STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a Session of the Public Service Commission held at its office in Jefferson City on the 22nd day of September, 1995.

In the matter of Southwestern Bell Telephone Company's tariffs to revise PSC Mo. No. 26, long distance message telecommunications service tariff to introduce two additional block-of-time options to the 1+ saver[SM] optional calling plan.	CASE NO. TT-96-45

ORDER APPROVING TARIFFS, AND DENYING APPLICATION TO INTERVENE AND MOTION TO SUSPEND

On July 24, 1995, Southwestern Bell Telephone Company (Southwestern Bell) submitted to this Commission a revision to its Long Distance Message Telecommunications Service Tariff, P.S.C. Mo. No. 26, introducing two additional block-of-time options to the 1+ Saver[SM] Optional Calling Plan. The first of the 1+ Saver options is a 5-hour block-of-time for a proposed rate of $36.00 per month, with additional usage for this option available at a proposed rate of $7.20 per hour, prorated for fractional hours. The second new option is a 10-hour block-of-time for a proposed rate of $60.00 per month, with additional usage for this option available at a proposed rate of $6.00 per hour, prorated for fractional hours. Southwestern Bell states that while these options are viewed primarily as business plans, they will also be available to residence customers for the same prices. On August 3, 1995, Southwestern Bell submitted two substitute tariff sheets, Sheets 46 and 47, to correct several typographical errors in the originally filed sheets. The proposed tariffs bear an effective date of August 23, 1995. That effective date was subsequently extended by Southwestern Bell on three occasions, to the current effective date of September 25, 1995.

On August 14, 1995, MCI Telecommunications Corporation (MCI) filed an application to intervene, and a motion to suspend. In its application to intervene, MCI states that it opposes Southwestern Bell's proposed tariff, and seeks to intervene in the proceedings because the Commission's decision regarding the proposed tariff may affect MCI's interests as a purchaser of access services, and as a provider of intrastate long distance services, both of which interests are different from those of the general public. In its motion to suspend, MCI outlines its specific concerns pertaining to Southwestern Bell's proposed tariff. MCI summarizes its position on the proposed tariff by presenting the following factual and legal questions:

> (1) Whether the proposed rates meet an appropriate imputation test?
>
> (2) What the applicable cost standard is for the 1+ Saver^{sm} services, and whether the proposed rates are consistent with that standard and with the requirements of Section 392.400?
>
> (3) Whether the proposed rates are consistent with the promotion of full and fair competition?

MCI maintains that absent an imputation study, there is substantial doubt about whether the proposed rates on their face are consistent with the Commission's imputation requirement and with the statutory goal of promoting full and fair competition. MCI explains that as a primary toll carrier, Southwestern Bell is required by Commission order to pay the same access rates as it charges to interexchange carriers (IXCs) like MCI. The purpose of an imputation analysis is to determine whether the proposed rates are consistent with this requirement, given the prevailing level of access rates charged by Southwestern Bell and other local exchange companies (LECs). Based on Southwestern Bell's offering, the proposed rates offer toll service at 12 cents per minute under the 5-

hour plan and 10 cents per minute under the 10-hour plan, assuming full utilization of the hourly blocks. The per minute rate is the same for an unlimited number of additional hours. MCI believes these rates are only marginally above Southwestern Bell's corresponding access charges. In addition, MCI notes that Southwestern Bell originates and terminates some of its intraLATA toll traffic in independent LEC exchanges, thus requiring appropriate weighting to be given to the independent LEC access charges, which are generally higher than Southwestern Bell's access charges. If the proposed 1+ Saver^{sm} rates fail to pass an appropriate imputation test, the rates will impose a discriminatory and anti-competitive price squeeze on IXCs.

Additionally, MCI raises the question of how these new block-of-time optional calling plans should be treated for cost support purposes under prevailing Commission orders which implement requirements under Section 392.400; i.e., whether the new block-of-time plans should be considered "new services" for purposes of the Commission's costing requirements, thus requiring incremental and discounted cash flow studies, or whether the new block-of-time plans should be considered rate changes to an existing service, thus requiring support by a Cost Accounting Procedure (CAP) cost study.

