

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE )  
PROPRIETY OF, AND POTENTIAL )  
SAFEGUARDS FOR, THE PROVISION )  
OF LOCAL EXCHANGE SERVICE BY ) CASE NO. 98-410  
GTE COMMUNICATIONS )  
CORPORATION )

O R D E R

INTRODUCTION

On October 1, 1997, BellSouth BSE, Inc. ( BSE ) filed its application to provide local service on a statewide basis. BSE and BellSouth Telecommunications, Inc. ( BST ) also filed their interconnection agreement for the resale of BST services for approval by the Commission. AT&T Communications of the South Central States, Inc. ( AT&T ), the Southeastern Competitive Carriers Association ( SECCA ), MCI Telecommunications Corporation ( MCI ), and the Kentucky CATV Association, Inc. d/b/a Kentucky Cable Telecommunications Association ( KCTA ) intervened. On June 8, 1998, the Commission issued its Order in Case No. 97-417<sup>1</sup> rejecting the interconnection agreement between BSE and BST and restricting BSE s service area to those areas outside the franchised service territory of BST. In that Order, the Commission noted its concern that provision of local exchange service by BSE in BST

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<sup>1</sup> Case No. 97-417, Application of BellSouth BSE, Inc. for Authority to Provide Local Exchange Service.

territory would greatly exacerbate the possibility of anti-competitive behavior by BST, Kentucky's largest incumbent local exchange carrier ( ILEC ).

Previously, on November 5, 1997, in Case No. 97-442,<sup>2</sup> GTE South Incorporated ( GTE ) and GTE Communications Corporation ( GTE-CC ), also affiliates, had submitted their interconnection agreement for the resale of GTE services. The agreement was approved by the Commission on December 18, 1997, permitting GTE-CC to provide resold telecommunications service on a statewide basis, including the franchised territory of GTE. There was no intervention.

On July 2, 1998, BSE filed a petition for rehearing on the portion of the June 8, 1998 Order which denied BSE authority to provide telecommunications services within the franchised territory of BST. In the petition, BSE argued that the Commission's orders in Cases No. 97-417 and 97-442 arbitrarily discriminated against BSE. BSE asked that the order be modified and the allegedly arbitrary conditions be deleted. In the alternative, BSE asked that rehearing be granted so that the Commission could consider whether appropriate regulatory oversight of BSE and safeguards against potential anti-competitive conduct constitute a more reasonable and consistent method of regulating BSE than the conditions set out in the 97-417 Order.

On July 21, 1998, the Commission granted rehearing, noting that BSE's argument that the same considerations should apply to the local service of GTE's competitive local exchange carrier ( CLEC ) affiliate was well taken. In the same Order, the Commission on its own motion opened Case No. 98-410 to review the potential for

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<sup>2</sup> Case No. 97-442, The Interconnection Agreement Between GTE South Incorporated and GTE Communications Corporation.

anti-competitive conduct that exists when an affiliate of GTE provides local service within the franchised territory of GTE. Case No. 97-417 was consolidated with Case No. 98-410. SECCA, AT&T, and KCTA intervened in the proceeding.

On February 19, 1999, the Commission advised parties that in the absence of a request for an informal conference or hearing, the proceeding would be submitted to the Commission for its final decision. On February 26, 1999, GTE-CC requested an informal conference, noting that an informal conference would be an opportunity to focus its arguments. SECCA requested that the Commission set a procedural schedule that included discovery and a public hearing. BSE and GTE-CC argued that extensive comments had been filed and that the issues were well articulated. The Commission granted GTE-CC's request for an informal conference and held in abeyance SECCA's request for discovery and a public hearing. The informal conference was held on April 29, 1999 and the case was submitted to the Commission for decision.

#### DISCUSSION

The issues in this case are (1) whether adequate safeguards exist, or may be imposed, to avoid anti-competitive practices by a CLEC and its affiliated ILEC when the CLEC provides local service in the ILEC's territory, and (2) whether BSE and GTE-CC are sufficiently dissimilar to justify different regulatory treatment.

Both SECCA and AT&T assert that no safeguards can adequately address the concerns raised by allowing BSE to provide service in BST's territory. AT&T argues also that there are legitimate differences which justify imposing more stringent operating conditions on BSE than on GTE-CC.

SECCA argues that granting GTE-CC authority in GTE territory would give GTE the tool to deregulate itself through the back door and to avoid critical competitive requirements mandated in the Telecommunications Act of 1996 ( the Act ). With regard to BSE, SECCA notes the inability to verify payments between BST and BSE and the financial incentive for BST to favor BSE in its dealings. There are, SECCA points out, no parallel incentives encouraging BST to favor competing new entrants similarly. SECCA argues that the safeguards suggested by BST are inadequate and suggests additional safeguards which, according to SECCA, might ameliorate a few of the concerns raised by BSE s certification in BST s area.

AT&T is concerned that BSE will leverage the BellSouth logo, symbols, managerial, financial, and technical resources. AT&T echoes SECCA in asserting that no other CLEC can bargain with BellSouth in the same manner as BSE because BST has no incentive to treat CLECs as it treats BSE. AT&T argues that the safeguards and reporting requirements recommended by BSE fall short of ensuring that anti-competitive conduct will not occur if BSE is permitted to provide service in BST s territory and that the opportunities for BST to discriminate against CLECs and in favor of BSE are numerous.

