COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

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O R D E R

INTRODUCTION

In this decision, the Commission affirms its intent to implement intraLATA[1] equal access and addresses various issues necessary to implementation. Among others, these issues include an implementation schedule, the method of cost recovery, and the monitoring process.

On May 6, 1991, the Commission found that intraLATA facilities-based toll competition is in the public interest and that:[2]

> [S]uch competition should extend to equal access on a presubscribed[3] basis and include intraLATA interexchange private line services, intraLATA interexchange message toll services, and intraLATA interexchange operator services, with the implementation phase to proceed apace.[4]

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1 LATA is an acronym for Local Access and Transport Area.

2 IntraLATA resale competition has been permitted since 1984.

3 Essentially, the terms "equal access" and "presubscription" have the same meaning--i.e., customers can be presubscribed only in an equal access environment. Therefore, the terms can be viewed as interchangeable.

4 Administrative Case No. 323, Order dated May 6, 1992, page 3.

IntraLATA competition for private line and various other services has been implemented, including WATS/800[5] and similar services modeled on them. Competition for message toll and operator services, however, remains limited to "10XXX" and other less convenient dialing arrangements.[6]

In the 1991 decision, the Commission created a Task Force to examine various factual issues, including the availability of switching equipment and software necessary to implement intraLATA "1+" and "0+" dialing parity. The Task Force was instructed not to reexamine policy matters already decided by the Commission and to focus on implementation issues.

All interested parties, including representatives of local and interexchange carriers were members of the Task Force. Commission Staff participated as observers and provided support. As a result, the Task Force Report is a product of the telecommunications industry which was able to draw upon its technical expertise and experience with interLATA equal access conversion to facilitate analysis. The Task Force filed its report on November 6, 1992.[7]

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5 WATS is an acronym for Wide Area Telecommunications Service. Eight hundred is the inward dialed version of WATS.

6 The access code 10XXX allows a customer to use a carrier other than the local exchange carrier to complete intraLATA toll calls. The "XXX" denotes a carrier identification code--e.g., "288" in the case of AT&T Communications of the South Central States ("AT&T"). Interexchange carriers can also use the access codes 950-0XXX or 950-1XXX to complete intraLATA toll calls.

7 Report of the Task Force Coordinating Committee to the Kentucky Public Service Commission ("Task Force Report"), filed November 6, 1992, pages 3-4.

In comments on the Report, prefiled testimony, and testimony at the public hearing, various objections to implementing intraLATA equal access were made. These objections have been addressed in prior decisions in this case.

PROCEDURAL BACKGROUND

Comments on the Task Force report were filed by Cincinnati Bell Telephone Company ("Cincinnati Bell"); Duo County Telephone Cooperative Corporation, Inc., on behalf of the Independent Telephone Group ("ITG")[8]; and GTE South Incorporated and Contel of Kentucky, Inc., d/b/a GTE Kentucky ("GTE South") on March 1, 1993, and by MCI Telecommunications Corporation ("MCI"), South Central Bell Telephone Company ("South Central Bell"), and Sprint Communications Company L.P. ("Sprint") on March 2, 1993. A public hearing was held on June 2 and 3, 1993.[9]

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[8] ALLTEL Kentucky, Inc.; Ballard Rural Telephone Cooperative Corporation, Inc.; Brandenburg Telephone Company, Inc.; Duo County Telephone Cooperative Corporation, Inc. ("Duo County Telephone"); Foothills Rural Telephone Cooperative Corporation, Inc.; Harold Telephone Company, Inc.; Highland Telephone Cooperative, Inc.; Logan Telephone Cooperative, Inc.; Mountain Rural Telephone Cooperative Corporation; North Central Telephone Cooperative, Inc.; Peoples Rural Telephone Cooperative Corporation, Inc.; South Central Rural Telephone Cooperative Corporation, Inc.; Thacker-Grigsby Telephone Company, Inc.; and West Kentucky Rural Telephone Cooperative Corporation, Inc.

[9] On July 8, 1993, AT&T, MCI, and Sprint filed a joint statement of position. On July 16, 1993, GTE South filed a motion to strike the statement. On July 21, 1993, South Central Bell filed a response to the statement. MCI, AT&T, and Sprint filed responses to GTE South and South Central Bell on July 26, 28, and 29, 1993, respectively. Given the decision in this Order, both the statement of position and motion to strike are moot.

## TASK FORCE OVERVIEW

The Task Force worked through several subcommittees, which reported their findings to the Coordinating Committee which, in turn, prepared the Report to the Commission. The Switch Vendor Subcommittee gathered information on availability dates and price estimates for the development and deployment of intraLATA equal access software and software generics.[10] The Interexchange Carrier Subcommittee gathered information on expected market participation by interexchange carriers and the effect of that participation on local exchange carrier network requirements. The Large and Small Local Exchange Carrier Subcommittees gathered company-specific information on implementation costs and the impact of implementation on their management and operating procedures. The subcommittee reports are addenda to the Task Force Report.

