

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INQUIRY INTO INTER- AND)	
INTRALATA INTRASTATE COMPETITION)	ADM. CASE NO. 273
IN TOLL AND RELATED SERVICES)	PHASE II
MARKETS IN KENTUCKY)	

O R D E R

Phase II of this proceeding was initiated by Order dated December 3, 1984, specifying that formal conferences would be held on December 11, 1984, to address the specific details of consumer education and advertising requirements for AT&T Communications of the South Central States, Inc., ("ATTCOM") and on any other Common Carrier ("OCC"). The conferences would also address OCCs' intraLATA traffic studies. Formal conferences were held, as scheduled, and information requested at those conferences has been filed.

CONSUMER EDUCATION AND ADVERTISING

In the October 26, 1984, Order on Rehearing in Phase I of this proceeding, the Commission determined that the OCCs and ATTCOM would be required to notify current and potential customers of the Commission's policy which prohibits the OCCs and ATTCOM from carrying intraLATA, intrastate traffic. In the case of ATTCOM, however, this requirement was restricted to consumers targeted for presubscription in an office converting to equal access. The OCCs and ATTCOM were also required to instruct

customer relations and sales personnel to provide information regarding the Commission's intraLATA policy in any Kentucky-specific marketing programs or consumer contacts. The Commission stressed that failure to meet these requirements could result in decertification.

The OCCs and ATTCOM submitted individual proposals to meet these requirements. Having reviewed those proposals, the Commission generally agrees that the requirements have been met, with the following exceptions:

1. Notice to Customers or Potential Customers

A. Allnet Communications Services, Inc., ("Allnet")

Allnet proposed to use a brochure, modeled after a brochure used in California, to inform customers or potential customers of the Commission's intraLATA policy. The format and content of the brochure appears adequate. The brochure should be sent to all existing Kentucky customers, as well as potential customers.

B. GTE Sprint Communications Corporation ("Sprint")

Sprint proposed to use one of several brochures it had produced for other states. The format and content of the Georgia brochure appears to be the most appropriate means of communicating the Commission's intraLATA policy, revised to include the following:

1. "Mouseprint" on the back page of the brochure should not be used.

2. The statement reading "Customer using these services may call between, but not within the services areas described in

this pamphlet" should be increased to boldface type and included on the same page as the LATA map.

3. The LATA map should reflect the three largest cities in each LATA.

Distribution of the brochure should be the same as that which is being required of Allnet.

C. ATTCOM

ATTCOM submitted a typewritten notice, including a map, that would be distributed to customers. The format and content of the proposed notice is adequate, revised to include the following:

1. The map should show separated LATAs as in the Sprint brochure and should reflect the three largest cities in each LATA.

Distribution of the notice should be made to all customers in equal access offices.

D. MCI Telecommunications Corporation ("MCI")

MCI submitted brochures modeled after several used in other states. Subsequently, a Kentucky brochure has been submitted. The format and content of the Kentucky brochure is generally adequate, with the following revisions:

1. The LATA map is inaccurate and should be corrected. The map should also show each LATA separately, as in the Sprint brochure. Also, the three largest cities in each LATA should be identified.

Distribution of the brochure should be the same as that which is being required of Allnet and MCI.

2. Sales force and customer contact training

Various training devices and memoranda designed to educate customer relations and sales personnel of the Commission's intra-LATA policy were submitted. The OCCs and ATTCOM are encouraged to continue with all efforts described in their filings and testimony at the formal conference. However, of all the materials submitted, the Commission is convinced that one of the most effective means of conveying that information in a manner which is calculated to minimize the carriage intraLATA traffic is a memorandum from top management to all customer relations and sales force personnel involved with Kentucky customers or potential customers. The memorandum should take the following form:

MEMORANDUM

TO: ALL EMPLOYEES ENGAGED IN KENTUCKY SALES AND CUSTOMER RELATIONS

FROM:

DATE:

SUBJECT: Intrastate Service in Kentucky

By order of the Public Service Commission of the Commonwealth of Kentucky, entered (Insert date), (Insert name) has received a Certificate of Public Convenience and Necessity where-by we have been granted intrastate authority for "interLATA" service. Similar certificates have also been issued to _____, _____ and _____. Because the Kentucky competitive market has now been accurately defined and because sanctions will be imposed for violations, it is mandatory that all sales be strictly limited to the interLATA concept.

