

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of

AN INVESTIGATION INTO THE ECONOMIC)
FEASIBILITY OF PROVIDING LOCAL) ADMINISTRATIVE
MEASURED SERVICE TELEPHONE RATES) CASE NO. 285
IN KENTUCKY)

O R D E R

Background

In a number of recent rate cases the Public Service Commission ("Commission") has expressed its concern with the rapid expansion of local measured service ("LMS")* without a clear policy mandate from the Commission. The reasons for these concerns have been thoroughly documented by Commission Orders in Case No. 8847, Notice of South Central Bell Telephone Company of an Adjustment in its Rates and Charges, and in Case No. 8859, Adjustment of Rates of General Telephone of Kentucky. As a result of these concerns, the Commission has placed a moratorium on the further expansion of LMS in Kentucky and has given notice to regulated exchange telephone companies that it does not intend to approve additional offerings until a proper evaluation of the costs and benefits of LMS is conducted.

Major alterations in the manner in which telephone exchange companies charge for their services have an impact on the welfare of most telephone consumers. It is the Commission's responsibility to determine if its regulatory goals of efficiency,

*General Telephone Company calls its version of LMS Usage Sensitive Service ("USS").

equity and universal service will be positively promoted or adversely affected by the adoption of new pricing philosophies. To justify a fundamental change in telephone pricing policy such as LMS, any significant benefits from such a policy have to be identified, quantified and then compared with any private and social costs associated with it. In order for the Commission to make a proper determination, it must have the appropriate data and analyses which will permit it to evaluate the impact of LMS. The records in Case No. 8847 and Case No. 8859 illustrate the current sparsity of this type of information and the necessity for developing it. The Commission intends to fill that void with this proceeding. Therefore the Commission is establishing this docket for the express purpose of conducting an LMS research project to develop information and analyses required for proper evaluation of LMS. In addition, this Order will implement the first phase of that project.

Since the issuance of the Orders in Case No. 8847 and Case No. 8859, South Central Bell Telephone Company ("Bell") and General Telephone of Kentucky ("General") have expressed an interest in participating in a Commission research project concerning LMS. Currently, Bell is offering optional LMS in a limited number of exchanges and has stated its intention to expand the service to additional exchanges as technology permits. Though General is not offering LMS in Kentucky, it has indicated its intention to propose mandatory LMS in a number of Kentucky exchanges in 1985. Due to their willingness to participate and the resources (i.e., personnel and equipment) available to Bell

and General, the Commission will select these companies for the initial LMS research project. Furthermore, the Commission does believe that the divergent LMS implementation philosophies of Bell and General will yield important information on the relative merits and impacts of the two approaches to LMS on consumers.

In the comments received from the informal conference on LMS research, Continental Telephone Company ("Continental") indicated its desire to proceed with limited research on LMS in its territory. Continental proposed to concentrate its research effort on determining the revenue impact and customer acceptance of LMS rate structures. The Commission appreciates Continental's proposal; however, the Commission does not intend to proceed with LMS research of such limited scope. If Continental does wish to proceed with an LMS research project the Commission will place the same study requirements on Continental as it has on Bell and General. Realizing this requirement if Continental should decide to proceed with its own research project then Continental should notify the Commission of its intentions by November 26, 1984.

As phase 1 of the project, the Commission will require Bell and General to prepare a separate research proposal for its approval. This proposal should provide the research objectives, scope and methodologies to be utilized in the experiment. The Commission considers certain information and data to be essential to a proper evaluation of usage sensitive prices. These requirements are stated in Appendix A of this Order. General and Bell will be required to address in their research proposals how they intend to develop these data for the Commission's consideration.

Phase 1 of the LMS research project will be complete at such time as the research proposals are approved by the Commission. A timetable for the remaining phases will be issued to all parties for planning purposes at the end of phase 1.

The Commission envisions using the results of the proposed LMS research project in the development of a statewide telecommunications policy on usage sensitive pricing. To ensure that all interested parties are thoroughly familiar with the particulars of the LMS research project, the Commission will establish an oversight committee to review the research at the outset and on an ongoing basis. This oversight committee will be composed of representatives from exchange telephone companies within Kentucky as well as other parties expressing an interest in the project. The oversight committee's activities will be coordinated by Commission staff. Periodic meetings will be held to review the progress of the LMS project and to receive reports on technical matters dealing exclusively with the research. The oversight committee will have ample opportunity to provide comments, criticisms and make recommendations to both the Commission and the companies performing the research. However in all circumstances the Commission will retain final control over the LMS project. Close cooperation is both anticipated and required for the experiment to achieve acceptable results.

