COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN INVESTIGATION OF TOLL AND ACCESS CHARGE PRICING AND TOLL SETTLEMENT AGREEMENTS FOR TELEPHONE UTILITIES PURSUANT TO CHANGES TO BE EFFECTIVE JANUARY 1, 1984	)))))	CASE NO. 8838

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O R D E R

PROCEDURAL BACKGROUND

The Commission entered its final Order in this proceeding on November 20, 1984. Continental Telephone Company of Kentucky ("Continental"), Cincinnati Bell Telephone Company ("Cincinnati Bell"), ALLTEL Kentucky, Inc. ("ALLTEL"), GTE Sprint Communications Corporation ("Sprint"), AT&T Communications of the South Central States, Inc. ("ATTCOM"), General Telephone Company of Kentucky ("General"), South Central Bell Telephone Company ("South Central Bell") and the Independent Telephone Group[1] filed timely petitions for rehearing. MCI Telecommunications Corporation ("MCI") filed a response in support of various rehearing requests on December 20, 1984, and the Attorney

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[1] Independent Telephone Group: Ballard Rural Telephone Coop., Duo County Telephone Coop., Foothills Rural Telephone Coop., Harold Telephone Company, Highland Telephone Coop., Leslie County Telephone Company, Lewisport Telephone Company, Logan Telephone Coop., Mountain Rural Telephone Coop., North Central Telephone Coop., Peoples Rural Telephone Coop., Salem Telephone Company, South Central Rural Telephone Coop., Thacker-Grigsby Telephone Company, West Kentucky Rural Telephone Coop.

General's Office ("AG") filed a response to Sprint's application for reconsideration on December 21, 1984.

On December 20, 1984, the Commission granted the petitions for rehearing for the limited purpose of allowing further consideration of them. Sprint filed a motion for leave to file a reply memorandum to the AG's response on January 23, 1985. The AG objected to that motion in its response filed January 30, 1985. By Order dated February 4, 1985, the Commission partially addressed the petitions by granting rehearing on certain issues involving billing and collection tariffs. The merits of other issues raised in the petitions for rehearing are addressed herein.

ULAS Tariff

Sprint requests rehearing on the implementation of the Universal Local Access Service ("ULAS") tariff. Among other things, Sprint argues that the ULAS tariff is discriminatory in several respects, contains reporting provisions inconsistent with requirements of the federal jurisdiction, improperly applies to interstate facilities, and is inconsistent with several Commission policy objectives.

On December 21, 1984, the AG filed its response to Sprint's petition. The AG contends that it is "no more than a rehash of arguments already rejected by the Commission," and "does not constitute a basis for rehearing under KRS 278.400."[2] The AG urges the Commission to deny Sprint's petition.

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[2] AG's response to Sprint's application for reconsideration, page 2.

The November 20, 1984, Order in this proceeding drew a clear distinction between the allocation of local network non-traffic sensitive ("NTS") costs to interexchange carriers and the appropriate method of recovering these assigned costs. Indeed, these issues were addressed under different subheadings in that Order. Similarly, the Commission distinguished between the desirability of recovering NTS revenue requirements assigned to interexchange carriers via so-called "flat" rates and the specific attributes of any particular tariff proposal accomplishing this. According to the November 20, 1984, Order,

> . . .the Commission does see merit in the general principle of recovering the revenue requirement associated with NTS plant through flat rates, wherever possible. This is currently being done in the case of end users through the payment of local exchange rates. Ideally, recovery of intrastate toll-related NTS costs allocated to interexchange carriers should also be recovered through flat rates. Abstracting from any issue of cost allocation, if it is appropriate to levy flat rate charges on end users to recover assigned revenue requirement, it is similarly appropriate to levy flat rate charges on interexchange carriers to recover the assigned portion of costs.[3]

Sprint's petition does not directly challenge the Commission's determination that intrastate toll services should continue to contribute to the NTS costs of local networks, and that flat rate charges on interexchange carriers is an appropriate mechanism for these carriers to compensate local exchange carriers for the use of their NTS facilities. In any event, Sprint has presented no new evidence or arguments to warrant rehearing

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[3] November 20, 1984, Order, page 31.

of these determinations. What Sprint has presented is argument that the ULAS tariff adopted by the Commission has several shortcomings that were inadequately investigated during hearing or not fully considered by the Commission in its deliberations. These arguments raise concerns that are specifically related to the "channel charge" tariff as proposed by Dr. Ben Johnson, witness for the AG.

The Commission was, and is, fully aware that several potential problems exist with the ULAS tariff. However, the Commission found that every proposal advanced in this proceeding concerning the treatment and recovery of NTS costs had shortcomings. The ULAS tariff was the only proposal that both required interexchange carriers to compensate local exchange carriers for their use of NTS plant and accomplished this through flat rate payments. It was the Commission's opinion that the desirability of these fundamental aspects of the ULAS tariff outweighed possible problems resulting from the choice of the base (in this case, channel capacity) upon which flat rates are levied. Therefore, the Commission chose to adopt the only proposal before it embodying these aspects with the full realization that modification of the specific details of the proposed plan might be desirable or necessary.

In its attack on the ULAS tariff, Sprint is treating this tariff as if it were in its final form. This is not the case, and the Commission clearly did not intend the tariff to be implemented without the opportunity to--while retaining the basic flat rate structure--incorporate adjustments and/or modifications that

could alleviate or eliminate any undesirable properties. In adopting Dr. Johnson's approach the Commission recognized that further refinement would be both necessary and desirable. The November 20, 1984, Order provided for a technical conference or conferences to accomplish this purpose. It further provided that, "[i]f necessary, the Commission will hold a public hearing to decide any issues which cannot be resolved by the conference."[4]

As the objections raised by Sprint do not go directly to flat rate recovery of NTS costs assigned to interexchange carriers, but rather to the choice of channel capacity as the base upon which to levy these rates, the Commission is of the opinion Sprint's concerns should be properly raised in comments during the technical conference phase provided for this purpose. For example, Sprint argues that a possibly refined and improved version of the ULAS introduced in Florida should be examined. Exhibit A attached to Sprint's petition indicates that the tariff introduced in Florida is a variant of Dr. Johnson's basic proposal presented in Kentucky, and as such can be properly considered in the technical conference.[5] The alleged improper application of ULAS to interstate facilities also can be most usefully handled via technical conference. In this forum

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[4] November 20, 1984, Order, page 81.

[5] On January 23, 1985, Sprint file a Reply Memorandum to the AG's December 21, 1984, response. The Commission has not addressed this reply because it considers the BHMOC tariff as proposed by Dr. Johnson in Florida simply a variant of the ULAS tariff proposed in Kentucky.

Sprint would have adequate opportunity to argue its position that proposed ULAS tariffs contain this deficiency. Sprint and other parties would also have opportunity to propose modification to the tariff, such as an exemption or adjustment to correct the alleged deficiency.

Another instance where Sprint can properly make its arguments in the technical conference concerns alleged discrimination by the ULAS tariff against providers of switched data and other specialized services. According to Sprint's petition,

> . . .the twisted copper pair which is used for local loop - and which represents the bulk of NTS costs - cannot be used for many applications, such as high speed switched data and video conferencing. (Johnson, Tr. at 222.) Accordingly, a provider of such services derives no benefit from local NTS plant, and must employ some other means of reaching customer premises. Nonetheless, ULAS would assess full per-channel charges upon such a carrier for the useless "privilege" of using the local network. (Compare Johnson, Tr. at 222.)[6]

However, Sprint's cross-examination on this point clearly establishes that this is not necessarily the case:

> Q Dr. Johnson, assuming that there are services for which twisted copper pair is not an appropriate means of access, would you assess this access charge on a carrier that bypasses, for example, using coaxial cable in order to provide access for high speed data?
>
> A Unless an exception is granted, the charge would apply.
>
> Q Well, would you grant an exception--
>
> A The Commission can decide which exceptions are necessary. The--I'm not trying to suggest that the specific exceptions given in the tariff

[6] Sprint's application for reconsideration, pages 7-8.

> have to be all inclusive. That there--that somebody could not come forth with a situation in which an additional exemption or exception should be provided. But I do believe in the principle that we should start with a tariff which applies in all situations and then make exceptions as it becomes clear that exceptions are warranted in the interest of fairness. [Emphasis supplied.][7]

The Commission is again of the opinion this is a proper matter for the upcoming technical conference(s).

This Commission and the telephone companies in Kentucky have had no experience with flat rate revenue recovery from interexchange carriers. Thus, Sprint is alleging effects that are necessarily unknown in their seriousness and magnitude, even if the arguments presented in the rehearing petition were correct. This lack of prior experience and the attendant uncertainty are precisely why the Commission chose to initially recover a modest amount of revenue via this tariff structure. Only experience will definitively demonstrate advantages and disadvantages and possible unintended side effects. This fact should not deter the Commission from taking the initial steps necessary to implement what it has determined to be a fundamentally desirable access charge structure. The Commission welcomes--and through the November 20, 1984, Order, has invited--constructive criticism and suggestions from all parties in order to fashion the most desirable system of flat rate charges on interexchange carriers. Therefore, for the reasons listed above, the Commission will deny

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[7] Transcript of Evidence, July 31, 1984, pages 222-223.

Sprint's application for rehearing on the implementation of the ULAS tariff.

ULAS Payments and the Access Discount

In its application for reconsideration Sprint contends that the Commission's Access Charge Order dated November 20, 1984, should be clarified to apply the access differential (discount) to ULAS payments. Sprint argues that the Order implicitly makes the discount applicable to ULAS payments. Sprint's argument is incorrect.

The Commission has determined that jurisdictional local exchange carriers will recover intrastate NTS costs through a combination of the Carrier Common Line Charge ("CCLC") and the residual by means of a flat charge on carriers based on their total installed channel capacity. In effect, a portion of the NTS costs will be recovered through the ULAS tariff. The percentage of NTS costs recovered by ULAS can be expected to increase over time as the CCLC is "phased-out."

The Commission notes that in the same time period that the CCLC is "phased-out," and revenues from the ULAS tariff increase, the percentage of customer access lines served by central offices providing equal access to Other Common Carriers ("OCCs") is expected to show a substantial increase. Since NTS charges are based substantially on the fixed costs of customer access lines, the increase in revenues collected under the ULAS tariff will therefore to a large degree reflect NTS costs related to access lines served by equal access offices.

