

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE TARIFF FILING OF GTE SOUTH)
INCORPORATED TO ESTABLISH RATES) CASE NO. 93-081
AND CHARGES FOR LOCAL CALLING PLANS)

O R D E R

On February 12, 1993, GTE South Incorporated ("GTE") filed a proposed tariff to establish rates and charges for GTE Local Calling Plans. The tariff has been suspended to January 10, 1994. Information requests were issued by the Commission on June 7, 1993 and August 18, 1993. GTE filed responses on July 7, 1993 and September 10, 1993. A public hearing was held on October 13, 1993.

The Commission rejects GTE's proposed tariff as filed.

Background

GTE's Proposed Calling Plan

GTE's proposed plan would enlarge existing local calling areas with the addition of selected exchanges.¹ GTE would carry all calls within the proposed expanded local calling area on a measured or flat rated basis. Interexchange carriers ("IXCs") would be

¹ GTE's three local calling plans will affect the following Central Kentucky exchanges: Albany, Bradfordsville, Bryantsville, Columbia, Ewing, Flemingsburg, Garrison, Greensburg, Hillsboro, Lancaster, Lebanon, Liberty, Loretto, Monticello, Owingsville, Salt Lick, Scottsville, Sharpsburg, Tollesboro, Tompkinsville, Vanceburg, Campbellsville, Grayson, Hazard, Hustonville, Leatherwood, Leitchfield, Morehead, Olive Hill, Vicco, Berea, Burnside, Cecilia, Glasgow, Hodgenville, Nancy, Paint Lick, Somerset, South Hardin, Catlettsburg, Elizabethtown, Lexington, Midway, Nicholasville, Versailles, and Wilmore.

precluded from carrying intraLATA traffic to the exchanges being added to existing local calling areas.

GTE's Local Calling Plan contains three calling plan options: Community Plus, Basic Calling, and Premium Calling.

The Community Plus plan defines a new expanded local calling area by adding selected exchanges to subscribers' existing local calling area. This plan requires subscribers to pay their existing flat local exchange access rate for calls within their existing local calling area and measured rates for all calls made to the additional exchanges within the expanded local calling area. The monthly local exchange access rate remains unchanged. As is currently the case, GTE will carry calls within the existing local calling area on a 7-digit basis. GTE will carry calls made into the expanded area exchanges and charge measured rates. IXCs would be precluded from handling this traffic.

The Basic Calling plan allows subscribers to call all exchanges within the expanded local calling area on a measured rate basis. Subscribers would pay a lower monthly local exchange access rate. As is currently the case for toll calls, the mileage factor used to calculate the cost of measured rate calls is calculated on a ratecenter-to-ratecenter basis. Subscribers would not receive an optional itemized billing of their measured rate calls. The measured rates in the Community Plus and Basic Calling plan are priced substantially less than existing measured toll rates.

The Premium Calling plan allows subscribers to call any exchange within the expanded local calling area on a 7-digit basis for a higher monthly local exchange access rate.

South Central Bell Telephone Company Plan

The Commission has previously reviewed a plan similar to GTE's proposal offered by BellSouth Telecommunications Inc., d/b/a South Central Bell Telephone Company ("SCB"). On April 9, 1992, the Commission approved optional extended area service plans offered by SCB.² The Commission recognized that criteria previously used to determine communities of interest between exchanges may not adequately capture existing community interests or address customer calling needs. It approved the use of demonstrable social, economic and geographic ties in determining the strength of existing communities of interest.

SCB's plan included three calling options: (1) no change in subscribers' existing service, (2) an expanded local calling area on a flat rate basis, and (3) an expanded local calling area on a measured rate basis. Measured rates are substantially less than existing measured toll rates and the mileage factor is calculated on a wirecenter-to-wirecenter basis. Subscribers not wishing to receive itemized bills for measured rate calls receive a discount on the monthly local exchange access rate.

² Case No. 91-250, South Central Bell Telephone Company's Proposed Area Calling Service Tariff.

Discussion

Community of Interest and Local Calling Areas

To seek an expanded local calling area, a LEC must establish that a community of interest exists between specific exchanges. SCB's approved community of interest study examined social, economic, and geographic ties between specific exchanges targeted for expanded local calling areas. The Commission adopted these new criteria as the basis upon which it would review expanded local calling areas in the context of specific local communities or calling exchanges.³

GTE proffered a study commissioned by the Bluegrass Tomorrow Agency in May 1991.⁴ The survey segregated residences by county or city and requested the frequency of trips to two locations where household members participate in the following activities: work, grocery shopping, non-grocery shopping, entertainment, sporting events, recreation, medical care, and school. (Other survey questions were not relevant to GTE's establishment of communities of interest in its proposed expanded local calling area.) GTE has conducted no further analysis regarding communities of interest.⁵ GTE's survey examines communities of interest existing within the proposed seven county region as a whole, but provides virtually no

³ See Case No. 91-250 Order dated April 9, 1992 at 6-10 for a discussion of community of interest, extended area service guidelines and local calling areas.

⁴ Bluegrass Tomorrow Survey filed in response item 2 of Order dated June 7, 1993.

⁵ Transcribed Evidence at 21-23.

analysis at the exchange level. Further analysis is required regarding existing communities of interest between all specific exchanges GTE proposes to aggregate into expanded local calling areas, especially the expansion of exchanges outside of Lexington.

Local Measured Service and Customer Choice

In approving SCB's local measured service ("LMS") calling plan, the Commission was guided by its previous findings in Administrative Case No. 285.⁶ In part, LMS must be optional and the rates for flat rate service must not be increased due to a shortfall in revenue from LMS. LMS must be a revenue neutral calling option.

