

MINUTES OF THE House COMMITTEE ON Communication, Computers and Technology

The meeting was called to order by Representative Mike Meacham at
Chairperson

3:30 ~~am~~/p.m. on February 8,, 1983 in room 522-S of the Capitol.

All members were present except:

Representative Roper (excused)

Committee staff present:

Marlin Rein, Chief Legislative Fiscal Analyst, Committee Staff Director
Sherry Brown, Fiscal Staff, Research Department
Chris Stanfield, Fiscal Staff, Research Department
Betty Ellison, Secretary to the Committee

Conferees appearing before the committee:

Mr. Don Low, Assistant Counsel, Kansas Corporation Commission

Chairman Meacham began the meeting by saying that sometime this week, the committee will have copies of testimonies made by Zoel Parenteau and Dale Anderson to the Public Television Board this summer.

The chairman appointed a subcommittee to study the issue of a formula for the grant distribution and to bring to the whole committee a proposal on the formula for the distribution of the public television grant funds. The subcommittee will be chaired by Representative Friedeman, members to be Representative Cobb, Representative Aylward, Representative Branson and Representative Roper. A deadline will be set for their work and it is hoped we will have a report later this month.

Chairman Meacham introduced Sherry Brown of staff, who gave a review on deregulation and divestiture of the telephone system as a prelude to getting into the proposed telecommunications plan from the executive branch next week.

Staff reviewed an introductory memorandum from the Legislative Research Department. (Attachment 1) She said that recent decisions by the Federal Communications Commission and a U.S. District Court will bring about significant changes in the telephone industry. Regulatory actions by the FCC since the 1970's have sought to introduce competition in the providing of phone service and to moderate the AT&T monopoly. Recent deregulation of equipment is a significant step in that direction, as well as judicial action that will separate AT&T from its operating companies, i.e., divestiture.

Staff said that by order of the FCC (in a decision referred to as Computer Inquiry II) the provision of new telephone equipment to individuals or businesses was deregulated on January 1, 1983. New equipment can now be purchased, from a number of vendors, under competitive market conditions rather than on a regulated basis.

Staff told the committee that the implications of divestiture are far-reaching, but far from clearly defined. The consensus of many in the industry is that charges for local service will go up while long distance rates will go down. These price predictions are based on the premise that the cost of local service has been subsidized in the past by revenues from long distance service.

CONTINUATION SHEET

MINUTES OF THE House COMMITTEE ON Communication, Computers and Technology
room 522-S, Statehouse, at 3:30 ~~xxx~~ a.m./p.m. on February 8, 19 83

Mr. Don Low, of the Kansas Corporation Commission introduced other KCC staff members present: Brian Moline, Chief Counsel, Henry Henderson, and Terri Muchmore. Mr. Low handed out a printed copy of his presentation. (Attachment 2) He stated that his comments should be read in conjunction with a presentation made by Chairman Loux to the House Energy Committee last year on changes occurring in the telephone industry.

Mr. Low stated that the following basic concerns were expressed a year ago:

1. AT&T divestiture
2. Deregulation of CPE (customer premises equipment)
3. Changes and separations and initiation of access charges
4. Loss of state jurisdiction over intrastate - interlata long distance service.
5. Loss of yellow page directory advertising revenues

Mr. Low told the committee that in December, 1982, AT&T submitted its plan for reorganization of the Bell System. The Kansas Corporation Commission wants to make sure that Southwestern Bell and/or its ratepayers are fully compensated for any resources and assets transferred to AT&T and its competitive operations. The KCC will emphasize the importance of Southwestern Bell retaining assets and resources sufficient to provide exchange service efficiently at a reasonable price.

Mr. Low said that the Corporation Commission is concerned that the introduction of competition into long distance services will adversely affect the rural communities in Kansas. Also there is a fear that the basic telephone rates in rural areas may rise significantly because of their relatively higher costs per subscriber line.

The Corporation Commission believes there will be increasing pressure in the future for increases in Kansas customers' fixed monthly rates. In addition to insuring reasonable rates for telephone service, the commission is charged with insuring reasonably efficient and sufficient services.

The meeting was adjourned by the chairman at 4:40 p.m.

The next meeting of the committee will be held at 3:30 p.m. on February 9.