In contrast, the revenues initially collected under the ULAS tariff will be minimal relative to the revenues collected from the CCLC. Although a percentage of the revenues collected under the ULAS tariff will be associated with NTS costs of access lines served from non-equal access offices, the minimum level of this revenue argues against attempting to apply an access discount to the channel charge. The additional administrative burden of segregating the originating and terminating channel points by equal and non-equal access office would simply not be warranted due to the minimum revenues involved initially. Additionally, as stated previously, the increase in revenues from the channel charge will generally be associated with NTS costs related to customer access lines served by equal access offices. Therefore the channel charge revenues related to non-equal access office access lines can be expected to be a continually decreasing percentage of the total channel charge revenues, and would not warrant the additional administrative burden incurred by attempting to apply an access discount to those charges.

The Commission has therefore determined that the access discount will not be applicable to channel charges collected under the ULAS tariff. Sprint's petition will therefore be denied with respect to this issue.

Equal Access Conversions

In its petition for rehearing ALLTEL has expressed concern that the Commission's Order of November 20, 1984, may be read to require that local exchange carriers take extraordinary steps to

convert their central offices to provide equal access to the OCCs. ALLTEL's concern is unfounded.

This case was not designed, nor was it the Commission's intent in this matter, to develop any plan or directive for the Independent Telephone Companies to convert central offices to provide equal access interconnections. Therefore, an interpretation to the contrary would be incorrect.

Normally, the provision of equal access interconnections requires a software-controlled electronic (digital) central office. The majority of central offices in Kentucky are of the electromechanical type and were not designed to provide this type of access. While the provision of equal access is a desirable feature, consideration must be given to the economic timing of conversions since conversions can be quite expensive. Should it become necessary or desirable to consider requiring a schedule of equal access conversions for the Independent Telephone Companies, this would properly be the subject of a separate proceeding. Therefore the Commission has determined that no rehearing or reconsideration is necessary concerning this item of ALLTEL's petition.

Default Traffic

Sprint contends that the Commission erred in its decision to route all default traffic to ATTCOM. Sprint alleges there is no evidence upon the record which lends any support to the Commission's findings. Sprint contends "there is no evidence that other carriers lack the capacity to handle default traffic" and "[n]either is there any relationship between 'ubiquity' and the

ability to carry default traffic on exchanges where originating is provided." Further Sprint alleges "[t]he access charge also improperly applies to interstate default traffic,"[8] thus exceeding this Commission's jurisdiction. Therefore Sprint requests rehearing to consider alternative allocation schemes for default traffic and to clarify jurisdiction in the original Order.

First as to Sprint's contention that the Commission failed to base its decision upon the record as developed in this case, South Central Bell, General and Cincinnati Bell in the May 31, 1984, hearing indicated their intention to route default traffic to ATTCOM in offices where equal access was available. Sprint as well as other OCCs did not challenge the exchange carriers in either cross-examination or in their final brief in this case. Furthermore Sprint during the intervenor phase of the hearing was given ample opportunity--through its own witness--to propose alternative allocation methods but Sprint failed to raise the issue. Thus the Commission's decision was based on the single alternative on the record.

Insofar as Sprint's contention that the Commission should disregard "ubiquity" in the determination of a default traffic allocation method the Commission disagrees. The Commission concedes that some OCCs have ubiquitous terminating capacity and in equal access offices--where OCCs choose to serve--these OCCs have the capability of originating default traffic. However the Commission is concerned that implementation of an allocation method

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[8] Sprint's application for reconsideration, page 24.

for each individual office would have two undesirable side effects. First, the Commission is of the opinion that it would result in needless customer confusion and even adverse customer reaction during what is already a chaotic period in telephone service. Second, the value of default traffic would be diluted and alternative allocation methods that the Commission intends to consider in the future could lose their viability. Therefore by routing all current customer intrastate default traffic to ATTCOM--the only carrier with the ubiquity and capacity to originate interexchange traffic statewide--the Commission can avoid these side effects. Therefore the Commission denies Sprint's petition for rehearing on the default traffic issue.

The Commission will clarify its Order concerning its jurisdiction over default traffic. Though the Commission is firmly of the opinion that its Order in this matter does not conflict with either the Modified Final Judgment or the decisions of the Federal Communications Commission ("FCC"), it is also fully cognizant that its authority is limited to the intrastate jurisdiction and was in no way attempting to assert jurisdiction over the allocation of interstate default traffic. The Order applies only to intrastate interLATA default traffic.

Jurisdictional Reporting

Sprint challenges the Commission's decisions requiring jurisdictional reports of interexchange carriers' traffic based upon the methodology developed in Administrative Case No. 273, An Inquiry into Inter- and IntraLATA Intrastate Competition in Toll and Related Services Markets in Kentucky. The Commission adopted

this approach for intrastate reporting because in its opinion the "line order" method currently specified in the interstate tariffs by the FCC was subject to manipulation.[9] Furthermore, the impact of any misreporting of intrastate traffic to Kentucky could have ramifications for both the interLATA and intraLATA markets. Sprint has not provided any argument or information in its application to change the Commission's original decision to require a reporting mechanism that is reasonably accurate and less apt to result in misreporting or abuse. The Commission is aware of the proceeding at the FCC wherein MCI has requested the FCC to preempt state commissions in this area, but no decision has yet been rendered.[10] Therefore, Sprint's application is denied in this regard.

Sprint also challenges the Commission's decision imposing "accounting and auditing requirements" since Sprint contends the FCC's requirements take precedence in that field, citing §220 of the Communications Act.[11] The Commission disagrees with Sprint's contention that this Commission lacks the authority to prescribe reasonable records Sprint should retain in support of its jurisdictional reports to local exchange carriers of its intrastate traffic. Section 220(g) only requires that Sprint's interstate books of account, records, etc., are kept in accordance with the FCC's rules, not its intrastate records.

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[9] November 20, 1984, Order, pages 82-83.

[10] MCI Petition for Declaratory Ruling, dated September 10, 1984.

[11] Sprint's Application for Reconsideration, pages 14-15.

Furthermore, the Commission's decision does not provide for audits upon demand by local exchange carriers as the FCC found to be objectionable in the local exchange carriers' proposed interstate tariffs; the Commission's Order only requires the retention of records for a reasonable time by Sprint so that if a dispute arises, information will exist for the Commission to resolve the controversy.

Access Compensation and Revenue Requirements

ALLTEL

In its petition for rehearing ALLTEL[12] expressed several concerns with the Commission's findings regarding access compensation and revenue requirements. These concerns include information filed by South Central Bell and used by the Commission to determine access compensation and revenue requirements, access services rate development, and development of the intraLATA pool compensation agreement.

First, ALLTEL states that it,

> . . .is not sure of the derivation or accuracy of the figures submitted by South Central Bell and is not fully cognizant of any adjustments to the data which may have been made by either South Central Bell before submission or the Commission during its annualization.[13]

ALLTEL adds that its concerns are "heightened by the statements of several other local exchange carriers that the Commission's findings of their toll revenue requirements are

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[12] Formerly Allied Telephone Company of Kentucky.

[13] ALLTEL's petition for rehearing, page 2.

inaccurate," that "there is an insufficient record basis from which to make these findings," that it "has had an insufficient opportunity to determine the accuracy of these calculations", and that if its "toll revenue requirements are understated, as it suspects, it will be denied a reasonable opportunity to earn a fair and reasonable return from its intrastate toll services."[14]

Therefore, ALLTEL requests that the Commission reconsider its disposition of access compensation and revenue requirements, and,

> . . .suggests that the Commission clarify its Order to state that the revenue requirements for ALLTEL and other LECs [local exchange carriers] are not necessarily to be used in setting new tariff rates. If, on the other hand, the Commission intends that the LECs use the revenue requirement found in the Order in setting new access charges, ALLTEL requests the Commission to grant a rehearing on this matter to allow the production of additional, up-to-date data by South Central Bell and other LECs from which the LECs' toll revenue requirements may be calculated.[15]

ALLTEL summarizes and reiterates its position as follows:

> Permanent access charges should be based on the most current data available. Furthermore, since permanent rates are not scheduled to be effective until April 1, 1985, there is not compelling reason or justification for using the figures determined by the Commission using partial 1984 data. Moreover, it is ALLTEL's belief and understanding that the partial 1984 data submitted by South Central Bell contains errors and therefore must be corrected to more accurately reflect the LECs' actual revenue requirements. Forcing the LECs to set access charges on inaccurate data may, and probably would, result in a widespread

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[14] Ibid.

[15] Ibid., page 3.

underrecovery of access related revenue requirements. . . .[16]

In addition to its concerns regarding access compensation and revenue requirements, and rate development, ALLTEL states that the Commission's Order of November 20, 1984, can be interpreted to exclude local exchange carriers from participating in the development of the intraLATA pool compensation agreement outlined in the Order and which the Commission ordered South Central Bell to file as intraLATA pool administrator. "Therefore, ALLTEL requests the Commission to clarify its order to permit other Kentucky LECs to work with South Central Bell in the development and implementation of this agreement and these procedures."[17]

In its Interim Order of December 29, 1983, the Commission approved an interim compensation plan[18] with certain modifications, to replace the traditional separations and settlements process, which, historically, had been used to divide long distance and toll private line revenues among local exchange carriers. The Commission approved the interim compensation plan pending final disposition of this case and the development of a permanent compensation plan.

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[16] Ibid.

[17] Ibid., page 7.

[18] Interim Compensation Annex to the Agreement for the Provision of Telecommunications Services and Facilities, November 30, 1983.

The interim compensation plan was filed on a joint basis by ALLTEL, South Central Bell, General, Continental, and the Independent Telephone Group.[19] The Commission found that the interim compensation plan provided "a reasonable method of compensation to the exchange carriers and a reasonable level of charge to the interexchange carrier(s)."[20] However, in order to alleviate doubts expressed by certain parties concerning the revenue impact of the interim compensation plan, the Commission also stated "the opinion that the parties to the interim settlement should be granted the opportunity to monitor the results of the plan and, if necessary, allowed to audit the results."[21] Moreover, the Commission ordered that South Central Bell, as administrator of the interim compensation plan,

> . . .should report for each exchange company (including itself, Cincinnati Bell and the cost settlement companies) by month, the actual interLATA and intraLATA results of this temporary plan and a comparison of these results by company with the results that would have occurred for those months of operations under the existing settlement procedures. This report should specifically identify the interLATA and intraLATA minutes [of] use, the amount, if any, of the intraLATA pool's residual, the funds by individual average schedule company that are required to "make whole", the administrative costs, network expenses, intrastate official toll and the full distribution of the remainder to each company based on the number of access lines. Further, SCB [South Central Bell] be and it hereby is authorized to secure any information it needs

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[19] Joint Comments of Allied Telephone Company of Kentucky, South Central Bell, General, Continental, and the Independent Telephone Group, November 30, 1983.