GTE's proposed calling plan is not optional and seeks to remove exchanges from 10XXX intraLATA competition. GTE makes several points to support its mandatory proposal. Customer satisfaction is high with mandatory plan participation. West Virginia and North Carolina have mandatory calling plans and post implementation surveys show customer satisfaction levels in the high 70% range. Conversely, optional plans are generally characterized by low initial subscribership (10%-20% in Alabama). Therefore, the company takes longer to recoup implementation costs.⁷

⁶ Administrative Case No. 285, An Investigation Into the Economic Feasibility of Providing Local Measured Service Telephone Rates in Kentucky, Order dated October 25, 1990. See Case No. 91-250 at 11-12 for a summary of the relevant findings.

⁷ T.E. at 12 and 14-16. GTE went on to state that it had been able to recoup all of its implementation costs in Alabama.

Second, mandatory plans are easier to understand, both for GTE's customer service employees and for customers. GTE's witness stated that, "in this era when customers are faced with a myriad of choices for telephone service, we [at GTE] have attempted with our proposed approach to keep our plan as simple as possible to communicate while still providing the customer with local calling options. We believe that our plan, since it expands the local calling area for everyone, is a straight forward plan to explain to our customer service people and ultimately to our customers."⁸ In other words, GTE argues that limiting customers to a single local calling area choice is better because explaining the concept of two local calling area choices is difficult to understand for its service representatives and customers.

Essentially, GTE argues that the positive benefits of its three local calling plans is greater than the negative effect of restricting customers' choice of carrier for selected intraLATA calls.⁹ Usually, customer choice is viewed as a driving force in markets where firms compete for customers. Market competition encourages firms to offer goods and services, which satisfy customer demands, in the least costly manner. Regardless of which proposed calling plan its customers may choose, GTE will carry all calls to the additional exchanges in the expanded local calling area, as they will be classified as local calls. This effectively

⁸ T.E. at 12-13.

⁹ Roughly 20% of the people in Virginia and North Carolina were not satisfied with GTE's mandatory calling plans.

recaptures monopoly markets for GTE exchanges currently open to intraLATA competition by blocking IXC access and therefore limits customer choices. Customers may already choose their intraLATA IXC. Having an optional local calling area should not unduly complicate this choice, as another choice (GTE) would be added for selected intraLATA calls.

IXC intervenors in Case No. 91-250 were concerned that SCB was seeking to recapture territory that was currently subject to 10XXX competition and thus, restrict consumer choices and competition. In that proceeding,¹⁰ MCI indicated that while it could not compete with SCB on a price basis, especially for residential MTS traffic, other non-price factors would allow it to compete effectively in the intraLATA market.

In deciding Case No. 91-250, the Commission reached several conclusions. Additional community of interest criteria could be considered to address possible shortcomings of the existing criteria. Expanded area calling service ("ACS") plans (especially the measured service calling option) should be optional and revenue neutral. To encourage intraLATA competition, IXCs should be able to continue carrying toll traffic in exchanges not included in original local calling areas, except when a customer subscribed to one of the ACS calling plans. To allow more accurate review of tariffs, data specific to Kentucky should be collected for one year and filed with the Commission for review. To help customers better

¹⁰ T.E. Volume II of II at 79-81, 85-87, and 105-106 in Case No. 91-250.

evaluate the calling plans, customers were not to be charged for call detail on their bills. Customers could change plans once per month free of charge for six months from the plan implementation date. Finally, measured rate call charges would be calculated on a wirecenter-to-wirecenter basis rather than ratecenter-to-ratecenter because it would be less expensive for most customers.

These elements were found to be essential to the provision of expanded measured rate local calling plans. GTE's proposal does not contain these features. Should GTE choose to offer measured calling plans, they must be optional. Also, in order to aid customers in evaluating the cost of a particular calling plan, GTE should include a provision for call detail for all calls made on a measured rate basis.

IT IS THEREFORE ORDERED that:

1. GTE's proposed tariff, filed February 12, 1993, is hereby rejected.

2. Should GTE propose measured calling plans, it shall file additional analysis regarding communities of interest between the specific groups of exchanges in which expanded local calling is proposed, as well as a proposed tariff for expanded local calling with the following modifications:

a. GTE's calling plans shall be offered to customers on an optional basis, not precluding IXCs from IntraLATA service as described in Administrative Case No. 323.¹¹

b. Customers choosing calling options with measured rates shall not be required to pay an additional fee for call detail and shall receive a discount if call detail is not requested.

c. Calls made on a measured rate basis shall be rated on a wirecenter-to-wirecenter basis, unless GTE can demonstrate that basing calls on a ratecenter-to-ratecenter basis is more beneficial to customers.

d. Customers shall be allowed to change calling plans once per month free of charge for a period of six months.

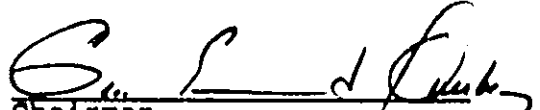
4. After gathering data specific to Kentucky for the 12 months following the date the calling plans are offered, GTE shall refile its tariffs and demonstrate that the calling plans are priced on a revenue neutral basis.


¹¹ Administrative Case No. 323, An Inquiry Into IntraLATA Toll Competition, An Appropriate Compensation Scheme for Completion of IntraLATA Calls by Interexchange Carriers, and WATS Jurisdictionality, Order dated May 6, 1991.


Done at Frankfort, Kentucky, this

10th day of January, 1994.

PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director