

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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| GTE SOUTH INCORPORATED FOR AUTHORITY TO |) | |
| BECOME A CATEGORY A TOLL PROVIDER IN THE |) | CASE NO. 93-194 |
| STATE OF KENTUCKY |) | |

O R D E R

On April 30, 1993, GTE South Incorporated ("GTE South") made a tariff filing with the Commission. The purpose of the tariff filing was to permit GTE South to become a Category A intraLATA¹ toll carrier. On May 21, 1993, the tariff filing was suspended to allow additional time for investigation. On August 9, 1993, South Central Bell Telephone Company ("South Central Bell") was made a party to the investigation due to financial agreements between it and GTE South that would assist GTE South's entry into the intraLATA toll market. On November 12, 1993, an informal conference was held. The informal conference was attended by members of the Commission's staff and representatives of GTE South and South Central Bell.²

GTE South and South Central Bell have responded to all interrogatories propounded by the Commission. No public hearing has been held since the parties agree that the written record as it stands contains all information necessary for a decision by the Commission.

¹ LATA is an acronym for Local Access and Transport Area.

² A staff memorandum concerning the informal conference was entered into the record on November 23, 1993.

In Administrative Case No. 323,³ the Commission approved a revised intraLATA toll and access services settlement plan based on "bill and keep" concepts that replaced a prior settlement plan based on revenue pooling. The revised settlement plan was jointly sponsored by all local exchange carriers, except Cincinnati Bell Telephone Company ("Cincinnati Bell").⁴ It governs toll and access services settlements among the local exchange carriers.

The revised settlement plan classified local exchange carriers into two groups: Category A and Category B carriers. In general terms, Category A carriers provide toll services and Category B carriers provide access services. At the time, South Central Bell was the only carrier opting for Category A status. The revised settlement plan, however, contained provisions allowing Category B carriers to become Category A carriers. The Commission required prior approval to a change in any carrier's status.

The revised settlement plan as it now exists, which would be modified by GTE South's application, is sometimes referred to as an originating responsibility plan or primary carrier plan. Currently, South Central Bell is responsible for the transport and termination of toll calls originating in its own and the service areas of all other local exchange carriers, although some intracompany toll switching occurs. GTE South proposes to assume

³ 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.

⁴ Cincinnati Bell serves an unaffiliated market area. In effect, Cincinnati Bell's service area is a LATA unto itself.

responsibility for the transport and termination of toll calls originating in its own and the service areas of other local exchange carriers "subtending" its toll facilities. The change would be transparent to customers from a call completion standpoint. Also, at least initially, GTE South proposes to charge its customers the same message toll rates now charged by South Central Bell. GTE South, however, proposes company-specific optional calling plans and WATS/800 usage rates. Optional calling plans are generally specific to each local exchange carrier and GTE South cannot accommodate South Central Bell's current WATS/800 billing structure.

GTE South contends that it should be allowed to enter the intraLATA toll market to position itself for existing and expected competition through providing its own toll services. IntraLATA competition now extends to "10XXX" and other special dialing patterns, WATS/800 services, private line services, and operator services. Whether and when it may be extended to include "1+" equal access dialing is pending before the Commission in Administrative Case No. 323.

The transition from a Category B to a Category A carrier involves some risk. Consequently, it is not clear to the Commission whether GTE South's shareholders or ratepayers will benefit from a transition. A Category B carrier is essentially indifferent to which toll carrier transports a call originating or terminating in its service area because it will derive access revenues in any case that will not vary substantially between

cases. A Category A carrier cannot be indifferent. At least in the short-term, when a Category A carrier loses a unit of toll traffic to a competitor its revenues will decrease by the margin between its toll and access services rates. The short-term revenue loss can be regained over time through growth in retained toll services demand and increased access services demand.

The most controversial aspect of this case is the "make-whole" or transition payments from South Central Bell to GTE South. Based on information for the period March 1992-September 1993, the payments would be \$928,000 per month or \$11,136,000 per year, subject to any true-up that may be necessary prior to actual implementation.⁵ It is important to note, however, that the transition payments are not an increased expense to South Central Bell. Essentially, they represent the difference between access services and network expense settlements GTE South receives as a Category B carrier and net toll services revenues it would receive as a Category A carrier.

The agreement between GTE South and South Central Bell specifies that transition payments will be made until intraLATA 1+ equal access dialing capability is implemented in a South Central Bell central office.⁶ At that point, payments would be reduced 25 percent. Payments would be reduced an additional 50 percent during the following year in 25 percent increments at six month intervals.

⁵ Transition payment analysis update filed on November 16, 1993.

⁶ Amendment to Exhibit C of the Restructured Settlement Plan, filed on June 15, 1993.

Payments would be phased-out at the end of 24 months. At the informal conference, South Central Bell indicated its desire to re-negotiate transition payments in the event intraLATA 1+ equal access competition is not implemented or is delayed for an extended time.

The transition payments can be viewed as a subsidy that allows GTE South to enter the intraLATA toll market without the need for increased rates. On the other hand, they result from settlement anomalies that date back to divestiture and which have not been corrected through rate case activity or earnings reviews. On balance, the Commission concludes that GTE South's application should be approved since South Central Bell has agreed to make transition payments that maintain the status quo relative to each company's intraLATA toll and access services revenue streams. At the same time, however, GTE South should explore ways to insulate its local exchange service customers from any negative effects of its decision to participate in the intraLATA toll market, including the earnings effect of transition payments elimination.

Implementing the procedures and systems necessary to Category A carrier status cannot be done immediately; lead time is required. The Commission has been advised by the parties that March 1, 1994 would be a reasonable implementation date.

IT IS THEREFORE ORDERED that:

1. GTE South's application to become a Category A carrier is approved, effective March 1, 1994.

2. GTE South shall file the necessary tariff pages to implement toll rate schedules described in this case no later than February 1, 1994.

3. GTE South and South Central Bell shall advise the Commission as to any renegotiation of Amendment to Exhibit C of the Restructured Settlement Plan and any renegotiation of the transition payments described therein within 10 days of the conclusion of any such renegotiations.

4. The results of any renegotiations described in the above paragraph shall be subject to Commission approval.

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

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director