

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO COUNTYWIDE)
EXTENDED AREA TELEPHONE SERVICE) CASE NO. 9682
FOR SUBSCRIBERS IN BUTLER COUNTY,)
KENTUCKY)

O R D E R

During the 1986 session of the Kentucky General Assembly, considerable interest was expressed by several legislators concerning the feasibility of providing Countywide Extended Area Service ("Countywide EAS"), in four particular counties, one of which is Butler County. In response to this interest, the Commission instituted this investigation to study the feasibility of providing Countywide EAS within Butler County and the desire of Butler County telephone subscribers for that service.

In considering the implementation of any type of Extended Area Service ("EAS") in a given area, the Commission utilizes its EAS Guidelines, which were incorporated into this case by Order dated September 25, 1986. The EAS Guidelines are a step-by-step process in which criteria for each step are specified and must be successfully satisfied to continue consideration of EAS. Given the interest expressed by the legislators concerning Countywide EAS, the Commission found that a deviation from the EAS Guidelines was warranted. The first two steps, the initial petition and collection of signatures, were deemed to be satisfied by the

interest expressed by the General Assembly. Therefore, the process proceeded directly to Step 3, the traffic studies, as well as Steps 4 and 5, the public hearing and cost studies.

The telephone companies involved in the instant matter were Continental Telephone Company of Kentucky ("CONTEL"), Logan Telephone Cooperative, Inc. ("Logan"), and South Central Bell Telephone Company ("SCB"). CONTEL, Logan, and SCB performed and submitted the required traffic and cost studies, including a summary of community of interest factors and the cost per subscriber in each telephone exchange in accordance with the EAS Guidelines.

On March 4, 1987, Representative Willard "Woody" Allen filed a letter with the Commission requesting that the investigation of Countywide EAS be changed to County Seat Extended Area Service ("County Seat EAS"), wherein the Commission would investigate primarily the issue of telephone subscribers having EAS with their county seat. Representative Allen requested two types of studies to be performed: "1-way county specific" and "2-way total exchange to total exchange." In this case "1-way county specific" would allow any Butler County subscriber to call Morgantown, the county seat. Appendix A, attached hereto and made a part hereof, summarizes the specific request.

By Order dated April 30, 1987, the Commission directed CONTEL, Logan, and SCB to conduct the traffic and cost studies necessary to address Representative Allen's request. Following

submission of this information, a public hearing was conducted on August 11, 1987. All of the issues concerning County Seat EAS for Butler County were presented and examined. The issues included the geographical area involved, the plant and equipment necessary to provide the service, and the costs to provide the service.

By Order dated September 25, 1987, CONTEL, Logan, and SCB were directed to mail specified survey letters containing ballot cards for polling their respective subscribers concerning the "2-way total exchange to total exchange" issue. The letters and ballots asked the subscribers if they desired toll-free telephone service between the exchanges as shown on Appendix A, and indicated the associated monthly costs per exchange for that toll-free service. The additional monthly costs per exchange are set forth in Appendix B, attached hereto and made a part hereof.

Bowling Green subscribers were surveyed utilizing statistical sampling techniques. Those subscribers polled mailed the ballot cards to the Commission, which compiled the results. The results of the survey clearly indicate that the majority of the subscribers polled rejected the proposed plan in each instance. See Appendix C, attached hereto and made a part hereof.

DISCUSSION

In reaching a decision in this case, or in any EAS case, the Commission must consider what is involved in providing EAS and recognize that increased costs are often involved. Basically, there are two broad categories of telephone service, those being intra-exchange and inter-exchange. Further, inter-exchange service may be broken down into either toll service or EAS.

Historically, toll service has been considered a fair and equitable means of providing service between exchanges, since only those who utilize that service pay the charges.

It is impossible to separate intra-exchange and toll service as distinct undertakings of a telephone utility. The two services complement each other. Their combined revenues are necessary to meet the utility's revenue requirements and to allow the basic intra-exchange rate to be maintained at a reasonable level so that all customers who desire phone service can afford it. When the concept of EAS is introduced, this balance is of necessity distorted. While EAS is often referred to as "free" calling between exchanges, this is not true. The toll revenue eliminated by the initiation of EAS must be regained through increased revenues derived from basic exchange rates. Without the ability to recapture the lost toll revenue, the utility will be unable to meet the revenue requirements previously approved by the Commission.

