

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

PETITION OF AT&T OF THE SOUTH CENTRAL)
STATES, INC. FOR REDUCED REGULATION) CASE NO. 92-297
OF INTRASTATE TELECOMMUNICATIONS)
SERVICES)

O R D E R

IT IS ORDERED that AT&T Communications of the South Central States, Inc. ("AT&T") shall file the original and 12 copies of the following information with the Commission no later than November 20, 1992, with a copy to all parties of record. 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. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. Where information requested herein has been provided along with the original application, in the format requested herein, reference may be made to the specific location of said information in responding to this information request. When applicable, the information requested herein should be provided for total company operations and jurisdictional operations, separately. If the information cannot be provided by

the stated date, AT&T should submit a motion for an extension of time stating the reason a delay is necessary and a date by which the information will be furnished. Such a motion will be considered by the Commission.

1. Provide detailed data comparing market conditions when AT&T was designated a dominant firm by the Commission with current conditions, i.e. the extent to which competing services were and are available from competitive providers in the relevant market, the ability and willingness of competitive providers to make functionally equivalent or substitute services readily available then and now, and the number and size of competitive providers of service then and now.

2. Identify the categories of customers based on volume of calls as measured by minutes of use, amount of revenue, or any other measurement that is maintained by AT&T to track customer activity.

3. AT&T's petition indicated that by January 1993 90 percent of Kentucky's subscriber access lines will be served by equal access end offices. Although these offices may be equipped for equal access, will they be able to attract competing carriers? Why or why not?

4. AT&T has argued that the entire state should be viewed as the relevant market in evaluating the degree of competition. Can subdivisions such as the LATAs or local exchanges be used as the relevant subdivision in evaluating the degree of competition? Why or why not?

5. AT&T's petition has included information on nationwide investment in facilities by its competitors. Does AT&T have data on investment by its competitors in Kentucky? If yes, provide.

6. On page 12 of AT&T's petition, several safeguards are presented to assure that rates for services regulated by the Commission do not subsidize exempted services. Provide a detailed explanation of how each safeguard accomplishes this goal.

7. How does AT&T's petition permit continued regulation of company operations in Kentucky? Describe in detail.

8. With reference to page 14 of its petition, AT&T states it is not requesting any change in regulatory treatment that is not available to other providers of competitive long-distance services, yet AT&T is requesting a 7 day turn around time on tariff filings which is not currently available to any other long-distance service provider. Reconcile these statements.

9. The response of AT&T to KRS 278.512(3)(g) is inadequate. Provide a detailed response identifying unregulated providers of functionally similar telecommunications services or products by number and size.

10. AT&T requests that all tariff filings be treated as presumptively valid. Explain what AT&T considers presumptively valid.

11. AT&T's petition states that IXCs are not capital intensive. Provide data and/or recognized sources to support this conclusion.

12. In response to Item 2 of the Commission's October 2, 1992 Order, AT&T states that continuation of statewide averaged prices will ensure that all Kentucky customers will enjoy the benefits of competition. Statewide averaged rates are the antithesis of competition and are currently in place without reduced regulation. Describe and elaborate on those benefits Kentucky consumers will enjoy if reduced regulation of AT&T occurs. Provide data to support your response.

13. Describe in detail the efficiency gains that AT&T believes will occur if the requested reduced regulation is implemented.

14. In response to Item 7 of the Commission's October 2, 1992 Order, AT&T states that it does not have data that shows its intrastate market share separated by business and residence. Does AT&T think that segregation of the market into business and residence is the appropriate division to evaluate its request for reduced regulation? Why or why not? Identify the reasons that AT&T has not considered it necessary to maintain data by business and residence. How would AT&T recommend segmenting the market to evaluate its request for reduced regulation?

15. In response to Item 7 of the Commission's October 2, 1992 Order, AT&T relies on national data to draw conclusions about the Kentucky telecommunications marketplace. In what ways are the calling patterns of Kentucky consumers similar to national trends? In what ways are the calling patterns of Kentucky consumers different from national trends?