The Commission directed the Task Force to examine the following issues:

1. Specification of necessary access features.

2. The availability and cost of software generics.

3. The relative merits and cost of generic upgrades to existing switching equipment and alternatives for local exchange carriers planning central office or toll/access tandem replacements in the normal course of business.

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10 To some extent, the terms "software" and "software generics" are interchangeable. There is a distinction here, however. Software generics refers to basic feature packages developed by manufacturers for use with their switches. Generally, software additions or optional feature packages may be added.

4. The relative merits and cost of requiring local exchange carriers to include equal access capability when installing equal access generics.

5. The need for national protocol standards and whether national standards are likely to follow rather than precede state implementation.

6. The relative merits of alternative cost recovery mechanisms.

7. The relative merits and cost of alternative presubscription ballot procedures.

8. The need for network reconfiguration, including the relative merits and cost of centralized access tandems shared by groups of local exchange carriers.

9. The relative merits and cost of alternative implementation schedules.[11]

Generally, the Task Force concluded that "intraLATA equal access is feasible and attainable" and that "there is no technical reason that competition cannot be extended to include intraLATA equal access on a presubscribed basis." The Commission agrees.

The Commission commends the Task Force for its efforts and has relied extensively on its report.

EQUAL ACCESS OVERVIEW

"IntraLATA equal access" allows a customer to dial "1" or "0" plus the telephone number being called to make toll calls, without

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[11] Administrative Case No. 323, Order dated May 6, 1992, pages 35-36.

having to dial 10XXX or another access code. It mirrors equal access dialing in the interLATA environment, except that a customer's interLATA carrier and intraLATA carrier may be different carriers and the customer may continue to use his local exchange carrier.

The Task Force concluded that:

> The consumer should not experience any perceptible difference between interLATA equal access and intraLATA equal access when making 1+/0+ interexchange calls. Further, the quality of the connection after conversion to intraLATA equal access should be identical in every respect to that provided with interLATA equal access, i.e., there should be no difference in the quality of the connection, dialing patterns, cost of access or presubscription methods between interLATA and intraLATA equal access.[12]

InterLATA calls will not be affected by equal access for intraLATA toll calls. The two will be processed in the same manner. Routing information in local exchange carrier central office switches allows them to analyze any call to determine whether it is local or toll and whether it should be completed by the local exchange carrier or delivered to an interexchange carrier. If the call should be delivered to an interexchange carrier, the switch retrieves presubscription information and routes the call to the appropriate carrier.

Toll routing specifications and calls subject to presubscription are listed in Attachment F to the Report. This guide is reasonable and should be the standard as local exchange carriers implement intraLATA equal access.

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12 Task Force Report, pages 14-15.

## DISCUSSION OF IMPLEMENTATION ISSUES

### Background

In several sections of this Order, estimated costs of implementing intraLATA equal access are cited. These costs were estimated during 1992 and were based on a specific planning period. The savings opportunities recognized during that planning period may not be available over the implementation period provided in this Order. However, the record and actions in other jurisdictions suggest that the 1992 cost estimates may be overstated.[13] When the Task Force was established, some switch manufacturers were in the early stages of developing software and planning their pricing strategies. Since that time, progress has been made and pricing strategies may have changed. It appears that prices have declined.[14]

Recurring and non-recurring costs are also discussed. Recurring costs are relatively insignificant and generally represent ongoing business office expense. Arguably, they are the only relevant costs because they will continue beyond the amortization period authorized in this Order. Other relevant costs will be quickly recouped from interexchange carriers, with

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[13] For example, it appears that some local exchange carriers may have included non-incremental costs in their cost estimates. Such costs would not be attributable to implementing intraLATA equal access and, therefore, could not be recovered from interexchange carriers.

[14] See correspondence from Carolyn Marek, Assistant State Manager, AT&T to Don Mills, Executive Director, Public Service Commission, dated March 10, 1994, and Renewal of Motion for Limited Post Hearing Discovery, filed on May 4, 1994.

interest, except those absorbed by local exchange carriers participating in the toll market. Should local exchange carriers seek rate relief as a result of implementing intraLATA equal access, these facts will be considered in reviewing rate applications.

These costs have not been contested. To facilitate the work of the Task Force, participants agreed to accept cost estimates supplied by local exchange carriers. As a result, the cost recovery and monitoring process outlined in this Order permits toll market participants to scrutinize costs claimed by local exchange carriers and object to their recovery where they are inappropriate.

