

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF GENERAL TELEPHONE)
COMPANY OF THE SOUTH TO CHANGE)
CERTAIN RATES AND CHARGES FOR) CASE NO. 9660
INTRASTATE TELEPHONE SERVICE)

O R D E R

On January 4, 1984, the Kentucky Public Service Commission ("Commission") in its Order in Case No. 8859¹ placed a moratorium on the implementation of usage sensitive pricing in Kentucky for General Telephone Company of the South ("General"). The Commission stated its intention to consider usage sensitive pricing in a generic proceeding at some later date.

On November 15, 1984, the Commission established Administrative Case No. 285.² The purposes of Administrative Case No. 285 were to develop the information and analyses required for proper evaluation of usage sensitive pricing and to assist the Commission in the development of a statewide policy on the pricing of telephone service. Because of General's and South Central Bell Telephone Company's continuing interest the Commission required these telephone utilities to prepare research proposals providing

¹ Case No. 8859, Adjustment of Rates of General Telephone Company of Kentucky.

² An Investigation into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky.

their research objectives, scope and methodologies to be used in the experiment. In addition, the Commission set forth the information and data requirements of the experiment in Appendix A of the Order initiating the inquiry. The information included such unique data as cost of traffic-sensitive plant, price elasticity estimates for on-peak usage and usage by demographic subset. Finally, to oversee the experiment and to provide advice and comment, the Commission established an LMS Oversight Committee³ which was to meet periodically, receive reports on the experiment, and comment on the proposals. The LMS Oversight Committee has met quarterly and minutes have been maintained.

On August 1, 1986, General provided Notice to the Commission of its intent to change rates in the Campbellville, Glasgow, and Morehead exchanges. In addition to its notice on August 1, 1986, General filed its proposed tariff changes with the Commission with an effective date of October 1, 1986. General proposed to implement a mandatory usage sensitive service ("USS") trial in Campbellville, Glasgow, and Morehead for the period beginning October 1, 1986, and running through September 30, 1987.

On August 27, 1986, the Commission suspended the proposed tariffs and scheduled a public hearing for October 1, 1986, for the purpose of cross-examining witnesses on the proposed tariff changes. The public hearing was held as scheduled and all information requested at the hearing has been provided.

³ See Appendix A for Membership List.

USS Rate Experiment

Disagreement with the proposed mandatory USS rate experiment has been expressed by a number of residential and business consumers at public meetings held in Campbellsville, Glasgow, and Morehead on September 22, 23, and 24, respectively. The concerns centered around four fundamental issues. First, residential and business customers were concerned with the method used to select the three study sites for the mandatory USS trial. Second, consumers were concerned that Campbellsville, Glasgow, and Morehead were not given the option of selecting USS but instead would be placed involuntarily on USS. Third, residential and business consumers expressed the belief that the implementation of mandatory usage sensitive service would result in a financial windfall for General and would adversely affect the economy of their respective areas. Finally, consumers were concerned that the Kentucky ratepayers would be responsible for any additional expenses associated with the USS experiment.

In Administrative Case No. 285, the Commission required both General and South Central Bell to state the criteria used in their selection of USS study exchanges. General analyzed and selected their exchanges based on exchange size, local calling area, equipment type, economic influence, and customer demographics. The nomination and selection of Campbellsville, Glasgow, and Morehead were based on General's contention that these communities provide a representative sample of General's network and customer base in Kentucky.

A major concern of the Commission has been to obtain study results that will be useful in evaluating USS. It is the opinion of the Commission that the data developed in the Campbellsville, Glasgow and Morehead experiment will provide important information that can be applied to the state as a whole.

The Commission, since authorizing South Central Bell's LMS tariff in Bowling Green, has continued to review the information requirements necessary to evaluate usage sensitive pricing in Kentucky. General, like South Central Bell, contends that the USS rate structure is more equitable, will lead to more efficient use of telephone plant, and will contribute to universal service. The rapidly changing structure of the telephone industry makes it incumbent upon the Commission to consider all pricing options for meeting future telephone needs of Kentucky consumers. Telephone and telecommunications services are becoming more and more essential to economic development as Kentucky and the nation move into the information age. Establishing the proper pricing for these services is vital to ensuring that Kentucky prospers in this new era. Only through gathering information from the General study can a proper evaluation of USS be made for Kentucky. The Commission is of the opinion that the USS trial is necessary for its evaluation of USS and that it should be undertaken.

Other concerns will be addressed later in this Order.

