

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

THE ESSX-1/MULTILINE TARIFF)
FILING OF SOUTH CENTRAL BELL) CASE NO. 9098
TELEPHONE COMPANY)

ORDER
Introduction

On June 20, 1984, South Central Bell Telephone Company ("SCB") filed a tariff with the Commission to establish an ESSX-1/Multiline service option, to be effective July 20, 1984. On July 20, 1984, the tariff was suspended to allow the maximum statutory time for investigation and possible hearing.

Discussion

SCB introduced ESSX-1 service in 1978 on a per line basis and has promoted ESSX-1 service as a flagship product. The ESSX-1 tariff filing before the Commission would make ESSX-1 available on a multiline basis in package sizes of 24, 48, 96, 192, and 384 lines, under contract terms of 36, 60, and 84 months. In addition, the tariff filing would extend the concept of Customer Access Line Charge ("CALC") offsets approved by the Commission in Case No. 9076, The Centrex and ESSX-1 Customer Access Line Charge Credits and Surcharges Tariff Filing of South Central Bell Telephone Company.

The Commission has several concerns relative to the ESSX-1/Multiline tariff filing and will order SCB to file a

memorandum of opinion addressing the Commission's concerns. Also, memoranda of opinion are invited from any other interested parties. The Commission strongly advises SCB that insofar as possible it should include available quantitative information relative to the Commission's concerns in its memorandum of opinion.

The Commission's concerns are as follow:

1. It is the Commission's understanding that ESSX-1 service was developed as a replacement for Centrex-CO and as a competitor with Centrex-CU and other PBX systems. Furthermore, it is the Commission's understanding that over time, as Centrex-CO installations and lines in service have declined, ESSX-1 installations and lines in service have increased. The Commission seeks comment and information on the extent to which migration from Centrex-CO to ESSX-1 has occurred in the past and, also, the extent to which migration can be expected in the future from Centrex-CO and ESSX-1 to ESSX-1/Multiline, and the revenue impact of such migration, over at least a 5-year planning period.

2. It is the Commission's understanding that SCB anticipates that ESSX-1/Multiline will compete with and penetrate the Centrex-CU and other PBX markets. The Commission seeks comment and information on the extent to which SCB anticipates Centrex-CU and other PBX market penetration and anticipated revenue stream from such penetration, over at least a 5-year planning period.

3. It is the Commission's understanding ESSX-1/Multiline includes pricing advantages as compared to Centrex-CO and ESSX-1. The Commission seeks comment and information on the extent to which such pricing advantages exist, both in terms of discrete rate elements and in terms of customer billing for systems of similar size and operational characteristics.

4. It is the Commission's understanding that the ratio of ESSX-1 lines to Network Access Registers ("NARs") is approximately 6:1.¹ It is also the Commission's understanding that the ratio of Centrex-CO lines to PBX lines is approximately 7:1. The Commission infers from this information that ESSX-1 and Centrex-CO are significantly more outside plant and central office equipment-intensive than customer provided PBX systems, and that ESSX-1/Multiline can be expected to cause significant increased outside plant and central office investment. The Commission seeks comment and information on the extent to which ESSX-1/Multiline can be expected to cause increased outside plant and central office investment, over at least a 5-year planning period. In addition, the Commission seeks comment and information on the revenue requirement that would be associated with such increased investment.

¹ A Network Access Register or NAR is a central office software function that restricts ESSX-1 exchange access. Thus, given the stated ratio, an ESSX-1 customer with 60 lines would have 10 NARs, meaning that only 10 lines in the ESSX-1 system could access the exchange network at any given time. This is analogous to the exchange access restriction performed by PBX lines relative to the total number of main stations in a PBX system.

5. It is the Commission's understanding that ESSX-1/Multiline contract options are designed to allow "rate stabilization" to ESSX-1/Multiline customers. The Commission seeks comment on its statutory and regulatory authority to grant such rate stabilization plans.

6. The ESSX-1/Multiline tariff provides that "Rates, charges, liabilities and additional regulations, if applicable, may be developed on an individual case basis for Multiline Service for ESSX-1 systems exceeding four hundred (400) main station lines" under special assembly agreements.² KAR 807 5:011 Section 12 provides that:

Every utility shall file true copies of all special contracts entered into governing utility service which set out rates, charges or conditions of service not included in its general tariff. The provisions of this regulation applicable to tariffs containing rates, rules and regulations, and general agreements, shall also apply to the rates and schedules set out in said special contracts, so far as practicable.

It is the Commission's understanding that SCB does not intend to file ESSX-1/Multiline special assembly agreements and that it may object to a requirement that ESSX-1/Multiline special assembly agreements be subject to Commission approval. The Commission seeks comment on its obligation to enforce or forbear (1) the regulatory requirement that SCB file special contracts and (2) the regulatory requirement that special contracts are subject to Commission approval.

² General Subscriber Services Tariff, A12. ESSX-1 Service, Original Page 33.

