

BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MISSOURI

In the matter of Southwestern Bell Telephone Company filing proposed revisions to its Wide Area Telecommunications Service (WATS) tariff, 5th Revised Sheet 11 and 6th Revised Sheet 12; and Access Services Tariff, 1st Revised Sheet 92.)
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) Case No. TR-88-88
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In the matter of AT&T Communications of the Southwest, Inc.'s filing of proposed revisions to its Wide Area Telecommunications Service (WATS) Tariff, 4th Revised Sheet 29.)
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) Case No. TR-88-99
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In the matter of AT&T Communications of the Southwest, Inc., for authority to implement directory assistance service charges.)
) Case No. TR-88-197
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APPEARANCES: Thomas J. Horn, Attorney, Southwestern Bell Telephone Company, 100 North Tucker Boulevard, Room 630, St. Louis, Missouri 63101, for: Southwestern Bell Telephone Company.

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Donald A. Low, Senior Regulatory Attorney, US Sprint Communications Company, 8140 Ward Parkway, Kansas City, Missouri 64114, for: US Sprint Communications Company.

Donald C. Otto, Jr., Attorney at Law, Hendren and Andrae, Post Office Box 1069, Jefferson City, Missouri 65102, for: Teleconnect Company.

C.K. Casteel, Jr., MCI Telecommunications Corporation, Southwest Division, 100 South Fourth Street, Suite 1200, St. Louis, Missouri 63102,

and

Leland B. Curtis, Attorney at Law, and Carl J. Lumley, Attorney at Law, Curtis, Bamburg, Oetting, Brackman & Crossen, P.C., 130 South Bemiston, Suite 200, St. Louis, Missouri 63105, for: MCI Telecommunications Corporation.

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and

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GTE North Incorporated.

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65102, for: Office of Public Counsel and the public.

Mary Ann Young, General Counsel, Missouri Public Service
Commission, Post Office Box 360, Jefferson City, Missouri
65102, for: Staff of the Missouri Public Service Commission.

HEARING

EXAMINERS: Cecil I. Wright.

REPORT AND ORDER

On July 31, 1987, Southwestern Bell Telephone Company (SWB) filed proposed tariffs with the Commission which proposed revisions in SWB's Wide Area Telecommunications Service (WATS) Tariff and Access Services Tariff to reflect a proposed change in its billing program. The case was docketed as Case No. TR-88-88. On September 1, 1987, AT&T Communications of the Southwest, Inc. (AT&T) filed proposed tariffs which proposed changes in AT&T's tariffs to correspond to those proposed by SWB. This case was docketed as Case No. TR-88-99. Both sets of tariffs were suspended by the Commission until July 29, 1988, and a procedural schedule established.

MCI Telecommunications Corporation (MCI), US Sprint Communications Company (US Sprint), Teleconnect Company (Teleconnect), and GTE North Incorporated (GTE) were granted intervention in these cases. An early prehearing conference was held by the parties in this matter. As a result of the prehearing conference AT&T filed proposed tariffs which proposed to charge 70 cents for interLATA directory assistance. This case was docketed as Case No. TR-88-197. AT&T requested the Commission consolidate TR-88-197 with Cases No. TR-88-88 and TR-88-99.

The Commission suspended AT&T's proposed directory assistance tariffs to December 19, 1988, and consolidated the cases for hearing as requested. The city of Independence, Missouri, was granted intervention in this consolidated proceeding.

A hearing was held in this matter on May 2 and 3, 1988. Briefs were filed in accordance with a briefing schedule.

Findings of Fact

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

On May 4, 1984, the United States District Court, District of Columbia, issued an order requiring operating companies, including SWB, to implement a billing system which would permit accurate billing and allocation of revenues based upon actual intraLATA and interLATA 800 usage. Since the billing system had not been developed at the time of the order, a waiver was granted authorizing operating companies, including SWB, to continue to allocate intrastate 800 revenues on the basis of average usage.

On July 31, 1987, SWB filed tariffs in Case No. TR-88-88 to implement the billing program developed pursuant to the United States District Court's order. The billing program is known as Comptrollers Fix 1.0, or CF1. The program will allow SWB to determine whether an intrastate 800 call should be billed as interLATA or intraLATA based upon the actual jurisdiction of the call. Under the current tariff interLATA and intraLATA 800 billing is allocated based upon a 53 percent-47 percent split approved in Case No. TR-83-253. 26 Mo. P.S.C. (N.S.) 344 (1983). The split was based upon a study which showed average usage to be 53 percent interLATA and 47 percent intraLATA.