#### COMPETITIVE LOCAL EXCHANGE CARRIERS

GTE-CC reiterates its arguments that it is unnecessary to impose upon it restrictions imposed upon BSE. GTE-CC, it says, is structured differently. Moreover, the restrictions imposed on the Bell Operating Companies in the Act were not imposed upon GTE companies. GTE-CC points out that, in GTE s case, a separate affiliate is lawful and necessary because the Federal Communications Commission ( FCC )

prohibits ILECs from offering interstate long-distance service except through a separate affiliate such as GTE-CC. GTE-CC therefore can offer bundled offerings to compete with other providers of bundled services, such as AT&T, which cannot be offered by its affiliated ILEC. Finally, GTE-CC argues that AT&T and SECCA's allegations of potential anti-competitive collusion through price squeezes are flawed in that they assume a complete breakdown of regulatory institutions that were expressly designed to prevent anti-competitive acts.

BSE contends that the BSE application does not differ in any material way with that of GTE-CC, but insists that adequate safeguards exist to prevent the anti-competitive acts contemplated by AT&T and SECCA. BSE also proposes that it be subject to additional safeguards found in certain parts of Section 272 of the Act, the additional reporting requirements imposed by the Georgia Public Service Commission, and additional tariffing and pricing safeguards that will ensure that BSE will not provide services below the wholesale price charged by BST.

### CONCLUSIONS

The Commission finds that BSE and GTE-CC should not be treated differently. Although there are differences between the organizational structure of the companies, and although GTE-CC is unlike BSE, currently permitted to provide in-region, long-distance service, both are ultimately responsible to their respective holding company and holding company shareholders to enhance share value.

While enhanced danger of anti-competitive activities by affiliated service providers can never be totally eliminated, the Commission is of the opinion that safeguards can be put into place to prevent harm to emerging competitive markets. In

the past, cost allocation, affiliated transaction rules and dominant carrier designations have allowed nascent competitive markets to develop. Recently, rules promulgated by the Act including the FCC mandated separate affiliate requirements, interconnection agreement disclosure and the Commission's determinations of the proper prices for wholesale, unbundled network elements and interconnection offerings have enhanced the previous requirements. Thus, while the concerns that led this Commission to impose restrictions upon BSE's operating authority remain, it should be possible, through stringent enforcement of available safeguards, coupled with careful oversight, to permit both GTE-CC and BSE to provide local exchange service in their respective ILECs territories. Accordingly, the Commission affirms its previous decision that GTE-CC should be allowed to provide local exchange service on a statewide basis. The Commission also amends its decision in Case No. 97-417 to allow BSE to provide local exchange service on a statewide basis.

Both GTE-CC and BSE will be required to file the following:

1. A semi-annual report showing the number of customers migrating from BST and GTE to BSE and GTE-CC, the revenues gained by BSE and GTE-CC from such customer migration, the number of units or services that BSE and GTE-CC purchase from BST and GTE, respectively, and the price per unit. The initial review period will be July 1, 1999 through December 31, 1999. These reports will be due to the Commission 60 calendar days after the close of the six-month period.
2. Justification for any price for service that is below the ILEC affiliate's wholesale price prior to the effective date of the tariff.

3. Annual provision of a schedule showing the expenses directly incurred by, or allocated to, BSE and GTE-CC from any other affiliate by cost category, i.e., advertising expense, administrative expense, etc., and the expenses associated with the services being provided to customers. The initial reporting period will be the calendar year 1999. This and subsequent reports will be due 60 calendar days after year end.

In addition, BSE shall adopt the structural and transactional requirements set forth in Section 272(b) of the Act; adhere to the nondiscrimination safeguard provisions of Section 272(c); and comply with the biennial audit requirements of Section 272(d) and the request requirements of Section 272(e).

Having considered the evidence of record, and having been otherwise sufficiently advised, the Commission HEREBY ORDERS that:

1. BST and BSE must file their interconnection agreement with the Commission for its approval within 30 days.

2. Both GTE-CC and BSE will be required to file the following:

a. A semi-annual report showing the number of customers migrating from BST and GTE to BSE and GTE-CC, the revenues gained by BSE and GTE-CC from such customer migration, the number of units or services that BSE and GTE-CC purchase from BST and GTE, respectively, and the price per unit. The initial review period will be July 1, 1999 through December 31, 1999. These reports will be due to the Commission 60 calendar days after the close of the six-month period.

b. Justification for any price for service that is below the ILEC affiliate's wholesale price prior to the effective date of the tariff.

c. Annual provision of a schedule showing the expenses directly incurred by, or allocated to, BSE and GTE-CC from any other affiliate by cost category, i.e., advertising expense, administrative expense, etc., and the expenses associated with the services being provided the customers. The initial reporting period will be the calendar year 1999. This and subsequent reports will be due 60 calendar days after year-end.

3. In addition, BSE shall adopt the structural and transactional requirements set forth in Section 272(b) of the Act; adhere to the nondiscrimination safeguard provisions of Section 272(c); and comply with the biennial audit requirements of Section 272(d) and the request requirements of Section 272(e).

Done at Frankfort, Kentucky, this 31<sup>st</sup> day of August, 1999.

By the Commission

ATTEST:

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Executive Director