Features Necessary for IntraLATA Equal Access

The Task Force considered several implementation options, each involving an approach to carrier selection that allows more or less customer choice. Under each, local calling remains the exclusive domain of local exchange carriers. The options considered were:

1. Extended One-PIC:[15] A customer's presubscribed intraLATA toll carrier must be the same as the presubscribed interLATA carrier. Local exchange carriers could not provide intraLATA toll service unless they were providing or agreed to provide interLATA service.

The Task Force did not pursue this approach because it unduly restricts customer choice, places local exchange carriers at a competitive disadvantage, and unnecessarily inhibits competition.

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[15] PIC is an acronym for Primary or Preferred Interexchange Carrier.

Also, current network architecture may limit the ability of local exchange carriers to implement extended One-PIC. No party disputed this conclusion and the Commission agrees.

2. Two-PIC: *A customer's presubscribed intraLATA toll* carrier can be different from the presubscribed interLATA carrier.

3. Modified Two-PIC: A customer's presubscribed intraLATA toll carrier could be either the presubscribed interLATA carrier or a local exchange carrier. No other choices would be available.

4. Advanced Intelligent Network (Multi-PIC): As envisioned, a data base outside the central office switch would determine a customer's presubscribed intraLATA or interLATA toll carrier and the appropriate routing of any given call. Multi-PIC is the most conceptually and technologically advanced approach and, theoretically, could allow a customer to choose carriers by time-of-day or even by route. However, technical specifications and deployment parameters are unknown, and cost information was not available to the Task Force.

The Task Force participants and parties preferred the Two-PIC approach because it allows greater customer choice. In addition, the local exchange carriers assumed its use in estimating costs to implement intraLATA equal access.[16] No cost information on the modified Two-PIC approach was available to the Task Force.

The Commission finds that intraLATA equal access should be implemented using the Two-PIC approach. This approach has been

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[16] Assumptions used in arriving at cost estimates are in Attachments B.3 and B.4 to the Task Force Report.

studied in this and other state jurisdictions and is clearly preferable until such time as a multi-PIC approach becomes available. According to information from switch manufacturers, virtually all central offices in Kentucky can be equipped with Two-PIC software generics in a relatively short time,[17] although it may not be available for some older (essentially obsolete) central office switches. In those cases, implementation of the modified Two-PIC approach will be allowed until the switches are replaced. In rare cases, where neither approach is viable, the utility must request a waiver and provide specific plans for upgrading the switch.

Availability and Cost of Software

IntraLATA equal access software is now available from some manufacturers with switches in the state, including Alcatel Network Systems ("Alcatel"); American Digital Switching ("ADS"); NEC America, Inc. ("NEC"); Northern Telecom, Inc. ("Northern"); and Siemens Stromberg-Carlson ("Siemens"). AT&T Network Systems ("Network Systems") has begun developing intraLATA equal access software which should soon be available for its switches. AG Communications Systems ("AGCS") will not begin software development until it receives a purchase order and software development will require 15-18 months. Clearly, intraLATA equal access can be

[17] This conclusion is based on the Task Force Report at page 38 and Attachment E to the report.

implemented within the timeframe contemplated by this Order even though AGCS switches may be among the last to be converted.[18]

A "software generic" is a particular version of software that allows the central office switch to make choices. Some "features" are basic to a software generic and are optional. The intraLATA equal access feature will likely be optional for most central office switches.[19] Optional feature packages cannot be installed until the appropriate generic is installed. Therefore, intraLATA equal access costs will be incurred when (1) a switch must be replaced because it cannot be equipped with the feature package, (2) a switch must be upgraded to a basic software generic compatible with the feature package, or (3) the feature package must be installed and tested.[20] The time required for these activities will vary by local exchange carrier, but should not unnecessarily delay implementing intraLATA equal access.

The Task Force asked switch manufacturers to provide the incremental price of the feature package--i.e., the price of the feature package apart from any basic software generic. This cost varies depending on the need for hardware or circuit memory

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18 Task Force Report, page 38 and Attachment E for a discussion of the availability of software from individual manufacturers.

19 Except for local switching, remotes operate using the intelligence of a host central office. Therefore, as a rule, they will not require generic upgrades or software additions to accommodate intraLATA equal access. There may be exceptions, however. In those cases, the local exchange carrier must show that the generic upgrade or software addition was necessary to accommodate intraLATA equal access.

20 Task Force Report, page 36.

additions required to upgrade switches; engineering and installation charges for switch upgrades; field testing of software; pricing policies of switch manufacturers; and any discounts available to local exchange carriers.[21]

The estimated cost for all companies of the Two-PIC intraLATA equal access feature package is $4,901,000.[22] This amount does not include $9,600,000 in software development cost claimed by GTE South, which may not materialize or be attributable to a particular jurisdiction.[23] It also excludes up to $7,300,000 in development cost claimed by Network Systems. The local exchange carriers did not include this cost in their estimates due to its uncertain nature.[24]

GTE South has claimed in several states that its entire software development cost would be attributable to that state. A number of states are considering the issue of intraLATA equal access and several have issued implementation decisions. Requiring a single state to pay GTE South's entire software development cost would be clearly unreasonable and contrary to industry practice.

