

BEFORE THE PUBLIC SERVICE COMMISSION

OF THE STATE OF MISSOURI

In the matter of the administration of community optional)
service (COS) program and the consideration of the intercompany) Case No. TO-90-232
compensation plan, expedited treatment of COS-related rate)
increases, and attendant issues.)

APPEARANCES: H. Edward Skinner, Ivester, Skinner & Camp, 111 Center Street,
Suite 1200, Little Rock, Arkansas 72201, for: ALLTEL Missouri, Inc.,
Citizens Telephone Company, Eastern Missouri Telephone Company,
Ellington Telephone Company, Goodman Telephone Company, Granby Tele-
phone Company, Grand River Mutual Telephone Corporation, Holway
Telephone Company, IAMO Telephone Company, Inc., Kingdom Telephone
Company, Lathrop Telephone Company, Le-Ru Telephone Company, McDonald
County Telephone Company, Miller Telephone Company, Missouri Telephone
Company, New London Telephone Company, Orchard Farm Telephone Company;
Oregon Farmers Mutual Telephone Company, Rock Port Telephone Company,
Seneca Telephone Company, and Stoutland Telephone Company (herein-
after, "ALLTEL and MTG").

Craig S. Johnson, Stockard, Andereck, Hauck, Sharp & Evans, Post
Office Box 1280, Jefferson City, Missouri 65102, for: Alma Telephone
Company, Chariton Valley Telephone Corporation, Choctaw Telephone
Company, Craw-Kan Telephone Cooperative, Inc., Farber Telephone
Company, Green Hills Telephone Corporation, KLM Telephone Company,
Mark Twain Rural Telephone Company, Mid-Missouri Telephone Company,
MoKan Dial, Inc., New Florence Telephone Company, Northeast Missouri
Rural Telephone Company, Peace Valley Telephone Company, Steelville
Telephone Exchange, Inc., and Wheeling Telephone Company (hereinafter,
"Small Company Group (SCG)").

W.R. England, III, Hawkins, Brydon, Swearngen & England, P.C., Post
Office Box 456, Jefferson City, Missouri 65102-0456, for: Contel of
Eastern Missouri, Contel of Missouri, Inc., Contel System of Missouri,
Inc. and Fidelity Telephone Company (hereinafter, "Contel, et al.").

Thomas A. Grimaldi, Senior Attorney, United Telephone Company of
Missouri, 5454 West 110th Street, Overland Park, Kansas 66212, for
United Telephone Company of Missouri (hereinafter, "United").

Katherine C. Swaller, Attorney, Southwestern Bell Telephone Company,
100 North Tucker Boulevard, Suite 630, St. Louis, Missouri 63101-1976,
for Southwestern Bell Telephone Company (hereinafter, "SWB").

William H. Keating, Associate General Counsel, GTE North Incorporated,
Post Office Box 407, Westfield, Indiana 46074,
and

W.R. England, III, Hawkins, Brydon, Swearngen & England, P.C., Post
Office Box 456, Jefferson City, Missouri 65102-0456, for GTE North
Incorporated, (hereinafter, "GTEN").

Jeremiah D. Finnegan, Attorney at Law, 4049 Pennsylvania, Suite 300, Kansas City, Missouri 64111 for: City of Excelsior Springs, Missouri; City of Independence, Missouri; City of Oak Grove, Missouri; City of Ozark, Missouri; City of Platte City, Missouri; and County of Jackson, Missouri (hereinafter, "Intervening Cities").

Edward J. Cadieux, Senior Attorney, and Joni K. Ott, Regulatory Attorney, MCI Telecommunications Corporation, 100 South Fourth Street, Suite 1200, St. Louis, Missouri 63102, for MCI Telecommunications Corporation (hereinafter, "MCI").

Paul S. DeFord, Lathrop, Norquist & Miller, 2345 Grand Avenue, Kansas City, Missouri 64108, for AT&T Communications of the Southwest, Inc. (hereinafter, "AT&T").

Donald C. Otto, Jr., Hendren and Andrae, Post Office Box 1069, Jefferson City, Missouri 65102, for Competitive Telecommunications Association of Missouri (hereinafter, "CompTel") and CyberTel Cellular Telephone Company (hereinafter, "CyberTel").

Janet L. Sievert, Assistant Public Counsel, Office of Public Counsel, Post Office Box 7800, Jefferson City, Missouri 65102, for the Office of Public Counsel and the public.

Robert J. Hack, Assistant General Counsel, Missouri Public Service Commission, Post Office Box 360, Jefferson City, Missouri 65102, for the staff of the Missouri Public Service Commission.

HEARING
EXAMINER:

Cecil I. Wright.

