COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

REVIEW OF THE TARIFF OF GTE SOUTH INCORPORATED FILED MAY 30, 2000	)))	CASE NO. 2000-260

O R D E R

INTRODUCTION

In Case No. 97-074,[1] the Commission expressed its intention to require interexchange carriers ("IXCs") to "flow-through" to their end-user customers the benefit the carriers would receive from the reduction of intrastate access charges by incumbent local exchange carriers ("ILECs"). Since that time, there have been five instances of intrastate access charge reductions by BellSouth Telecommunications, Inc. ("BellSouth") and GTE South Incorporated ("GTE South").[2] In each instance the Commission has ordered facilities-based IXCs to flow-through the reductions to their end-user customers.

[1] Case No. 97-074, BellSouth Telecommunications, Inc.'s Application to Restructure Rates.

[2] Case No. 94-121, BellSouth Telecommunications, Inc. d/b/a/ South Central Bell Telephone Company to Modify Its Method of Regulation; Case No. 99-434, Review of BellSouth Telecommunications, Inc.'s Price Regulation Plan; Case No. 2000-069, The Reduction of Intrastate Toll Rates as a Result of the Elimination of the Residual Interconnection Charge of GTE South Incorporated; and Case No. 2000-260, Review of the Tariff of GTE South Incorporated Filed May 30, 2000.

ACCESS CHARGE REDUCTIONS

In addressing access charge reductions, IXCs were required to file new tariffs reflecting price reductions and supporting workpapers showing that the tariff reduction equaled the amount of the expense savings resulting from the access charge reductions. The IXCs have labeled this procedure the Artificial Flow-Through Construct method, but it will be called the direct method herein. The access charge expense reductions for each carrier were provided by the ILEC reducing its access charges. In some cases, IXCs applied revenue reductions resulting from migration of end-users from higher priced toll offerings to lower priced toll offerings to satisfy a portion of the required reductions.

During the course of this proceeding, MCI WorldCom ("WorldCom"), Sprint Communications L.P. ("Sprint"), and AT&T of the South Central States, Inc. ("AT&T") (together, "the Joint Petitioners") requested an informal conference to explore mechanisms other than the direct method by which the Commission could ascertain that IXCs were reducing prices commensurate with the reductions in access charges. The informal conference was held on July 8, 2000. On August 2, 2000, the Joint Petitioners filed comments regarding alternative methodologies for demonstrating compliance with flow-through requirements.

The Joint Petitioners also offered several reasons for their opposition to the direct method. First, the companies argue that if they do not receive credit for lower rates filed before implementation of the access reductions, they would delay rate reductions until access charge reductions take place, thereby delaying the lowering of rates and the introduction of new services. This delay, according to the Joint Petitioners, would harm the consuming public. Also, the Joint Petitioners argue that should an IXC choose to lower toll rates more than the impact of a particular access reduction, they would not receive credit for flowing through the additional amount in subsequent access reductions. Other arguments offered were that because they have no control over the timing of access reductions, they have little time to plan marketing and product roll-out and it is burdensome and unnecessary to require the IXCs to adjust their services and rates quickly to respond to access reductions.

As an alternative to the direct method, the Joint Petitioners offer a methodology called the “Natural Rate Decline or Average Rate-Per-Minute” method. This methodology requires the Commission to determine from company-supplied information, with appropriate backup, if during some selected time frame, the IXCs had lowered their rates such that its average rate-per-minute decreased in an amount commensurate with the access charge reductions. The Joint Petitioners discussed a 12 months prior, a 6 months prior, 6 months post, and a 12 months post period for verification of the average rate-per-minute reduction. They prefer the 12 months prior scenario.

After reviewing the proposals, the Commission agrees with the Joint Petitioners and adopts the 12 months prior as the appropriate review period. The Commission believes that this methodology will be the easiest and least burdensome for the Commission to verify relative to access charge reductions.