An additional factor which must be considered is that the introduction of EAS tends to increase a utility's revenue requirements due to the generation of additional telephone traffic. By eliminating the specific toll charge for each call in an EAS route, the subscribers tend to make more and longer calls. An increase in calling volume requires additional capital investment in plant and equipment by the utility, usually in the form of more facilities dedicated exclusively to providing the particular EAS involved. The additional costs of these facilities

must ultimately be distributed among and borne by the ratepayers or the exchanges involved.

The net result of the various factors involved in providing EAS is that EAS may not be desirable or economically feasible in every case. Since telephone rates are affected by the cost of providing the service, it may not be in the public interest to direct that EAS be provided. For these reasons, the Commission has determined that the fairest and most equitable way at the present time to determine the public interest issue as it relates to EAS is to allow subscribers to make their own determination through the ballot process.

In this case, subscribers have been surveyed concerning both their desire for the proposed service and their willingness to pay the additional costs of providing that service. For each of the proposed EAS routes, the majority of those subscribers voting have rejected the plans, as shown by the summary illustrated on Appendix C to this Order. Furthermore, the traffic studies performed in Step 3 failed to show the community of interest factors normally required by the EAS Guidelines. Therefore the public interest would not be served by initiating the proposed EAS routes since the majority of subscribers voting have determined that they do not want this service with the associated additional costs.

The Commission further finds that since the "2-way total exchange to total exchange" survey was not accepted by the majority of voting subscribers with the associated costs, then the "1-way county specific to Morgantown" survey would also not be

accepted due to a much higher cost per subscriber, as reflected in Appendix B. As an example, CONTEL'S Caneyville to Morgantown rate additive for "2-way total exchange to total exchange" would be \$4.70 per month per residential access line. The majority of voting subscribers, having rejected this plan, would be expected to reject a "1-way county specific" plan from Caneyville to Morgantown with a rate additive of \$187.44 per month per residential access line.

Although this EAS investigation will be dismissed, the Commission continues to be concerned with the provision of EAS. Citizens in many areas of Kentucky have expressed their desire for enlarged or additional toll-free calling areas. The Commission has instituted an internal "EAS Task Force" and will continue to address this problem area, with the goal being to develop service offerings which will address the concerns, while not placing an undue or unjust burden on those subscribers who will not benefit from those service offerings.

FINDINGS AND ORDER

The Commission, having considered all evidence of record and being advised, is of the opinion and finds that:

1. The majority of subscribers responding to the survey have rejected the proposed EAS for each of the plans available.

2. The traffic studies performed in this investigation do not demonstrate the community of interest factors normally required by the EAS Guidelines to continue consideration of an EAS route.

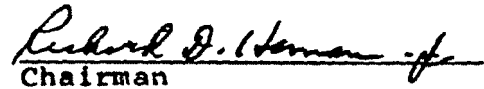
3. The public interest would not be served by instituting EAS routes when the subscriber surveys have rejected EAS, and the traffic surveys do not demonstrate the requisite community of interest factors.

4. This investigation should be closed.

IT IS THEREFORE ORDERED that this case be and it hereby is dismissed.

Done at Frankfort, Kentucky, this 18th day of May, 1988.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9682, DATED 5/18/88

BUTLER COUNTY

1-way county specific to Morgantown

(for those subscribers residing in Butler County)

Bowling Green Butler County customers to Morgantown
Beaver Dam Butler County customers to Morgantown
Lewisburg Butler County customers to Morgantown
Logansport Butler County customers to Morgantown
Rochester Butler County customers to Morgantown
Bee Spring Butler County customers to Morgantown
Caneyville Butler County customers to Morgantown

2-way total exchange to total exchange

Bowling Green total exchange to Morgantown total exchange
Beaver Dam total exchange to Morgantown total exchange
Lewisburg total exchange to Morgantown total exchange
Logansport total exchange to Morgantown total exchange
Rochester total exchange to Morgantown total exchange
Bee Spring total exchange to Morgantown total exchange
Caneyville total exchange to Morgantown total exchange

APPENDIX B

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9682 DATED 5/18/88

BUTLER COUNTY
COST STUDY SUMMARY

1-way county specific to Morgantown
(for those subscribers residing in Butler County)