MCI also contends that the intent of the particular rates and rate structure in question -- rates set at a substantial discount from normal toll rates, but only available to relatively high volume users -- is to lock-in high volume customers in advance of future expansion of intraLATA toll competition in the form of intraLATA equal access. MCI alleges that the result would be to allow Southwestern Bell to charge IXCs access charges that are substantially above the economic cost of providing that service, effectively preventing IXCs from offering a competitively priced alternative to Southwestern Bell's proposed 1+ Saver^{sm} plans, in the absence of a competitive switched access services market. Finally, MCI urges the Commission to assess the potential impact of the proposed tariffs on the long-term development of a fully competitive toll market in Missouri. MCI requests that the Commission suspend Southwestern Bell's proposed tariff revisions for a period of 120 days and schedule an early prehearing conference.

On September 15, 1995, the Staff of the Commission (Staff) filed a memorandum containing its recommendation with respect to Southwestern Bell's tariff submission. Staff explains that the 1+ Saver Optional Calling Plan (1+ Saver) is a transitionally competitive Message Telecommunications Service (MTS) service offering, which allows residential or business subscribers to receive discounted intraLATA long distance usage rates by choosing from several discount options or a block-of-time calling option. The discount options allow subscribers to receive a percentage discount on intraLATA calling for a flat monthly rate, while the block-of-time option allows subscribers to purchase an hour of intraLATA calling for a flat monthly rate. The current 1+ Saver plan was approved by the Commission in July of 1994.

Staff also notes that Southwestern Bell submitted a cost study in support of the proposal, which indicates that revenues from the proposed rates will exceed the incremental costs of providing the options for the study period of 1995 to 1997. At the request of the Staff of the Commission's Telecommunications Department, Southwestern Bell also submitted an imputation analysis and a CAP analysis to support the proposal. Staff goes on to explain that primary toll carriers are presently required to satisfy an imputation test pursuant to the Commission's decisions in Case Nos. TO-84-222, et al. The purpose of an imputation test is to detect whether toll-like services are being priced in an anti-competitive manner. Staff indicates that Southwestern Bell's imputation analysis for the proposed 1+ Saver five-hour and ten-hour service options aggregates revenue and access expense data for both service options, and that this method of determining Southwestern Bell's imputation requirement is consistent with other filings, including the original 1+ Saver tariff filing. Staff also indicates that the analysis performed by Southwestern Bell shows revenues from the 5 and 10-hour service options will exceed imputed and paid access charges, plus the incremental costs identified by Southwestern Bell in its cost study.

In addition, Staff notes that each of Southwestern Bell's transitionally competitive services must, on an individual service basis, recover its CAP cost and provide a contribution to joint costs, as directed by the Commission in Case No. TR-94-364. CAP costs are the direct embedded, or historical cost, of providing a service. Staff states that the CAP analysis provided by Southwestern Bell adjusts the 1992 CAP study, which was submitted in Case No. TR-94-364, for price and cost changes which have subsequently occurred, and which are expected to occur if the 1+ Saver options are established. Staff also states that, based on Southwestern Bell's calculations, total MTS revenues may decrease slightly and CAP costs for MTS service may increase slightly if the proposed 1+ Saver options are approved, but the total effect of these changes is estimated at less than one percent of Southwestern Bell's MTS revenue. Further, Staff states that the CAP analysis shows that total MTS revenues at the minimum approved rates, less the estimated decrease in total MTS revenue, will still recover estimated CAP costs for MTS service, and provide a contribution to joint costs, if Southwestern Bell's tariff submission is approved. Staff cautions that the CAP analysis provided by Southwestern Bell merely estimates the effect of the 1+ Saver options upon the historical costs of MTS service, but adds that the analysis appears reasonable given that the effect of the 1+ Saver options upon Southwestern Bell's MTS service cannot be measured in historical terms unless the options are approved, and a subsequent CAP study performed.

Upon completion of its review of Southwestern Bell's tariff submission, Staff concludes that approval of the tariff submission does not appear to be detrimental to the public interest. Staff maintains that the proposed rates for the service options appear to meet an imputation test as required by the Commission, and that revenues for the service options appear to exceed the imputed access plus the incremental cost of providing the service options. Staff adds that in the event the Commission determines that a more stringent cost standard such as CAP should be applied, it appears that total revenues for MTS service will still recover MTS CAP costs and provide a contribution to joint costs if the 1+ Saver options are implemented. Staff therefore recommends approval of the filing, as amended. In addition, Staff adds that it is unaware of any other filings which would affect or which would be affected by this proposal.