Rate Structure

In proposing its universal USS tariff for Campbellsville, Glasgow, and Morehead, General contends that it has developed a rate structure that will generate the same level of revenue during

the period of the experiment as would have been generated under flat rates. The usage rates included in the proposed tariff were priced at or above their incremental costs. After analyzing the usage characteristics of these exchanges developed in the May 1985 through August 1985 traffic studies and adjusting for repression, General determined the revenue that would be collected through the proposed usage rates. Given the revenue-neutral objective, the residential, business access, and PBX access rates were set residually. General proposed capping the USS rates at \$30 for monthly residential service.

In reviewing the proposed rate structure the Commission has three basic objectives. First, the Commission feels that to the maximum extent possible usage rates should be equal to or exceed the incremental cost of the service in order to encourage efficient use of the telephone plant. Secondly, the Commission has sought to make the overall revenue impact on Campbellsville, Glasgow, and Morehead from the USS trial revenue-neutral. Finally, the Commission believes that the impact on individual customers should be limited through the setting of a revenue cap on total usage charges.

The Commission is of the opinion that the rates proposed by General fall short of these objectives. In estimating the revenue generated by the usage sensitive charges General has adjusted its revenue estimate to reflect repression of usage due to the incremental pricing of telephone service. The Commission has consistently disallowed repression adjustments as failing to meet its known and measurable adjustment standard. Because the Commission

finds no persuasive reason to deviate from this practice in this case, it will reject the proposed repression adjustment. Secondly, because of the economic dislocations that can occur during the experiment, General at the hearing held October 1, 1986, proposed to establish a ceiling for combined monthly access line rate and usage charges for business and PBX customers.

During the proceeding, the Commission's staff asked General to provide sample tariffs that would include no repression adjustment and would cap the total access and usage service charges. After reviewing the sample tariffs the Commission will require General to file USS tariffs that mirror the sample tariffs in accordance with Appendix B.

The Commission has sought to make the overall revenue impact on Campbellsville, Glasgow, and Morehead from the USS experiment revenue-neutral. To ensure that the revenue impact is neutral the Commission will, at the conclusion of the experiment, require General to refund all revenue collected which exceeds the revenue it would have otherwise collected with flat rates. The excess revenue, if any, should be refunded to the rate class that generated it. Any refunds should be provided as credits on telephone bills in the second month following the completion of the trial period.

Bill Detail

Considerable concern has been expressed over the lack of detailed information included in USS bills. Customers in Campbellsville, Glasgow, and Morehead stated that they would be unable to track their bills without billing detail. General

proposed a detailed billing service to USS customers for a flat rate of \$1.75 per customer bill with an incremental charge of 12 cents per page of billing detail. General under cross-examination indicated that its \$1.75 per month was not based on a cost study. However, General did indicate that the 12 cents per page charge for billing detail was based on an incremental cost study.

The Commission in reviewing the proposed tariff feels that customers should have an opportunity to obtain all billing detail that is technologically available under USS. Therefore the Commission will reject the \$1.75 flat rate as unsupported by a cost study but will permit General to continue to charge the incremental rate of 12 cents per page. The Commission will require General to provide this service to any customer who requests billing detail at least 30 days in advance of the period for which detail is desired. The Commission will require General to refile its tariff to reflect these changes.

In addition the Commission will require General to adopt and provide to the Commission within 15 days of the date of this Order a written policy on how it will address disputed USS bills during this trial.

Rate Stability

After the filing of this case on August 1, General filed a general rate case (Case No. 9678) requesting a rate increase of approximately 50 percent for local exchange service. However, during the hearing, General proposed that the three exchanges involved in the experiment be exempted from any rate increase that may result from Case No. 9678. General went on to propose that

its shareholders absorb any revenue losses that may result from maintaining stable rates in the exchanges during the period of the experiment.

The Commission concurs with General's proposal for stable rates in these exchanges during the period of the experiment. In addition the Commission is of the opinion that any revenue deficiency resulting from the stabilized rates should be absorbed by General's shareholders. However, the Commission does want to state that it is not in any way prejudging the reasonableness of the revenue increase requested and the local exchange rates proposed in Case No. 9678.

Length of Trial

General has proposed that the Commission grant a one-year trial for its USS experiment. It is General's contention that the 12-month trial will assist in averaging out the effects of seasonality in demand plus provide opportunity for customers to resume a more normal consumption pattern after possibly overrepressing usage in the transition from flat rates to measured rates. General contends that the additional data would improve the elasticity estimates. There was only minimal concern expressed by consumers concerning the proposed length of the USS trial.