[20] Interim Order, December 29, 1983, page 4.

[21] Ibid., page 5.

for this report from any of the exchange and inter-exchange companies under this Commission's jurisdiction.[22]

South Central Bell has filed the information required by the Commission's Interim Order of December 29, 1983, including explanations of development sources and adjustments.[23]

Although available to all parties in this case and subject to audit by all parties in this case, neither ALLTEL nor any other party in this case questioned the information filed by South Central Bell and used by the Commission in its Order of November 20, 1984, to determine access compensation and revenue requirements prior to the time the Order was issued. Considering the circumstances, it seems reasonable to the Commission that if ALLTEL has been and continues to be uncertain as to the development of the information, the accuracy of the information, or adjustments[24] to the information filed by South Central Bell,

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[22] Ibid., page 10.

[23] Cincinnati Bell has separately filed the information required by the Commission's Interim Order relative to its own operations.

[24] To the best knowledge of the Commission, all adjustments to the information have been noted in South Central Bell's reports. However, in order to verify that this is the case, the Commission will require South Central Bell to certify to the Commission that all adjustments to the information have been in fact noted in its reports. In the event some adjustments to the information have not been noted in its reports, the Commission will require South Central Bell to provide a full explanation of any such adjustments.
Also, for the sake of clarity in the record, the Commission will advise ALLTEL and other parties to the case that no adjustments were made by the Commission in its annualization of the information, except to exclude official toll, which is discussed elsewhere in this Order.

then ALLTEL should exercise its option to seek an audit pursuant to the Commission's Interim Order of December 29, 1983. In the event that ALLTEL discovers omissions in the development of the information, errors in the accuracy of the information, or problematic adjustments to the information filed by South Central Bell, then ALLTEL should provide a report to the Commission concerning its findings. Since this audit recourse is available to ALLTEL and in view of the fact that ALLTEL has not raised any specific allegations, the Commission will deny ALLTEL rehearing concerning the development of the information, the accuracy of the information, and adjustments to the information filed by South Central Bell.

In more general terms, the Commission is fully sympathetic to ALLTEL's apparent anxiety concerning access compensation and revenue requirements and the impact that changes in access compensation and revenue requirements, as well as changes in the overall telecommunications environment, might have on its earnings. Nonetheless, the Commission cannot rely either on undocumented "statements" made among local exchange carriers or on ALLTEL's undocumented "suspicions" as bases for modifying its actions. The Commission is of the opinion that all parties in this case have had ample opportunity to review the record and that the record in this case is fully sufficient to support its actions.

In addition to its concern about the information filed by South Central Bell and the Commission's use of the information to

determine access compensation and revenue requirements, ALLTEL requests that the Commission modify its Order of November 20, 1984, to state that access compensation and revenue requirements found in the Order are not to be used as a basis for rate development.

In its Order of November 20, 1984, the Commission allowed ALLTEL and other local exchange carriers to adopt the interstate National Exchange Carrier Association Access Services Tariff for intrastate interLATA use, except as certain modifications were required to conform with the compensation plan outlined in the Order, the Commission's findings relative to billing and collections services, which is a subject of rehearing, and other policy matters.[25] It is noteworthy that none of these modifications affected access services rates in the National Exchange Carrier Association's tariff.

The Commission's action in its Order of November 20, 1984, means that ALLTEL and other local exchange carriers can adopt National Exchange Carrier Association access services rates as effective with the FCC on May 25, 1984.[26] Insofar as National Exchange Carrier Association access services rates differ from the interim access services rates in effect under the authority

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[25] Order, November 20, 1984, page 68.

[26] Since there has been some question as to whether the Commission intended that local exchange carriers could adopt National Exchange Carrier Association access services rates in effect at the time of its Order of November 20, 1984, or as proposed in a rate case then pending before the FCC, the Commission will add this stipulation to clarify the record in the case.

of the Commission, the Commission recognizes that the adoption of National Exchange Carrier Association access services rates will affect the structure of interLATA and intraLATA access compensation and revenue requirements. However, at the same time, the Commission recognizes that the adoption of National Exchange Carrier Association access services rates will not affect the amount of any local exchange carriers' interLATA or intraLATA access compensation and revenue requirements as discussed in the Commission's Order. The continued assurance of revenue stability is an essential aspect of the Commission's Order of November 20, 1984, and is consistent with the Commission's concern about revenue stability as expressed in its Interim Order of December 29, 1983.

Access compensation and revenue requirements discussed in the Commission's Order of November 20, 1984, were based on revenues from interim interLATA access services rates made effective January 1, 1984, and intraLATA pool compensation, including "make-whole" payments and residual disbursements, under the interim compensation plan approved by the Commission in its Interim Order of December 29, 1983. The aggregate combination of these sources of revenue generate baseline access compensation and revenue requirements in 1984 at least equivalent to 1984 settlements using 1983 settlement methodology.[27] Any deviation

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[27] In fact, 1984 access services revenues and intraLATA pool compensation exceeds 1984 settlements using 1983 settlements methodology, due to residual disbursements. The availability of funds for residual disbursements is due to market growth in 1984 compared to 1983.

from 1984 baseline access services revenues and intraLATA pool compensation in the future will result from market forces, rate case action, or the development of intrastate access services cost information.

Access compensation and revenue requirements discussed in the Commission's Order of November 20, 1984, have no direct relationship to any particular set of access services rates or to rate development and were not intended to be used as a basis for rate development. Instead, as indicated, access compensation and revenue requirements discussed in the Order relate to sources of revenue under the interim compensation plan approved in the Commission's Order of December 29, 1983.[28] In the opinion of the Commission, with this clarification, it is unnecessary to grant ALLTEL rehearing on the issue of rate development. Therefore, the Commission will deny ALLTEL rehearing on this issue.

In addition to concern about rate development, ALLTEL questions the Commission's use of "partial 1984" information to determine access compensation and revenue requirements.

The Commission agrees with ALLTEL that access compensation and revenue requirements should be determined based on the most current available information. Indeed, in its Order of November 20, 1984, the Commission explained that access compensation and

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[28] Indeed, to the extent that intrastate access services cost information is not available and to the extent that the Commission's Order of November 20, 1984, does not allocate access compensation and revenue requirements to any access services rates, access compensation and revenue requirements discussed in the Order should not be used as a basis for rate development.

revenue requirements discussed in the Order were based on incomplete information and that, as complete information became available, the information would be updated.[29] In the opinion of the Commission, no further explanation of its intent in this area is necessary and ALLTEL should not be granted rehearing on this matter.

Finally, in addition to its concern about the Commission's use of "partial 1984" information to determine access compensation and revenue requirements, ALLTEL requests that the Commission clarify its Order of November 20, 1984, to allow all local exchange carriers the opportunity to participate in the development and implementation of the intraLATA pool compensation plan outlined in the Order.

In its Order of November 20, 1984, the Commission ordered South Central Bell, as intraLATA pool administrator, to "develop and file with the Commission an intraLATA pool compensation agreement consistent with the provisions of this Order. . . ."[30] Furthermore, the Commission ordered South Central Bell to "develop and file with the Commission a description of the procedures necessary to implement and administer the intraLATA pool compensation agreement. . . ."[31]

The intent of the Commission's Order of November 20, 1984, was to develop the record in this case by placing into the record

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[29] Order, November 20, 1984, pages 44-46.

[30] Ibid., page 90.

[31] Ibid.

the intraLATA pool compensation agreement that will govern intraLATA pool compensation in the future. In so doing, the Commission did not intend to exclude any local exchange carrier from participating in the development and implementation of the intraLATA pool compensation plan outlined in the Order.

The intraLATA pool compensation agreement and technical description that the Commission required South Central Bell to file has been filed and is now a part of the record in this case. The Commission will allow all local exchange carriers the opportunity to review and comment on the intraLATA pool compensation agreement prior to its approval. Comments on the intraLATA pool compensation agreement and technical description filed by South Central Bell should be filed with the Commission within 20 days from the date of this Order. In the event that the Commission receives comments that require either a formal conference or a hearing, such a formal conference or hearing will be scheduled.

Continental

In its petition for reconsideration, Continental states that the information contained in the tables attached to the Commission's Order of November 20, 1984, should be "updated to more accurately reflect actual January through August interLATA billing, intraLATA pool compensation, and intraLATA private line settlements."[32]

[32] Continental's petition for reconsideration, December 10, 1984, page 1.

As also discussed in the case of ALLTEL, in its Order of November 20, 1984, the Commission explained that access compensation and revenue requirements discussed in the Order were based on information required by the Commission's Interim Order of December 29, 1983, concerning interLATA and intraLATA access compensation and revenue requirements in 1984 under the interim compensation plan. Furthermore, the Commission explained in the Order that since a full 12 months of information was not available, it had annualized information for the 8-month period January-August 1984 for the purpose of illustrative discussion, and stated that "[a]s additional data are filed from month to month, the annualized information discussed in this Order will be adjusted to reflect actual interLATA access compensation and intraLATA pool compensation for the year 1984."[33]

In the opinion of the Commission, no more complete statement can be made as to the Commission's intention to update the information contained in the tables attached to its Order of November 20, 1984, as information becomes available for the period September-December, 1984. Thus, Continental should not be granted rehearing on this matter.

In addition to its request that the Commission update the information used to determine access compensation and revenue requirements, Continental also requests that the Commission reconsider its disposition of intraLATA private line or special access compensation in its Order of November 20, 1984, stating

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[33] Order, November 20, 1984, page 45.

that the Commission changed the method of intraLATA private line or special access compensation among local exchange carriers.[34]

Under the interim compensation plan outlined in the Commission's Interim Order of December 29, 1983, intraLATA private line and foreign exchange or special access compensation is separate from other intraLATA pool compensation, which involves the distribution of intraLATA message and wide area telecommunications toll revenues. In its Order of November 20, 1984, the Commission combined intraLATA private line and foreign exchange or special access compensation with other intraLATA pool compensation.