7. The ESSX-1/Multiline tariff does not provide for ESSX-1/Multiline service beyond five miles from a serving central office. KRS 278.170(1) provides that:

No utility shall, as to rates or service, give any unreasonable preference or advantage to any person or subject any person to any unreasonable prejudice or disadvantage, or establish or maintain any unreasonable difference between localities or between classes of service for doing a like and contemporaneous service under the same or substantially the same conditions.

The Commission seeks comment on whether the ESSX-1/Multiline five mile limitation constitutes "unreasonable prejudice or disadvantage." Furthermore, the Commission seeks comment on the issue in light of the fact that no such limitation applies to ESSX-1 on a per line basis and that such an ESSX-1 limitation was disallowed without appeal from SCB in Case No. 9076. As well, SCB should file with the Commission any cost analysis in its possession that may justify a five mile limitation.

8. In an Order in CC Docket No. 78-72, Phase I, MTS and WATS Market Structure, released on February 28, 1983, the Federal Communications Commission ("FCC") established CALC rules for business and residence customers, as a means of recovering interstate non-traffic sensitive revenue requirement. In the Order, the FCC imposed CALCs on Centrex and ESSX-1 service on a per line basis. Subsequent to the Order, SCB, as well as other Bell Operating Companies ("BOCs"), petitioned the FCC to reconsider its imposition of CALCs on Centrex and ESSX-1 service on a per line basis, contending that the Centrex CALC should be

applied on a PBX trunk equivalent basis and that the ESSX-1 CALC should be applied on the basis of NARs. In another Order released on August 22, 1983, the FCC rejected SCB's petition. However, the FCC did grant partial relief to Centrex and ESSX-1 service installed prior to July 27, 1983, through the application of the residence rather than the business CALC. Again, SCB petitioned the FCC to reconsider its position on Centrex and ESSX-1 CALCs. In another Order released February 15, 1984, the FCC rejected SCB's petition and refused to grant any additional relief to Centrex and ESSX-1 service. On May 25, 1984, Centrex and ESSX-1 CALCs became effective.

In its Order of February 15, 1984, the FCC suggested that the problems of Centrex and ESSX-1 revenue erosion and stranded investment cited by SCB and the other BOCs as reason for reconsideration of its Orders was not caused by its access charge plan or the implementation of Centrex and ESSX-1 CALCs, but, instead, by excessive intrastate Centrex and ESSX-1 rates, and that, therefore, SCB and the other BOCs should seek intrastate regulatory review of Centrex and ESSX-1 rates and revenue requirement, with a view toward reductions in intrastate Centrex and ESSX-1 rates where warranted.³

In response to this situation, on May 23, 1984, SCB filed a tariff with the Commission to establish Centrex and ESSX-1 CALC credits. The tariff filing was suspended on June 13, 1984, and

³ See the FCC's Order of February 15, 1984, at pages 11-21.

subsequently approved on June 22, 1984. In effect, the tariff filing equalized Centrex and ESSX-1 and PBX CALCs at an annual intrastate cost of \$163,000.⁴

Given this background, the Commission seeks comment and information on the following: (1) Since the FCC rejected the petitions of SCB and the other BOCs relative to Centrex and ESSX-1 CALC relief and suggested relief through a reduction in Centrex and ESSX-1 intrastate rates, (a) was the Commission's action in approving CALC offsets in C.N. 9076 unlawfully assisting SCB in circumventing the FCC's orders requiring the imposition of an interstate CALC upon Centrex and ESSX-1 users on a per line basis and (b) would approval of the ESSX-1/Multiline tariff proposed present a similar problem of circumvention of the FCC's decision? Distinguish the two situations, if necessary. (2) What is SCB's interstate CALC revenue requirement and in what way do intrastate offsets affect both (a) SCB's interstate CALC revenue requirement and revenue reporting and (b) SCB's intrastate revenue requirement and revenue reporting? (3) What is SCB's anticipated interstate CALC revenue requirement associated with ESSX-1/Multiline over at least a 5-year planning period? (4) What is SCB's anticipated

⁴ See Case No. 9076, The Centrex and ESSX-1 Customer Access Line Charge Credits and Surcharges Tariff Filing of South Central Bell Telephone Company, Attachment 2 to correspondence dated May 23, 1984.

intrastate offset to its interstate CALC revenue requirement associated with ESSX-1/Multiline over at least a 5-year planning period? (5) What is the status of the Joint Board study and recommendations required by the FCC in its Order released August 22, 1983, regarding avoiding adverse effects upon residential local exchange service rates and what solutions, if any, has the Joint Board proposed?


Orders

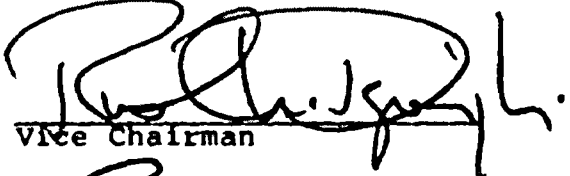
IT IS THEREFORE ORDERED that SCB shall file a memorandum of opinion on each of the items discussed in this Order on or before November 15, 1984.

IT IS FURTHER ORDERED that any interested party desiring to file a memorandum of opinion on any of the issues raised by this Order shall do so by November 15, 1984.

Done at Frankfort, Kentucky, this 2nd day of October, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary