

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INQUIRY INTO INTRALATA TOLL)
COMPETITION, AN APPROPRIATE)
COMPENSATION SCHEME FOR COMPLETION) ADMINISTRATIVE
OF INTRALATA CALLS BY INTEREXCHANGE) CASE NO. 323
CARRIERS, AND WATS JURISDICTIONALITY)

O R D E R

Background

On November 23 and December 14, 1987, the Public Service Commission ("Commission") issued Orders in Case Nos. 9874, 9902, 9928, and 10106¹ stating that it should establish a generic docket to address compensation for intraLATA call completion by non-local exchange carriers, as well as a limited review of issues addressed in Administrative Case No. 273.² Along with these cases, this docket will include a review of AT&T's Software Defined Network³ and MCI's tariff for Metered Use Service Option H (MCI 800

¹ Case No. 9874, AT&T Tariff Filing Proposing Megacom/Megacom 800 Service; Case No. 9902, US Sprint's Tariff Filing Proposing to Rename its WATS Products, Change Billing Calculations Methods for WATS, Introduce Ultra WATS, Travelcard, Direct 800, and Ultra 800; Case No. 9928, MCI's Tariff Filings to Establish Prism Plus, Prism I, and Prism II Services; Case No. 10106, AT&T Tariff Filing Proposing AT&T 800 Readyline.

² Administrative Case No. 273, An Inquiry Into Inter- and IntraLATA Intrastate Competition in Toll and Related Service Markets in Kentucky, Orders dated May 25, 1984, October 26, 1984, and May 2, 1985.

³ Case No. 9519, AT&T Communications Tariff Proposal for Software Defined Network Service.

service).⁴ It is the Commission's intention to address in this docket all services offered by interexchange carriers ("IXCs") which are capable of completing unauthorized intraLATA calls.

The Commission believes that a limited re-examination of its intraLATA toll policy is appropriate and timely. It is the opinion of the Commission that the appropriate forum in which to consider this policy is a generic proceeding.

The Commission encourages all interested persons to participate in this proceeding. However, the following will be considered parties to this proceeding: MCI Telecommunications Corporation ("MCI"); US Sprint Communications Company ("US Sprint"); Allnet Communications Services, Inc. ("Allnet"); Western Union Corporation ("Western Union"); United States Transmission Systems ("USTS"); South Central Bell Telephone Company of Kentucky ("SCB"); GTE South Incorporated ("GTE"); Cincinnati Bell Telephone, Inc. ("CB"); AT&T Communications of the South Central States, Inc. ("AT&T"); Contel of Kentucky, Inc. ("Contel"); Litel Telecommunications Corporation; Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company; Alltel, Inc.; Duo County Telephone Cooperative Corporation, Inc.; Foothills Rural Telephone Cooperative Corporation, Inc.; 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

⁴ Case No. 10049, MCI's Tariff Filing to Introduce Metered Use Service Option H.

Cooperative, Inc.; Peoples Rural Telephone Cooperative Corporation, Inc.; Salem Telephone Company; South Central Rural Telephone Cooperative Corporation, Inc.; Thacker-Grigsby Telephone Company, Inc.; Uniontown Telephone Company, Inc.; West Kentucky Rural Telephone Cooperative Corporation, Inc.; Telemarketing Communications; Advantage Long Distance, Inc.; Americall Systems of Louisville; Cincinnati Bell Long Distance, Inc.; Radio Engineering and Maintenance Company, Inc.; Telcor, Inc.; Telemarketing Communications of Evansville, Inc.; and Wright Business, Inc.

Tariff Summary

In the previously mentioned cases, a variety of offerings were proposed. AT&T has developed the Megacom, Megacom 800, and AT&T 800 Readyline services. US Sprint filed tariffs with the Commission to introduce four new services: Direct 800, Ultra 800, Ultra WATS, and Travelcard. MCI filed tariffs to introduce Prism Plus, Prism I, and Prism II.

All tariffs were approved because it was not the Commission's intention to place the IXCs at a competitive disadvantage with each other nor to deny Kentuckians these IXC services.

IntraLATA Competition

In Administrative Case No. 273, the Commission deferred intraLATA competition for a variety of reasons. The Commission found that insufficient experience existed to conclude that long-run, sustainable competition had occurred in the interstate market and expressed doubts as to whether the experience in that market was transferable to the intrastate intraLATA market. The

Commission was also concerned that overzealous experimentation, resulting in precipitous changes in the institutional structures regulating telecommunications, would create unacceptable levels of economic dislocation.⁵ The Commission thought that a deferral of intraLATA competition would provide an opportunity to examine the combined effects of interLATA competition and access charges on both interstate and intrastate interLATA toll markets.⁶ The Commission also thought the additional time would allow an opportunity to evaluate the threat of bypass on local exchange carriers ("LECs"). In addition, the Commission felt it would give small LECs the opportunity to prepare for the possibility of a competitive environment.

In summary, the Commission concluded that deferral of intraLATA competition was in the public interest. The Commission was convinced that in the short-run the potential loss of benefits from competition was small relative to the risk to local telephone service from implementation of intraLATA competition.

Approximately 3 1/2 years have passed since the issuance of the final Order in Administrative Case No. 273. There are now seven facilities-based interLATA long distance carriers in the state and eight utilities authorized to resell WATS. Progress in providing equal access connections to the non-dominant carriers has occurred. Many Kentucky telephone subscribers have gone

⁵ Administrative Case No. 273, final Order dated May 25, 1984, page 14.

⁶ Ibid.

through the equal access presubscription process, resulting in some change in market share among the interLATA carriers.

In testimony filed in consolidated Case Nos. 9874, 9902 and 9928, MCI requested that the Commission consider intraLATA competition.⁷ In response to SCB's Motion to Expand the Scope, AT&T indicated that a generic docket was the appropriate forum to consider intraLATA call completion issues.⁸

Revisiting the issue of intraLATA competition does not imply that the Commission is interested only in investigating the impact of competition in all intraLATA market segments. Potentially, intraLATA competition could be authorized on a category of service basis. For example, market conditions may not be appropriate for MTS⁹ competition, but may be appropriate for channel or private line services competition. In this investigation, the Commission intends to consider the issue of intraLATA competition from the perspective of market segments and the viability of competition in particular market segments.

IntraLATA Toll Compensation

In its May 25, 1984 Order in Administrative Case No. 273, the Commission recognized the technical and economic problems associated with implementing an effective blocking mechanism to prevent unauthorized intraLATA traffic carried by other IXCs with

⁷ Prefiled Testimony of Michael D. Pelcovits, pages 4 and 5; Scott Ross, pages 2 and 3.

⁸ Case Nos. 9874, 9902 and 9928, Response of AT&T to the July 20, 1987 Motion of SCB to Expand the Scope dated July 31, 1987, page 3.

⁹ Message Telecommunications Service.

Feature Groups A and B access connections. In the Order on Rehearing in Administrative Case No. 273, AT&T advocated the physical blocking of intraLATA calls by the IXCs. Allnet, MCI, Western Union, and US Sprint opposed any solution involving the physical blocking of calls. The major issue confronted by the Commission at that time was how to enforce its ban on intraLATA competition. After reconsideration, the Commission retained its original position not to require the physical blocking of intraLATA calls due to the inordinate costs blocking would impose on the IXCs. These costs were deemed excessive in light of the impending phase-in of equal access, the Commission's ban on intraLATA competition, and the impediment such costs would present to the development of the IXCs as viable long term competitors.¹⁰

The Commission noted in Administrative Case No. 273 that it would monitor the effectiveness of the recommended deterrents to intraLATA call completion over IXC networks and modify or replace these deterrents as necessary in the future.¹¹ Further, the Commission indicated it would consider adopting a compensation system if the unauthorized traffic became more than incidental.

The Commission is of the opinion that the current amount of unauthorized intraLATA toll traffic in conjunction with the potential growth of unauthorized intraLATA toll from the tariffs approved in the consolidated cases may result in the loss of

¹⁰ Administrative Case No. 273, Order on Rehearing dated October 26, 1984, page 11.

¹¹ Administrative Case No. 273, Order dated May 25, 1984, page 21.

substantial toll revenues by the LECs. The potential loss of these revenues by the LECs necessitates an examination of and possible development of an intraLATA IXC toll compensation system.

WATS Jurisdictionality

In addition to these issues, on its own motion, the Commission will incorporate into this investigation the issue of jurisdictionally dedicated WATS access lines, which has been pending in Case No. 8838, An Investigation of Toll and Access Charge Pricing and Toll Settlement Agreements for Telephone Utilities Pursuant to Changes to be Effective January 1, 1984.¹² The issue in this Order is whether the Commission should require that intrastate WATS access lines be restricted to intrastate usage. Such a requirement is consistent with historical practice. The alternative is to allow mixed intrastate and interstate usage on WATS access lines. As with the other issues, all interested parties are invited to file testimony and other information that may assist in the resolution of this issue.

Issues

To ensure that all facets of the intraLATA toll competition, intraLATA compensation, and WATS jurisdictionality issues are addressed, 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 partici-

¹² The Commission's policy on jurisdictionally dedicated WATS access lines was stated in an Order in Phase IV dated June 1, 1987. Rehearing was granted in an Order dated July 2, 1987.

pants are encouraged to offer any additional comments which may have a bearing on these issues.

IntraLATA Competition

1. Should the Commission authorize intraLATA competition? What factors should the Commission consider in making its determination?

2. What would be the benefits of intraLATA competition? Quantify where possible; for example, price impacts or market share impacts.

3. If competition is permitted, what filing requirements should the Commission maintain for certification of competing intraLATA carriers?

4. a. If the Commission permits intraLATA competition, should LECs be considered dominant carriers in their service areas?

b. If the Commission permits intraLATA competition, should tariff filing and rate justification standards be the same for the LECs as for other dominant carriers? Explain.

5. If the Commission adopts the policy of intraLATA competition, what services should be competitive? For example, should competition be permitted in the MTS, WATS, private line, and operator service markets? What will be the impact of competition on consumers of those services? Should the Commission establish and enforce service standards for non-dominant carriers offering these services?

6. If the Commission adopts the policy of intraLATA competition and permits competition in all services listed in question 5 above, what will be the revenue impact on the LECs?

7. If the Commission adopts the policy of intraLATA competition and permits competition in all services listed in question 5 above, what will be the rate impact on the basic exchange customer?

8. If the Commission authorizes intraLATA competition, what changes will have to be incorporated into the intraLATA toll pricing and settlement process?

a. What will be the impact of intraLATA competition on the intrastate toll pool?

b. What will be the impact of intraLATA competition on LEC intraLATA toll pricing?

c. Should an intraLATA access charge system be implemented, and, if so, how should it be implemented?

9. Have the IXCs expanded to serve increasingly less dense routes? Each IXC should provide a map or a list of all areas served.

10. What benefits have been provided by the removal of LEC tariff restrictions on the resale of WATS? Has the increased number of competitors increased benefits?

11. Provide an assessment of the evolution and growth in the IXCs' market share, transmission service routes, transmission capacity and number of competitors in the intrastate interLATA market.

12. How effective has interLATA competition been as a substitute for regulation?

13. Each LEC should provide a schedule of its plans to convert non-equal access switches to equal access capability.

14. If the Commission adopts a policy of intraLATA competition, should there be a transition period for LECs to prepare for intraLATA competition? If so, how long should the transition period be and should it vary by line of service? What should be the objectives of the transition in planning for competition?