What is a LATA?

Pursuant to the divestiture of AT&T, each state was divided into zones known as Local Access and Transport Areas -- "LATAs." There are three LATAs in Kentucky. Each manager will be supplied with detailed LATA descriptions and will also be advised of a South Central Bell point of contact to clarify any questionable city pairs.

The signature of the LATA concept, as it currently is enforced in Kentucky, is that South Central Bell (along with other independent local exchange companies) handle all intraLATA calling, while AT&T, Allnet, Sprint and MCI handle interLATA traffic.¹

How does all this affect the marketing of our services?

1. In selling long distance services, all customers MUST be told that we CANNOT service the intraLATA market and that such calls should be placed with Bell Companies, other local exchange companies or pure WATS resellers certified by the Commission.

2. The customer should be made to understand that _____, _____ and _____ are also not allowed to service intraLATA markets.

What about competitors that have not received certificates?

Any competitor who has not received a certificate and who is attempting to sell intrastate service of any type, with the exception of those WATS resellers already mentioned, should be immediately reported to your supervisor.

But, won't our switch still complete intraLATA calls?

Yes, because of unequal access, our switch will still complete intraLATA calls. The Public Service Commission recognizes that the switches of long distance companies (other than AT&T) can still complete intraLATA calls and, for that reason has imposed severe sanctions for any company that:

1. Actively sells intraLATA service.
2. Advertises or otherwise represents the ability to complete intraLATA calls.

What if I have questions?

All questions regarding the status of the Commission's order should be immediately directed to your supervisor.

In order to protect the legitimate interLATA market for all our Kentucky customers and other [] reps, any [] employee

¹ It should be noted, however, the following pure WATS resellers have been granted intrastate authority and are authorized to carry both interLATA and intraLATA traffic: Telamarketing Communications, Inc., Call U.S. of Kentucky, Inc., Cincinnati Bell Long Distance, Wright Businesses, Inc., d/b/a Long Distance Management, Independent Telephone Company, Multi-Com Systems, Inc., and Kentucky Long Distance Telephone Company.

found selling or otherwise promoting intraLATA calling will be subject to immediate separation.

AGREED TO AND ACCEPTED this _____ day of _____, 1985.

By: _____

Title: _____

TRAFFIC ESTIMATION

In the October 26, 1984, Order on Rehearing in Phase I of this proceeding, the Commission determined that any OCC seeking intrastate interLATA authority in Kentucky would be required to provide estimates of Kentucky intraLATA traffic carried over its network as a precondition to certification. Further the Commission determined that a formal conference would be convened to develop both an estimation methodology and the data required to evaluate the impact of unauthorized intraLATA calling. Finally, the Commission, in its November 20, 1984, Order in Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984, stated its intention to use the methodology developed in this proceeding to determine the jurisdictional split for the Universal Local Access Service ("ULAS") tariff.

Since the Order in Administrative Case No. 273, certificates of convenience and necessity have been awarded to Allnet, MCI and Sprint. In meeting the reporting requirements for certification each OCC has proposed to utilize a methodology similar to what is currently employed for estimating the inter/intrastate traffic split for FCC reporting requirements.

MCI has proposed to extend its current FCC jurisdictional reporting system in order to develop intraLATA estimates for unauthorized calling. To develop its monthly intrastate traffic estimates, MCI sorts the entire universe of calls according to originator address and termination location. Calls terminating in Kentucky are classified as intrastate if the originator's address is also within Kentucky. MCI applies a 15 percent demand adjustment to correct for allegedly misclassified calls or calls actually interstate in origin but incorrectly classified as intrastate to arrive at its intrastate percentage of use. Thus, MCI, to develop the information required by the Commission, proposes to do a second sort, matching mailing addresses of originator with intraLATA termination to determine intraLATA traffic.

Sprint proposed to use a 1 in 60 sample of its traffic and billing information instead of the universe to develop intraLATA traffic estimates. Through the use of various sorting and matching techniques,² Sprint generates a percentage of intrastate calls. To arrive at its level of intrastate calls Sprint adjusts the intrastate raw data downward to correct for allegedly misclassified calls. Sprint contends that a large percentage of its calls would be incorrectly classified if an adjustment was not applied. Finally, Sprint, using the same sorting and matching techniques, will develop the intraLATA estimates from the intrastate results.