MEMORANDUM

February 7, 1983

TO: Committee on Communication, Computers and Technology
FROM: Kansas Legislative Research Department
RE: Telephone Deregulation and Divestiture

Introduction

This memorandum attempts to review briefly the areas of deregulation and divestiture and to identify some of the major issues that have surfaced as a result of these actions. Recent decisions by the Federal Communications Commission and a U.S. District Court will bring about significant changes in the telephone industry. While important issues remain unresolved, the monolithic system that has been commonly referred to as the phone company is, without question, a thing of the past. The exact form of its replacement and how the new arrangements will affect service and cost is a matter of speculation.

The Communications Act of 1934 established the Federal Communications Commission (FCC) and set forth the goal of providing "...a rapid, efficient, nationwide... communications service with adequate facilities at reasonable charges." Provision of this service has been dominated by American Telephone and Telegraph (AT&T) and its local Bell operating companies, subject to regulation by both the FCC and state regulatory bodies (Kansas Corporation Commission). Regulatory actions by the FCC since the mid-70s have sought, to the extent possible, to introduce competition in the provision of phone service and to moderate the AT&T monopoly. Recent deregulation of equipment constitutes a significant step in that direction, as does judicial action that will separate AT&T from its operating companies, i.e., divestiture.

Deregulation of Customer Premises Equipment

By order of the FCC (in a decision referred to as Computer Inquiry II) the provision of new telephone equipment to individuals or businesses was deregulated on January 1, 1983. New equipment can now be purchased, from a number of vendors, under competitive market conditions rather than on a regulated basis. The local Bell operating companies (Southwestern Bell in Kansas), however, can provide only the customer premises equipment (CPE) that they had on hand at the beginning of 1983. Eventually, all of that equipment, plus the vast amount of equipment that is already installed, including phones which have been in place for years, will be transferred to AT&T. In the meantime, provision of this embedded equipment, i.e., that which is either in place or in inventory, continues to be regulated. The exact timing of the transfer has yet to be determined, but at some point customers will in all probability be offered an option to purchase or lease their current equipment or buy new telephones. After transfer and divestiture, when local operating companies will no longer be a part of AT&T, the local phone company will also be able to sell new customer premises equipment on an unregulated basis. In essence, then, the local phone company must transfer in future years, between one and five according to the current proposals, all of its interest in customer premises equipment.

Attachment 1

The FCC decision to deregulate CPE was designed to promote competition by separating the provision of equipment per se from other regulated telephone services. As part of the FCC order, AT&T was required to form a fully separated subsidiary to market all new CPE. This new corporation, American Bell, Inc., now provides the phones once available through the phone company, but other vendors may also offer telephone equipment and major retail outlets such as Sears and Montgomery Wards, for example, can also be expected to enter the market. Eventually, as mentioned earlier, the local phone company has the option of offering equipment in direct competition with its former parent organization.

The competitive aspects of offering telephone equipment do not rest just with the retailer. An important consideration in deregulation has been the manufacturer. The deregulation of customer premises equipment has also been an attempt to open the market for manufacturers other than Western Electric, a company that exclusively manufactured equipment provided by AT&T and its Bell operating companies.

Divestiture

The ultimate impact of divestiture versus deregulation of CPE is impossible to assess because the two issues are so closely intertwined. Divestiture itself results from a settlement between AT&T and the Justice Department in a 1974 antitrust suit. The terms of the settlement, as modified and approved in U.S. District Court, call for an unprecedented restructuring of a major corporate entity. AT&T will, under the settlement, spin off its 22 Bell operating companies -- divestiture of an estimated \$90 billion of assets. The local phone company then becomes a regulated exchange service with no corporate affiliation with AT&T, although the local operating company will still provide the link between the customer and long distance lines.

The implications of divestiture are far-reaching, but far from clearly defined. The separation of assets between AT&T and the Bell operating companies plus the transfer of embedded (in-place) customer premises equipment from the Bell operating companies to the newly-formed AT&T subsidiary will, without question, change the structure of charges for phone service. The magnitude of these changes, or in which direction they will occur, remains speculative. The consensus of many in the industry is that charges for local service will go up while long distance rates will go down.

These price predictions are based on the premise that the cost of local service has been subsidized in the past by revenues from long distance service. Evidence that such pricing changes will indeed occur came in Missouri in early February when Southwestern Bell filed a rate increase request with the counterpart there of the Corporation Commission. That request, if approved, would increase basic telephone service costs from 57 to 164 percent, varying by community. Rates for most areas were expected to double under the request. Most observers agree that such rate projections are tentative and Southwestern Bell officials stated that they would have preferred to file the request at a later date when more information would be available. However, the early filing was necessitated by the 11-month period that the Missouri Public Service Commission has to review such rate requests.