15. What Modified Final Judgment limitations should the Commission consider relative to intraLATA competition, if any?

16. If intraLATA competition is authorized, should the Commission consider creating an intraLATA non-traffic sensitive pool similar to the Universal Local Access Service pool?

17. What is the policy status concerning intraLATA competition in your service areas which are within other state jurisdictions? Provide copies of any relevant decisions.

Jurisdictionally Dedicated WATS Access Lines

18. Should the Commission require jurisdictionally dedicated WATS access lines and what factors should be considered in arriving at a determination?

19. What advantages and disadvantages are related to jurisdictionally dedicated WATS access lines?

20. Is there an economic basis for jurisdictionally dedicated WATS access lines or do jurisdictionally dedicated WATS

access lines impose uneconomic costs on WATS-users? Provide estimates of any uneconomic costs.

21. Would non-jurisdictionally dedicated or mixed-use WATS access lines result in jurisdictional revenue erosion? Provide estimates of any jurisdictional revenue erosion.

22. Would non-jurisdictionally dedicated or mixed-use WATS access lines result in jurisdictional stranded investment? Provide estimates of any jurisdictional stranded investment.

23. Would non-jurisdictionally dedicated or mixed-use WATS access lines result in jurisdictional revenue requirement shifts from WATS-users to users of other telecommunications services? Provide estimates of any jurisdictional revenue requirement shifts and impact on basic local exchange service rates.

24. Describe jurisdictional usage reporting procedures for non-jurisdictionally dedicated or mixed-use WATS access lines.

25. Should the concept of jurisdictionally dedicated WATS access lines be extended to include WATS-like services?

26. What is the policy status concerning the issue of jurisdictionally dedicated WATS access lines in your service areas which are within other state jurisdictions? Provide copies of any relevant decisions.

27. List all local and IXC services leased or otherwise sold to WATS resellers.

28. List all services which WATS resellers provide to end-users that do not involve the exclusive resale of WATS.

IntraLATA Compensation

29. Assuming a continued ban on intraLATA competition among facilities-based carriers, should the Commission adopt a plan to compensate LECs for unauthorized intraLATA traffic and what factors should be considered in arriving at a determination?

30. What services should be included in a compensation plan and what criteria should be used to identify services that should be included?

31. Should the Commission adopt a compensation plan that is generic to all unauthorized intraLATA traffic or design a compensation plan that is "tiered" to recognize different categories of unauthorized intraLATA traffic--e.g., unauthorized traffic that is generated through the use of MTS and MTS-like services, WATS and WATS-like services, and 800 and 800-like services?

32. Please make recommendations concerning a compensation plan to include the following items: (a) estimate the compensation rate per minute of use and per average call duration, showing all calculations; (b) estimate the impact of the plan on local and interexchange carrier revenues, also showing all calculations; (c) all technical details necessary for implementation; (d) all necessary data sources; (e) administrative requirements and relative ease of administration; (f) enforcement and relative ease of enforcement; and (g) data verification and relative ease of data verification.

33. Identify all intrastate service offerings that are capable of generating unauthorized intraLATA traffic and

categorize each service offering as to whether the end-user serving arrangements and/or rate structure are MTS or MTS-like, WATS or WATS-like, and 800 or 800-like.

34. Identify all interstate service offerings that are capable of generating unauthorized intraLATA traffic and categorize each service offering as to whether the end-user serving arrangements and/or rate structure are MTS or MTS-like, WATS or WATS-like, and 800 or 800-like.

35. Provide access charges paid by each IXC per access minute of use for (a) MTS and MTS-like services, (b) WATS and WATS-like services, and (c) 800 and 800-like services. (Identify the services populating each category, list access charge components in each category, and show all calculations used.)

36. Provide LEC revenue per conversation minutes of use billed to end-users for (a) MTS, (b) WATS, (c) 800 services, and (d) these services combined (on average). (List revenue components in each category, and show all calculations used.)