Continental requests that the Commission reconsider the change in intraLATA private line and foreign exchange or special access compensation for two reasons. First, Continental cites administrative reasons. Neither interLATA nor intraLATA private line and foreign exchange or special access billing is part of any automated billing system and to mechanize intraLATA private line and foreign exchange or special access billing would impose an unreasonable burden on local exchange carriers. Second, Continental cites the status of interstate private line and foreign exchange or special access tariffs, which local exchange carriers generally desire to mirror for intrastate use. That is,

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[34] Continental's petition for reconsideration, December 10, 1984, pages 1-2.
Although its petition is not explicit, presumably, Continental intends to include intraLATA foreign exchange compensation in its discussion of private line or special access.

the FCC has not given final approval to any interstate private line and foreign exchange or special access tariffs.

For these reasons, Continental recommends that the Commission modify its Order of November 20, 1984, and allow intraLATA private line and foreign exchange or special access compensation on the following basis:

> A separate pool would be administered for intraLATA private line. IntraLATA private line revenues would be turned over to the pool. Each company would compute a private line cost per circuit, based on the 1983 cost study, and apply it to the number of circuits for 1984. This would be each company's intraLATA private line settlement.[35]

The intent of the Commission's Order of November 20, 1984, was to simplify intraLATA pool compensation by combining intraLATA private line and foreign exchange or special access compensation with other intraLATA pool compensation. However, if combining intraLATA private line and foreign exchange or special access compensation with other intraLATA pool compensation causes unforeseen administrative difficulties, as indicated by Continental as well as other parties in this case, then the Commission will modify the Order and allow intraLATA private line and foreign exchange or special access compensation to continue on a separate basis, consistent with the guidelines established in the Commission's Interim Order of December 29, 1983, and its Order of November 20, 1984. Such action will not affect intraLATA private line and foreign exchange or special access or other intraLATA pool compensation to any local exchange carrier.

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[35] Ibid., page 2.

Under the Commission's Interim Order of December 29, 1983, 1984 intraLATA private line and foreign exchange or special access compensation is based on 1983 cost schedule or 1966 average cost schedule cost per circuit applied to the number of circuits in service in 1984.[36] This is the basis of Continental's recommendation concerning the determination of intraLATA private line and foreign exchange or special access compensation.

At this time, the Commission will not change the method of determining intraLATA private line and foreign exchange or special access compensation authorized in its Interim Order of December 29, 1983, due to the unknown revenue consequences of any change, except that, in order to make its intent clear, the Commission states that 1985 intraLATA private line and foreign exchange or special access compensation should continue on the basis of 1983 cost schedule or 1966 average cost schedule cost per circuit applied to the number of circuits in service in 1985. That is, in effect, the cost basis on which intraLATA private line and foreign exchange or special access compensation occurs should not be changed without evidentiary showing before the Commission.

Also, the Commission hereby advises all parties in this case that it desires to entertain an alternative method of

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[36] The 1966 private line average cost schedule negotiated between AT&T and the United States Independent Telephone Association is the most recent available private line average cost schedule.

determining intraLATA private line and foreign exchange or special access compensation, at some future time. The Commission is of the opinion that intraLATA private line and foreign exchange or special access compensation should occur on the basis of a local exchange carrier's intraLATA private line and foreign exchange or special access rates,[37] rather than on the basis of cost schedule or average cost schedule cost per circuit, which may or may not bear any relationship to a local exchange carrier's intraLATA private line and foreign exchange or special access rates. Therefore, the Commission will require South Central Bell, as administrator of the intraLATA private line and foreign or special access compensation plan, to file a revised intraLATA private line and foreign exchange or special access compensation plan(s), consistent with the Commission's observations and including a detailed analysis of revenue impact, at such time as South Central Bell can develop an alternative plan(s) and related information.

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[37] In the opinion of the Commission, matching intraLATA private line and foreign exchange or special access compensation with intraLATA private line and foreign exchange or special access rates is reasonable. However, the Commission's opinion is not intended to preclude the consideration of other alternatives. For example, the intraLATA message and wide area telecommunications pool is funded through uniform intraLATA toll schedules, while local exchange carrier intraLATA pool compensation occurs on the basis of interLATA access services rates applied to the intraLATA environment. A similar mechanism may be appropriate relative to the intraLATA private line and foreign exchange or special access pool.

General

General raised three issues concerning access compensation and revenue requirements in its petition for rehearing. These issues include the tables attached to the Commission's Order of November 20, 1984, and two ordering paragraphs in the Order.

First, among the issue areas in General's petition for rehearing, General states that certain information contained in the tables attached to the Commission's Order of November 20, 1984, is incorrect and should be corrected by a Supplemental Order.[38]

At this time, the Commission will not issue a Supplemental Order to correct any information contained in the tables attached to its Order of November 20, 1984, pending the availability of final 1984 access compensation and revenue requirements information, the content of which may be somewhat modified by this Order. Nonetheless, the Commission will address General's concerns.

Specifically, General states that Table 1, Total Revenue Requirement, "does not reflect General's current revenue requirement."[39] According to General, the revenue requirement stated in Table 1,

> . . .is the 1984 estimate for switched services which was developed and furnished in the third quarter of 1983 before definitive information became available. . .does not include the private line estimate. . .[and] needs to be corrected to

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[38] General's petition for rehearing, page 2.

[39] Ibid.

include private line, and should be updated to reflect the current 1984 levels of expense and investment.[40]

It is unclear as to what estimate of switched services General is referring to in its Petition for Rehearing. Presumably, it is an estimate that is not itself a part of the record in this case, but which was furnished to South Central Bell and used to estimate 1984 interLATA and intraLATA message and wide area telecommunications services settlements under the "Interim Compensation Annex to the Agreement for the Provision of Telecommunications Services and Facilities," approved by the Commission in its Order of December 29, 1983.[41] In any event, in its Order of November 20, 1984, the Commission based its findings concerning General's access compensation and revenue requirements on General's own representation of its interLATA access compensation and revenue requirement as filed with the Commission on August 14, 1984, and information required by the Commission's Interim Order of December 29, 1983, concerning intraLATA access compensation and revenue requirement in 1984 under the interim compensation plan. As such, no estimated information has been or will be involved in the Commission's findings concerning General's access compensation and revenue requirements. Instead,

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[40] Ibid. Although its petition is not explicit, as in the case of Continental, presumably, General intends to include intraLATA foreign exchange in its discussion of private line or special access.

[41] See Attachment to Interim Compensation Annex to the Agreement for the Provision of Telecommunications Services and Facilities, November 30, 1983.

the Commission's findings concerning General's access compensation and revenue requirements have been and will continue to be based on actual 1984 information.

Like the case of ALLTEL, to the extent that General is concerned that private line and foreign exchange or special access revenues have not been included in the information filed by South Central Bell, then General should exercise its option to seek an audit pursuant to the Commission's Interim Order of December 29, 1983. In the event General discovers that private line and foreign exchange or special access revenues have not been included in the information, then General should provide a report to the Commission concerning its findings.

However, in view of the point raised by General, as well as similar points raised by other parties in this case, the Commission will indicate that it is of the opinion that interLATA and intraLATA private line and foreign exchange or special access revenues should be included in the information filed by South Central Bell. Therefore, to the extent that interLATA and intraLATA private line and foreign exchange or special access revenues have not been included in the information filed by South Central Bell, then South Central Bell should file revised information that includes interLATA and intraLATA private line and foreign exchange or special access revenues.

In addition, concerning the information contained in the tables attached to the Commission's Order of November 20, 1984, General states that the amount of interLATA network compensation stated in Table 2, interLATA Access Compensation and Revenue

Requirement, is incorrect. General advises the Commission that the amount of network compensation stated in Table 2 represents revenue from a lease agreement(s) executed with AT&T on December 29, 1983, and January 12, 1984, respectively, and later revised sometime in August 1984 to include a "true-up" clause.[42] Furthermore, General advises that neither of these lease agreements was site specific and that a pending lease agreement will be site specific and "change the [interLATA] network compensation to General by a significant amount."[43] Therefore, General requests that Table 2 be revised to reflect both the reconciliation of its interLATA network compensation required in the Commission's Order of November 20, 1984, and, also, "adjusted for the known effect of the 1985 site specific lease amount."[44]

As indicated above, the Commission will not make any corrections to the tables attached to its Order of November 20, 1984, at this time, pending the availability of final 1984 access compensation and revenue requirements information. Nonetheless, the Commission reminds General that it is still General's responsibility to file the reconciliation of its 1984 interLATA network compensation required in the Commission's Order of November 20,

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[42] It should be noted that these lease agreements are the subject of another case before the Commission: Case No. 8998, Application of General Telephone Company of Kentucky and AT&T Communications of the South Central States, Inc., for Approval of the Lease of Certain Property to AT&T Communications of the South Central States, Inc.

[43] General's petition for rehearing, page 3.

[44] Ibid.

1984. Also, the Commission will advise General that to the extent that General believes that its 1984 interLATA network compensation should be adjusted to reflect "known and measurable" changes that will occur in 1985, then General should file an appropriate petition with the Commission. The Commission will dispose of such a petition at that time, on its own merits, and incorporate its findings as appropriate and in a timely way.[45]

In addition, concerning the tables attached to the Commission's Order of November 20, 1984, General states that the amount of intraLATA network compensation and administrative expense stated in Table 4, IntraLATA Access Compensation and Revenue Requirement, is based on "a preliminary number which should be corrected to reflect the latest information."[46] Furthermore, General states that the amount of its 1984 settlements using 1983 settlement methodology stated in Table 4 "does not include private line revenue requirement."[47] This reiterates a point that has already been discussed.

Again, as indicated above, the Commission will not make any corrections to the tables attached to its Order of November 20, 1984, at this time, pending the availability of final 1984 access compensation and revenue requirements information. To the

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[45] At this point, the Commission will note that the site specific lease agreement with AT&T discussed in General's petition and on which General bases its claim for a "known and measurable" adjustment was filed with the Commission on January 11, 1985, in Case No. 8998.

[46] Ibid.

[47] Ibid.

extent that intraLATA network compensation and administrative expense is based on a "preliminary number," it should be adjusted as final 1984 access compensation and revenue requirement information is filed by South Central Bell and, as with all such information, is subject to the possibility of an audit as allowed in the Commission's Interim Order of December 29, 1983.

Second, among the issue areas in General's petition for rehearing, General states that an ordering paragraph in the Commission's Order of November 20, 1984, concerning interLATA and intraLATA access compensation and revenue requirements[48] "contains improper terminology, is otherwise ambiguous and is incomplete."[49] According to General, the ordering paragraph correlates "revenue requirements" and "revenues," and "Revenue Requirements and revenues are not synonymous."[50] Also, according to General, the ordering paragraph is "unclear as to the precise nature of the information upon which these revenue requirements are to be based"[51] and "fails to recognize the necessity which exists for proper identification of components of the total interLATA and intraLATA revenue requirements by revenue

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[48] That is: "IT IS FURTHER ORDERED that interLATA and intraLATA revenue requirements for this case shall be based upon 1984 settlements using 1983 settlement methodology." Order, November 20, 1984, page 88.

