

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

O R D E R

IT IS ORDERED that South Central Bell Telephone Company ("SCB") shall file the original and 12 copies of the following information with the Commission, with a copy to all parties of record, by October 18, 1989. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Careful attention should be given to copied material to ensure that it is legible.

Questions for Dr. Lewis J. Perl

1. On page 4 of your supplemental testimony, you state that "Without revisions to the current rate structure, competition can raise overall telephone cost by sacrificing genuine rate economies and by encouraging uneconomic competition. In addition, without rate rebalancing competition threatens the viability of local exchange companies, may reduce service quality and curtail needed investments in modern technology." Identify any states that have intraLATA competition and have experienced the impacts you

describe. Describe the time frame over which those impacts would occur.

2. On page 8 of your supplemental testimony, you state that "The same technical prerequisites to competition which prevail in the interLATA market may also prevail in portions of the intraLATA market." Describe these technical prerequisites and indicate whether or not they prevail in the Kentucky intraLATA market.

3. On page 12 of your supplemental testimony, you state that "Although resale will prevent certain forms of price discrimination within the intraLATA market (some of which, however, are socially desirable), it will not serve to constrain the overall prices charged for intraLATA service or to offer genuine competition among types of technology of facilities management." Identify the types of price discrimination resale will prevent. Identify forms of price discrimination that are socially desirable.

4. On page 13 of your supplemental testimony, you state "Where local exchange rates already bear a reasonable relationship to cost, and where usage sensitive pricing is already permitted, the transition may be relatively easy." Describe the experience of other states in implementing intraLATA competition that have met these conditions.

5. On page 15 of your supplemental testimony, you state that "One computation which we did suggested that setting short haul toll rates in Kentucky near their cost would increase the state welfare by \$11 million annually." Provide all work papers and assumptions that were used to develop this estimate.

6. On page 16 of your supplemental testimony, you state that "While these shifts in rates can be made by the regulatory commission without competition, the introduction of competition will require such changes if other adverse consequences are to be avoided." Identify the adverse consequences to which you refer.

7. On page 16 of your supplemental testimony, you state that "Moreover, even where competition is permitted, the local exchange company should be allowed to rebalance rates before not after competitive entry." Identify any states where the LEC has been granted the authority to rebalance rates before competitive entry.

8. On page 18 of your supplemental testimony, you state that "Thus, the number of rate proceedings which the Commission would have to supervise under traditional regulation would increase dramatically if competition in the intraLATA market were permitted." Identify states with intraLATA competition where the number of rate proceedings has increased significantly and describe how the state commission has addressed this occurrence.

9. On pages 18 and 19 of your supplemental testimony, you describe regulatory reforms that could be introduced to reduce regulatory cost when intraLATA competition is introduced. Identify any states with intraLATA competition that have introduced the reforms you mention. Describe their experience with these reforms.

10. On page 20 of your supplemental testimony, you state "If this is the case, the introduction of competition will impose costs on consumers as the scale of the telephone enterprise is reduced and potential scope economies are lost." Describe the implications

for the scale of the telephone enterprise if the telephone industry is a declining cost industry.

11. On page 22 of your supplemental testimony, you state that "Although these losses would in the short run be borne by stockholders, in the longer term, consumers would bear the costs." How would you define short term and long term in this context?

12. On page 22 of your supplemental testimony, you state that "As a consequence, service quality would decline and the infrastructure which is essential to assure Kentucky's competitiveness in the information age would not be built." How do you reconcile this statement with the significant investment that has already been made to modernize SCB services capabilities?

13. On page 23 of your supplemental testimony, you state that "If, on the other hand, commissions seek to achieve the benefits of intraLATA competition in the toll market while maintaining current rate levels in local usage markets, the experiment can have disastrous effects for quality of service and for the ultimate viability of the local exchange company." Identify any state with intraLATA competition where these "disastrous effects" have occurred and describe them in terms of impact on the end-users.

14. On page 23 of your supplemental testimony, you state that "Moreover, as long as flat rate services are available to most customers it will be very difficult for the local exchange company to recoup revenues from information services through added usage charges." Provide the rationale for this statement.

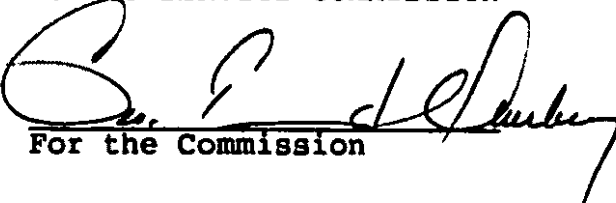
15. On page 23 of your supplemental testimony, you state that "In this context, the fiber optic network which is a precondition

of widespread use of the telephone for information and entertainment services may simply not develop." What percentage of SCB's network has been upgraded to fiber optic? When does SCB project full conversion to fiber optics? Identify any states with intra-LATA competition in which the conversion to fiber optics has been affected.

16. On page 24 of your supplemental testimony, you state that "The provision of usage sensitive pricing as an option permits the revenue losses from reduced toll charges to be recouped from higher local exchange charges without significantly reducing the overall subscription rate." Identify any states that have introduced usage sensitive pricing in conjunction with intraLATA competition. Describe their experience with implementation.

Done at Frankfort, Kentucky, this 4th day of October, 1989.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:

Executive Director