16. In reference to AT&T's responses to Items 7 and 8 of the Commission's October 2, 1992 Order, AT&T claims that there is no area in Kentucky served by AT&T only. Considering the use of 950, 800 and 700 access, AT&T's claim may be technically correct. However, in some areas of Kentucky where equal access is not available, AT&T is the only IXC capable of providing its customers with originating 1+ presubscribed interLATA service and 10XXX intraLATA service. Other IXCs' customers rely on the extended dialing arrangements and arguable inconvenience associated with 950, 800 and 700 access. Customers in areas of Kentucky where a central office is equipped for equal access but IXCs other than AT&T have not opted to serve the exchange are in an identical situation. Given this argument, from a practical standpoint, AT&T's claim may be considered incorrect because services from other IXCs are not provided on an equally convenient level as that of AT&T services.

a. If AT&T disagrees with this statement, explain.

b. Respond to Item 7(b) of the Commission's October 2, 1992 Order assuming that a captive customer is a customer who is unable to select another IXC for originating 1+ presubscribed interLATA and/or 10XXX intraLATA service as discussed above.

c. Does AT&T expect all exchanges in Kentucky to have at least one alternative IXC available for originating 1+ presubscribed interLATA service in the future? If yes, when is this expected? If not, why not?

17. In response to Item 9 of the Commission's October 2, 1992 Order, AT&T states that the entire interLATA marketplace is a single, highly competitive marketplace. Provide in detail the rationale for this conclusion. Provide supporting data.

18. In response to Item 10 of the Commission's October 2, 1992 Order, AT&T states that in Kentucky a price cap plan has no advantages over AT&T's proposal for equal regulation of all IXCs. Are there reduced regulation options other than the proposal for equal regulation that AT&T believes would bring Kentucky consumers the benefits of competition? If yes, identify. If no, why not?

19. In response to Item 11 (a) (3) of the Commission's October 2, 1992 Order, AT&T states that additional protection is afforded to customers by competition from other carriers that may have a point-of-presence within the same LATA who could very easily begin serving those customers simply by ordering access from the LEC. Identify the market conditions that would have to occur to provide the incentive to carriers to serve these customers.

20. In response to Items 13(a) and 14(a) of the Commission's October 2, 1992 Order, AT&T presents a brief explanation to explain why predatory pricing and tacit collusion will not occur. Both responses include statements that neither of these market actions have occurred in other states that have relaxed regulation. Provide copies of all reports and data from other states that have regulated regulation of AT&T to support these statements.

21. In response to Item 15 of the Commission's October 2, 1992 Order, AT&T states that a reduction in access charges may not

affect the costs of providing the various services uniformly. Identify the major factors that would cause access charges to affect the provision of various services in ways that are not uniform.

22. In response to Item 19(c) of the Commission's October 2, 1992 Order, AT&T states that FCC Part 32 is no longer required in numerous state jurisdictions. Provide a list of these states, the year this requirement was eliminated and the primary reason, also describe the type of financial reporting required in these states, if any.

23. In response to Item 22 of the Commission's October 2, 1992 Order, AT&T states that even if price leadership behavior was exhibited in this market, it would not necessarily be anti-competitive and it definitely would not constitute grounds for continued rate base regulation of the alleged price leader. Provide in detail the rationale for this statement. Provide a copy of Antitrust Economics by Roger D. Blair and David L. Kaserman, Homewood, Illinois: Richard D. Irwin, Inc., 1985, pp. 216-221.

24. In response to Item 22 of the Commission's October 2, 1992 Order, AT&T provided pricing charts for Louisiana. Is AT&T preparing similar charts for Kentucky? If yes, when will they be available? If not, explain.

25. In response to Item 25 of the Commission's October 2, 1992 Order, AT&T discusses reduced regulation in other states in a general way. Identify the states that do not regulate AT&T under rate base regulations and summarize the method of regulation

currently imposed on AT&T by each state. Indicate the year reduced regulation became effective. Provide any data available on AT&T's market share when reduced regulation became effective and how it has changed.

26. Referring to AT&T's response to Item 1 of the Commission's October 2, 1992 Order, AT&T has not satisfactorily answered the question.

a. Provide the data or an estimate of the extra regulatory costs borne by AT&T to support the claim that the regulatory framework of Administrative Case No. 273 works to the detriment of Kentucky customers.

b. The response states, "AT&T believes that under the competitive market conditions that now exist in Kentucky, any regulatory requirement that adds to its cost works to the detriment of its Kentucky customers." In a competitive market, increased costs will lower a firm's profits, but not necessarily prices. Also, on pages 6-9 of Mr. Brown's testimony included in Item 3 of AT&T's response, business and residential customers say that price is an important consideration. Specifically, elaborate on how Kentucky residential and business customers will benefit from AT&T's lower costs of doing business.

