COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION INTO THE INTRASTATE SWITCHED ACCESS RATES OF ALL KENTUCKY INCUMBENT AND COMPETITIVE LOCAL EXCHANGE CARRIERS	))))	ADMINISTRATIVE CASE NO. 2010-00398

AT&T KENTUCKY'S SUBMISSION CONCERNING REVENUE SHIFT ATTRIBUTABLE TO INTERSTATE ACCESS RATE MIRRORING

The Procedural Schedule entered in this case on March 10, 2011, requires incumbent local exchange carriers ("ILECs") to report the amount of access revenue shift they would experience if the Commission requires, as it should, each carrier to reduce its intrastate carrier rates to mirror its interstate rates. BellSouth Telecommunications, Inc. d/b/a AT&T Kentucky ("AT&T Kentucky") is pleased to report that, in its case, there would be no revenue shift because AT&T Kentucky has already reduced its intrastate rates to mirror interstate levels. It is far past time for all other carriers to do the same.

In 1999, the Commission approved AT&T Kentucky's alternative regulation plan requiring AT&T Kentucky to reduce its intrastate switched access rates to mirror its interstate switched access rates and structure.[1] AT&T Kentucky made these changes.[2] When AT&T Kentucky elected alternative regulation under KRS 278.543 on July 12,

[1] *BellSouth Telecomm., Inc.'s Application to Restructure Rates*, Case No. 97-074, Order at 1 (Oct. 24, 1997), *citing Application of BellSouth Telecomm., Inc. d/b/a South Central Bell Tel. Co. to Modify Its Method of Regulation*, Case No. 94-121. *Review of BellSouth Telecomm., Inc.'s Price Regulation Plan*, Order, Case No. 99-434 (Aug. 3, 2000).

[2] *Tariff Filing of BellSouth Telecommunications, Inc. to Mirror Interstate Rates*, Order, Case No. 98-065 (Mar. 31, 1999).

2006, its intrastate switched access rates were capped by law at the rates that were in effect on the day before that notice of election.[3] *See* KRS 278.543(4).

AT&T Kentucky is the only ILEC whose intrastate switched access rates mirror its interstate switched access rates and structure. It is time for the other carriers that assess in-state switched access charges that are well above their interstate access charges to "catch up" and for the Commission to implement substantive and meaningful access reform for all Kentuckians.

There is no material technical difference in functionality between originating and/or terminating an interstate call versus originating and/or terminating an intrastate call, yet there is a large difference in rates between the intrastate and interstate switched access rates. High access rates are keeping Kentucky in-state long distance prices too high, thereby harming both consumers and competition in Kentucky. They create disincentives for carriers to invest in new technologies that Kentucky consumers want. They insulate service providers from market incentives to become more efficient, to reduce their prices, and to innovate. Most troubling of all, the very purpose of these high intrastate access charges is to *overcharge consumers across all of Kentucky* for wireline long distance service just to subsidize artificially low local service prices for the small minority of customers in other carriers' territories.

These market distortions and cross subsidy schemes are inconsistent with a fully competitive market and are a bad deal for consumers in every corner of the Commonwealth. They can lead to arbitrage situations and incent carriers to "game the system" in an effort to evade high intrastate access charges by failing to provide the

[3] AT&T Kentucky's intrastate switched access rates may, in some instances, actually be less than its interstate switched access rates.

necessary information required to apply the proper charges to the traffic (known as "phantom traffic") or to receive payment of the high intrastate access charges by generating increased traffic volumes (*i.e.*, "traffic pumping" schemes). Until access reform occurs, these abuses will continue. It is time to put an end to the status quo.

As long recognized by this Commission, the Federal Communications Commission, and regulators across the country, the current monopoly-era regime is unsustainable in today's competitive market where consumers now request broadband and other advanced services that are not compatible with the large implicit subsidies embedded in Kentucky ILECs' intrastate access rates. AT&T Kentucky urges the Commission to require all ILECs in Kentucky to reduce their intrastate access rates to mirror the rates and structure they already have in place for interstate calls (just as AT&T Kentucky has done), and give them the opportunity to recover the reduction in access revenues by rebalancing local rates up to a reasonable statewide benchmark, and (where necessary) by obtaining explicit support from a state universal service fund.

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