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STATE OF MISSOURI  
PUBLIC SERVICE COMMISSION

At a Session of the Public Service  
Commission held at its office  
in Jefferson City on the 5th  
day of August, 1999.

In the Matter of KLM Telephone Company's	)	
Tariff Filing Designed to Eliminate Rates	)	Case No. TT-2000-53
for Multiparty Service and for Mileage	)	Tariff No. 9900661
Charges for Single-Party Service	)	

ORDER DENYING SUSPENSION OF TARIFF AND CLOSING CASE

Procedural History

On December 9, 1997, the Missouri Public Service Commission (Commission) issued its *Order Approving Network Modernization Plan* in case numbers TO-93-309 and TO-97-555, entitled *In the Matter of KLM Telephone Company's Modernization Plan Pursuant to 4 CSR 240-32.100* (Order). Paragraph five of the Order provided that KLM Telephone Company (KLM) was

. . . directed to file tariff revisions with the Missouri Public Service Commission which eliminate rates for multiparty service and for mileage charges for single-party service, within ten days of completing the conversion of all its customers from multiparty to single-party service.

On February 28, 1999, KLM completed the conversion. On March 10, 1999, KLM timely filed its revised tariff sheets which were assigned file number 9900661. The tariff filing provided, *inter alia*, for the elimination of rates for multiparty service and for mileage charges for single-party service, as directed by the Commission. As stated in the

cover letter from KLM that accompanied the filing, the purpose of the tariff filing was to: (1) eliminate separate charges for mileage and touchtone service<sup>1</sup>; (2) eliminate references to multiparty service; and (3) eliminate the disparity in local rates among the four exchanges served by KLM, thereby creating one company-wide rate for local service (i.e., \$7.25 per month for residential one-party service and \$12.75 per month for business one-party service). The cover letter also noted that the proposal would result in a rate increase for some subscribers and a rate decrease for others. According to the cover letter, the net revenue effect on KLM was zero. KLM attached worksheets to demonstrate the "revenue neutral" nature of the filing.

KLM's tariff sheets were to be effective after forty-five days on May 1, 1999. On April 29, 1999, KLM filed a letter stating that, at the request of the Staff of the Missouri Public Service Commission (Staff), KLM was extending the effective date of its tariff to July 1, 1999. On June 30, 1999, KLM filed a second letter stating that, at the request of Staff, KLM was extending the effective date of its tariff to July 15, 1999. On July 14, 1999, KLM filed a third letter stating that, at the request of Staff, KLM was extending the effective date of its tariff to July 31, 1999.

Nearly four and a half months after KLM filed its revised tariff sheets, the Staff filed its *Motion to Suspend and Investigate Tariff*

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<sup>1</sup> It would be clearer to state that the revised tariffs eliminated mileage charges and consolidated charges for touchtone services into the rates for basic local service.

(Motion) on July 23, 1999, in which it requested the Commission to suspend and investigate the tariff revision filed by KLM.

#### Arguments of Staff

In its Motion, Staff stated that KLM's tariff filing went beyond the mandate of the Commission's Order, which directed KLM only to file a tariff that reflected compliance with the Commission's Order. Staff also stated that approval of the tariff filing would result in rate increases for some customers outside of a general rate case or other proceeding, and would therefore require close scrutiny. Staff said that approval of the tariff sheet and the proposed rate increases would constitute a violation of the prohibition against single-issue ratemaking. Staff also stated that although revenue neutrality, subject to refund, was recently authorized by the Commission in TO-99-254, *In the Matter of an Investigation Concerning the Primary Toll Carrier Plan and IntraLATA Dialing Parity*, the circumstances of that case were special and certain conditions were imposed upon any party which sought to take advantage of the revenue neutrality provision of the Order in that case. Staff recognized that one of KLM's arguments would be that the tariff filing was revenue neutral and, apparently, would thus not be considered single-issue ratemaking. Staff stated that revenue neutrality is not generally available, was not ordered in TO-99-309 and TO-97-555, and it would be improper for the Commission to award it in this case.

#### Arguments of KLM

On July 28, 1999, KLM filed *KLM Telephone Company's Response to Staff's Motion to Suspend and Investigate Tariff*. KLM stated that Staff

did not contest KLM's tariff revisions to eliminate the references to multiparty service or the separate charges for mileage and touchtone. However, KLM stated, Staff objected to the equalization of local rates among the four exchanges served by KLM. KLM stated that Staff also objected to the equalization of local rates among the four exchanges served by KLM, even though Staff conceded that the tariff filing would also result in rate decreases for other customers.