37. Should unauthorized intraLATA traffic associated with Feature Groups A and B access be included in a compensation plan?

38. Should the Commission require blocking of unauthorized intraLATA traffic associated with Feature Groups A and B access in equal access offices?

39. If blocking of unauthorized intraLATA traffic associated with Feature Groups A and B access is required, (a) should LECs or IXCs assume the blocking function and (b) at what point in the switched network is blocking best accomplished?

40. Should the Commission order the withdrawal of Feature Groups A and B as access options in equal access offices or require IXCs to use Feature Group D where it is available?

41. Can LECs identify unauthorized intraLATA traffic or must the Commission rely on IXCs to report unauthorized intraLATA traffic? (Please describe ways in which unauthorized intraLATA traffic can be detected.)

42. What reporting requirements should be imposed concerning unauthorized intraLATA traffic? (Please address matters such as reporting frequency, reporting adjustments that may be necessary, and reporting formats.)

43. What is the policy status concerning compensation for unauthorized intraLATA traffic in your service areas which are within other state jurisdictions? (Provide copies of relevant decisions in other states.)

44. Should the Commission adopt a compensation rate generic to all LECs or design compensation rates specific to each LEC?

45. Should compensation for unauthorized intraLATA traffic be accomplished through independent transactions between each LEC and each IXC or accomplished through the intraLATA toll pool?

46. If intraLATA competition is authorized, would a compensation plan still be necessary? (If the response is affirmative, explain the need for a compensation plan under a scenario of intraLATA competition. Also, whether the response is affirmative or negative, explain the need for and phase out of a compensation plan under a scenario of gradual implementation of intraLATA competition.)

47. Should any compensation rate that may be adopted be charged on a per minute of use or average call duration basis, and should minutes of use be defined in terms of access minutes or conversation minutes billed to end-users? (Please thoroughly discuss the rationale underlying the options selected.)

48. Should access charges associated with unauthorized intraLATA traffic be considered in the development of a compensation rate--i.e., compensation rate = x - access charges? (If the response is affirmative, please identify each access charge that should be considered and its rate value.)

49. With reference to the above item and for the purpose of compensation rate development, should the Commission adopt an access charge element that is generic to all IXCs or adopt an access charge element that is specific to each IXC?

IT IS THEREFORE ORDERED that:

1. This investigation be instituted and that all telephone utilities under this Commission's jurisdiction be made parties to this proceeding.

2. Responses to the issues listed above shall be considered testimony and shall be filed by MCI; US Sprint; Allnet; Western Union; SCB; GTE; CB; AT&T; USTS; Contel; Litel Telecommunications Corporation; Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company; Alltel, Inc.; Duo County Telephone Cooperative Corporation, Inc.; Foothills Rural Telephone Cooperative Corporation, Inc.; Harold Telephone Company, Inc.; Highland Telephone Cooperative, Inc.; Leslie County Telephone Company, Inc.; Lewisport Telephone Company, Inc.; Logan Telephone

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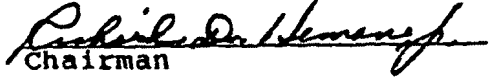
3. The record in Case Nos. 9519, 9874, 9902, 9928, 10049, and 10106 be incorporated into this proceeding.

4. The Orders in Case No. 8838 Phase IV dated June 1, 1987 and July 2, 1987 concerning WATS jurisdictionality are incorporated by reference into this proceeding.

5. There will be an informal conference on November 4, 1988 at 9:00 a.m., Eastern Standard Time, in the Commission's offices in Frankfort. The purpose of the conference is to discuss the issues listed in this Order, to determine whether the information requested is available, and to make certain that all aspects of intraLATA competition and an intraLATA compensation system have been addressed. Addressing the issues in this case in phases and a procedural schedule will also be discussed.

Done at Frankfort, Kentucky, this 6th day of October, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director