

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)

O R D E R

Procedural Background

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

On November 2, 1984, the Commission issued an Order requesting information and comment from SCB and, also, invited comment from other interested parties. SCB filed its response on November 21, 1984. In addition, General Telephone Company of Kentucky filed comments on November 15, 1984, and Cincinnati Bell Telephone filed comments on November 30, 1984. No other comments were filed by any party.

Discussion

ESSX-1/Multiline is designed as a multiple line version of SCB's existing ESSX-1 service option and would provide virtual private branch exchange ("PBX") service.

PBX is classified as customer premises equipment. Centrex and Centrex-like communications systems such as ESSX-1 and ESSX-1/Multiline are not classified as customer premises equipment. Although similar to PBX, these communications systems are central office rather than customer premises located and controlled.

The central issue involved in the ESSX-1/Multiline tariff filing involves rate design: specifically, SCB's proposal concerning the application of Customer Access Line Charges ("CALCs") ordered by the Federal Communications Commission ("FCC") and designed by the FCC to recover non-traffic sensitive local loop investment assigned to the interstate jurisdiction.

In an Order adopted December 22, 1982, in Common Carrier Docket No. 78-72, MTS/WATS Market Structure ("CC 78-72"), the FCC established CALC rules for residence and business customers. SCB, other Bell Operating Companies, state regulatory commissions, and other parties petitioned the FCC to reconsider its CALC rules in the cases of Centrex and ESSX-1. In part, the petitions were based on Centrex and ESSX-1 rate structure considerations. Also, in part, the petitions were based on the grounds that application of CALCs to Centrex and ESSX-1 as ordered by the FCC would make Centrex and ESSX-1 non-competitive in the PBX market and cause migration from Centrex and ESSX-1 to PBX. The end result of such migration would be erosion in the Centrex and ESSX-1 customer base and, consequently, potentially stranded investment that the general body of ratepayers could be required to support pending

reuse through normal growth in telecommunications demand. Subsequently, on July 27, 1983, the FCC adopted another Order in CC 78-72. In that Order, the FCC refused to modify its CALC rules. However, at the same time, the FCC granted temporary relief to Centrex and ESSX-1 installed prior to July 27, 1983, through application of residence rather than business CALCs through 1989. Also, the FCC referred rate structure considerations to state regulatory commissions and the issue of stranded investment to the Joint Board. SCB and other parties repeteditioned the FCC and the FCC adopted an Order on February 3, 1984, that refused to take any further action concerning Centrex and ESSX-1 beyond that in its July 27, 1983, Order. On May 25, 1984, Centrex and ESSX-1 CALCs became effective.

In its Order establishing CALC rules, the FCC treated Centrex and ESSX-1 lines the same as other common lines. SCB and other parties contended that, in the case of Centrex, CALCs should be based on PBX line ratios rather than the actual number of Centrex lines connected to a central office and, in the case of ESSX-1, that CALCs should be based on the number of Network Access Registers ("NARs") in service rather than the actual number of ESSX-1 lines connected to a central office. The FCC rejected both the PBX line ratio and NAR arguments, based on the conclusions that Centrex and ESSX-1 lines represent non-traffic sensitive local loop investment that does not differ in any significant way from other common line local loop investment and that CALCs are the appropriate mechanism for recovery of non-traffic sensitive local loop investment.

The problem posed by the FCC's action is that Centrex and ESSX-1 become relatively more expensive to consumers than PBX. The disparity results from the fact that although Centrex and ESSX-1 are functionally equivalent to PBX, Centrex and ESSX-1 are more line intensive than PBX. The ratio of Centrex lines to PBX lines in Kentucky is approximately 7:1. The ratio of ESSX-1 lines to NARs in Kentucky is approximately 6:1.

In order to avoid potential stranded investment resulting from customer migration from Centrex and ESSX-1 to PBX, on May 23, 1984, SCB filed a tariff with the Commission to establish a system of CALC credits applicable to Centrex and ESSX-1 systems installed prior to July 27, 1983. The tariff had the effect of making Centrex and ESSX-1 and PBX CALCs equivalent by adopting the PBX line ratio and NAR standards rejected by the FCC. The tariff was suspended on June 13, 1984, and, subsequently, approved on June 22, 1984, 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's approval of Centrex and ESSX-1 CALC credits caused a shift of intrastate revenue to the interstate jurisdiction in the annual amount of \$163,000. The revenue shift occurred as a result of the fact that while the Commission approved intrastate Centrex and ESSX-1 CALC credits, SCB's interstate common line revenue requirement did not change. In the

opinion of the Commission, the revenue shift was reasonable as a means to avoid potential stranded investment and protect Centrex and ESSX-1 embedded revenue stream in the amount of approximately \$2.50 million.

The ESSX-1/Multiline tariff now under consideration would extend the concept of CALC credits approved in the cases of Centrex and ESSX-1 to a new service option and would result in a similar shift of intrastate revenue to the interstate jurisdiction. In the case of ESSX-1/Multiline, according to information provided by SCB, the annual revenue shift would amount to \$363,000, at the end of a 5-year planning period.

The Commission is of the opinion that SCB's proposal concerning the application of CALCs to ESSX-1/Multiline is unreasonable and should not be approved. Unlike the case with Centrex and ESSX-1, there is not now any existing customer base or investment associated with ESSX-1/Multiline. Thus, the salient issues of customer migration and stranded investment that convinced the Commission that CALC credits are necessary and reasonable for existing Centrex and ESSX-1 customers do not arise in the case of ESSX-1/Multiline. The Commission is unwilling to approve CALC credits that apparently serve only to enhance SCB's ability to market ESSX-1/Multiline while imposing an appreciable cost and increased risk to the general body of ratepayers especially when SCB did not provide sufficiently thorough information to answer many of the questions raised by the Commission in its October 2, 1984, Order. The Commission finds that this concern is

sufficient cause to disallow the tariff at this time, although there are other concerns that would need to be addressed if the tariff is refiled.


Orders

IT IS THEREFORE ORDERED that SCB's ESSX-1/Multiline tariff filing be and it hereby is denied.

Done at Frankfort, Kentucky, this 20th day of December, 1984.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Secretary