

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

INVESTIGATION OF PROGRAMS TO FURTHER) ADMINISTRATIVE
THE GOAL OF UNIVERSAL TELEPHONE SERVICE) CASE NO. 312

O R D E R

Introduction

The Public Service Commission ("Commission") is initiating this investigation to further the goal of universal telephone service. In 1983 the Commission instituted Case No. 8873.¹ The record in Case No. 8873 is the Commission's most extensive review of issues related to universal service. The Commission posed a number of questions concerning the universal service concept in this case. The Commission treated Case No. 8873 as an information gathering docket. Since that time the Commission has initiated generic dockets to address issues identified in that case. The Commission considers this the appropriate time to examine programs to further universal service in Kentucky because pressure for reallocation of revenue requirements at both the inter- and intrastate levels may increase costs for residential customers. For example, increases in the Federal Communications Commission

¹ Investigation into the Effects of Competition Upon Local and Toll Exchange Service Including the Issues of Intra- and InterLATA Competition, Access Charges and Bypass, and Methods of Regulating Competitive Markets.

("FCC") mandated Subscriber Line Charge are scheduled to occur during the next several years.

Parties

The Commission encourages all interested parties to participate in this proceeding. Alltel Kentucky, Inc. ("Alltel"), Ballard Rural Telephone Cooperative Corporation, Inc., Brandenburg Telephone Company, Inc., Cincinnati Bell Telephone Company ("Cincinnati Bell"), Continental Telephone Company of Kentucky ("Continental"), Duo County Telephone Cooperative Corporation, Inc., Foothills Rural Telephone Cooperative Corporation, Inc., General Telephone Company of the South ("GTE"), Harold Telephone Company, Inc., Highland Telephone Cooperative, Inc., Leslie County Telephone Company, Inc., Lewisport Telephone Company, Inc., Logan Telephone Cooperative, Inc., Mountain Rural Telephone Cooperative Corporation, Inc., North Central Telephone Cooperative, Inc., Peoples Rural Telephone Cooperative Corporation, Inc., Salem Telephone Company, South Central Bell Telephone Company ("SCB"), South Central Rural Telephone Cooperative Corporation, Inc., Thacker-Grigsby Telephone Company, Inc., West Kentucky Rural Telephone Cooperative Corporation, Inc., AT&T Communications of the South Central States, Inc. ("ATTCOM"), Allnet Communication Services, Inc., MCI Telecommunications Corporation, and U. S. Sprint Communications Company will be required to prefile testimony in this proceeding.

History

The record in Case No. 8873 includes many comments about the appropriate definition of universal service. In SCB's opinion

"universal service should mean only connection to the network, and should not be construed to mean unlimited use of the network at a fixed monthly rate."² Most telephone companies recommended the use of local measured service as a way to reduce costs.³ The concept of "universal access" or "universal service" is stated in the text of the Communications Act of 1934: "...to make available, so far as possible, to all the people of the United States, a rapid, efficient, nationwide, and world-wide wire and communications service with adequate facilities at reasonable charges...."⁴

During Case No. 8873 all participating telephone companies indicated their support of the universal service goal. A summary of relevant comments from the record in Case No. 8873 follows.

ATTCOM supports the principle of universal telephone service. According to Continental, "Universal service is a goal that the industry and regulators have worked toward for many years." "We continue to place a high level of importance on this goal and urge the Commission when making decisions to be sure that the gains

² South Central Bell's Response to Commission's Order dated July 19, 1983, page 3.

³ Cincinnati Bell's Response to Commission's Order dated July 19, 1983, page 2; General Telephone Company of Kentucky's Response to Commission's Order dated July 19, 1983, page 6; Alltel Company of Kentucky, Inc.'s Response to Commission's Order dated July 19, 1983, page 6; AT&T's Response to Commission's Order dated July 19, 1983, page 2.

⁴ Section 1 of the Communications Act of 1934, 47 U.S.C. Subsection 151.

that have been made are not lost."⁵ Allied [Alltel] recommends that the goal of continuing the current level of universal access in Kentucky be retained as a viable objective of future intrastate regulatory policies.⁶ SCB stated that "the Company sees no reasons to abandon or alter the national goal of universal service."⁷ Cincinnati Bell continues "to embrace the principle of universal service."⁸ The Independent Telephone Group also indicated support for the universal service objective.⁹

In Case No. 8873 several of the companies' representatives expressed concern about the timing of the Commission's development of programs to further the universal service goal. Several companies recommended delaying design of a universal service program until issues concerning access charges and competition were addressed.¹⁰