Issues

The complexity of restructuring a major corporation, the assignment of assets and the rearrangement of rates combine to raise more questions than answers. For the customer, however, the issue can probably be reduced to a single concern-cost. Regulatory and judicial actions, purportedly designed to promote competition and serve the public interest, initially appear to have served only to increase the cost of telephone service.

It seems clear that higher cost was not the intent. In the opinion issued with the Modified Final Judgment settling the suit between AT&T and the Justice Department, U.S. District Court Judge Harold Green noted:

The divestiture of the operating companies will not necessarily have an adverse effect upon the cost of local telephone service. . . The decree would leave state and federal regulators with a mechanism — access charges — by which to require a subsidy from intercity service to local service. By means of these access charges, the regulators are free to maintain local rates at current levels or they may so set the charges as to increase or decrease local rates. . . .

In other words, since providers of long-distance service can only reach the customer by going through the local network, the local operating company could charge long-distance carriers for that access. However, access charges could also work in reverse and customers could be assessed a charge for access to the long-distance service offered by AT&T and other companies. The pressure against charging all of the access cost to long-distance carriers stems from the fear that providers of long-distance service would then find a way to bypass the local network and reach customers directly. Conversely, if access charges are placed solely with the customer, large users of long distance service might also seek ways to connect directly with long distance carriers. The use of bypass technology, such as satellites or microwave towers, could eventually threaten the existence of the local operating companies, or so it is argued. The FCC has apparently reached a tentative decision to charge customers for access as it relates to calls between states. Further resolution of the access charge issue is pending.

An inseparable part of the access charge issue relates to the definition of long distance and the differentiation between calls within the state and calls between states. Since Bell operating companies, which in this memorandum have been treated synonymously as local operating companies, may serve the majority of the geographical area within a state, question arises about what remains an operating company, or "local" service and what comprises long distance carrier service. The question does not apply to service from state to state; that falls to AT&T or other carriers. But charges for service from one city to another within the state, if both are served by the Bell operating company, poses a problem. Partial definition rests with what are termed Local Access and Transport Areas (LATA), which more or less correspond to area code boundaries. The decision has been made that calls between LATA's constitute long distance calls and some decision must be reached about the way in which costs and revenues are allocated between local operating companies and long distance carriers who provide the cross over from one LATA to another within the state. Questions still remain about service within a LATA (inside a state) and how costs and charges will be

determined. These cost allocations involve not just the Bell operating companies, but independent phone companies who also operate as the link between the customer and the place to which he or she wishes to place a call. The determination of exactly what costs should be attributed to services that have to this time been part of a necessarily interlocking system pose a dilemma that is not easily solved.

Conclusion. A considerable number of issues and questions associated with deregulation and divestiture are excluded from the above discussion. This memorandum attempts only to outline the major events that signal significant changes in the telephone industry. At this point, few certainties exist with respect to the final outcome of divestiture and deregulation. The implications of these events, however, may have considerable relevance to the state's consideration of the Governor's proposal to develop a state-owned telecommunications system.

83-37/SB

PRESENTATION

TO

THE HOUSE COMMITTEE ON
COMMUNICATIONS, COMPUTERS AND TECHNOLOGY
OF THE KANSAS LEGISLATURE

BY

THE KANSAS CORPORATION COMMISSION

"CONTINUING CHANGES IN TELECOMMUNICATIONS"

FEBRUARY 8, 1983

Attachment 2

House Communication, Computers and Technology 2/8/83

INTRODUCTION

CHAIRMAN LOUX REPORTED LAST YEAR TO THE HOUSE ENERGY COMMITTEE ON THE MANY CHANGES OCCURRING IN THE TELEPHONE INDUSTRY. THREATS TO THE PRIMARY GOAL OF TELEPHONE REGULATION--UNIVERSAL SERVICE--WERE APPARENT AT THAT TIME. SOME OF THE CONCERNS FROM LAST YEAR HAVE NOW BEEN ALLEVIATED. HOWEVER, OTHERS REMAIN AND NEW ONES HAVE ARISEN.