The Commission, however, is concerned with the length of the experiment. Although the Commission recognizes that the longer trial will provide better data for use in estimating demand responses, we are concerned with the experiment's impact on local residents and businesses. Therefore, the Commission will review General's data at the end of 6 months to determine at that time if

the experiment should be continued through the full 12 months as proposed. If the Commission determines at that time that sufficient data has been collected to permit reasonable estimates of demand elasticities, then it may cancel the remainder of the experiment and return all consumers in the three exchanges to flat rates.

USS Expenses

Finally, the Commission wishes to clarify the responsibility for any additional expenses associated with the USS trial. The Commission will require General to separately account for these incremental expenses associated with the USS trial. Furthermore, the Commission is of the opinion that these expenses should not be recovered from Kentucky ratepayers, but instead should be borne by General's stockholders.

Findings and Orders

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

1. The rates as proposed for Campbellsville, Glasgow, and Morehead are not fair, just, and reasonable and should be rejected.
2. The mandatory USS trial for Campbellsville, Glasgow, and Morehead should provide important information necessary to the evaluation of usage sensitive pricing in Kentucky.
3. To the extent that General's mandatory USS tariff generates revenue in excess of the amount that is generated under the flat rate tariff, General should refund the excess through a

credit on the customer's bill in the second month after the conclusion of the experiment.

4. General's flat monthly charge for billing detail should be rejected.

5. General should provide billing detail at 12 cents per page to any customer who requests the service at least 30 days in advance of the period for which billing detail is desired.

6. General should refile its USS tariff within 30 days of the date of this Order reflecting the changes discussed above.

7. General should track all expenses of the USS trial for Campbellsville, Glasgow, and Morehead, maintain a full record of any incremental expenses and these expenses should be borne by General's stockholders.

8. For the duration of the USS experiment General should not increase either access or usage rates in these exchanges and any revenue deficiency should be borne by General's stockholders.

9. General should file a written policy on how it will address disputed USS bills.

IT IS THEREFORE ORDERED that:

1. General's mandatory USS tariff filed on August 1, 1986, for the Campbellsville, Glasgow, and Morehead exchanges be and it hereby is rejected.

2. General's mandatory USS tariff filed on October 7, 1986, for the Campbellsville, Glasgow and Morehead exchanges be and it hereby is approved on an experimental basis to remain in effect from November 1, 1986, to October 31, 1987, subject to a 6-month review by the Commission.

3. General shall refile its USS tariff reflecting the changes adopted by the Commission within 30 days of the date of this Order.

4. General shall track all expenses of the USS trial, maintain a full record of any incremental expenses associated with the USS trial, and those expenses shall not be borne by ratepayers.

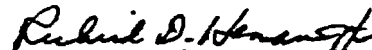
5. At the conclusion of the USS trial, General shall refund by credit to customers' bills, any excess revenue generated from USS rates that would otherwise not have been charged under flat rate local exchange service.

6. General shall not for the duration of the experiment increase either access or usage charges in these exchanges and any revenue deficiency will be borne by General's stockholders.

7. General shall file within 15 days of the date of this Order a written policy on how it will address disputed USS bills.

Done at Frankfort, Kentucky, this 31st day of October, 1986.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE COMMISSION
IN CASE NO. 9660 DATED OCTOBER 31, 1986

LMS OVERSIGHT COMMITTEE

Mr. Jan Teensma - ALLTEL Kentucky, Inc.

Mr. John D. Hinkle - Kentucky Retail Federation, Inc.

Mr. Ben Doult - Office of the Attorney General

Mr. R. P. Floyd - Cincinnati Bell Telephone

Mr. Ray Whitener - Utility Ratecutters of Kentucky

Mr. Stewart Wenzel - (Consultant to Utility Ratecutters)

Mr. Fred Gerwing- South Central Bell Telephone Company
Mr. David Kaetz

Mr. Robert H. Mitchell - General Telephone Company of the South
Mr. Robert Albright
Mr. Wayne Nelson

Mr. William Magruder - Duo County Telephone Cooperative

Mr. Bill Clingenpeel - Contel Service Corp.

Mr. W. H. Farmer - Kentucky Telephone Association

Mr. Jeff Zahner - Multi-Com Systems, Inc.

Mr. E. K. Bristow - Special Advisory Commission of Senior Citizens

Mr. Rand E. Kruger - Attorney for Kentucky Hospital Assoc.