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[21] Id., pages 19-20.

[22] This estimate includes $1,663,000 in capital cost and $3,238,000 in non-recurring cost. See Task Force Report, page 40.

[23] Task Force Report, page 38.

[24] Id. It appears that Network Systems now plans to recoup development cost through the price of its products and right-to-use fees. See correspondence between Carolyn Marek and Don Mills and Renewal of Motion for Limited Post Hearing Discovery.

Therefore, GTE South will be entitled to recover only relevant implementation costs which are consistent with the cost recovery plan outlined in this Order and supported by reasonable evidence.

The Cost of Switch Upgrades

The local exchange carriers provided cost estimates for anticipated switch upgrades. Presumably, switch upgrades planned for 1994 and included in the Task Force Report have been made. The Commission has not attempted to adjust the cost information for switch upgrades occurring in 1994.[25] The estimated cost of switch upgrades necessary to accommodate the intraLATA equal access feature package is $3,441,000,[26] which includes anticipated hardware and circuit memory additions.

Concurrent Equal Access Implementation

The Task Force was instructed to examine the merits and cost of requiring local exchange carriers to install intraLATA equal access software when installing interLATA equal access software. Obviously, such an approach could yield cost savings. Although

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25 Various assumptions and formats were used to standardize cost information reported, including the use of incremental cost, Two-PIC implementation, constant toll growth rate, and constant 1992 dollars. In addition, the local exchange carriers assumed that intraLATA equal access software would be installed at the same time as any planned switch upgrades during the implementation period. Otherwise, it was assumed central offices would be converted in the last year of the planning period. See Attachments B.3 and B.4 to the Task Force Report.

26 This estimate includes $1,701,000 in capital cost, $15,000 in recurring cost, and $1,724,000 in non-recurring cost. The recurring cost is associated with several small companies that estimate an ongoing expense to ensure proper operation of any switch upgrades. See Task Force Report, page 42.

interLATA equal access conversion is virtually complete,[27] the Commission will require concurrent conversion where central offices do not provide interLATA equal access.

The Need for National Protocols

The Task Force concluded that intraLATA equal access can and probably will be implemented before national standards are developed.[28] The Commission is not aware of any current effort to develop national standards which could prevent variations in switching applications between manufacturers. The potential impact of such variations on network arrangements cannot be known until technical specifications are studied and software is installed and tested.

Spurred by actions in various states, switch manufacturers have proceeded without national standards, and have been able to draw upon their experience with developing interLATA equal access software. This experience suggests that there will be sufficient consistency among them to proceed with implementing intraLATA equal access.

Variations in switching applications between manufacturers could affect a local exchange carrier's implementation schedule. However, there is no current indication that such variations will occur. Switch manufacturers have received call routing specifications and none alerted the Task Force of any problem with

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27 See, Task Force Report, page 43, and Attachment E.

28 Task Force Report, pages 43-44.

them. Nor have the local exchange carriers alerted the Commission of any potential problem with intraLATA equal access software.

Cost Recovery

The Task Force reached no consensus on cost recovery, except that it should be based on incremental cost of implementing intraLATA equal access. This is the same cost allowed for interLATA equal access conversion and follows rules promulgated by the Federal Communications Commission ("FCC"). As defined by FCC:

> Equal access investment includes only initial incremental expenditures for hardware and other equipment related directly to the provision of equal access which would not be required to upgrade the capabilities of the office involved absent the provision of equal access.[29]

Likewise:

> Equal access expenses include only initial incremental presubscription costs and other initial incremental expenditures related directly to the provision of equal access, that would not be required to upgrade the capabilities of the office involved absent the provision of equal access.[30]

These standards will be used to evaluate implementation costs claimed by local exchange carriers. Cost recovery will also be allowed for reasonable administrative costs.

A cursory review of the cost estimates furnished to the Task Force suggests that some local exchange carriers included costs that are not incremental to implementing intraLATA equal access. These costs represent network investment that would occur in the

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29 Code of Federal Regulations, Title 47, Chapter 1, Part 36.191, Jurisdictional Separations Procedures, emphasis added.

30 Id., Part 36.421, emphasis added.

normal course of business to provide state of the art services in an efficient manner. These costs are completely apart from implementing intraLATA equal access. Such costs should be recovered through local service rates and interexchange access charges, not from toll market participants.

Various suggestions have been made concerning recovery of implementation costs. The ITG proposes to recover the cost from interexchange carriers based on company-specific charges applicable to terminating switched access minutes of use,[31] consistent with current non-traffic sensitive revenue requirement recovery. As an alternative, it suggests a statewide pool arrangement to minimize any disincentive interexchange carriers might have to provide service in any particular area. The ITG proposes cost recovery over the implementation period not to exceed eight years, the standard for interLATA equal access conversion cost recovery.