[49] General's petition for rehearing, page 3.

[50] Ibid., pages 3-4.

[51] Ibid., page 4.

sources,"[52] which may change, as in the case of its lease agreement with AT&T. Therefore, General requests that the ordering paragraph be modified as follows:

> The interLATA revenue requirement to be used for development of tariffs required to be filed by this Order, and the intraLATA revenue requirement to be used for intraLATA pool settlements in 1985, shall be based upon the most current 1984 information available using 1983 settlement methodology. Any allocation of the total interLATA or intraLATA revenue requirement to revenue sources shall recognize any known and measurable changes in revenue sources which will be in effect in 1985.[53]

The Commission is of the opinion that the ordering paragraph in its Order of November 20, 1984, challenged by General, is sufficient to the determination of access compensation and revenue requirements under the compensation plan outlined in the Order and should not be modified as requested by General.

General is the only party in the case to request a change in any ordering language, and it appears from the suggested language that General seeks authority to admit "known and measurable" adjustments to its access compensation and revenue requirements that might occur in 1985. No such adjustments are a part of the record in this case and may be extraneous to 1984 historical experience, which the Commission has used to determine baseline access compensation and revenue requirements. In the absence of any evidentiary showing, the Commission can make no

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[52] Ibid.

[53] Ibid.

determination relative to "known and measurable" adjustments and will not grant open-ended authority to admit such adjustments.

Also, General is correct to recognize that the Commission correlates "revenues" and "revenue requirements" in its Order of November 20, 1984, and that revenues and revenue requirements are not the same, at least in terms of conventional regulatory understanding. The fact that the Commission used the conjunctive form "access compensation and revenue requirements" in its Order of November 20, 1984, highlights the lack of intrastate access services cost information and, thus, the extent to which "access compensation" must act as a surrogate for "revenue requirements." In the absence of intrastate access services cost information, the only reasonable basis on which the Commission could make access compensation and revenue requirements determinations was revenue stability, which was an essential feature of the Commission's Interim Order of December 29, 1984. As intrastate access services cost information becomes available, the Commission will be in a position to deviate from the criterion of revenue stability and consider intrastate access services investment, expenses, and rate of return to determine access compensation and revenue requirements.

Third, among the issue areas in General's petition for rehearing, General states that another ordering paragraph[54] in the Commission's Order of November 20, 1984, should be modified. Specifically, General objects to the requirement that local exchange carriers file a statement of agreement to participate in the intraLATA compensation plan outlined in the Order. General states that "to the extent that this ordering paragraph requires an agreement between General and other local exchange carriers to participate in the intraLATA compensation plan, General believes it would be inappropriate (and perhaps illegal). . . ."[55] General further explains that its objection to the ordering paragraph is not intended "to suggest that the Commission may not order those parties [local exchange carriers] to participate in such a plan [intraLATA compensation plan]".[56] Neither, does General's objection to the ordering paragraph "suggest that it would be inappropriate for General (or any other local exchange carrier) to advise the Commission of its intent to participate in a plan established by the Commission."[57] Nonetheless, General requests that the ordering paragraph,

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[54] That is: "IT IS FURTHER ORDERED that upon the Commission's approval of the intraLATA compensation agreement ordered above, all local exchange carriers except Cincinnati Bell shall file with the Commission a statement of agreement to participate in the intraLATA compensation plan." Order, November 20, 1984, page 91.

[55] General's petition for rehearing, pages 4-5.

[56] Ibid., page 5.

[57] Ibid.

> . . .be modified (1) to eliminate the requirement that General and other local exchange carriers file a "statement of agreement to participate" in the plan; and (2) to only require that local exchange carriers notify the Commission of their intent to participate[58] in the plan established by the Commission.

The Commission will grant General's request to modify the ordering paragraph so as to eliminate the requirement that local exchange carriers file a statement of agreement to participate in the intraLATA compensation plan. However, the Commission will require instead that local exchange carriers notify the Commission of their intent to participate in the intraLATA compensation plan for the record in this case.

In the opinion of the Commission, its Order of November 20, 1984, is sufficient to establish the intraLATA compensation plan and all local exchange carriers must comply with the Order. Furthermore, as has been indicated elsewhere in this Order, the Commission intends to participate in and exercise its regulatory authority relative to the intraLATA compensation plan.

Independent Telephone Group

The Independent Telephone Group requested further hearing in three general issue areas concerning access compensation and revenue requirements in its application for rehearing.

The Commission is of the opinion that the issues raised by the Independent Telephone Group concerning access compensation and revenue requirements can be addressed through discussion and clarification in this Order. Therefore, the Commission will not

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[58] Ibid.

grant rehearing on the issues raised by the Independent Telephone Group concerning access compensation and revenue requirements.

First, among the general issues concerning access compensation and revenue requirements in the Independent Telephone Group's application for rehearing, the Independent Telephone Group requests that the Commission reconsider its determination "that interLATA and intraLATA revenue requirements for this case shall be based on 1984 settlements using 1983 settlement methodology."[59]

The Independent Telephone Group states that the information on which the Commission based its determinations of access compensation and revenue requirements "did not separate certain revenue requirements nor did it list the categories for revenues from some local exchange carriers in order to properly separate revenue requirements as to private line and switched access."[60] Also, the information "did not provide a section to account for Feature Group A and B revenues which would have an impact on intrastate revenue requirements."[61] Thus, the Independent Telephone Group requests that the information be revised to

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[59] Independent Telephone Group's application for rehearing, page 1.

[60] Ibid., page 3. Although its petition is not explicit, as in the cases of Continental and General, presumably, the Independent Telephone Group intends to include intraLATA foreign exchange in its discussion of private line or special access.

[61] Ibid.

separate "switched access from special access and also should list all revenues on an intrastate basis."[62]

As touched upon in the case of General, the Commission is of the opinion that the suggestion made by the Independent Telephone Group is reasonable and that South Central Bell should file revised information concerning interLATA and intraLATA access compensation and revenue requirements, as necessary, to include and separate private line and foreign exchange or special access and switched access revenues. The information should be separated according to revenue categories: that is, at least, according to interLATA switched access and special access revenues, intraLATA switched access and special access revenues, including private line and foreign exchange revenues, intraLATA network cost, interLATA network lease revenues, as appropriate, intraLATA administration expense, intraLATA operator services and directory assistance revenues, intraLATA residual distributions, and other categories that may be required to develop complete access compensation and revenue requirements.

Also, the Independent Telephone Group is correct to note a problem relative to Feature Group A and B compensation. Feature Group A and B connections allow interexchange carriers to terminate both interstate and intrastate interLATA calls at any location within a LATA. In cases where such calls are completed

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[62] Ibid. This statement suggests that the Independent Telephone Group is somewhat misinformed. The information on which the Commission based its determinations of access compensation and revenue requirements was stated on an intrastate basis.

within the territory of a connecting local exchange carrier, no revenue problem exists, since such a local exchange carrier is compensated through Feature Group A and B rates. In cases where such calls are completed in the territory of a non-connecting local exchange carrier, a revenue problem arises, since such a local exchange carrier is not compensated in any way.

The Feature Group A and B compensation problem results from the carrier access billing system in use among the local exchange carriers. Although the carrier access billing system is able to identify call terminations for the purpose of interexchange carrier billing, at the present time it is unable to separate the same call terminations by local exchange carrier. Thus, all Feature Group A and B revenues default to the connecting local exchange carrier.

The Feature Group A and B compensation problem is further complicated by rate structure. Under interim access services rates in effect under authority of the Commission since January 1, 1984, Feature Group A and B rates are charged per call. Under permanent access services rates scheduled to be effective on April 1, 1985, Feature Group A and B rates will be charged on a flat rate plan, based on an assumed usage level of 9,000 minutes per month. Thus, in order to separate Feature Group A and B compensation among the local exchange carriers, flat rate revenues must be converted to a usage basis.

The Commission will not make a determination concerning Feature Group A and B compensation at this time. Instead, the Commission will require South Central Bell, as intraLATA pool

administrator, to file a Feature Group A and B compensation plan, including a detailed analysis of revenue impact, at such time as South Central Bell can develop a plan and the related information.

In addition to its request for separated access compensation and revenue requirement information, and its statement of the Feature Group A and B compensation problem, the Independent Telephone Group advised the Commission that local exchange carriers "had tentatively agreed to a settlement distribution plan for 1985 which could greatly simplify the Commission's order as to the distribution of intraLATA funds."[63] Also, the Independent Telephone Group suggests that "the Commission should allow us to proceed so as not to disrupt cash flows or budgeting figures."[64]

No intraLATA compensation agreement such as that referred to by the Independent Telephone Group has been presented to the Commission for its review and approval, prior to the Commission's Order of November 20, 1984, even though its intended effect may have been to supersede the "Interim Compensation Annex to the Agreement to Provide Telecommunications Services and Facilities," approved by the Commission in its Interim Order of December 29, 1983. All local exchange carriers subject to the jurisdiction of the Commission should be aware that any intraLATA compensation agreement or other contracts that they enter into among

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63 Ibid., pages 3-4.

64 Ibid., page 4.

themselves or with their customers are subject to the review and prior approval of the Commission.

The Commission does not object to local exchange carriers developing and concurring with an intraLATA compensation agreement, so long as it conforms to the provisions of the Commission's Order of November 20, 1984, and is filed with the Commission for its review and prior approval. Indeed, as discussed in the case of ALLTEL, in its Order of November 20, 1984, the Commission ordered South Central Bell, as intraLATA pool administrator, to develop and file an intraLATA compensation agreement and technical description to replace the interim compensation plan. These documents are now a part of the record in this case. The Commission will allow all parties in this case the opportunity to review and comment on the intraLATA compensation agreement prior to its approval.

Also, as discussed in the case of ALLTEL, an essential feature of both the Commission's Interim Order of December 29, 1983, and its Order of November 20, 1984, is revenue stability among the local exchange carriers. The intraLATA compensation plan outlined in the Commission's Order of November 20, 1984, provides revenue stability and will not disrupt "cash flows" or "budgeting figures, as suggested by the Independent Telephone Group, since baseline access compensation and revenue requirements in 1984 are at least equivalent to 1984 settlements using 1983 settlement methodology.

