local Exchange Carrier to which you have made a bona fide request, since divestiture, seeking to have it upgrade its network from feature groups A or B to feature group D and the data upon which each such request was made.

Done at Frankfort, Kentucky, this 15th day of January, 1993.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:


Executive Director