GTE South proposes recovery based on company-specific presubscribed access lines over a five year period.[32] Cincinnati

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[31] See Comments of the ITG on the IntraLATA Equal Access Task Force Report, filed March 1, 1993, pages 3-4; Response of the ITG to the Commission's Order dated April 13, 1993, filed May 12, 1993, Item 3; and Transcript of Evidence, Volume II, pages 87-88.

[32] See Comments of GTE South on the IntraLATA Equal Access Task Force Report, filed March 1, 1993, pages 7-9 and Prefiled Testimony of Jeffrey C. Kissell, filed May 13, 1993, pages 7-10.

Bell[33] and South Central Bell[34] advocate similar positions, but argue that cost recovery should occur over the implementation period.

AT&T,[35] LDDS,[36] MCI,[37] and *Sprint*[38] *propose to recover the* cost from all toll market participants. AT&T proposes a surcharge applicable to switched access minutes of use. MCI proposes an additive to local switching rate elements if market participation is mandatory and a charge applicable to presubscribed access lines if market participation is voluntary. LDDS and Sprint propose a charge applicable to presubscribed access lines. All favor cost recovery over an eight year period.

Cost recovery should be based on presubscribed access lines rather than a charge per switched access minute of use. A charge per access line is consistent with the concept of presubscription

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33 Response of Cincinnati Bell to the Commission's Order dated April 13, 1993, filed May 14, 1993, Item 3.

34 Response of South Central Bell to the Commission's Order dated April 13, 1993, filed May 13, 1993, Item 3 and Post Hearing Brief of South Central Bell, pages 9-10.

35 Prefiled Testimony of G. Michael Harper, filed May 20, 1993, pages 5-6 and Post Hearing Brief of AT&T, filed July 9, 1993, pages 12-13.

36 Response of LDDS to the Commission's Order dated April 13, 1993, filed May 20, 1993, Item 3.

37 Comments of MCI on the Report of the Kentucky IntraLATA Equal Access Task Force, filed March 2, 1993, pages 12-16 and Prefiled Testimony of Timothy J. Gates, filed May 20, 1993, pages 12-14.

38 Response of Sprint to the Commission's Order dated April 13, 1993, Item 3.

while imposing a charge per switched access minute of use would encourage bypass. Also, a charge per switched access minute would increase the non-traffic sensitive revenue requirement when such charges should be decreased or eliminated to promote competition.

All toll market participants should share in cost recovery. For purposes of rate application and cost absorption, it will initially be presumed that all access lines are presubscribed to an interexchange carrier for interLATA service and a local exchange carrier for intraLATA toll service. However, the access line of a customer who chooses an interexchange carrier for intraLATA toll service should not be counted twice.

It is reasonable for local exchange carriers to participate in the intraLATA equal access cost recovery process. They provide toll services like the interexchange carriers, and participation should encourage them to minimize their own implementation costs and scrutinize those claimed by other local exchange carriers. Although GTE South and South Central Bell are restricted to the intraLATA market by the GTE Consent Decree[39] and the Modified Final Judgment,[40] these restrictions may be removed in the future and are not sufficient reason to delay implementation.

The local exchange carriers' cost absorption should be limited to 35 percent of the total cost to be recovered with 65 percent of the total to be attributed to interexchange carriers. This

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[39] United States v. GTE Corp., 603 F.Supp. 730 (D. D.C. 1984).

[40] United States v. AT&T, 552 F.Supp. 131, 227 (D. D.C. 1982).

recognizes current market restrictions and other market factors such as the alleged customer preference for a single toll carrier. It also minimizes the impact of implementation on local service rates and recognizes the basic fairness of all toll market participants sharing the cost.

Each local exchange carrier could file its own cost recovery tariff and administer its own plan. However, a single tariff and a central point of contact would provide uniformity and facilitate monitoring by the Commission. Accordingly, within 60 days from the date of this Order, South Central Bell should file proposed operating procedures for a cost recovery pool, a proposed cost recovery tariff on behalf of all local exchange carriers, and proposed pool reporting and carrier billing formats. Reporting formats should be modeled on those used by the Task Force. Each local exchange carrier should file incremental investment and expense information as required by the pool administrator and approved by the Commission. South Central Bell should make all information generated as pool administrator and filed with the Commission available to any interested interexchange or local exchange carrier upon request, absent approval of a motion for confidential protection.

Separate compensation rates will be required for interexchange and local exchange carriers. The rate applicable to interexchange carriers will represent an expense payable to the pool. The rate applicable to local exchange carriers participating in the toll market will represent an absorption rate. However, the rate should be payable to the pool as necessary to maintain a sufficient fund balance to compensate local exchange carriers not participating in the toll market for their implementation costs.