REPORT AND ORDER

The Commission in a Report And Order issued April 18, 1990 adopted an intercompany compensation plan as part of the implementation of community optional service (COS) between certain exchanges in Missouri. Both one-way and two-way COS had been approved in Case No. TO-87-131. The adoption of an intercompany compensation plan was a necessary aspect of COS implementation. Also, in its April 18, 1990 Report And Order the Commission authorized the use of remote call forwarding (RCF) to provision two-way COS on routes where COS had already been ordered implemented, and local exchange companies (LECs) were ordered to study the billing system adjustment (BSA) method of provisioning COS and file the results of their studies by September 4, 1990.

In an order issued May 1, 1990 regarding the provisioning of COS from Missouri Telephone Company's Morrisville exchange to Southwestern Bell Telephone Company's Springfield exchange, the Commission set a hearing for the purpose of addressing the reports of the LECs concerning whether COS should be provisioned by RCF or by BSA. On August 17, 1990 a Nonunanimous Stipulation And Agreement was filed which supported the use of BSA rather than RCF for the provisioning of two-way COS. The Stipulation And Agreement was filed in lieu of the report due from the LECs on September 4, 1990. Public Counsel filed a response in support of the Stipulation And Agreement.

The Intervening Cities filed an untimely response opposing the Stipulation And Agreement and requesting a hearing. By order issued September 4, 1990, the Commission denied Intervening Cities' motion but retained the hearing set for September 25 to address seven questions raised by the Commission and set out in the order.

Various pleadings were filed concerning the Commission's September 4 order. The Commission on September 11, 1990 issued an order delaying until January 1, 1991 the implementation of COS on any route until a decision had been issued concerning the provisioning of two-way COS. Responses to the Commission's seven questions were filed by some parties and the hearing set for September 25, 1990 was held as scheduled.

Findings of Fact

The Missouri Public Service Commission, having considered all of the competent and substantial evidence upon the whole record, makes the following findings of fact.

The issue before the Commission is what method of provisioning two-way COS is the most efficient and economical. COS was established by the Commission in Case No. TO-87-131 to provide extraexchange calling service in exchanges which demonstrated a community of interest. COS was established as an optional service and could be subscribed to as either a one-way or two-way service. One-way COS allows a

customer in a petitioning exchange to call to a requested exchange for a flat rate. Two-way COS allows a customer in a petitioning exchange to call and to receive calls from a requested exchange at a flat rate. The provisioning of one-way COS has presented few problems. The provisioning of two-way COS has generated the current controversy.

To ensure early implementation of two-way COS for routes which had passed the calling study criteria, the Commission authorized the use of the existing technology of remote call forwarding (RCF). With the use of RCF a two-way COS customer is provided a seven digit number in the requested exchange. All calls to that number go to the customer in the petitioning exchange and the customer is billed the flat two-way COS rate. This customer then has two telephone numbers: his local seven digit number in his petitioning exchange and a seven digit number in the requested exchange.

An alternative to RCF is the BSA. A two-way COS customer, under the BSA provisioning, would have only one seven digit number, the one in the petitioning exchange. All calls from the petitioning exchange would be made using standard toll call procedures of 1+ and calls from the requested exchange to the customer in the petitioning exchange would be 1+. The BSA would screen all of the customer's toll calls and remove those made between the petitioning and requested exchange so the customer would not be billed the toll rate for those individual calls. The customer would only pay the flat two-way COS rate.

After studying the two methods of provisioning two-way COS, the LECs and Staff agreed that the BSA was the more economical and technically feasible means of provisioning COS. These parties filed the Nonunanimous Stipulation And Agreement recommending that method for Commission approval. Public Counsel supports the BSA. That Stipulation And Agreement is now before the Commission without timely objection. *State ex rel. Fischer v. PSC*, 645 S.W.2d 39 (Mo. App. 1982); 4 CSR 240-2.115(3).

The Stipulation And Agreement provides that:

The Missouri Public Service Commission, by its Report and Order dated April 18, 1990 in Case No. TO-90-232 directed that Local Exchange Companies (LEC) to file, on or before September 4, 1990, their findings concerning the economic and technical feasibility of providing two-way Community Optional Service (COS) via a billing system alternative (BSA) in place of the existing remote call forwarding (RCF) method.

Having studied the issues, the Local Exchange Companies and the Staff of the Commission (Staff) are in unanimous agreement that a BSA method should be deployed to replace the RCF method of provisioning two-way COS.

The provision of two-way COS via RCF has proven to be troublesome for both customers and local exchange companies. Customer confusion and dissatisfaction have resulted from the required use of a second telephone number under the RCF arrangement. The larger than expected demand for two-way service has rendered the RCF arrangement more costly than anticipated, requiring significant equipment additions and in some cases the deployment of additional NXX codes. The RCF arrangement has caused some industry members concern over directory issues, unintended lost toll and access revenues, billing problems with third number and credit card calls and lost yellow page advertising revenue.

