COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

DEREGULATION OF LOCAL EXCHANGE COMPANIES' PAYPHONE SERVICE ) ADMINISTRATIVE ) CASE NO. 361

O R D E R

On September 20, 1996, the Federal Communications Commission ("FCC") issued a Report and Order in FCC 96-388, Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996, et al (CC Docket No. 96-128 and CC Docket No. 91-35) to implement Section 276 of the Telecommunications Act of 1996 ("the Act"). Section 276 of the Act advances the goals of promoting competition among payphone service providers and promoting widespread deployment of payphone service to benefit the public. In the Order, the FCC adopted new rules governing the discontinuation of intrastate and interstate carrier access charge payphone service elements and payments as well as intrastate and interstate payphone subsidies from basic exchange services. The FCC also adopted guidelines for use by the states in establishing public interest payphones to be located where there would otherwise not be a payphone. The FCC concluded that local exchange carriers' ("LEC") payphones must be treated as nonregulated customer premises equipment ("CPE") to ensure that no subsidies are provided from basic exchange, exchange access or access charge payphone service elements.

The order required the states to take specific steps to assist in the implementation of new rules. Those state-specific requirements and their implementation are the subject of this Order. All LECs and AT&T are required to participate in this proceeding and respond to the following items. Other carriers may also comment.

Customer Premises Equipment

1. What nonstructural safeguards should be required of nonLECs to prevent cross-subsidization?

2. The FCC Order requires LECs to offer individual central office coin phone transmission services to payphone service providers.

a. How will LECs unbundle this service from payphone service in general?

b. Provide cost support for central office coin services.

3. a. Are fraud protection, special numbering assignments and installation and maintenance of basic payphone services currently provided under tariff? If not, how will LECs unbundle these features?

b. Provide cost studies for each of these features.

4. Other than investment, expenses, accumulated depreciation and deferred income tax liabilities, are there any assets or liabilities associated with payphones that should be reclassified as nonregulated or transferred to a separate affiliate?

5. How will LECs and AT&T identify the items to be reclassified or transferred?

6. a. Will payphone-related items be transferred to a separate affiliate?

b. If so, provide a description of the valuation methodology used in the transfer and include documents to support the valuation.

7. Provide a list of accounts used for reclassification of payphone items.

Carrier Common Line Charge

8. Identify the intrastate rate elements that recover payphone costs, corresponding values and, if embedded in any service charge or rate, identify those rates.

9. Explain in detail, with supporting documents, the methodology used to determine the intrastate portion of payphone costs recovered through the carrier common line charge ("CCLC") or other access charges. Provide the total intrastate and interstate subsidy amounts.

10. Provide tariffs to be effective no later than April 15, 1997, to reduce the intrastate CCLC or other access charges by the amount determined above.

11. Provide any studies or analysis provided to the FCC reflecting the removal of rate elements and charges from interstate access charges.

Public Interest Payphones

12. How should this Commission administer and fund public interest payphones? Is this an appropriate topic for the Universal Service Fund proceeding?

13. Describe the measures the Commission needs to implement to ensure that public interest payphones will continue to exist.

General

14. Comment on the validity of per-call compensation including set-use fee tariffs in view of the "carrier pays compensation system" adopted by the FCC. Also comment on the possibility that the use of set-use fees provides double compensation.

15. Does the FCC order impact the regulation of alternate operator service providers and the rates they charge in today's environment?

The Commission, having been sufficiently advised, HEREBY ORDERS that:

1. Each LEC and AT&T shall be made a party to this proceeding.

2. By no later than March 24, 1997, the LECs and AT&T shall file responses to the items enumerated herein.

Done at Frankfort, Kentucky, this 6th day of March, 1997.

PUBLIC SERVICE COMMISSION

Linda K Breathitt
Chairman

Edward J. Holmes
Vice Chairman

B. J. Helton
Commissioner

ATTEST:

Don Mills
Executive Director