In addition to its request that the local exchange carriers be allowed to develop an intraLATA compensation agreement

apart from Commission review and approval, the Independent Telephone Group states that it is "concerned about the revenue requirements for the average schedule settlement companies",[65] indicating that South Central Bell had estimated average schedule access compensation and revenue requirements based on third quarter 1983 average schedule settlements inflated by a 6 percent growth factor to simulate minimum 1984 access compensation and revenue requirements.[66] According to the Independent Telephone Group, access compensation and revenue requirements determined in this manner cannot be "considered representative of message volumes during 1984 and should be revised based on a settlement per message applied to the number of 1984 messages."[67]

The Independent Telephone Group is correct relative to the manner in which 1984 settlements using 1983 settlement methodology were estimated at the time of the Commission's Interim Order of December 29, 1983. This estimate was used to determine minimum access compensation and revenue requirements in the Interim Order and the basis on which the Commission ordered that "make-whole" payments be made to local exchange carriers.

Unlike the Commission's Interim Order of December 29, 1983, access compensation and revenue requirements discussed in

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[65] Ibid.

[66] Interim Compensation Annex to the Agreement for the Provision of Telecommunications Services and Facilities, November 30, 1983, page 2.

[67] Independent Telephone Group's application for rehearing, pages 4-5.

the Commission's Order of November 20, 1984, were not determined on the basis of estimated 1984 settlements using 1983 settlements methodology. Instead, as discussed elsewhere in this Order, access compensation and revenue requirements were based on information concerning interLATA and intraLATA access compensation and revenue requirements in 1984 under the interim compensation plan: that is, revenues from interim interLATA access services rates and intraLATA pool compensation, including "make-whole" payments and residual disbursements. In this manner, the Commission determined baseline 1984 access compensation and revenue requirements in 1984 at least equivalent to 1984 settlements using 1983 settlement methodology.

The Commission will not revise 1984 settlements using 1983 settlements methodology, as the Independent Telephone Group requests. On the one hand, the Commission will not revise the 1983 message volumes used to simulate minimum 1984 access compensation and revenue requirements in its Interim Order of December 29, 1983. Such action is not necessary under the Commission's Order of November 20, 1984. Neither will the Commission extend the approach used in its Interim Order of December 29, 1983, and use 1984 message volumes to simulate minimum 1985 access compensation and revenue requirements, and, thus, order further "make-whole" payments. Such an action would continue a system of settlements that was abolished in the Commission's Order of December 29, 1983.

In addition to its request that the Commission revise 1984 settlements using 1983 settlements methodology, the Independent

Telephone Group also observes that the Commission did not add average cost schedule local exchange carrier official toll, uncollectibles, and interexchange carrier access billing expenses to its determinations of access compensation and revenue requirements and requests that "[i]ndependent company official toll, uncollectible expenses and carrier access billing expenses should be added to this [1984] settlement figure to arrive at the proper 1984 revenue requirement for average schedule settlement companies."[68]

The Commission will not modify its Order of November 20, 1984, to add official toll, uncollectibles, or interexchange carrier access billing expenses, at least at this time, and, especially, in the absence of a specific evidentiary showing that any such adjustment is necessary to the financial integrity of local exchange carriers under its jurisdiction.

Official toll expense may be related to either interstate or intrastate services. Furthermore, in the intrastate environment, it may be related to local service, toll service, or any other lines of business in which a local exchange carrier might engage. At the present time, official toll expense can be recognized on a market basis: that is, it results from interstate and intrastate interLATA or intraLATA markets toll charges. No information is available that allocates official toll expense according to lines of business. Therefore, in the opinion of the Commission, until such time as information is available that

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[68] Ibid., page 5.

allocates official toll expense according to lines of business, market assignment is the only reasonable basis on which to recover official toll expense.

In the opinion of the Commission, interstate official toll expense should be assigned to the interstate market and recovered in the interstate jurisdiction through access services rates applicable to the interstate environment. Therefore, insofar as interstate access services rates may be inadequate to recover interstate official toll expense, local exchange carriers should seek an adjustment in interstate access services rates from the FCC.

Likewise, the Commission is of the opinion that intrastate interLATA official toll expense should be assigned to the inter-LATA market and recovered in the interLATA market through access services rates applicable to the interLATA market. Therefore, insofar as intrastate interLATA access services rates may be inadequate to recover interLATA official toll expense, local exchange carriers should seek an adjustment of interLATA access services rates from the Commission. Of course, as discussed elsewhere in this Order, the opportunity to recover intrastate interLATA official toll expense in this manner is contingent on the development of intrastate access services cost information.

In the case of intrastate intraLATA official toll expense, the Commission will take notice of the fact that at the present time intraLATA official toll calls are not billed among local exchange carriers and official toll revenues are not reported to the intraLATA pool. Therefore, until such time as intrastate

intraLATA official toll calls are billed and official toll revenues are reported to the intraLATA pool, intraLATA official toll expense does not represent a cost of business that requires a change in the intraLATA compensation plan.

Furthermore, on the subject of intrastate intraLATA official toll, the Commission is of the opinion that intraLATA official toll calls should be billed and that intraLATA official toll revenue should be reported to the intraLATA pool, and that, upon such billing and reporting, intraLATA official toll expense should be recovered from the intraLATA pool. In the opinion of the Commission, such billing and reporting of intraLATA official toll will encourage cost control among local exchange carriers. Therefore, the Commission will require South Central Bell, as administrator of the intraLATA pool, to develop and file an intraLATA official toll compensation plan with the Commission, including a detailed analysis of revenue impact, at such time as South Central Bell can develop a plan and the related information.

Lastly, on the subject of both intrastate interLATA and intraLATA official toll, the Commission will take notice of the fact that total intrastate official toll expense is embedded in 1984 settlements using 1983 settlements methodology. Thus, it appears that the Independent Telephone Group requests that the Commission recognize not only embedded official toll expense, but, also, an additional official toll expense at least equal to the embedded official toll expense. This the Commission will not do.

Interstate uncollectibles and interexchange carrier access billing expenses have been recognized in interstate access services rate development. Thus, to the extent that a local exchange carrier adopts either National Exchange Carrier Association access services rates or its own interstate access services rates in the intrastate interLATA market, and to the extent that intrastate interLATA uncollectibles and interexchange carrier billing expenses approximate interstate expenses, then the local exchange carrier should recover these expenses in the interstate and intrastate interLATA markets through its access services rates. However, in the event that a local exchange carrier can demonstrate that its access services rates do not recover either interstate or intrastate interLATA uncollectibles and interexchange carrier access billing expenses, then the local exchange carrier should seek an adjustment in interstate access services rates from the FCC and an adjustment in intrastate interLATA access services rates from this Commission.

As in the case of intrastate official toll expense, total intrastate uncollectibles expense--that is, intrastate interLATA and intraLATA uncollectibles expense--is embedded in 1984 settlements using 1983 settlements methodology.[69] Also, as in the case of intrastate official toll expense, it appears that the Independent Telephone Group requests that the Commission recognize not only total intrastate embedded uncollectibles

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[69] The embedded uncollectibles expense in the 1984 settlements using 1983 settlements methodology is 1.98 percent of bill toll revenue.

expense, as well as uncollectibles expense as recognized in interstate access services rates applied to the intrastate interLATA market, but, also, an additional uncollectibles expense at least equal to total intrastate embedded uncollectibles expense. Again, this the Commission will not do.

In addition to its request that the Commission add average cost schedule official toll, uncollectibles, and interexchange carrier billing expenses to its determinations of access compensation and revenue requirements, the Independent Telephone Group advises the Commission that average cost schedule "private line revenue requirements were not shown on the exhibit originally filed by South Central Bell."[70] Also, the Independent Telephone Group states that if average cost schedule "private line settlements are allowed to be administered separately outside the intraLATA pool, then they would not have to be reported on a revised exhibit."[71] And, the Independent Telephone Group requests that "the Commission remove the special access from the intraLATA pool and allow it to be administered separately so as not to distort switched access in the intraLATA environment."[72]

The question of whether private line and foreign exchange or special access revenues should or should not be included in

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[70] Independent Telephone Group's application for rehearing, page 5. Although its application is not specific, as in the cases of Continental and General, presumably, the Independent Telephone Group intends to include intraLATA foreign exchange in its discussion of private line or special access.

[71] Ibid.

[72] Ibid.

the Commission's determinations concerning access compensation and revenue requirements has been discussed in the case of General. Specifically, the Commission is of the opinion that private line and foreign exchange or special access revenues should be included.

Also, the question of whether private line and foreign exchange or special access compensation should or should not be separate from other intraLATA pool compensation has been discussed in the case of Continental. Specifically, the Commission will allow private line and foreign exchange or special access compensation to occur on a separate basis.

In addition to its comments concerning private line and foreign exchange or special access revenues and compensation, the Independent Telephone group states that,

> The Commission seems to grant preferable conditions to the cost settlement companies when. . .it states that the Commission will establish interLATA and intraLATA revenue requirements based on 1984 settlements using 1983 settlement methodology as reported by South Central Bell in response to the Commission's Order of December 29, 1983 except in the cases of Cincinnati Bell, General, and South Central Bell where information is available that permits adjustments to interLATA and intraLATA revenue requirements.[73]

The Independent Telephone Group further states that the Commission "seems to indicate that those companies and only those companies will be allowed to increase their revenue requirements based on increased investments or expenses"[74] and that "if the

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[73] Ibid., pages 5-6.

[74] Ibid.

Commisssion is willing to allow increases for the cost settlement companies, that it allow increases in the surrogate 1983 average schedules as well."[75]

Apparently, the Independent Telephone Group misunderstands the Commission's actions in its Order of November 20, 1984, concerning Cincinnati Bell's, General's, and South Central Bell's access compensation and revenue requirements. Adjustments were made to interLATA access compensation and revenue requirements in these cases. No adjustments were made to intraLATA access compensation and revenue requirements in these cases.

The adjustments to interLATA access compensation and revenue requirements made in the cases of Cincinnati Bell, General, and South Central Bell were not based on any changes in investment or expenses. Instead, the adjustments to interLATA access compensation and revenue requirements were based on analyses of lost toll revenue due to the introduction of interLATA markets --that is, essentially, on a cost schedule basis, 1984 interLATA settlements using 1983 settlements methodology. No average cost schedule local exchange carriers filed similar analyses, leaving the Commission only absolute 1984 interLATA revenues as the basis for determining average cost schedule interLATA access compensation and revenue requirements. In any event, whether on a cost schedule or average cost schedule basis, the combination of interLATA and intraLATA revenues generates baseline 1984 access compensation and revenue requirements at least equivalent

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75 Ibid.

to 1984 settlements using 1983 settlement methodology. Thus, both in the case of cost schedule and average cost schedule local exchange carriers, the Commission assured the objective of revenue stability stated in its Order of December 29, 1983.