The Commission will require that the average revenue per minute methodology be implemented on a prospective basis following the satisfactory conclusion of filing requirements previously ordered in Case Nos. 94-121, 99-434, 2000-069, and 2000-

260. Information regarding the average rate-per-minute and supporting backup will be required of WorldCom, Sprint, AT&T, and Qwest Communications Corporation ("Qwest") for all future access charge reductions. The Commission is of the opinion that rate reductions by these market leaders will cause other, smaller carriers to react to these lower rates in the marketplace. If, as a result of the Commission's review, the average rate-per-minute does not fulfill a particular IXC's access reduction requirement, the Commission may require new tariffs reducing existing end-user rates to compensate for the average rate-per-minute shortfall. In the event that tariffs are required to compensate for any shortfall, the Commission will not specify which services should be reduced, but will leave the selection to the IXC. Adoption of the average rate-per-minute methodology will eliminate the Commission's existing monitoring procedures.

At a date in the near future, the Commission will meet with the Joint Petitioners to work out the details of the information and supporting material to be provided to the Commission to show the average rate-per-minute and average cost-per-minute.

On August 17, 2000, Global Crossing Telecommunications, Inc. ("Global") filed a Motion to Extend Time for Filing Tariff Changes and Compel Responses to Data Request. Global states that it has repeatedly requested GTE South to provide information needed to determine the impact of GTE South's access charge reduction on its operations. Without the information, Global cannot comply with the Commission's June 1, 2000 Order in this proceeding. The request made by Global is reasonable and the Commission herein compels GTE South to provide the information requested by Global no later than November 1, 2000. The Commission will also allow Global until

November 30, 2000 to file the required tariffs. However, those tariffs will be structured so that the reductions are retroactive to August 1, 2000.

BASIC TOLL SUBSCRIBERS

The decisions made in this case do not lessen the Commission's concern that some toll consumers (basic rate toll users) are purchasing services at substantially higher rates due to a lack of information regarding various low-cost toll plans available in the market place. To address this situation, the Commission will require that the IXCs ordered to provide proof of declining average rates-per-minute herein initiate an advertising campaign to inform their basic schedule customers of the availability and terms of these plans. An example of this advertising might be letters to all such customers. The individual IXCs may propose plans tailored to their specific circumstances. In order to coordinate these campaigns, the Commission will establish a date for an informal conference to discuss and finalize the campaign. After one year, the Commission will meet with the IXCs to discuss the success or failure of the advertising program.

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

1. Subsequent to completing the tariff filings in Case Nos. 94-121, 99-434, 2000-069, and 2000-260, only AT&T, WorldCom, Sprint, and Qwest shall be required to file tariffs and supporting information reflecting ILECs' access charge reductions.

2. Subsequent to the next ILEC access charge reduction, AT&T, WorldCom, Sprint, and Qwest shall file information showing that during the previous year, their average rate-per-minute equals the impact on the company of the reduction or shall submit tariffs to reduce existing rates with supporting documentation, if the average

rate-per-minute decrease for the previous year does not satisfy the expense impact as reported by the ILEC.

3. All other IXCs shall be exempt from filing information related to access charge reduction impacts.

4. On November 13, 2000, AT&T, WorldCom, Sprint, and Qwest shall meet with the Commission at 9:00 a.m. in the Commission's offices at 211 Sower Boulevard, Frankfort, Kentucky, to discuss the data required to be filed in support of the average rate-per-minute decreases, and to discuss the advertising program targeted to toll customers currently provided service through basic toll scheduling.

5. GTE South shall provide Global the information needed to file tariffs and supporting material in Case No. 2000-260 no later than November 1, 2000.

6. Global shall file the required tariffs and supporting data to comply with the Commission's Orders in Case No. 2000-260 no later than November 30, 2000.

Done at Frankfort, Kentucky, this 4th day of October, 2000.

By the Commission

ATTEST:

Executive Director