On September 19, 1995, Southwestern Bell filed suggestions in opposition to MCI's motion to suspend. Southwestern Bell claims that the issues addressed in MCI's motion are common to all Southwestern Bell tariffs, and are issues which Staff can and has already properly addressed. Southwestern Bell also contends that the issue of the proper cost standard existed, if at all, when the 1+ Plus Saver tariff was originally approved without opposition in 1994, and that the simple addition of options to an existing service does not raise the issue of what cost standard should apply to that already approved and existing service. Southwestern Bell notes that Staff has reviewed the cost data it provided to Staff, and determined that the proposed rates will cover cost and provide significant contribution, as well as satisfying the required imputation test. Southwestern Bell also notes that both MCI and AT&T already have block-of-time plans in place in Missouri, thus there is nothing new or different about Southwestern Bell's proposal to offer customers alternatives to the MCI and AT&T plans. On September 21, 1995, MCI filed a reply to Southwestern Bell's suggestions in opposing suspension, and on the same date Southwestern Bell filed supplemental suggestions regarding MCI's motion to suspend.

The Commission has reviewed Southwestern Bell's tariff submission, MCI's application to intervene and its motion to suspend, and Staff's recommendation, and finds that Southwestern Bell's tariff submission should be approved, and MCI's application to intervene and motion to suspend should be denied. The Commission finds that Southwestern Bell's tariff submission seeks to establish additional block-of-time rates for a variation of a transitionally competitive service offering which has previously been approved by the Commission. MCI's query of what the applicable cost standard is for the 1+ Saver services in question is not a complex one, and is easily answered. The Commission determines that Southwestern Bell's 5 and 10-hour block-of-time plans are not new services requiring incremental and discounted cash flow studies. Instead the Commission finds that the new block-of-time plans should be considered in the nature of a rate change to an existing service. The only difference between Southwestern Bell's new block-of-time plans and its existing block-of-time plan is a decrease in the cost of the service in proportion to an increase in the amount of time a customer is required to commit to. This relationship of price to volume is not novel or unique.

Southwestern Bell has provided a cost study, an imputation analysis, and a CAP analysis. The Commission is of the opinion that the concerns raised by MCI have been adequately addressed by Staff's review of the aforementioned study and analyses. The imputation analysis submitted by Southwestern Bell considered both imputed and paid access charges, plus the incremental cost identified by Southwestern Bell in its cost study, while Southwestern Bell's CAP analysis suggested only a slight decrease in MTS revenues and slight increase in MTS CAP costs. Southwestern Bell's MTS revenues, even with the expected MTS revenue decrease, are still expected to recover CAP costs plus a contribution to joint costs. The Commission acknowledges that the CAP analysis merely estimates the effect of the 1+ Saver options upon the historical costs of MTS service, but agrees with Staff and finds that the CAP analysis appears reasonable given the conundrum that the effect cannot be measured in historical terms unless the options are approved, and a subsequent CAP study performed.

The Commission finds that it would not be in the public interest to grant intervention to MCI or to suspend Southwestern Bell's tariff submission and delay the offering of the new block-of-time plans to members of the public. Therefore, the Commission finds that intervention by MCI and suspension of Southwestern Bell's proposed tariffs are not warranted, and that Staff's recommendation is appropriate, and the tariff submission is just and reasonable.

IT IS THEREFORE ORDERED:

1. That the application to intervene filed by MCI Telecommunications Corporation on August 14, 1995, be and is hereby denied.

2. That the motion to suspend filed by MCI Telecommunications Corporation on August 14, 1995, be and is hereby denied.

3. That the tariff sheets submitted by Southwestern Bell Telephone Company on July 24, 1995, as amended on August 3, 1995, be and are hereby approved to become effective on September 25, 1995:

P.S.C. MO. No. 26 Long Distance Message Telecommunications Service Tariff

2nd Revised Sheet 46 Replacing 1st Revised Sheet 46
2nd Revised Sheet 47 Replacing 1st Revised Sheet 47
4th Revised Sheet 48 Replacing 3rd Revised Sheet 48
4th Revised Sheet 49 Replacing 3rd Revised Sheet 49.

4. That this Order shall become effective on September 25, 1995.

BY THE COMMISSION

David L Rauch

David L. Rauch
Executive Secretary

(S E A L)

Mueller, Chm., McClure, and Kincheloe, CC., Concur.
Crumpton, and Drainer, CC., Absent.