WE ARE PROVIDING COPIES OF LAST YEAR'S PRESENTATION SINCE IT PROVIDES SOME BASIC INFORMATION. TODAY I WILL TRY TO UPDATE YOU ON INTERVENING EVENTS AND EXPECTED FUTURE PROBLEMS.

LAST YEAR WE EXPRESSED CONCERNED ABOUT FIVE AREAS: THE AT&T DIVESTITURE; DEREGULATION OF CPE; CHANGES IN SEPARATIONS AND INITIATION OF ACCESS CHARGES; LOSS OF STATE JURISDICTION OVER INTRASTATE LONG DISTANCE SERVICE; AND LOSS OF YELLOW PAGE DIRECTORY ADVERTISING REVENUES.

IN AUGUST, AFTER RECEIVING EXTENSIVE COMMENTS AND BRIEFS, THE COURT APPROVED OF THE PROPOSED ANTITRUST CONSENT DECREE, WITH SOME MODIFICATIONS. TWO OF THE IMPORTANT MODIFICATIONS, WHICH THE KANSAS COMMISSION AND OTHER PARTIES URGED ON THE COURT, WERE RETENTION OF YELLOW PAGE ADVERTISING AND ABILITY TO PROVIDE CPE BY THE BELL OPERATING COMPANIES (BOCs). THE FIRST MODIFICATION WILL HELP KEEP MONTHLY RATES FROM INCREASING EVEN MORE THAN THEY WILL WHILE THE SECOND MAY HELP INSURE THE FINANCIAL VIABILITY OF THE BOCs AND PROMOTE COMPETITION IN THE CPE MARKET.

PURSUANT TO THE COURT'S ORDERS, AT&T HAS NOW SUBMITTED ITS PROPOSED CONFIGURATIONS FOR LATAs (WHICH I WILL DISCUSS SHORTLY) AND ALSO ITS PLAN FOR REORGANIZATION. ATTACHMENT "A" IS A MAP SHOWING THOSE LATAs FOR KANSAS. THE CORPORATION COMMISSION SUBMITTED COMMENTS ON THE PROPOSED KANSAS LATAs IN WHICH WE SUPPORTED THE CONFIGURATIONS BUT EXPRESSED CONCERNS ABOUT THE IMPLICATIONS FOR INDEPENDENT TELEPHONE COMPANIES.

IN THE MIDDLE OF DECEMBER, 1982, AT&T SUBMITTED ITS PLAN FOR REORGANIZATION OF THE BELL SYSTEM. THIS PLAN WAS REQUIRED BY THE COURT, AND IS OPEN TO COMMENT BY PARTIES TO THE SETTLEMENT. THE DUE DATE FOR THESE COMMENTS IS FEBRUARY 15TH, AND THE KCC INTENDS TO FILE COMMENTS. THE CONCERNS EXPRESSED WILL LIKELY BE IN TWO AREAS. FIRST, THE KCC WANTS TO MAKE SURE THAT SWB AND/OR ITS RATEPAYERS ARE FULLY COMPENSATED FOR ANY RESOURCES AND ASSETS TRANSFERRED TO AT&T AND ITS COMPETITIVE OPERATIONS. SECOND, THE KCC WILL EMPHASIZE THE IMPORTANCE OF SWB BEING LEFT WITH ASSETS AND RESOURCES SUFFICIENT TO PROVIDE EXCHANGE SERVICE EFFICIENTLY AT A REASONABLE PRICE.

IN REGARD TO CPE, THE COURT OF APPEALS HAS WHOLLY AFFIRMED THE FCC'S "COMPUTER II" DECISION. THAT DECISION STATES THAT CPE WILL BE DEREGULATED ACCORDING TO A TWO-STAGE OR "BIFURCATED" APPROACH. AS OF JANUARY 1, 1983, TELEPHONE COMPANIES MAY NO LONGER PROVIDE NEW CPE UNDER REGULATION. THE

DECISION ALSO REQUIRED FORMATION OF A NEW AT&T SUBSIDIARY CALLED AMERICAN BELL, INC. (ABI).