Each local exchange carrier may withdraw funds from the pool monthly at a specific rate designed to recover its costs over a five year period. Costs incurred the first year should be amortized over five years, costs incurred the second year should be amortized over the remaining four years, and so on.

Semiannual adjustments to cost recovery rates may be necessary. Tariff filings should be made each June 1 to be effective July 1 and each December 1 to be effective January 1, along with information necessary to justify the filings. Costs incurred between tariff filings should be eligible for recovery at the next scheduled filing date. The Commission will presume these tariffs to be reasonable and allow them to become effective subject to any additional payments or refunds that might be required as a result of investigation.

The local exchange carriers will spend money to implement intraLATA equal access not immediately recovered. Accordingly, they are entitled to a carrying charge on unamortized cost over the cost recovery period equal to each local exchange carrier's most recent authorized rate of return or equal to the low end of South Central Bell's current authorized rate of return range--i.e., 10.99 percent.

Presubscription Balloting and Administrative Cost

When interLATA equal access was implemented, customers were allowed to select a primary toll carrier by ballot when a central office was scheduled for equal access conversion. The same process could be used to implement intraLATA equal access by allowing customers to select a primary toll carrier other than a local exchange carrier, and the Task Force was instructed to examine balloting alternatives.

As fewer than 50,000 access lines remain to be converted to interLATA equal access, the selection process will involve a second ballot in most cases.

The Task Force examined several options:[41]

1. Selection by ballot without allocation -- customers making no ballot selection would remain intraLATA toll customers of the local exchange carriers. The cost of this approach was estimated at $3,615,000.

2. Selection by allocation -- customers making no ballot selection would be allocated among toll carriers in proportion to the number of customers selecting each participating toll carrier. The cost of this approach was estimated at $4,789,000.

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[41] A table summarizing ballot costs, with a breakdown between recurring and non-recurring costs, appears at page 48 of the Report. The cost totals in the columns for "balloting with and without allocation" should be reversed and have been reversed in this discussion. On the issue of balloting, see pages 23-27 and 46-49 of the Task Force Report.

3. Concurrent selection by ballot for interLATA and intraLATA toll carriers as central offices convert to equal access. The cost of this approach was estimated at $690,000.

4. A market driven approach with no ballots -- toll carriers would compete with one another to presubscribe customers, as they now do in the interLATA environment. The cost of this approach was estimated at $542,000.

The consensus among Task Force participants and parties to this case is that customers who have already selected interLATA equal access carriers by ballot should not be offered a separate opportunity to select an intraLATA carrier when intraLATA equal access becomes available. Customers in central offices that have not converted to equal access should select their interLATA and intraLATA carriers by ballot. Lastly, new customers should be asked their carrier preference at the time they subscribe to telephone service.

An additional ballot could cause considerable confusion among customers, as did initial ballot for interLATA toll carrier preference.[42] It would also be expensive. Given these considerations and the fact that relatively few access lines have not been converted to interLATA equal access, local exchange carriers should not be required to solicit their customers' intraLATA toll carrier preferences upon equal access conversion.[43]

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42 Task Force Report, page 48.

43 Under FCC rules, however, they must ballot their customers for interLATA toll carrier preference.

A local exchange carrier may do so if it is willing to absorb the cost.

Customers whose service begins after a central office has been converted to intraLATA equal access should be allowed to choose an intraLATA toll carrier at the time local service is established, as is now done for interLATA toll carriers. This requirement will provide an opportunity to educate customers and will encourage competition.

Various administrative costs will be incurred as local exchange carriers implement intraLATA equal access. For example, billing and other support systems must be modified, employees must be trained, and customers must be educated about the carrier selection process.[44] The estimated administrative cost attributable to intraLATA equal access conversion is $2,844,000.[45]

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[44] Task Force Report, pages 52-53.

[45] This estimate includes $98,500 in capital cost, $1,944,000 in recurring cost, and $801,849 in non-recurring cost. See Task Force Report, page 53. It does not include $1,006,000 in advertising expense claimed by South Central Bell. While South Central Bell may choose to increase its advertising budget, it is not required to do so and this expense should not be allocated to the intraLATA equal access cost recovery process. The estimate also excludes $7,314,000 for billing system modifications which GTE South argues it must accomplish on a national basis. As with software development costs, GTE South has argued that the first state to require intraLATA equal access will incur the entire cost of these modifications. As with the other development costs, GTE South is entitled to recover only relevant implementation costs consistent with this Order, subject to review by the Commission.

Centralized Equal Access and Network Reconfiguration

The Task Force considered but did not pursue the idea of implementing intraLATA equal access using centralized or tandem switches.[46] The reasoning was twofold. First, interLATA equal access conversion was accomplished on an end office basis and is essentially complete. Second, end office conversion allows local exchange carriers to proceed at their own pace without coordinating conversion activities.