The Commission will require that any party desiring membership on the oversight committee file a written request with the Commission Secretary by November 26, 1984, requesting representation on the committee. This request should state the group

represented, its interest and the level of technical participation anticipated by the requesting party. Though the Commission encourages all interested parties to participate in the technical aspects of the research, it is the Commission's intention to keep the oversight committee to a manageable size. Therefore, if the Commission receives a large number of requests for representation, it may split the oversight committee into a technical group and an advisory group to better reflect each party's expressed interest in the research. The Commission coordinator, Jim Sharpe, will schedule an organizational meeting of the oversight committee for December 4, 1984, at 10:00 a.m., Eastern Standard Time.

IT IS THEREFORE ORDERED that an LMS Research Project be and it hereby is established for the purpose of developing information and analysis of the cost and benefits from usage sensitive telephone rates in Kentucky.

IT IS FURTHER ORDERED that Bell and General shall prepare and file research proposals to address the Commission information requirements as set forth in Appendix A of this Order.

IT IS FURTHER ORDERED that an LMS Oversight Committee be and it hereby is established in accordance with the discussion as set forth in the body of this Order.

IT IS FURTHER ORDERED that an organizational meeting of the LMS Oversight Committee be and it hereby is scheduled for December 4, 1984, at 10:00 a.m., Eastern Standard Time, in the Commission offices at 730 Schenkel Lane, Frankfort, Kentucky.

Done at Frankfort, Kentucky, this 15th day of November, 1984.

PUBLIC SERVICE COMMISSION

Richard D. Hemmick
Chairman

W. Ch. [unclear]
Vice Chairman

[Signature]
Commissioner

ATTEST:

Secretary

APPENDIX A

1. Each participating company shall provide an explanation of the criteria used in selecting exchanges for the project. Where sampling is used to develop data, a complete explanation of the sampling technique and level of statistical significance achieved shall be provided by company.
2. Participants shall develop usage data on an exchange by exchange basis for those exchanges in which they intend to implement the LMS research project. This data should be developed for pre- and post-LMS experience. The usage data shall reflect (1) number of calls, (2) duration, (3) time of call, (4) distance of calls and (5) day of week. Furthermore, the Commission will require the above-styled information according to the following demographic or economic subsets: (1) family income, (2) race, (3) age distribution, (4) household size, (5) sex of household head and (6) occupation of household head.
3. Participating companies shall develop demand elasticity estimates for (1) access, (2) on-peak usage and (3) off-peak usage. These estimates are to be used in conjunction with this LMS research project. The Commission does not expect to use this information in determining revenue requirements.
4. Participating companies shall develop cost-of-service information showing in detail the following information:
 - a. Identification and cost of all traffic sensitive plant used for local exchange calling;

- b. Identification and cost of all non-traffic sensitive plant used for local exchange calling;
 - c. Detailed estimates of all incremental accounting, billing, operators, data processing, and other administrative costs resulting from the implementation of measured service rate on (1) an optional basis, and/or (2) a mandatory basis.
 - d. Estimated usage and non-usage sensitive costs for local calling broken down by types of central office.
5. Participating companies shall provide complete documentation of any incremental cost model or models used in determining cost of service estimates.
 6. Each participating company shall provide forecasts of local exchange usage for each exchange studied based on continuation of current flat rate service versus implementation of usage sensitive service for the study period. In addition, the participating company shall provide an assessment of the effects of each forecast on the company's plans for central office and outside plant investment in the experimental exchanges.
 7. Each participating company shall provide a complete explanation of its forecasting methods for local exchange usage. Such explanation shall include an explicit treatment of all assumptions used in the forecasting methodology.
 8. Each participating company shall document what it perceives as potential benefits which will accrue to consumers from

LMS. Where possible, the project should be designed so as to yield quantitative measures of these potential benefits.

9. Each participating company shall document what it perceives as potential social costs resulting from implementation of LMS. Where possible, the project should be designed so as to yield quantitative measures of these costs.