DIVESTITURE COMPLICATED THE PICTURE. AFTER DIVESTITURE, THE BOCs MAY ALSO PROVIDE NEW CPE BUT IT IS UNCLEAR WHETHER THEY WILL BE REQUIRED TO DO SO THROUGH A SEPARATE SUBSIDIARY. THE BOCs CONTINUE TO PROVIDE EMBEDDED CPE UNDER TARIFF BUT CANNOT DO SO AFTER DIVESTITURE. THUS, UNLESS THE EMBEDDED CPE IS DEREGULATED BEFORE THEN, THE KCC WILL BE REGULATING THE EMBEDDED CPE WHICH IS TRANSFERRED TO AT&T.

AS FOR CHANGES IN SEPARATIONS AND INITIATION OF ACCESS CHARGES, AT THIS POINT I SHOULD JUST STATE THAT THERE HAS BEEN A GREAT DEAL OF ACTIVITY IN WHICH THE CORPORATION COMMISSION HAS PARTICIPATED. THE FCC HAS NOW ACTED ON ACCESS CHARGES AND JOINT BOARD ACTION ON CHANGES IN SEPARATIONS WILL OCCUR SOMETIME THIS SPRING.

MANY OF THESE DECISIONS COULD BE MODIFIED BY CONGRESSIONAL ACTION. LAST YEAR, ALTHOUGH WE GENERALLY SUPPORTED ONE OF THE PENDING BILLS, WE WERE CONCERNED THAT JURISDICTION OVER INTRASTATE INTEREXCHANGE SERVICES WOULD BE TRANSFERRED BY CONGRESS FROM THE STATES TO THE FCC. THE CONGRESSIONAL LEGISLATION DIED LAST YEAR AFTER INTENSIVE LOBBYING BY THE INDUSTRY, ESPECIALLY AT&T. THIS YEAR, THERE DOES NOT APPEAR TO BE SENTIMENT FOR A COMPREHENSIVE REWRITE OF THE FEDERAL COMMUNICATIONS LAW. HOWEVER, THERE IS A POSSIBILITY OF "SHORT FORM" LEGISLATION WHICH COULD INCLUDE RESTRICTION OF STATE COMMISSION AUTHORITY.

FUTURE INDUSTRY STRUCTURE

THE CURRENT OUTLOOK FOR THE FUTURE STRUCTURE OF TELECOMMUNICATIONS SERVICES IS RELATIVELY CLEAR IN ITS BROAD OUTLINES BUT MANY DETAILS ARE NOT YET DETERMINED.

ONE OF PRIMARY REASONS FOR THE CONSENT DECREE IS TO PROMOTE COMPETITION IN THE PROVISION OF LONG DISTANCE SERVICE. THE JUSTICE DEPARTMENT ALLEGED DURING TRIAL THAT AT&T WAS USING ITS CONTROL OF THE LOCAL EXCHANGE NETWORK AS A BOTTLENECK TO KEEP OUT COMPETITION BY OTHER COMMON CARRIERS (OCCS) SUCH AS MCI. THE CONSENT DECREE REMEDIES ARE TO DIVEST AT&T OF THE BELL OPERATING COMPANIES (BOCs) WHICH PROVIDE EXCHANGE SERVICE AND REQUIRE THE BOCs TO PROVIDE EQUAL ACCESS TO ALL LONG DISTANCE INTEREXCHANGE CARRIERS, INCLUDING AT&T, UNDER EQUAL CONDITIONS.

ALTHOUGH SOUTHWESTERN BELL AND OTHER BOCs ARE LIMITED TO PROVIDING ONLY "EXCHANGE" SERVICES THE CONCEPT OF THOSE EXCHANGES IS NOT THE SAME AS CURRENT USAGE OF THE TERM. WE NOW THINK OF "EXCHANGES" AS CONSISTING PRIMARILY OF A SINGLE CITY OR TOWN AND SURROUNDING AREAS. THE "EXCHANGES" ENVISIONED BY DOJ AND AT&T, NOW KNOWN AS LOCAL ACCESS AND TRANSPORT AREAS (LATAs) ARE, HOWEVER, MUCH LARGER. IN KANSAS THERE ARE THREE PROPOSED LATAs. THE KANSAS CITY AREA WOULD BE PART OF THE KANSAS CITY, MISSOURI LATA, THE REST OF THE STATE WOULD BE DIVIDED INTO TWO LATAs WITH A DIVIDING LINE THAT CORRESPONDS WITH THE 316/913 AREA CODE DIVIDING LINE. SOUTHWESTERN BELL WOULD BE RESTRICTED TO PROVIDING SERVICE WITHIN EACH LATA, WHILE AT&T MAY PROVIDE SERVICE ONLY BETWEEN LATAs.