The industry has determined that a BSA method of providing two-way COS is technically feasible and economically practical and is a reasonable solution to most of the problems inherent with the RCF method. Under the BSA method the subscriber to two-way COS is not assigned a second telephone number. Instead, callers in the target exchange simply dial one-plus the called party's normal telephone number. The LEC billing systems will screen the calls from the target exchange to the petitioning exchange and exempt calls to two-way COS subscribers from toll billing. Some companies are currently using the BSA for intra-company COS routes.

The Local Exchange Companies stand ready to proceed with the requisite programming necessary to deploy the BSA upon receipt of a Commission order directing the companies to replace the RCF method of provisioning two-way COS with a BSA method. The concurring parties propose that all future implementation of new two-way COS routes be on a BSA method as soon as practical. The parties further propose that a schedule be developed jointly by the LECs, Staff and the Office of the Public Counsel (OPC) for the conversion of all existing COS routes from RCF to BSA as soon as practical.

After a review of the responses to the questions promulgated, the Commission finds that the BSA is the most economical and technically feasible method for provisioning two-way COS. The high volume of response to the COS service has made the cost of RCF prohibitive and RCF has also led to customer confusion. In addition,

the use of RCF for the provisioning of two-way COS by individual NXXs would prematurely exhaust the supply of NXXs and thus have an unacceptable effect on the state's telephone system and perhaps the nation's system.

When the Commission established COS, the projection of customer demand was 10 to 20 percent by Public Counsel's witness. The flood of petitions to implement COS routes and the demand for the service, where implemented, has far exceeded this projection. Demand for two-way COS on routes such as the Morrisville to Springfield route has been as high as 44 percent of total customers in the petitioning exchange.

This high demand in and of itself has made RCF uneconomic. Missouri Telephone Company (MoTel) estimated it would cost \$2,600 to implement BSA for potential COS routes from the Collins exchange to the Stockton exchange and from the Wheatland exchange to the Bolivar exchange. MoTel estimates that, for the Wheatland exchange alone, RCF would cost \$17,700. Two-way COS could not be implemented in the Stockton exchange because it has an electromechanical switch. For MoTel, RCF equipment will serve only four lines on its switch. The cost for these four customers was estimated to be \$1,100. Every additional four customers would add an additional \$1,100 in equipment costs, while BSA is basically a one-time cost. Although the difference in costs may vary from company to company, all LECs testified that RCF was significantly more expensive to provision than was BSA. The LECs also indicated RCF could not be provided in exchanges where service was provided by an electromechanical switch.

BSA, because it uses the existing 1+ dialing system, will not require new switches to be installed. The switches are designed to conform to the North American Numbering Plan utilized nationwide. The switch, when 0+ or 1+ is dialed, anticipates either a seven or ten digit number to follow. If another number (2 through 9) is dialed, the switch anticipates only six additional numbers will be dialed. Any use of the 2 through 9 for COS would require expensive changes in facilities and would require a pause in dialing which would create many misdialed calls and additional customer confusion. There are a few calling patterns in United's area where a 2+ or

some other prefix is used to allow extraexchange calling. These calling arrangements, though, are mandatory and there is direct trunking where 2+ is used. Since two-way COS is optional, any access code arrangement other than 1+ would be more expensive to install, when it could be utilized at all.

Use of the BSA also eliminates the leakage which occurs through use of RCF and eliminates problems with proper crediting of toll call termination. Calls from outside the requested exchange to an RCF number in a requested exchange are billed as if they terminate in the requested exchange when in fact they terminate in the petitioning exchange. The evidence is that there is no equipment for tracking these toll calls to credit the proper exchange for the call. Because of the high demand for two-way COS this leakage could be substantial. SWB, by establishing a separate NXX (three digit prefix) for RCF in the St. Louis, Kansas City and Springfield areas, was able to eliminate the leakage which occurs through COS customer to COS customer calls. The blocking of these calls, though, was only accomplished in these three areas and calls from outside the area could not be blocked.

Although not statewide, there was evidence that customer confusion existed with the use of RCF. Customers with two telephone numbers had trouble remembering their numbers and explaining to people when to call which number. Evidence indicated that many customers favored 1+ dialing over the two numbers required by RCF.

The exception to the preference for 1+ dialing centered in exchanges which about the Kansas City metropolitan calling area. Petitions were filed by customers from some of these exchanges indicating a preference for RCF. Resolutions were filed by the cities of Cleveland, Pleasant Hill and Peculiar in favor of retaining RCF.

Although represented by counsel, these customers did not file responses to the Commission's questions and did not file a timely objection to the Stipulation And Agreement. Their counsel did cross-examine the witnesses of those parties which did file responses. Counsel for these customers also summarized the position of those customers in response to questions from the bench.

