

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF APPLICATION OF SOUTH )  
CENTRAL BELL TELEPHONE COMPANY TO )  
RESTRUCTURE ANALOG ESSX SERVICE ) CASE NO. 9496  
AND OFFER DIGITAL ESSX SERVICE )

O R D E R

On December 18, 1985, South Central Bell Telephone Company ("SCB") filed a petition and tariff restructuring its analog ESSX offering and introducing a new digital ESSX service option. In its petition, SCB also requested that the Commission consider temporary approval of the tariff while the investigation of the tariff was being conducted and that the Commission give confidential treatment to the cost study support material.

On January 20, 1986, the Commission issued an Order suspending SCB's tariff for 5 months on and after the 18th day of January, 1986. Subsequently, at the request of SCB, the Commission issued an Order on February 19, 1986, approving the tariff filing on an interim basis.

On February 21, 1986, the Commission issued a letter to SCB requesting that SCB review the submitted cost study and support material and amend its petition. Specifically, the Commission wanted SCB to be more specific in stating what material was proprietary and privileged to bring the petition into compliance with 807 KAR 5:001, Section 7,(2)(a). On February 28, 1986, SCB filed a formal petition for confidential treatment of its ESSX

and Digital ESSX cost support information. Moreover, in response to the Commission's letter dated February 21, 1986, SCB filed an amended petition for confidential treatment on March 7, 1986. Finally, on April 8, 1986, the Commission issued an Order granting confidentiality for all parts as indicated by highlighting except for the DMS-100 Cost Study, Section 2, Attachment 2.

On May 2, 1986, the Commission issued an Order rejecting SCB's contract proposal for Digital ESSX service to the Toyota Motor Company; however, the Commission did approve SCB's special contracts for provision of Digital ESSX service to Jefferson County Government and General Services Administration.

On June 9, June 12, and July 24, 1986, pursuant to 807 KAR 5:001, Section 7, SCB filed formal petitions for confidential treatment of information requested by the Commission staff. To this point, the Commission has not ruled on any of these petitions; therefore, it will do so in this Order.

A hearing was held on July 22, 1986, in the offices of the Public Service Commission in Frankfort, Kentucky. At the hearing, certain requests for additional information were made. This information has been filed.

#### DISCUSSION

ESSX and Digital ESSX services provide electronic switching service for communication purposes between stations of a subscriber and for connection through the local and long distance telephone network to other subscribers on a dial basis without intermediate handling by an attendant. Both services function in a manner similar to a Private Branch Exchange system except that

the switching equipment is located on the company's premises rather than on the customer's premises. The major difference between ESSX and Digital ESSX is that all switching for Digital ESSX is performed in digital format, a "state of the art" technology. Also, the digital central office is modular in concept, allowing more timely feature additions or changes than the existing ESSX serving central offices.

Of particular interest to the Commission is SCB's tariff section A12.1.5(I). According to this section, SCB will have the option to provide ESSX service through a Special Contract Arrangement if, in its judgment, the cost of providing that service is significantly different from the cost developed to support the tariffed rates for the service. An identical provision in tariff section A12.3.6(H) applies to Digital ESSX.

Under 807 KAR 5:011, Section 13, Rules of Procedure, the Commission outlines its criteria for special contracts. Under this provision any utility entering into a special contract governing utility service which sets out rates, charges or conditions of service not included in its general tariff shall file true copies of the contract with the Commission. Under SCB's proposals, this Commission's regulation would appear to be totally bypassed, thus avoiding the Commission's review and prior approval requirements.

During the hearing, SCB's witness was asked when he would expect the Commission to become involved in a Special Contract Arrangement process. His reply was that SCB would not expect the

Commission to become involved until after a bid had been quoted to a customer and accepted.<sup>1</sup>

The Commission is of the opinion that this tariff proposal is reasonable; however, the proposed tariff does not allow for Commission approval of the Special Contract Arrangement. Therefore, SCB should make as a condition in its tariff that Commission approval of the contract is necessary before implementation.

Another area of concern is tariff section A12.1.5(F)le which outlines SCB's treatment of interest on deferred payments. In its explanation, SCB states that the interest rate to be charged on deferred payments will be revised periodically by the company. Moreover, if, in the judgment of the company, the maximum interest rate allowed by law is insufficient to cover the cost of providing the deferred payment option, the company will suspend the availability of said option until such time as the costs of providing said option can be recovered through the application of a lawful interest rate. An identical provision in tariff section A12.3.6(E)le applies to Digital ESSX.

Two problems arise from the above statements. First of all, SCB does not state in the tariff the actual interest rate nor does it state the method by which the actual rate was developed. Second, there is no apparent mechanism whereby the Commission or customers could be notified of the fact that SCB could no longer offer the deferred payments option. Therefore, the Commission is

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<sup>1</sup> Transcript of Evidence, July 22, 1986, page 27.

of the opinion that SCB should amend this tariff section by stating the actual rate or method used in developing the rate. Furthermore, SCB should develop tariff language whereby it would give notice to the Commission before suspending the option, and receive approval from the Commission before altering a rate.

#### FINDINGS

The Commission, after consideration of the evidence of record and being advised, is of the opinion and finds that:

1. SCB's petitions requesting proprietary treatment of information filed with the Commission on June 9, June 12, and July 24, 1986, should be sustained.

2. Tariff A3, A6, and A12 as proposed by SCB should be approved, except as modified to reflect the revisions as proposed by the Commission in tariff sections A12.1.5(I), A12.3.6(H), A12.1.5(F)le, and A12.3.6(E)le.

3. SCB should submit the proposed modifications to the above mentioned provisions to conform with the concerns raised herein and resubmit those portions of the tariff within 30 days.

#### ORDERS

IT IS THEREFORE ORDERED that:

1. SCB's petitions requesting proprietary treatment of information filed with the Commission on June 9, June 12, and July 24, 1986, shall be sustained.

2. Tariff A3, A6, and A12 as proposed by SCB shall be approved, except as modified to reflect the revisions as proposed by the Commission in tariff sections A12.1.5(I), A12.3.6(H), A12.1.5(F)le, and A12.3.6(E)le.

3. SCB shall submit the proposed modifications to the above mentioned provisions to conform with the concerns raised herein and resubmit those portions of the tariff within 30 days.

Done at Frankfort, Kentucky, this 4th day of September, 1986.

PUBLIC SERVICE COMMISSION

*Richard D. Weman, Jr.*  
Chairman

*R. D. L.*  
Vice Chairman

*Spencer N. Williams*  
Commissioner

ATTEST:

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Executive Director