CF1 billing only applies to jointly provided 800 service. This service is provided over a single intrastate WATS Access Line (WAL), provided by SWB, which carries both interLATA and intraLATA 800 calls. Since SWB cannot provide interLATA

800 service under the terms of the divestiture decision, an interexchange carrier (IXC) must join with SWB to provide intrastate joint 800 service. Currently only AT&T provides joint 800 service with SWB. Other IXCs provide nonjoint 800 service using other facilities arrangements.

The tariffs implementing CF1 filed by SWB affect only jointly provided 800 service. The tariffs are designed to allow SWB to bill 800 service customers based upon the actual usage by callers. 800 customers purchase the service so that callers may call the 800 customer toll free. The service is provided through an intrastate WAL and all charges are found in two SWB tariffs, the Wide Area Telecommunications Service (WATS) Tariff and the intrastate Access Services Tariff.

The intraLATA portion of the WAL is provided from the WATS tariff and is billed to the 800 service customer at a flat monthly charge. The interLATA portion is provided from the access tariff and is billed to the IXC which handles the inter-LATA call. The IXC then bills the 800 service customer based upon the rate in the IXC's tariff.

In addition to the WAL rates, SWB charges the 800 customer a usage rate in both the WATS and access tariffs. The intraLATA usage rate is in the WATS tariff. The interLATA usage rate is in the access tariff and SWB charges the IXC which in turn charges the 800 customer the usage rate in the IXC's tariff. Only AT&T is providing this joint service with SWB. AT&T filed tariffs in Case No. TR-88-99 to correspond to SWB's proposed tariff changes implementing CF1 billing.

Prior to filing its tariffs SWB performed a study of 800 usage in February, March and May of 1987. That study indicated that 800 service usage percentages were 55 percent intraLATA and 45 percent interLATA. This was a significant shift from the 47 percent intraLATA, 53 percent interLATA SWB is currently using to allocate 800 service usage.

SWB witness Kern stated in his prefiled direct testimony that SWB conducted the study because of the settlement in SWB's last rate case, TR-86-84. 28 Mo. P.S.C.

(N.S.) 510 (1986). In that settlement SWB agreed not to increase its general revenue with respect to proposed tariff changes to existing services. This required SWB to determine whether implementing the CF1 billing program would generate additional revenues for SWB. Based upon the study, which indicated that intraLATA 800 usage had increased, SWB determined it would receive a net revenue increase of \$1,299,660 under its existing tariffs when CF1 was implemented. The settlement in TR-86-84 is in effect until July 1, 1988.

The main issue in these consolidated proceedings is how to reduce SWB rates to offset the \$1,299,660 revenue increase. The parties offer six proposals to reduce SWB's rates. Proposal 5 is a joint recommendation offered as a settlement by all parties except Public Counsel. The proposals are set out below.

Proposal 1: Proposal 1 is to implement the CF1 and maintain revenue neutrality for SWB by reducing rates for intraLATA 800 WATS Access Lines (WALs) and reducing rates for interLATA WATS Access Lines which are used for both 800 and out-WATS service.

Proposal 2: Proposal 2 is to implement the CF1 and maintain revenue neutrality for SWB by reducing jointly provided intraLATA 800 service usage rates by approximately 5 percent and the intraLATA portion of the 800 WATS Access Line by approximately 40 percent.

Proposal 3: Proposal 3 is to implement the CF1 and maintain revenue neutrality for SWB by reducing jointly provided intraLATA 800 service usage rates by approximately 10 percent.

Proposal 4: Proposal 4 is to implement the CF1 and maintain revenue neutrality for SWB by reducing jointly provided intraLATA 800 service usage rates by approximately 10 percent and to offset AT&T's loss by implementing a charge for interLATA Directory Assistance. AT&T proposes a charge of \$.70 for each Directory Assistance call with a zero call allowance. The charge is based upon a rate that will recover the cost of providing

the service. The charge will produce approximately \$890,172 more than is needed to offset the CF1 loss and AT&T proposes to reduce its interLATA 800 usage rates by that amount.