Also, the Commission did not intend to indicate in its Order of November 20, 1984, that only cost schedule local exchange carriers could increase access compensation and revenue requirements. Any local exchange carrier may petition the Commission at any time for an adjustment in access compensation and revenue requirements. However, any such petition must be accompanied by specific evidentiary showing, including intrastate access services cost information.

Second, among the general issue areas concerning access compensation and revenue requirements in the Independent Telephone Group's application for rehearing, the Independent Telephone Group requests that the Commission reconsider its determination that,

> . . .intraLATA pool compensation should take place in the following sequence. First, recovery of each LEC's Access Service Tariff Traffic Sensitive[,] Billing & Collection and Special Access Rates, second, for cost schedule companies intraLATA network and administrative expense reimbursement, and third, an LEC specific intraLATA CCLC type compensation rate designed to residually match each LEC's intraLATA revenue requirement.[76]

The Independent Telephone Group further states that the Commission should allow local exchange carriers to develop and implement their own intraLATA compensation plan and that, in the

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[76] Ibid., page 2.

event the Commission does not allow local exchange carriers to develop and implement their own intraLATA compensation plan, "the Independent Telephone Group is concerned that once the recoveries that the Commission has allowed from the pool are completed there will not be any residual or possibly even a negative residual."[77] Also, the Independent Telephone Group states that, in the event a negative residual occurs, it "disagrees that there would be any justification for network companies being guaranteed a rate of return (12.75%) that may well be in excess of the rate of return which the pool experiences as a whole or the rate of return for the prior year."[78] The Independent Telephone Group concludes that it "sees no reason for the network type companies to be guaranteed larger rates of return on network investments while the smaller, rural independent companies will not be guaranteed any rate of return out of the intraLATA pool."[79] Therefore, the Independent Telephone Group recommends that "the Commission consider allowing the network companies to recover only their achieved rate of returns from the prior year on their network investments."[80]

The sequence of intraLATA pool compensation specified in the Commission's Order of November 20, 1984, resembles the general operation of the intraLATA pool under the interim compensation

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[77] Ibid., page 7.

[78] Ibid.

[79] Ibid.

[80] Ibid.

plan. That is, under the interim compensation plan, local exchange carriers receive intraLATA pool compensation for message and wide area toll services, customer toll billing expenses, toll private line and foreign exchange or special access services, toll operator services and directory assistance. Also, local exchange carriers receive intraLATA pool compensation for toll network and administrative expenses. In addition, local exchange carriers receive "make-whole" payments as necessary. And, lastly, local exchange carriers receive residual payments.

In setting a sequence of intraLATA pool compensation, the Commission set intraLATA pool compensation priorities, which, in the opinion of the Commission, are reasonable priorities and should not be changed, except to acknowledge that the Commission will allow private line and foreign exchange or special access compensation to occur separate from other intraLATA pool compensation.

The Independent Telephone Group's objection to the sequence of intraLATA pool compensation specified in the Commission's Order of November 20, 1984, seems to be incidental to its primary concern: that is, that after intraLATA pool compensation related to traffic sensitive rate elements, customer billing and collections, and network and administrative expenses occurs, there may not be any funds available for residual compensation, or, in the worst case, there may be a negative residual in the intraLATA pool. The Commission acknowledged this possibility in the Order. However, at the same time, the Commission sought to assure the integrity of the intraLATA pool in stating that,

> . . .it is incumbent upon SCB to certify to the Commission that its toll service schedules generate funds sufficient to meet the intraLATA revenue requirement stated in this Order. In the event that a significant difference exists, toll service schedule rate adjustments may be in order. . ..[81]

The information required by the Order and necessary to the evaluation of funds available for intraLATA pool compensation has been filed by South Central Bell and is now a part of the record in this case. The Commission will allow all local exchange carriers the opportunity to review and comment on the information. Comments should be filed with the Commission within 20 days from the date of this Order. In the event that the Commission receives comments that require either a formal conference or a hearing, such a formal conference or hearing may be scheduled.

The Independent Telephone Group's conditional objection to network local exchange carriers receiving a 12.75 percent rate of return on network investment in the event of a negative residual in the intraLATA pool is misplaced. All local exchange carriers receive rates of return from the intraLATA pool.

Interstate access services rates include a 12.75 percent rate of return. Likewise, insofar as local exchange carriers adopt either National Exchange Carrier Association access services rates or their own interstate access services rates for use in the intrastate interLATA market, then intrastate interLATA access services rates also include a 12.75 percent rate of return in the intrastate interLATA market.

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[81] Order, November 20, 1984, page 55.

In terms of intraLATA pool compensation, since intrastate interLATA traffic sensitive rate elements are used to recover revenues from the intraLATA message and wide area telecommunications pool and include a 12.75 percent rate of return, intraLATA message and wide area telecommunications pool compensation includes a 12.75 percent rate of return.

In the case of cost schedule local exchange carriers, intraLATA private line and foreign exchange or special access pool compensation includes a 10.86 percent rate of return, based on 1983 cost schedule settlements. In the case of average cost schedule local exchange carriers, the rate of return included in intraLATA private line and foreign exchange or special access pool compensation is unknown, although it is embedded in the 1966 private line cost schedule and is probably less than 10.86 percent.

Like intraLATA message and wide area telecommunications pool compensation, intraLATA network cost includes a rate of return of 12.75 percent. Although the Independent Telephone Group now objects to this rate of return, it did not do so at the time of the Commission's Interim Order of December 29, 1983, when it was allowed under the interim compensation plan. At this time, the Commission sees no reason to modify intraLATA network cost rate of return.

IntraLATA administrative expense does not include a rate of return. Neither does any residual compensation from the intraLATA pool include a rate of return. In the opinion of the

Commission, neither administrative expense nor residual compensation should include a rate of return.

In the absence of intrastate access services cost information neither the Commission nor any local exchange carrier can determine the overall rate of return achieved by the intraLATA pool or the overall rate of return achieved by any local exchange carrier on either interLATA or intraLATA access services. At this time, on the basis of available information, the most that the Commission can do and has done is recognize rate of return components in access services rates and under cost schedule and average cost schedule settlements.

Third, among the general issues concerning access compensation and revenue requirements in the Independent Telephone Group's application for rehearing, the Independent Telephone Group requests that the Commission reconsider its determination "that the make whole compensation mechanism be discontinued in the intraLATA access compensation plan."[82]

Specifically:

> The Independent Telephone Group suggests that the make whole compensation mechanism was a necessary part of the interim plan because South Central Bell is the only party (along with Commission approval) that controls toll rate schedules within the Commonwealth. If toll revenues within the pool are not sufficient to meet all the revenue requirements it is the direct responsibility of the party filing the toll rate schedules. If members of the Independent Telephone Group have no control over those schedules, they also have no control over the revenue within the pool.[83]

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[82] Independent Telephone Group's application for rehearing, page 2.

[83] Ibid., page 8.

In lieu of "make-whole" payments, the Independent Telephone Group recommends that,

> . . .the Commission could expand on their requirement that South Central Bell certify that sufficient toll revenues will be generated in the fund to meet all of the revenue requirements of the participants at the beginning of the plan. The Commission should require South Central Bell to certify that revenue requirements will be met with every toll rate filing South Central Bell makes within the intrastate environment. . .. The Independent Group asks that the Commission require South Central Bell to certify the revenue requirement achievement for all companies out of the intraLATA pool with any toll rate schedule change South Central Bell files.[84]

The Commission will not reconsider the elimination of "make-whole" payments. In its Order of November 20, 1984, the Commission stated that,

> . . .under its interim access compensation plan, the Commission provided a make-whole compensation mechanism to assure revenue stability among the local exchange carriers. In view of the substantial uncertainty concerning revenue requirement at the time of the Commission's Interim Order, the make-whole compensation mechanism was a prudent condition for allowing access service tariffs to become effective. Under the access compensation plan outlined in this Order, a make-whole compensation mechanism is no longer necessary, as 1984 baseline net make-whole compensation has been incorporated into the intraLATA revenue requirement established and stated above.[85]

Insofar as 1984 "make-whole" payments have been included in local exchange carrier access compensation and revenue requirements, the Commission has assured revenue stability, at least from an historical baseline. Furthermore, as discussed

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[84] Ibid.

[85] Order, November 20, 1984, page 56.

above, the Commission has required South Central Bell to file information to assure that its toll schedules meet intraLATA access compensation and revenue requirements discussed in the Commission's Order of November 20, 1984. The information has been filed and is now a part of the record in this case. The Commission will allow local exchange carriers to review and comment on the information, as indicated above.

In the future, it will be incumbent on local exchange carriers to scrutinize toll schedule rate adjustments and participate in any such proceedings before the Commission, in order to express their interest. However, at the same time, the Commission will acknowledge the recommendation made by the Independent Telephone Group and require South Central Bell to detail the revenue impact on intraLATA pool compensation of any toll schedule rate adjustment that it might file.

South Central Bell

South Central Bell discussed intraLATA pool compensation and requested reconsideration or clarification on two issues concerning access compensation and revenue requirements in its petition for rehearing.

First, South Central Bell states the position that "intraLATA pool settlements are a matter of contractual agreement between the local exchange companies and thus are outside the jurisdiction of the Commission. . . ."[86] At the same time, South Central Bell acknowledges that the intraLATA "pool compensation

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[86] South Central Bell's petition for rehearing, page 9.

plan ordered by the Commission generally conforms with the agreement reached by the LECs."[87]

South Central Bell further explains that

> The LECs had negotiated an access charge settlement plan to eliminate the make-whole mechanism and distribute residual revenues based on proportionate LEC access lines. Under that plan the independents would have used company-specific, make-whole CCL rates similar to the approach contained in the Order. However, the Company had agreed in those negotiations to use for its CCL rate, the average of the independent company CCL rates rather than its own make-whole rate.[88]

As discussed in the cases of General and the Independent Telephone Group, to the extent that local exchange carriers have negotiated an intraLATA compensation plan to replace the interim compensation plan approved in the Commission's Interim Order of December 29, 1983, they have to do so with the knowledge or participation of the Commission.