27. Referring to AT&T's response to Item 3 of the Commission's October 2, 1992 Order, the competitive survey results are three to four years old.

a. Provide all internal memos and the final report which presents and discusses the results of the survey mentioned in

Mr. Brown's testimony and all related documents relating to a more recent survey, if one has been conducted.

b. If not included in part (a), provide a side-by-side comparison and discussion of all results from the 1988 survey and the most recent survey.

c. If not included in part (a), provide a detailed comparison of survey results for AT&T, MCI, US Sprint, Allnet Communications, TMC and LDS in most recent surveys.

d. If an additional survey has not been conducted, how does AT&T know that marketing efforts and a large advertising budget have not improved AT&T's market share?

e. If a more recent survey has been conducted and AT&T's market share is about the same or worse, how does AT&T distinguish between marketing efforts that have not increased market share and regulatory costs, over and above those borne by competitors, as being responsible for AT&T's situation?

f. Provide a specific example which illustrates how the additional regulatory burden borne by AT&T has prevented AT&T from effectively competing for a customer. Be sure to clearly identify the factors which AT&T believes are responsible for the loss of the potential or existing customer to a competitor.

g. On page 9 of Mr. Brown's testimony, provide data and the most recent study (FCC or otherwise) that supports the statement, "Furthermore, interstate data supports the general conclusions that long distance services are provided in an increasingly competitive marketplace."

28. Referring to AT&T's response to Item 4 of the Commission's October 2, 1992 Order:

a. Which LECs in Kentucky provide AT&T with billing detail, such that AT&T can approximate its market share in Kentucky?

b. Will LECs provide billing detail to AT&T for an extra fee?

c. Are there any other services that AT&T offers in Kentucky that have not been listed? If so, provide the complete list of services and customers generally target marketed.

d. For each of AT&T's services offered in Kentucky, provide all final reports and summary reports discussing the results of any market research, including monitoring of customer base and growth (loss) over time, that has been conducted.

e. If not discussed in the market research reports requested in part (c), provide all reports which discuss whether or not AT&T perceives an erosion of market or customers to a competitor(s) for each of its services.

f. Provide current and historical quarterly usage and revenue data for each of its services offered in Kentucky for the period 1984 to 1992. Provide annual data if quarterly data is not available.

g. Provide current and historical quarterly usage and revenue data for each of AT&T's services which are purchased by other for-profit entities, which in turn offer these or a combination of these services for resale. If these figures are

included in the figures provided in part (f), provide them separately.

h. List all for-profit entities that purchase AT&T's services for resale and state whether or not they are facilities-based carriers.

i. Are there non-facilities-based carriers that operate in Kentucky and that purchase services from AT&T? If so, explain why AT&T views these entities as competitors, since they are totally dependent upon AT&T for their facilities.

29. Referring to Item 11 of AT&T's response to the Commission's October 2, 1992 Order:

a. List which areas in Kentucky AT&T faces 1+ competition.

b. List which areas in Kentucky offer equal access to customers.

c. For the statement "[T]here is sufficient competition in those areas of Kentucky where AT&T provides 1+ dialing and all competitors provide 10XXX, 1-950, 1-800, or 1-700 dialing to grant AT&T's petition," list all relevant areas and provide justification.

d. Would AT&T consider non-wireline service, such as microwave and cellular, in assessing the competition it faces in Kentucky? Are there any areas in Kentucky in which non-wireline service is the only effective competition to AT&T for call origination? Explain.

30. If the Commission were to lower access charges through a rate case with the express purpose of attempting to lower IXC MTS usage rates, would AT&T lower its rates in a relatively short period of time, such as one or two months?

31. In its responses, AT&T maintains that there is sufficient competition in Kentucky to warrant reduced regulation. It is also stated that a reduction in AT&T's costs will benefit consumers.

a. Estimate the value to AT&T of the cost reductions in Kentucky due to reduced regulatory burden.

b. Does AT&T mean that the reduction in costs due to the reduction in regulatory burden will translate into lower rates to Kentucky customers?

1) If so, would AT&T agree to pass these savings through to Kentucky customers solely through Message Toll Service rates? Explain.

2) If not, explain precisely how a customer who only subscribes to Message Toll Service will benefit from AT&T's lower costs due to reduction of regulatory burdens?

32. With respect to the Commission's October 2, 1992 Order, Item 13(a), Sheet 2, provide copies of all final and rehearing Orders from the states in which AT&T has undergone reduced regulation proceedings.

33. With reference to Item 16 of the Commission's October 2, 1992 Order, provide the following information:

a. State and explain the factors that resulted in AT&T going from a 13.40 percent ROR in 1990 to a -12.38 percent ROR in 1991.

b. Provide a schedule showing AT&T's year-to-date Kentucky earnings for 1992.

c. Provide a narrative comparing and contrasting how AT&T would respond to negative earnings under the current regulatory framework versus how it would respond under its proposed reduced regulatory framework.

Done at Frankfort, Kentucky, this 6th day of November, 1992.

PUBLIC SERVICE COMMISSION


For the Commission

ATTEST:



Executive Director