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- 5 Continental's Response to Commission's Order dated July 19, 1983, page 1.
- 6 Allied's (Alltel's) Response to Commission's Order dated July 19, 1983, page 6.
- 7 South Central Bell's Response to Commission's Order dated July 19, 1983, Question No. 1.
- 8 Cincinnati Bell's Response to Commission's Order dated July 19, 1983, Question No. 1, page 2.
- 9 Independent Telephone Group's Response to Commission's Order dated July 19, 1983, Question No. 1, page 14.
- 10 Allied's Response to Commission's Order dated July 19, 1983, pages 1-4; Continental's Response to Commission's Order dated July 19, 1983, Question 12, page 8; and AT&T's Response to Commission's Order dated July 19, 1983, Questions 12 and 13, page 6.

Since 1983 the Commission has initiated several cases to address other issues raised in Case No. 8873. In 1984 the Commission issued a Final Order in Administrative Case No. 273 that dealt with "Inter- and IntraLATA Intrastate Competition in Toll and Related Services Markets in Kentucky." Through Case No. 8838¹¹ the Commission has continued to address telephone access charges. Since 1985 SCB and GTE have been conducting research programs on local measured service. The Commission expects demographic and usage information collected by the companies through this research will be useful in designing a universal service program.

The concept of a "lifeline" service also came to the attention of the Commission in Case No. 8847.¹² In this case SCB proposed that the Commission consider implementation of a targeted subsidy for low income telephone consumers. Though SCB did not file a tariff or any formal proposal, it did provide a framework to consider a lifeline tariff. In Case No. 8847, Dr. Lee Selwyn, consultant for the Commission, supported the concept of a targeted subsidy to insure continued basic telephone service for low income families.¹³

11 An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984.

12 Notice of South Central Bell Telephone Company of an Adjustment in Its Intrastate Rates and Charges.

13 Case No. 8847, Order entered January 18, 1984, page 90.

The Commission concluded that the informality and indefiniteness of the SCB proposal for lifeline service would create immense implementation and administrative problems. In the Commission's opinion the increase in local service rates from this case would not cause massive disconnect problems for SCB in the immediate future. The Commission is on record in Case No. 8847 reiterating its concern with the threat that large rate increases pose to universal telephone service in Kentucky. The Commission further states that the appropriate way to solve this problem is through a properly designed, targeted subsidy. This policy statement concluded by encouraging all telephone companies to propose lifeline tariffs in their next rate case.¹⁴

In Case No. 9160,¹⁵ the Commission again stated its commitment to the goal of universal service in Kentucky.¹⁶ However, the Commission changed its policy directive on development of a lifeline service. The Commission stated "it no longer believes that a piecemeal approach to solving the universal service problem is appropriate and that a generic proceeding should be initiated to consider this matter."¹⁷

14 Ibid.

15 Petition of South Central Bell Telephone Company to Change and Increase Certain Rates Charges for Intrastate Telephone Service.

16 Case No. 9160, Order entered May 2, 1985, page 74.

17 Ibid.

Objectives

The Commission has several objectives in initiating this investigation. A workable definition of universal service is needed. It is important to determine if there is a need for programs to further the goal of universal service. If a program is needed, those groups to be served must be identified. Eligibility criteria reflecting the common characteristics of these groups should be developed. The appropriate agency for certification of financial need should be determined. The Commission wants to thoroughly analyze any subsidy questions. These questions include the amount of a subsidy that is necessary. The impact of the subsidy on other ratepayers should be analyzed. The sources of the subsidy need to be identified.

The penetration rate among the telephone companies in Kentucky varies substantially. The rates range from a low of 51 percent for Leslie County Telephone Company¹⁸ to a high of 94.1 percent in the Cincinnati Bell service territory.¹⁹ This proceeding can be used as an investigation of alternative ways to address the needs of those individuals and groups not currently using telephone service, as well as maintaining service to existing low income households.

¹⁸ Response of South Central Rural Telephone Cooperative Corporation, Inc., to Data Request at the Hearing on August 30, 1983.

¹⁹ Response of Cincinnati Bell to Commission's Order dated July 19, 1983, Question 1, page 2.

Federal Programs

Potential sources of subsidy for telephone service include the Lifeline Program and the Link Up America Program. These programs have been established by the FCC to assist states in making telephone service available to low income households.

The FCC adopted by its order of December 27, 1985, the Federal-State Joint Board's recommendation that the FCC implement federal lifeline assistance measures to assist low income households in securing telephone service. The order provides for a waiver of the federal residential subscriber line charge after the state has developed a plan for local lifeline assistance and received approval from the FCC.