In any event, the Commission does not object to local exchange carriers developing and executing contracts. However, all local exchange carriers subject to the jurisdiction of the Commission should be aware that all contracts entered into among themselves or with their customers are subject to the review and prior approval of the Commission, and must conform to statutory requirements, the Commission's administrative regulations, and Orders of the Commission, as appropriate.

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[87] Ibid.

[88] Ibid.

In the case of the intraLATA compensation plan, this means that any agreement among local exchange carriers must conform to the provisions of the Commission's Order of November 20, 1984. Indeed, as discussed elsewhere in this Order, in its Order of November 20, 1984, the Commission ordered South Central Bell, as intraLATA pool administrator, to develop and file an intraLATA compensation agreement and technical description with the Commission to replace the interim compensation plan. These documents are now a part of the record in this case and the Commission will allow all parties in this case the opportunity to review and comment on the intraLATA compensation agreement prior to its approval, as indicated elsewhere in this Order.

The Commission is pleased that the intraLATA pool compensation agreement reached by the local exchange carriers generally conforms to the plan outlined in the Commission's Order of November 20, 1984. Nonetheless, to the extent that the agreement deviates from the Order, it must be revised. Specifically, based on South Central Bell's comments, the Commission will not allow South Central Bell to use an average of all other local exchange carriers' residual rates as its own residual rate. Such an approach would not accurately reflect South Central Bell's residual needs. Instead, South Central Bell must develop a residual rate specific to the Commission's determination of South Central Bell's intraLATA access compensation and revenue requirements.

South Central Bell requests that the Commission reconsider including private line with other intraLATA pool compensation:[89]

> The LECs have handled and will continue to handle these revenues outside the intraLATA pool under separate agreement. The intraLATA pool is currently comprised of MTS [Message Telecommunications Service] and WATS [Wide Area Telecommunications Service] revenues only. The Company therefore requests the deletion of "special access rates" from the Commission's description of the intraLATA pool.[90]

As discussed in the cases of Continental and the Independent Telephone Group, the Commission will allow private line and foreign exchange or special access compensation to occur separate from other intraLATA pool compensation.

However, as discussed in the cases of General and the Independent Telephone Group, the Commission is of the opinion that private line and foreign exchange or special access compensation should be included in the Commission's determinations concerning access compensation and revenue requirements. Therefore, to the extent that private line and foreign exchange or special access compensation has not been reflected in the information filed with the Commission by South Central Bell, the information should be revised to include private line and foreign exchange or special access compensation.

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89 Although its petition is not explicit, as in the cases of Continental, General, and the Independent Telephone Group, presumably, South Central Bell intends to include intraLATA foreign exchange in its discussion of private line or special access.

90 South Central Bell's petition for rehearing, page 10.

Also, South Central Bell requests that the Commission allow the local exchange carriers to adjust information contained in Table 4, IntraLATA Access Compensation and Revenue Requirement, attached to the Commission's Order of November 20, 1984, since it contains:

> . . .several mismatches in revenues due to errors in reporting by LECs or apparent misunderstanding on the part of the Commission. These include the omission of 800 service revenues, the inadvertent inclusion by SCB of four month's private line revenue, and the inclusion of several LECs' interLATA special access revenues in residually computing the make whole intraLATA MTS and WATS revenue requirements.[91]

As discussed in the case of General, to the extent that the information on which the Commission based its determinations concerning access compensation and revenue requirements in its Order of November 20, 1984, contains preliminary estimates, omissions, or errors, then South Central Bell should correct the information, as necessary, subject to the review of the Commission and audit by other local exchange carriers under the option to seek an audit pursuant to the Commission's Interim Order of December 29, 1983.

Rates and Tariffs

ALLTEL and the Independent Telephone Group requested an extension of time to file tariffs required in the Commission's Order of November 20, 1984. These and other extension of time requests were granted in the Commission's Order of December 20, 1984.

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91 Ibid., pages 10-11.

In addition to the extension of time, in its application for rehearing, the Independent Telephone Group notes that although the Commission allowed local exchange carriers to adopt the National Exchange Carrier Association tariff for intrastate interLATA use, it "failed to specify the effective date of the latest version of the NECA [National Exchange Carrier Association] tariff which it will allow the local exchange carriers to mirror."[92] Furthermore, the Independent Telephone Group requests that "the Commission order LECs concurring in the intrastate mirroring of the interstate tariff to do so based on the NECA Tariff approved and effective on December 1, 1984",[93] because that version of the National Exchange Carrier Association tariff "reflects the latest cost data available from all the local exchange carriers utilizing the NECA Tariff."[94]

The Commission is not aware of a National Exchange Carrier Association tariff version "approved and effective" on December 1, 1984. On the other hand, the Commission is aware that the National Exchange Carrier Association filed an application with the FCC on or about December 1, 1984, to increase interstate National Exchange Carrier Association rates, which the FCC approved on January 15, 1985, with certain modifications. Presumably, it is the National Exchange Carrier Association tariff

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[92] Independent Telephone Group's application for rehearing, page 9.

[93] Ibid., pages 9-10.

[94] Ibid., page 10.

version filed with the National Exchange Carrier Association rate application that the Independent Telephone Group asks the Commission to allow local exchange carriers to adopt.

The Commission will deny the Independent Telephone Group's request that the Commission allow local exchange carriers to adopt the December 1, 1984, version of the National Exchange Carrier Association tariff. Insofar as the December 1, 1984, version of the National Exchange Carrier Association tariff includes interstate rate adjustments that have been neither filed with the Commission nor examined by the Commission, the Commission would be forsaking its statutory responsibilities concerning intrastate rate adjustments if it allowed the Independent Telephone Group to adopt the December 1, 1984, version of the National Exchange Carrier Association tariff. This the Commission will not do.

As stated elsewhere in this Order, local exchange carriers under the jurisdiction of the Commission may adopt National Exchange Carrier Association rates, rules, and regulations for intrastate interLATA use as effective with the FCC on May 25, 1984, except as certain modifications are required to conform to the Commission's Order of November 20, 1984, and as certain modifications may be required in subsequent Orders of the Commission. This clarification should eliminate any doubt concerning the Commission's Order of November 20, 1984, on the matter of the National Exchange Carrier Association tariff version acceptable to the Commission.[95]

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[95] Order, November 20, 1984, discussion at pages 58-59, and 68.

In order that the Commission's intentions concerning intrastate access services tariffs are as clear as possible to all parties in this case, the Commission will reiterate two conclusions stated in its Order of November 20, 1984.

First, in no case will the Commission allow intrastate access services tariffs to cite or reference any other interstate or intrastate access services tariffs as to rates, rules, and regulations, unless the cited or referenced access services tariff is also filed and maintained with the Commission.[96]

Second, the Commission will not allow automatic changes to intrastate access services tariffs rates, rules, and regulations.[97] Any changes to intrastate access services tariffs rates, rules, and regulations must conform with normal tariff filing procedures, as stated in the Commission's enabling statute and in the Commission's administrative regulations.

Cost of Service

In its application for rehearing, the Independent Telephone Group requested that the Commission reconsider its position concerning intrastate access services cost information, as stated in the Commission's Order of November 20, 1984.[98]

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[96] Ibid., discussion at pages 62-63.

[97] Ibid., discussion at pages 58 and 76.

[98] That is: "The Commission finds that each LEC should develop company-specific cost information. Absent any showing of compelling circumstances, no LEC shall make any proposal to alter or increase the access charge structure and rates approved herein." Order, November 20, 1984, page 85. Also, additional discussion may be found at pages 47-48, and 83-85.

Specifically, the Independent Telephone Group observes that the Commission ordered local exchange carriers to "immediately begin developing company specific cost separation studies,"[99] either individually or collectively, "in anticipation of the time when each LEC may be required to stand alone relative to the interLATA and intraLATA marketplaces."[100]

The Independent Telephone Group objects that while the Commission discusses company-specific cost information, it seems to require a cooperative effort that would result in a continuation of average cost schedules. Also, the Independent Telephone Group objects that the Commission did not provide for the recovery of cost separations study expenses. And the Independent Telephone Group objects that cost separations studies would place an unfair financial burden on small local exchange carriers.

Therefore, the Independent Telephone Group "asks that the Commission reverse its requirements that all Local Exchange Carriers immediately begin cost separation studies and instead suggest that they begin implementing studies."[101]

The Commission will not reverse its position concerning intrastate access services cost information.

In its Order of November 20, 1984, and in this Order, the Commission discussed the lack of information concerning

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[99] Independent Telephone Group's application for rehearing, page 10.

[100] Ibid., page 11.

[101] Ibid., page 12.

intrastate access services cost information and the impact of the lack of information on access compensation and revenue requirements, rate design, and other issues. The situation has not changed and the Commission is still of the opinion that intrastate access services cost information is essential and must be developed.

In suggesting that local exchange carriers might cooperate in developing intrastate access services cost information, the Commission noted that "Such a cooperative effort would encourage administrative efficiency and permit cost sharing among the LECs."[102] Contrary to the Independent Telephone Group's interpretation, the Commission did not intend to encourage a continuation of average cost schedules, either on an intrastate basis or on an interstate basis, under National Exchange Carrier Association average cost studies used to support interstate access services rates. Instead, the Commission intended to encourage the cooperative development of cost separations procedures that could be applied to each individual local exchange carrier's investment and expense circumstances.

The Independent Telephone Group is correct to note that the Commission did not discuss the recovery of cost separations study expenses in its Order of November 20, 1984. However, to the extent that cost schedule local exchange carriers now recover cost separations study expenses through toll and access services rates, then average schedule local exchange carriers will be

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[102] Order, November 20, 1984, page 48.

eligible for expense recovery in the same manner, at such time as they incur cost separations study expenses.

Finally, the matter of whether cost separations studies will or will not impose an unfair financial burden on small local exchange carriers is a matter of evidentiary showing. In the absence of any specific information, the Commission cannot arrive at any determination concerning the absolute cost or relative impact of cost separations studies on any given local exchange carrier's earnings.

Findings and Orders

Having considered the evidence of record and being advised, the Commission is of the opinion that for all of the reasons enumerated herein, the petitions for rehearing not otherwise addressed in the Commission's Order in this matter dated February 4, 1985, or clarified in this Order, should be denied.

IT IS THEREFORE ORDERED that the petitions for rehearing not otherwise addressed in the Commission's Order in this matter dated February 4, 1985, or clarified in this Order, be and they hereby are denied.

IT IS FURTHER ORDERED that the Commission's Order dated November 20, 1984, be and it hereby is affirmed in all other respects.

Done at Frankfort, Kentucky, this 15th day February, 1985.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Secretary