It appears that some of the customers in the exchanges around the Kansas City calling area do not necessarily want RCF but find it a better option than 1+ calling. What these customers really want is to be part of the Kansas City metropolitan calling area. They want a seven digit number which will allow them the same calling scope as provided to customers within the Kansas City metropolitan calling area. Although this would be the optimal solution to concerns raised about 1+ dialing, the exhaustion of NXXs and the resulting substantial effect on the entire telephone system preclude the Commission from adopting this alternative.

Whether these customers should ultimately become a part of the Kansas City metropolitan calling area is not an issue in this case. The Commission established COS because of the obvious conflict between exchange boundaries and communities' calling patterns. COS was not developed to allow businesses to have a presence in a neighboring exchange. The Commission has approved reduced Foreign Exchange lines and other services to help meet these needs.

Since the Intervening Cities did not file a timely objection to the Stipulation And Agreement and did not file responses to the Commission's questions, there is little evidence which the Commission can use to weigh their concerns. The petitions indicate some customers wish to retain RCF but they did not address the cost of that retention or the technical feasibility of retaining RCF. Intervening Cities do have outstanding motions concerning the methods of provisioning two-way COS by RCF. These motions need not be addressed further since this order adopts BSA as the proper method of provisioning COS and eliminates the use of RCF.

The Commission also has determined that retention of RCF for existing customers while establishing BSA for new customers will cause confusion and administrative problems for the LECs. In addition, for SWB continuation of RCF would cost approximately \$500,000. COS can be put in by SWB for a one-time charge of \$200,000. Customers where both services would exist would have to learn two systems, as would company personnel. Even though there will be some disruption for customers, it is more reasonable to have one system for provisioning COS.

The Commission has already delayed implementation of COS routes until January 1, 1991. Various parties indicated that when implementation is resumed there should be a schedule developed so implementation proceeds in an orderly manner. The Commission agrees and will order a technical conference be held to develop a timetable for the implementation of routes delayed by the Commission's September 11 order. The technical conference should address the timing of implementation of all routes initially ordered implemented prior to January 1, 1991, the timing of switching existing RCF customers to BSA, and notice to customers concerning the delayed implementation of COS and the switch from RCF to BSA. The recommendations for what information should be included in the notice to customers were fairly uniform. Notice to customers should be discussed at the technical conference and a proposal filed for Commission approval. If there is no agreement as to the notice, separate proposals may be filed.

As stated earlier, the projections for demand for COS were significantly underestimated. The increased demand has placed additional burdens on implementation. The actual costs of implementation are to be filed with the Staff on November 9, 1990, and reported to the Commission December 14, 1990. Surcharges on customers' bills have been approved on an interim basis pending the reports and any hearings that might be necessary concerning the permanent rates to be charged for COS.

Although the Commission is conscious of the desire of a substantial number of customers for COS, it is not feasible to maintain the current pace of implementation. The Commission historically does not approve interim rates and use of projected data. In this instance interim rates were approved to allow for the implementation of those COS routes which were pending at the time of the Commission's order. Those routes now have COS. There may be additional costs sought to be passed on by LECs as a result of the implementation of the routes to be addressed at the technical conference. The Commission, in considering any additional costs associated with

these routes, may select another method of recovering those costs, such as an increase in the rates paid by COS customers.

The Commission believes that no new routes should be implemented, except those to be addressed at the technical conference, until a review of the actual costs is completed. In addition, the Commission will be announcing soon the establishment of a public task force to investigate more comprehensive alternatives to addressing extraexchange calling, other than optional COS. Extraexchange calling is a service that was and is vitally needed, but, as with all new services, the implementation must proceed at a reasonable pace and alternatives should be broadly developed and considered. Until the Commission has an opportunity to review the actual costs associated with COS and the recommendations of the task force, the pace of COS implementation should be slowed. This task force will be officially formulated in early 1991 and will report its recommendations to the Commission later in the year.

IT IS THEREFORE ORDERED:

1. That the billing system adjustment method be hereby adopted for provisioning community optional service.
2. That a technical conference is now set for November 20, 1990 at 10:00 a.m. for the purposes described in this order. The technical conference will be held at the Commission's offices, Floor 5A of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri.
3. That the information required of the technical conference shall be filed with the Commission on or before November 26, 1990.
4. That the motions of Intervening Cities be hereby denied.

5. That this Report And Order shall become effective on the 14th day of November, 1990.

BY THE COMMISSION

Dan Ross

Dan Ross
Interim Secretary

(S E A L)

Steinmeier, Chm., Mueller, Rauch,
McClure and Letsch-Roderique, CC.,
concur and certify compliance with
the provisions of Section 536.080,
R.S.Mo. 1986.

Dated at Jefferson City, Missouri,
on this 31st day of October, 1990.