In an order released by the FCC on May 19, 1987, it adopted the Joint Board recommendation on a program of federal assistance to qualified low-income households that would help reduce the one time charge for initiation of service. This program, which has been described as a program to "Link Up America", would offset one half of the charges for obtaining telephone service, up to \$30 for qualifying households. The program also would encourage Local Exchange Companies ("LECs") to offer deferred payment schedules for these charges by paying an LEC's interest costs on an amount up to \$200 when it provides for a deferred payment schedule and does not charge interest to qualified subscribers. Qualification criteria for both programs have been established by the FCC.

The Lifeline and Link Up America Programs provide the Commission with an opportunity to increase subscribership and to maintain service to existing low-income households.

Implementation of these programs may avoid a loss of residential customers as regulated revenue requirements and subscriber line charges increase.

Issues:

To insure a thorough investigation of the programs to further the goal of universal service, the Commission has included a list of specific questions which telephone utilities will be required to address and other participants are encouraged to address. All participants are encouraged to offer any additional comments which may have a bearing on furthering the goal of universal service in Kentucky.

1. How should universal service be defined?

2. Does the Commission have the statutory authority to adopt lifeline telephone rates? Provide explanation. Parties should provide comment by counsel on this issue.

3. If the Commission has the statutory authority to adopt lifeline rates, should the Commission adopt lifeline rates? Explain. Should this program be designed so as to be eligible for the FCC's Lifeline and Link Up America programs?

4. (a) If the Commission has the statutory authority to adopt lifeline tariffs, should the Commission target these rates for specific economic and demographic groups of telephone customers?

(b) What criteria should the Commission use in identifying and limiting eligibility to specific economic and demographic groups?

(c) Who should be responsible for certifying eligibility for lifeline rates? Provide alternative methods of verification giving advantages and disadvantages of each approach.

(d) Using proposed criteria estimate the number of households within each service area eligible for lifeline service.

(e) Provide the estimated revenue impact on your telephone company, using your preferred criteria and rate structure.

5. What is the current level of residential telephone penetration within each telephone company's service area? (Provide by wire center if available.)

6. (a) Provide an analysis of the effect of the current rate structure on telephone penetration rates within each service area?

(b) Provide any internal analysis (by wire center) where residential penetration rates are below company average. Identify causes, if possible, for the disparity.

(c) Can the current rate structure be used to provide subsidy to appropriate groups? Give advantages and disadvantages of using the current rate structure for lifeline rates.

7. Provide alternative rate structures which should be considered by the Commission in designing a lifeline rate structure. Provide advantages and disadvantages of each rate structure. (Quantify where possible.)

8. (a) If the Commission were to adopt a lifeline structure, how should the structure be financed?

(b) What alternatives should be considered? Give advantages and disadvantages of each alternative.

9. (a) Should the Commission consider implementing an intrastate universal service fund?

(b) If yes, who should administer the fund? How should the fund be used?

(c) What should be the source of funding?

(d) Should there be restrictions on the distribution of the fund?

10. Provide an explanation of your position on the equity and efficiency impact on consumers and telephone companies of lifeline rates.

11. (a) Should the Commission develop a program to subsidize the cost of connection and/or reconnection fees for targeted low income consumers?

(b) What restrictions should be considered for eligibility for this program?

(c) Should this program be designed so that it is eligible for the FCC's Link Up America Plan?

(d) Should customers eligible for this program be required to meet company deposit requirements?

Informal Conference

The Commission intends to convene an informal conference with participants prior to the development of a procedural order in this case. At the informal conference, Commission staff will elaborate on the questions posed in this order. Participants should be prepared to describe the availability of relevant

information, suggestions for programs to further the goal of universal service and opinions on a workable timeframe for their contribution to this case.

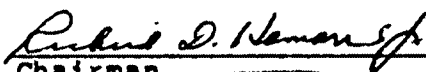
IT IS THEREFORE ORDERED that:

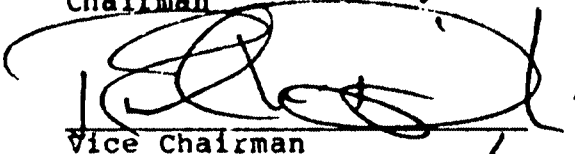
1. This investigation be instituted and that all local exchange utilities and interLATA long distance carriers under this Commission's jurisdiction be made parties to this proceeding.


2. An informal conference shall be held in the Commission's offices at 10:00 a.m., Eastern Daylight Time, on August 19, 1987, to exchange information on furthering the goal of universal telephone service in Kentucky.

Done at Frankfort, Kentucky, this 5th day of August, 1987.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director