² Sprint's methodology is confidential.

Allnet did not propose a methodology but did contend that an adjustment to intrastate traffic would be necessary to correct for misclassified interstate traffic. Allnet stated its methodology was still in development. In order to proceed with its evaluation of unauthorized intraLATA traffic the Commission will require Allnet to provide its methodology by May 15, 1985, and to continue on the same reporting schedule as MCI and Sprint. If changes in methodology are required the Commission will adjust Allnet's schedule accordingly.

The Commission is of the opinion and finds that MCI's and Sprint's basic reporting methodology is acceptable with the exception of the adjustment factor. Though the Commission accepts the possibility that misclassification can occur, the Commission is concerned that neither the correct magnitude nor direction has been captured by the adjustment as proposed by MCI and Sprint. In the comments filed by the OCCs not a single OCC provided an acceptable methodology for estimating the adjustment factor but instead relied primarily on intuition for their adjustments. None of the adjustment factors were developed to recognize the level of misclassification occurring in Kentucky. Additionally, no one denied that the opportunity exists for incorrectly classifying intrastate traffic as interstate traffic in Northern Kentucky and yet no one proposed an adjustment or had made an effort to address the problem. The inconsistency resulting from applying an adjustment factor only to the apparent intrastate traffic is unacceptable to this Commission. No evidence has been proffered which demonstrates that the direction of

any misclassification in Kentucky is heavier on the intrastate side. Furthermore, an additional complication would result from this adjustment since the jurisdictional traffic split will be used in conjunction with the ULAS tariff in Case No. 8838. Both MCI and Sprint use as partial justification for the adjustment the existence of leaky PBXs on their systems. However, since a leaky PBX problem would also apply to ATTCOM, the Commission would be forced to permit ATTCOM to adjust its traffic allocation, thus somewhat offsetting the effect of the adjustment on ULAS allocation. Therefore the Commission will require MCI, Sprint and Allnet to file unadjusted information on its intrastate and intraLATA traffic reports.

In the formal conference considerable discussion was focused on the type and timing of the information to be filed with the Commission. In Administrative Case No. 273 the Commission required each OCC to file estimates of its unauthorized intraLATA traffic within 3 months of its certification or from the final Order in the proceeding whichever was later. However, all of the OCCs indicated in the formal conference that precertification estimates would not be representative of consumer intrastate responses and that their advertising and public information program would not have time to succeed.

The Commission concurs with the OCCs' position; therefore the Commission will require each OCC to file unadjusted estimates of interstate minutes of use, intrastate minutes of use, intraLATA minutes of use, number of interstate calls, intrastate calls and intraLATA calls. This information shall be filed monthly

commencing on May 30, 1985, for a period extending through October 30, 1985. Thereafter the Commission will require the information to be filed quarterly or until such time as the Commission determines that reports are no longer necessary.

IT IS THEREFORE ORDERED that Allnet shall file its reporting requirement methodology on or before May 15, 1985.

IT IS FURTHER ORDERED that MCI and Sprint shall file the information described above monthly beginning May 15, 1985, and continuing until October 15, 1985, and quarterly thereafter.

IT IS FURTHER ORDERED that MCI's proposed reporting methodology be and it hereby is adopted with the exception of the adjustment to intrastate usage as described above.

IT IS FURTHER ORDERED that Sprint's proposed reporting methodology be and it hereby is adopted with the exception of the adjustment to intrastate usage as described above.

IT IS FURTHER ORDERED that the proposed consumer notices of Allnet, Sprint, ATTCOM and MCI be and they hereby are approved, as modified above, with distribution to customers or potential customers as indicated herein.

IT IS FURTHER ORDERED MCI, Allnet, Sprint and ATTCOM sales force and customer contact training procedures be and they hereby are approved, with the additional requirement that the above-described memorandum from top management shall be sent to all customer relations and sales force personnel involved with Kentucky customers or potential customers.

Done at Frankfort, Kentucky, this 2nd day of May, 1985.

PUBLIC SERVICE COMMISSION

Richard D. Wernan
Chairman

Paul H. Smith
Vice Chairman

Leslie Shuck
Commissioner

ATTEST:

Secretary