Mr. C. Kent Hatfield - Representing MCI Telecommunications, Corp.
Mr. Kendrick R. Riggs

Mr. William H. Fane, III - Coin-Tel, Inc.

Ms. Mary Lynn Collins - Legislative Research Commission

Mr. J. Paul Warnecke - Director, Division of Telecommunications,
Department for Facilities Management

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates (Continued)

S3.2.2 Usage Sensitive Service (Continued)

d. Usage Sensitive Service Rates (Continued)

(2) Usage Rates (Continued)

Note 2: Residence customers who have been certified to the Telephone Company as having a hearing and/or speech impairment which requires them to communicate over telephone facilities by means other than voice, and who use Data Transmitting and Receiving Terminals of speeds of 110 bauds or less, provided either by the Telephone Company or the customer, will be allowed the Time-of Day discount during regular day periods (9:00 a.m. - 10:00 p.m.).

(3) Time-of-Day Discounts and Periods

	<u>From</u>	Up to but not <u>Including</u>	<u>Discount</u>
Everyday	10:00 p.m.	9:00 a.m.	50%
Saturdays, Sundays, and Certain Holi- days (See Note 1)	9:00 a.m.	10:00 a.m.	50%

Note 1: Holiday discount applies on New Years Day (January 1), Independence Day (July 4), Labor Day (the first Monday in September), Thanksgiving Day (the Fourth Thursday in November), and Christmas Day (December 25).

(4) Usage Sensitive Service Detail Billing

The monthly rates for USS do not include the provision of monthly billing detail. When a billing detail is furnished, the customer will be charged \$.12 per page. The billing detail includes date of call, called telephone number, answer time, and length of call. The customer must request a detailed bill at least 30 days in advance of the period for which detail is desired.

* Experimental offering effective through October 31, 1987 for USS.

APPENDIX B

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 9660 DATED 10/31/86

The following rates and charges are prescribed for the customers in the area served by General Telephone Company of the South. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

GENERAL CUSTOMER SERVICES TARIFF

INDEX

<u>Subject</u>	<u>Section</u>	<u>Page</u>
Usage Sensitive Service (USS)*	S3	7.1

* Experimental offering effective through October 31, 1987 for Usage Sensitive Service (USS).

1. DEFINITION OF TERMS

FLAT RATE SERVICE

A classification of exchange service for which a stipulated charge is made, regardless of the amount of use.

USAGE SENSITIVE SERVICE (USS) *

A classification of exchange service consisting of (1) a regular monthly charge for incoming service and for access to the local network, and (2) a charge for each local call originated and completed.

* Experimental offering effective through October 31, 1987 for USS.

S3. BASIC LOCAL EXCHANGE SERVICE

Contents

S3.2 Monthly Exchange Rates

S3.2.2 Usage Sensitive Service (USS)* 7.1

* Experimental offering effective through October 31, 1987 for Usage Sensitive Service (USS).

S3.2.1 Flat Rate Service

<u>Exchange</u>	<u>Rate Group</u>	Business Access Lines			Residence Access Lines		
		<u>1-Pty</u>	<u>2-Pty</u>	<u>4 & 8-Pty(3)</u>	<u>1-Pty</u>	<u>2-Pty</u>	<u>4 & 8-Pty</u>
Campbellsville	3	16.38#	22.35	18.35	11.23#	8.98	7.84
Glasgow	4	30.95#	-	-	12.27#	9.83	-
Morehead	3	26.38#	22.35	18.35	11.23#	8.98	7.84

This rate is not applicable during the USS experimental offering being conducted in conjunction with Administrative Case No. 285, except as excluded in S3.2.2.a. (7). Refer to S3.2.2 for USS rate.

S3.2.2 Usage Sensitive Service •

a. General

- (1) Usage Sensitive Service (USS) is an exchange service which provides for calling to stations within the local service area. Billing for USS consists of (1) a regular monthly charge for incoming service and for access to the local network and (2) a charge for each local call originated and completed.
- (2) USS is provided only at the following exchanges:
Campbellsville
Glasgow
Morehead
- (3) Local call charges are based upon (1) call connection, (2) minutes-of-use, (3) distance called, and (4) time-of-day (including day-of-week).
- (4) The local calling area for each exchange is shown in Section S3.5.
- (5) USS will apply to all residence and business one-party access line and PBX access line customers.