CONTEL

<u>Exchange</u>	<u>Service</u>	<u>Rate Group Increase</u>	<u>EAS Additive</u>	<u>Total Increase</u>
Bee Springs	BOP	\$ 1.75	\$ 132.27	\$ 134.02
	ROP	.78	132.27	133.05
	RFP	.52	132.27	132.79
Caneyville	ROP	.78	186.66	187.44
	RFP	.39	186.66	187.05

2-way total exchange to total exchange

<u>Exchange</u>	<u>Service</u>	<u>Rate Group Increase</u>	<u>EAS Additive</u>	<u>Total Increase</u>
Bee Springs	BOP	\$ 1.75	\$ 4.18	\$ 5.93
	ROP	.78	4.18	4.96
	RFP	.52	4.18	4.70
Caneyville	BOP	.76	3.92	4.68
	ROP	.78	3.92	4.70
	RFP	.39	3.92	4.31

- BOP - Business One Party
- ROP - Resident One Party
- RFP - Resident Four Party

** Other types of service rate group changes are shown in CONTEL'S filing of traffic and cost studies.

BUTLER COUNTY
COST STUDY SUMMARY

LOGAN

1-way county specific to Morgantown
(for those subscribers residing in Butler County)

<u>Exchange</u>	<u>Monthly Additional</u>
Lewisburg	\$ 2.25

2-way total exchange to total exchange

<u>Exchange</u>	<u>Monthly Additional</u>
Lewisburg	\$ 3.57

- Logansport and Rochester exchanges currently have EAS with Morgantown. However, Logansport and Rochester, as well as Lewisburg, will be affected by these proposed increases due to Logan's ten-year planning in the way of upgraded service.

BUTLER COUNTY
COST STUDY SUMMARY

South Central Bell

<u>Originating</u>	<u>Terminating</u>	<u>Monthly Additional</u>	
		<u>(1) Plan 1</u>	<u>(2) Plan 2</u>
Beaver Dam	Morgantown	\$ 29.45	\$ 1.53
Bowling Green	Morgantown	27.62	.44

- (1) Plan 1 is "1-way county specific" to Morgantown service
- (2) Plan 2 is "2-way total exchange to total exchange" service
- (3) The dollar amounts represent only South Central Bell customers' rate additives for those customers residing in Butler County. Details of other costs will be negotiated between Bell, Logan, and CONTEL.
- (4) For Plan 2, the following regrouping increase (Rate Group 1 to Rate Group 3) will affect the Morgantown Exchange customers having 2-way service with Bowling Green:

<u>*Service</u>	<u>Monthly Additional</u>
1FR	\$ 1.71
2FR	1.29
1FB	5.94
2FB	4.45

- Service: 1FR - Single party resident
- 2FR - Two party resident
- 1FB - Single party business
- 2FB - Two party business

APPENDIX C

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE
COMMISSION IN CASE NO. 9682, DATED 5/18/88

SURVEY RESULTS
Butler County EAS

"2-way total exchange to total exchange"

CONTEL

Bee Springs	-	Surveyed	-	1,600
		Responded	-	1,229
		Yes		55
		No		1,170
Caneyville	-	Surveyed	-	1,803
		Responded	-	1,331
		Yes		66
		No		1,248

LOGAN

Lewisport	-	Surveyed	-	1,159
		Responded	-	863
		Yes		37
		No		820
Logansport	-	Surveyed	-	117
		Responded	-	69
		Yes		8
		No		61
Rochester	-	Surveyed	-	379
		Responded	-	251
		Yes		8
		No		241

SOUTH CENTRAL BELL

Beaver Dam	-	Surveyed	-	3,214
		Responded	-	1,964
		Yes		358
		No		1,575

SURVEY RESULTS

Butler County EAS

"2-way total exchange to total exchange"

Bowling Green - Surveyed - 2,724 (Statistical survey of 25,508 accounts)
Responded - 1,391

Yes 4,438 (Extrapolated from 242 yes votes)
(242 ÷ 1,291) x 25,508 = 4,438

No 20,574 (Extrapolated from 1,122 no votes)
(1,122 ÷ 1,391) x 25,508 = 20,574

Morgantown - Surveyed - 2,584
Responded - 1,581

Option A - 387
Option B - 59
Option C - 638
Option D - 470
(No)

Totals - All options considered

Yes 6,054
No 26,159