KLM stated that Staff appeared to recognize that the rate rebalancing would not affect KLM's net revenues. KLM stated that because its proposed equalization of basic local service rates would have no net revenue effect on KLM, its tariff filing would not result in an overall rate increase and there was no need for a general rate case or other proceeding.

KLM stated that its tariffs proposed a permissible rate rebalancing for the following reasons: (1) KLM's tariff revisions would lawfully eliminate the disparity in local rates among the four exchanges served by KLM. KLM stated that the tariff reflects one set of rates for all of KLM's exchanges in the amount of \$7.25 per month for residential one-party service and \$12.75 per month for business one-party service; (2) KLM's tariff revisions set equalized rates which are just, reasonable and affordable for all of its exchanges. KLM pointed out that in the Missouri Universal Service Fund Case (i.e., TO-98-329), Staff's proposed rate for local telecommunications service was \$10.37 per month, which is over \$3.00 more per month than KLM's proposed residential rate of \$7.25 per month; (3) The Commission has already recognized that customer

conversion from multiparty to single-party service would cause reclassification of customers once KLM was able to offer single-party service. KLM stated that in TO-97-555, the Order recognized that "[t]hose customers currently receiving single-party service at the multiparty rate will be reclassified when KLM is able to offer single-party service to all its customers. . . ." KLM stated that, to date, it had received no customer complaints or opposition to the proposed rate rebalancing; and (4) KLM stated that its rate rebalancing also addressed a modernization issue. KLM stated that some customers would not convert from a multiparty line to a single-party line due to the prohibitive cost. KLM pointed out that the Order stated that ". . . some of these customers have refused to pay for single-party service because they are located several miles outside the base rate area . . ." since the mileage charges for single-party service made such service too expensive. KLM stated that the Commission appears to have contemplated that KLM's customers would experience changes in their rates.

KLM stated that on the issue of single-issue ratemaking, Staff had confused rate rebalancing with an overall rate increase and turned ". . . the concept of single-issue ratemaking on its head." KLM stated that Staff appeared to suggest that the Order was for KLM to eliminate the mileage charge without any type of rate rebalancing. KLM argued that this would constitute an unlawful and unconstitutional taking. KLM stated that the Commission did not conduct an overall examination of KLM's rates in a rate case, did not find that KLM's rates were unlawful, or that

KLM's other costs had decreased and had thus offset the elimination of the rates. KLM also stated that there are procedures available to Staff to initiate an investigation of KLM's earnings at any time.

#### Discussion

As a result of the elimination of multi-line and mileage charges, and the inclusion of touchtone charges into the rates for basic local service, the rates will increase for some customers and decrease for other customers. Essentially, KLM has combined certain rate elements, and the overall effect is designed to be revenue neutral to KLM. In its Motion, Staff did not dispute KLM's calculations, and the Commission has no reason to doubt that the effect of the rate combination will be revenue neutral.

#### Decision

The Commission has reviewed and considered all of the arguments presented by both parties. Some positions of the parties on some issues have not been addressed by the Commission in this order. For example, KLM stated that a mandate of the Commission for KLM to eliminate the mileage charge without any type of rate rebalancing would constitute an unlawful and unconstitutional taking. Since the Commission is not granting Staff's motion to suspend, this issue is moot.

KLM's tariff filing combining certain rate elements, eliminating others, and establishing a new basic local rate does not constitute single-issue ratemaking. The Commission agrees with KLM's statement that "[i]f Staff is concerned about KLM's earnings, then there are procedures available for Staff to initiate an investigation of the Company's

earnings at any time." The Commission will therefore deny Staff's motion to suspend.

**IT IS THEREFORE ORDERED:**

1. That the *Motion to Suspend and Investigate Tariff* filed on July 23, 1999, by the Staff of the Missouri Public Service Commission is denied.

2. That this order shall become effective on August 17, 1999.

3. That this case may be closed on August 18, 1999.

**BY THE COMMISSION**



**Dale Hardy Roberts**  
**Secretary/Chief Regulatory Law Judge**

( S E A L )

Lumpe, Ch., Murray, Schemenauer,  
and Drainer, CC., concur  
Crumpton, C., not participating

Hopkins, Senior Regulatory Law Judge

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COMMISSION COUNSEL  
PUBLIC SERVICE COMMISSION