Proposal 5: Proposal 5 is to implement the CF1 and maintain revenue neutrality for SWB by reducing jointly provided intraLATA 800 service usage rates by approximately 10 percent. Proposal 5 also allows AT&T to implement a charge for interLATA Directory Assistance in an amount that will match AT&T's CF1 loss. Under Proposal 5, the amount of the Directory Assistance charge is \$.35 per call with a three call allowance. (Joint Recommendation).

Proposal 6: Proposal 6 is to implement the CF1 and maintain revenue neutrality for SWB by reducing basic local exchange rates.

As can be seen from the six proposals, the parties have taken basically three different approaches concerning which SWB rates should be reduced to keep SWB revenue-neutral. The first approach is the one which SWB proposed in TR-88-88 to reduce its intraLATA 800 WAL flat rate and interLATA 800 WAL and out-WATS WAL flat rate to match the revenue increase from the increased intraLATA 800 usage. The out-WATS WAL would be reduced even though it is not a part of the 800 service, because it is charged under the same tariffed rate as interLATA 800 WAL. SWB's proposal would reduce the intraLATA WAL revenue by \$262,798 and its interLATA 800 WAL and interLATA out-WATS rate by \$1,037,148. The evidence at the hearing indicated that AT&T is the only joint 800 interLATA customer, and it is the only customer for SWB's joint service; thus, this \$1,037,148 would be a cost reduction to AT&T. This cost reduction would offset AT&T's loss of revenue of \$869,928 which the study showed would occur because of CF1 billing implementation. Under this approach AT&T would receive \$167,220 more in savings than the \$869,928 it would suffer in lost revenue from the implementation of CF1.

The second basic approach presented by the parties is to reduce intraLATA usage rates by 10 percent. Under this proposal all of the revenue increase would be offset by lower revenues from intraLATA 800 customers. Under this approach AT&T would not have reduced costs to compensate for its lost usage revenue. In addition, because of the relationship between SWB's Average Revenue Per Minute (ARPM) and the rate established for SWB's originating nonjoint intraLATA 800 access rate in Case No. TO-87-42, there would be a concurrent reduction in the nonjoint intraLATA 800 access rate. The parties seem to agree that if there is a 10 percent reduction in SWB's intraLATA 800 usage rate, this would reduce its ARPM and thus the originating nonjoint intraLATA 800 access rate should be reduced from 21.7 cents to 18.6 cents, thus reducing the rates paid by the IXC's taking nonjoint intraLATA 800 service.

The third basic approach to maintain SWB's revenue-neutral position is to reduce basic local exchange rates by the \$1,299,660. Under this approach there would be no reduction in intraLATA or interLATA 800 WALs or usage rates. There would be no corresponding benefit to AT&T or the other IXC's as described above for the other basic proposals.

As a compromise of these proposals, all parties except Public Counsel supported Proposal 5, which reduces the intraLATA 800 usage rate by 10 percent. The parties proposed, in conjunction with the intraLATA 800 usage reduction, that AT&T be authorized to implement a Directory Assistance (DA) charge of 35 cents, with a three call allowance. The 35 cents DA charge would allow AT&T to recover the revenue it would lose from lower interLATA 800 usage. AT&T filed tariffs to implement this DA charge at a 70 cents rate with no call allowance in Case No. TR-88-197, Proposal 4.

The Commission has reviewed the proposals and the positions of the parties on the issues involved in these consolidated cases. As it reviewed the proposals and the interrelationship between the rate reductions proposed and other Commission decisions already made or to be made in the future, the Commission felt a little like a carnival goer trying to decide under which shell the pea is located.

The CFI billing was mandated by the federal court. Its implementation seems to be straightforward. If there had been no requirement for revenue neutrality SWB could have implemented CFI and let the actual usage determine whether SWB or AT&T lost revenue. Based upon the expert witness testimony, there is no assurance that the split between intraLATA usage and interLATA usage is now 55/45. The experts testified that the February-March-May study only showed what actual usage was for those months.

Because the study, which was performed to determine whether SWB would obtain an increase in revenues, shows that under CFI billing SWB's revenue would increase while AT&T's would decrease, AT&T has argued it should remain revenue-neutral also. The proposals supported by AT&T, though, would have generated savings greater than the lost revenue. The overrecovery would be used, presumably, to reduce AT&T's interLATA 800 usage rates to make them more competitive with the IXC's' interLATA usage rates. The Commission does not believe this result is warranted by CFI billing implementation. Also, the Commission approved revenue neutrality in cases which involved the dissolution of the interLATA and intraLATA pools. The revenue neutrality concept was adopted in those cases to avoid disruption which could harm the industry. That factor is not present in this case. The Commission finds that the potential loss of income to AT&T, based upon the study results, is not sufficient evidence to support the reasonableness of the reduction of the intraLATA 800 WALS and the interLATA WALS.