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates (Continued)

S.3.2.2 Usage Sensitive Service

a. General (continued)

- (6) USS is not available on two-party, four-party and eight-party service.
- (7) USS will not be offered in connection with foreign exchange (FX) services, public and semipublic coin telephone services, and mobile and paging systems.
- (8) USS usage charges will not apply to calls to the Telephone Company Business Office, Repair Service, Directory Assistance, 911 Emergency Service or local police and fire emergency numbers where 911 is not available, or for calls to provide access to an interexchange carrier's network facilities.
- (9) USS is subject to all telephone stations charges exchange zone and mileage charges, service charges, and all specialized local operator assistance charges which are applicable to flat rate service.
- (10) The USS local exchange access rate is billed in advance. The charges for each local call (usage rates) are billed in arrears.

b. Elements of Usage Sensitive Service (USS)

- (1) Local Exchange Access Rate - A regular monthly rate for provision of incoming calls and access to the local network.
- (2) Call Connection - A call connection charge is applied to each completed outgoing call placed during the month.
- (3) Minutes of Use - A charge per minute or fraction thereof, for duration of call. Monthly billing is based on cumulative minutes of usage with the total function rounded to the next higher minute.

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates (Continued)

S3.2.2 Usage Sensitive Service (Continued)

b. Elements of Usage Sensitive Service (USS) (Continued)

- (4) Distance - Bands A, B, C and D relate to incremental Call Connection and Minutes-of-Use rates based upon interexchange mileage determined by measuring the airline distance between central offices within the local service (calling) area, using the V&H coordinate procedure. There are no incremental mileage charges associated with calls originating and terminating within a customer's serving exchange.

c. Timing of USS Local Messages

- (1) Chargeable time for all calls begins when connection is established between the calling station and the called station. Chargeable time ends when the calling station "hangs-up", thereby releasing the network connection. If the called station "hands-up" but the calling station does not, chargeable time ends when the network connection is released either by automatic timing equipment in the telephone network or by the Telephone company operator.
- (2) The Time-of-Day and Day-of-Week discounts apply to all calls which are originated within the designated discount periods. The charges are determined separately for each rate period and the results are totaled.
- (3) The Time-of-Day Discounts and Periods table is expressed as a percent reduction of the sum of the Call Connection and Minutes-of-Use charges calculated at the rates shown in the Usage Rates Table.

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates (Continued)

S3.2.2 Usage Sensitive Service (Continued)

d. Usage Sensitive Service Rates

(1) Local Exchange Access Rates

A monthly charge for the provision of incoming service and access to the local network. This rate does not include the provision of a telephone set.

<u>Business Service</u>	<u>Monthly Rates</u>	<u>GSEC</u>
One-Party Access Line	\$ 23.72	B1 USS B1 FTX USS B1 TAS USS CPE B1 USS CPE B1 FTX USS
Rotary Line Service	15.79	BRL USS
PBX Access Line	39.51	PBX LRG TRK USS CPE PBX TRK- FTX USS
<u>Residence Service</u>		
One-Party Access Line	6.55	R1 USS R1 FTX USS CPE R1 USS CPE R1 FTX USS
Rotary Line Service	4.36	RRL USS

Mileage and Exchange Zone Charges as shown in Section S3.4, are in addition to the above rates, where applicable.

S3. BASIC LOCAL EXCHANGE SERVICE

S3.2 Monthly Exchange Rates (Continued)

S3.2.2 Usage Sensitive Service (Continued)

d. Usage Sensitive Service Rates (Continued)

(2) Usage Rates

Rates applicable to each call originated and completed within the local service area. Listed below are the Distance Bands associated with each exchange.

<u>Exchanges</u>	<u>Additional Exchanges</u>	<u>Usage Sensitive Service Distance Bands</u>
Campbellsville	None	-
Glasgow	Cave City	B
	Edmonton	C
	Fountain Run	C
	Gamaliel	D
	Glasgow Rural	-
	Hiseville	A
	Lucas	A
	Park City	A
	Summer Shade	B
	Temple Hill	A
Morehead	None	-

<u>Distance Bands</u>	<u>Airline Miles</u>	<u>Full Rate Period</u>	
		<u>Call Con-</u>	<u>Each</u>
		<u>nction</u>	<u>Minute</u>
Serving Exchange	-	\$.02	\$.005
A	0 through 10	.05	.020
B	11 through 16	.06	.030
C	17 through 22	.07	.040
D	23 through 30	.08	.050

Note 1: The combined monthly access line rate and usage charges shall not exceed: \$20.00 for residential customers, \$48.72 for one-party business customers and \$90.17 for PBX customers.