At present, interexchange carriers connect with local exchange carriers through points of presence or switching centers in each LATA. IntraLATA 10XXX dialed calls, interLATA calls, and other calls that may be carried by interexchange carriers where originated from or terminated to a local exchange carrier are exchanged at these points of presence. IntraLATA 1+/0+ dialed calls are completed by local exchange carriers using their own network facilities. When intraLATA equal access is implemented, interexchange carriers will likely gain and local exchange carriers will lose market share, meaning that the volume of calls exchanged at interexchange carrier points of presence will increase. This shift in calling patterns could result in network reconfiguration--i.e., local exchange carriers may be required to rearrange or add trunking facilities to interexchange carrier points of presence.

[46] Task Force Report, pages 5 and 51.

The local exchange carriers estimate the cost of network reconfiguration at $2,075,000.[47] This estimate assumed no change in the configuration of existing points of presence.

Implementation Procedures

IntraLATA equal access software is currently available from most switch manufacturers. AT&T Network Systems will have software available by early 1995 for its switches. Unfortunately, AGCS will not have software available for 15-18 months from the date of a purchase order. GTE South will likely place its purchase order in coordination with its sister companies in other jurisdictions that have required intraLATA equal access. GTE South should advise the Commission on AGCS's progress each quarter, beginning April 1, 1995.

Given the availability of software and actions in other state jurisdictions toward implementation, there is no reason to further delay intraLATA equal access conversion. Local exchange carriers should implement intraLATA equal access over a three year period, from July 1995 to June 1998. Central offices should be converted as soon as practical given available resources. Local exchange carriers, however, should coordinate intraLATA equal access conversion with any planned switch replacements or software generic upgrades to minimize cost. Even though there will be a delay between the placement of a purchase order with a switch

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[47] This estimate includes $2,039,000 in capital cost, $17,000 in recurring cost, and $20,000 in non-recurring cost. See Task Force Report, page 51.

manufacturer and actual switch or software installation and testing, conversion can begin in July 1995.

To facilitate monitoring of the conversion process, local exchange carriers should file conversion schedules within 60 days from the date of this Order. The schedules should take the form of Attachment E to the Task Force Report and be as specific as possible, including month and year of scheduled conversion for each end office and should be updated each June 1 and December 1 throughout the implementation period. Local exchange carriers should furnish the pool administrator with the necessary information for compilation and filing with the Commission.

## OTHER MATTERS

### Toll Market Participation

AT&T, MCI, and Sprint have indicated that they will participate in the intraLATA toll market,[48] provided that cost recovery does not pose an onerous barrier to market entry.[49] The cost recovery plan outlined in this Order is designed to minimize cost as a barrier to market entry. It will recover implementation costs from all toll market participants, assign costs to all presubscribed access lines, and amortize implementation costs over five years. Even if implementation costs are as high as those identified in the Task Force Report, the cost per presubscribed access line per month should be relatively low.

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[48] For example, see Attachment B.2 to the Task Force Report.

[49] For example, see the Post Hearing Brief of MCI, pages 3-6.

Toll market participation should be voluntary, with complete freedom of entry and exit. AT&T and MCI, however, argue that local exchange carriers have obligations as carriers of last resort. On the other hand, South Central Bell argues that this concept is inconsistent with voluntary participation[50] and that no obligation to serve should be imposed on it that is not imposed on other common carriers. "If South Central Bell has no exclusive right to provide intraLATA toll service, then it should have no obligation to provide intraLATA toll service that is different from any other carrier."[51] However, local exchange carriers cannot abandon service without first seeking Commission approval. KRS 278.020. This includes abandonment of toll service.

The decision to implement intraLATA equal access also imposes obligations on interexchange carriers. It would be counterproductive to require intraLATA equal access if interexchange carriers then refuse to compete. Therefore, interexchange carriers providing interLATA service should provide intraLATA toll service, as end offices convert to intraLATA equal access. This requirement has been imposed in other states.[52]

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[50] See Post Hearing Brief of South Central Bell, pages 6-8.

[51] Id., page 8.

[52] For example, Minnesota. See Docket No. P-999/CI-87-697, In the Matter of an Investigation into IntraLATA Equal Access and Presubscription, Order dated July 21, 1994, pages 11 and 21.

PIC Charges

Today, customers may choose interLATA[53] toll carriers at no charge upon equal access conversion or when establishing service. Thereafter, a charge applies which varies among carriers based on each carrier's interstate access services tariff. The situation differs with the ITG[54] whose intrastate access services tariff specifies a charge of $5.00. Some members of the ITG charge $5.00 for a PIC change based on their intrastate access services tariff[55] plus $5.00 based on the National Exchange Carrier Association's ("NECA")[56] interstate access services tariff plus service order charges.