Reduction of SWB's intraLATA 800 usage rates to match the increase in revenue from CFI billing seems more appropriate, if viewed in isolation. The Commission, though, must be cognizant of the controversies concerning the nonjoint 800 usage rates in TO-87-42 and the effect the implementation of the Primary Toll Carrier Plan, TO-84-222 et al., may have on 800 service rates in the future. The Primary Toll Carrier Plan tariffs just became effective on July 1, 1988, and the Commission considers it preferable, where possible, for the issue of excess revenue to be dealt

with in a case involving a company's general revenue requirement. The Commission thus finds that there is insufficient evidence to support the reasonableness of a reduction in intraLATA 800 usage rates.

Public Counsel would have the Commission make a determination that basic local rates be reduced in this instance. As stated above, the Commission has determined it is preferable to review excess revenue in the confines of a general rate case, especially if basic local rates were to be adjusted. The Commission finds there was insufficient evidence presented to support the reasonableness of a reduction in local rates in this case.

The Commission has determined that it will reject the tariffs filed by SWB to implement CFI billing. Without the moratorium this billing program could have been implemented without concurrent rate reductions and the following dispute over who should benefit from the potential increased revenue to SWB. The proposals in these consolidated cases all attempt to obtain a benefit from the settlement in TR-86-84 and outside the context of a general rate case. The Commission has determined it is not reasonable or necessary to implement CFI billing under these constraints. After July 1, 1988, SWB may implement CFI billing as required by the federal court without rate reduction filings. The Commission has also determined it will reject the tariffs filed by AT&T in TR-88-99 since they were filed in conjunction with SWB's tariffs.

Also, the Commission is not prepared to authorize a DA charge for AT&T at this time. AT&T is recovering its costs through its current rates for DA services and since AT&T has filed two rate reductions since its last rate case, the Commission questions whether AT&T's overall revenue justifies a rate increase for DA. DA service is also one of the services to be addressed in Case No. TO-88-142 concerning classification of services as competitive. The evidence in this case suggests that all IXCs do not compete to provide DA service and provide it only as a necessary ancillary to their long distance service. Until DA is addressed in the

classification docket, the Commission considers it inappropriate to consider DA for AT&T in an isolated case. All of these factors weigh against a need to decide the issue at this time. The Commission finds that the potential revenue loss to AT&T because of the implementation of CFI billing is not sufficient evidence to support the reasonableness of a charge for DA by AT&T.

Conclusions of Law

The Missouri Public Service Commission has arrived at the following conclusions.

The Commission has jurisdiction over the issues in these consolidated dockets under the provisions of Chapter 392, R.S.Mo. (Supp. 1987). Pursuant to Section 392.230, the Commission is authorized to suspend any tariff filed which states a new individual rate or a new individual regulation or practice affecting any rate and after full hearing to either approve or reject said tariff.

The Commission suspended the tariffs in these consolidated cases and held a full hearing as required by statute. The Commission, after a review of the evidence, determined that the implementation of the tariffs would not be reasonable and therefore rejected the tariffs.

It is, therefore,

ORDERED: 1. That the tariffs filed by Southwestern Bell Telephone Company in Case No. TR-88-88 are hereby rejected.

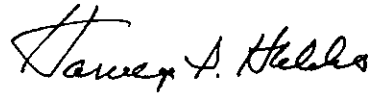
ORDERED: 2. That the tariffs filed by AT&T Communications of the Southwest, Inc., in Case No. TR-88-99 are hereby rejected.

ORDERED: 3. That the tariffs filed by AT&T Communications of the Southwest, Inc., in Case No. TR-88-197 are hereby rejected.

ORDERED: 4. That the Joint Recommendation in these consolidated cases is hereby rejected.

ORDERED: 5. That this Report And Order shall become effective on the
29th day of July, 1988.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Musgrave, Hendren
and Fischer, CC., Concur and certify
compliance with the provisions of
Section 536.080, R.S.Mo. 1986.
Mueller, C., Absent.

Dated at Jefferson City, Missouri,
on this 12th day of July, 1988.