The charge for a change in preferred interLATA toll carrier should not exceed $5.00 in total. The ITG should amend its intrastate access services tariff to delete the charge and cease assessing service order charges its current tariff does not authorize.

There will be some expense associated with intraLATA PIC changes. Therefore, a charge for intraLATA PIC changes equal to the charge for interLATA PIC changes may be applied when an intraLATA PIC change is made independent of an interLATA PIC

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[53] By default, the customer's choice of preferred interLATA carrier becomes the preferred interstate carrier as well.

[54] Duo County Telephone files an access services tariff on behalf of the ITG.

[55] Duo County Telephone, access services tariff, PSC Ky. No. 2A, Section 13.4.G.

[56] All members of the ITG are also members of NECA.

change. This charge should not apply to new customers initiating local service.

IT IS THEREFORE ORDERED that:

1. IntraLATA equal access shall be implemented on an end office basis beginning July 1995 and ending June 1998. Local exchange carriers shall implement intraLATA equal access to assure no perceptible difference in call routing, quality of transmission and interconnection, and dialing patterns between interLATA toll calls and intraLATA toll calls. The price of access services shall be the same in both markets.

2. Local exchange carriers shall implement intraLATA equal access using the Two-PIC approach to carrier presubscription. Where the Two-PIC approach cannot be implemented, local exchange carriers shall request a waiver of this requirement.

3. Where interLATA equal access has not been implemented, interLATA and intraLATA equal access shall be implemented concurrently.

4. Cost recovery shall be limited to the incremental investment and incremental expenses related directly and solely to providing intraLATA equal access.

5. Cost recovery shall be based on rates per month applicable to access lines presubscribed to interexchange and local exchange carriers participating in the interLATA and intraLATA toll markets.

6. All toll market participants with presubscribed access lines shall share in intraLATA equal access cost recovery, but

local exchange carrier cost absorption shall be limited to 35 percent of the total cost.

7. A cost recovery pool shall be established and South Central Bell shall be the pool administrator. South Central Bell shall be allowed to recover reasonable administrative costs for operating the pool.

8. Within 60 days from the date of this Order, South Central Bell shall file with the Commission proposed operating procedures for the cost recovery pool, a proposed cost recovery tariff on behalf of all local exchange carriers, and proposed pool reporting and carrier billing formats, with copies to all parties of record.

9. Each local exchange carrier shall file incremental investment and expense information with the pool administrator at times and in formats devised by the pool administrator and approved by the Commission.

10. The pool administrator shall summarize the above information and file statewide cost recovery rates on behalf of all local exchange carriers, and bill interexchange carriers accordingly.

11. Each local exchange carrier may withdraw funds from the pool on a monthly basis at company-specific rates designed to recover costs associated with implementing intraLATA equal access over a five year period. Costs incurred the first year shall be amortized over five years, costs incurred the second year shall be amortized over the remaining four years, and so on.

12. Cost recovery rates shall be adjusted semiannually. Tariff filings shall be made each June 1 to be effective July 1 and each December 1 to be effective January 1, along with all information necessary to fully justify the filings. Costs incurred between tariff filings shall be eligible for recovery at the next scheduled filing date.

13. Cost recovery tariffs become effective subject to any payments or refunds required as a result of investigation by the Commission.

14. Each local exchange carrier may recover a carrying charge on unamortized cost over the recovery period equal to its most recent authorized rate of return or 10.99 percent.

15. New customers beginning service with a local exchange carrier after intraLATA equal access conversion may choose both interLATA and intraLATA toll carriers at the time local service is established.

16. GTE South shall advise the Commission of AGCS's progress in developing intraLATA equal access software quarterly, beginning April 1, 1995.

17. Within 60 days of the date of this Order, local exchange carriers shall file implementation schedules in the format of Attachment E to the Task Force Report through the pool administrator, with copies to all parties of record.

18. Implementation schedules shall be updated each June 1 and December 1 throughout the implementation period through the pool administrator.

19. Interexchange carriers who serve end offices on an interLATA equal access basis shall serve the same end offices on an intraLATA equal access basis, as those offices convert to intraLATA equal access.

20. The maximum charge for an interLATA PIC change shall be $5.00 based on NECA's interstate access services tariff and shall not apply to an existing or new customer's initial selection of an interLATA carrier. Duo County shall revise its intrastate access services tariff to delete the charge for a PIC change and refer to the NECA tariff instead.

21. The maximum charge for an intraLATA PIC change shall not exceed the charge for interLATA PIC changes. It shall apply only when an intraLATA PIC change is made independent of an interLATA PIC change and shall not apply to new customers initiating local service.

Done at Frankfort, Kentucky, this 29th day of December, 1994.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director