ONE OF THE MOST SIGNIFICANT ISSUES RELATING TO LONG DISTANCE SERVICE IS HOW THE INTEREXCHANGE CARRIERS WILL COMPENSATE SOUTHWESTERN BELL FOR USE OF SOUTHWESTERN BELL'S EXCHANGE FACILITIES IN ORIGINATING AND TERMINATING INTER-LATA CALLS. AT THE PRESENT TIME AT&T COMPENSATES THE BOCs THROUGH A PROCESS KNOWN AS DIVISION OF REVENUES. THE CONSENT DECREE, HOWEVER, REQUIRES THAT THAT PROCEDURE BE TERMINATED AS OF 1-1-84, TO BE REPLACED BY A SYSTEM OF ACCESS CHARGES. EVEN PRIOR TO THE CONSENT DECREE, THE FCC WAS CONSIDERING HOW EXCHANGE COMPANIES SHOULD RECOVER COSTS OF EXCHANGE PLANT USED TO PROVIDE INTERSTATE SERVICE. THE FCC HAS NOW MADE A DECISION WHICH ESTABLISHES A STRUCTURE FOR RECOVERY OF THOSE COSTS. RATHER THAN BEING COMPENSATED BY THE LONG DISTANCE SERVICE PROVIDERS, THE DECISION WOULD ULTIMATELY REQUIRE DIRECT RECOVERY OF MOST OF THE FIXED COSTS FROM EACH CUSTOMER THROUGH A FLAT MONTHLY CHARGE. INITIALLY (JANUARY 1, 1984,) THE FLAT-MONTHLY CHARGE WILL BE A MINIMUM OF \$2 FOR RESIDENTIAL CUSTOMERS AND \$4 FOR BUSINESS CUSTOMERS PER ACCESS LINE. THE REMAINDER WOULD INITIALLY BE RECOVERED THROUGH USAGE CHARGES, BUT THERE WOULD BE A MAXIMUM MONTHLY USAGE CHARGE.

AT THE END OF A SEVEN-YEAR TRANSITION PERIOD, THE FLAT MONTHLY CHARGE WOULD RECOVER ALL OF THE AVERAGE INTERSTATE COSTS OF NON TRAFFIC SENSITIVE PLANT EXCEPT SWITCHES. THIS IS EXPECTED TO BE APPROXIMATELY \$5, AS ADJUSTED FOR INFLATION. CERTAIN COSTS INCLUDED IN A SEPARATIONS "HIGH COST FACTOR" WOULD BE RECOVERED INDEFINITELY FROM THE INTEREXCHANGE CARRIERS. AS A RESULT OF THIS DECISION HIGH VOLUME USERS OF INTERSTATE SERVICES

WILL HAVE SUBSTANTIALLY REDUCED TOTAL BILLS WHILE LOW VOLUME USERS WILL HAVE A FIXED MONTHLY INCREASE.

THE PRIMARY CONSIDERATION FOR THIS DECISION WAS THE FEAR THAT HEAVY LONG DISTANCE USERS WOULD BEGIN BUILDING THEIR OWN TELECOMMUNICATIONS SYSTEMS WITH SATELLITE, MICROWAVE OR FIBER OPTIC TRANSMISSION AND THEREFORE "BY PASS" THE LOCAL EXCHANGE NETWORK. IT IS FEARED THAT THIS WOULD RESULT IN LOSS OF REVENUES FROM LARGE CUSTOMERS SO THAT THE FIXED COSTS WOULD HAVE TO BE PICKED UP BY THE REMAINING CUSTOMERS.

THIS DECISION, BY THE FCC, AT THIS TIME ONLY APPLIES TO THE COSTS' OF NTS PLANT ALLOCATED TO INTERSTATE SERVICES. WITHIN A FEW MONTHS A FEDERAL-STATE JOINT BOARD WILL BE RECOMMENDING WHETHER THE ALLOCATION OF COSTS BETWEEN STATE AND INTERSTATE JURISDICTIONS SHOULD BE CHANGED. A YEAR AGO IT WAS FEARED BY MANY THAT THE ALLOCATION FACTOR WOULD BE CHANGED (FROM SPF TO SLU) SO THAT A GREATER PORTION OF COSTS WOULD BE ASSIGNED TO INTRASTATE, REQUIRING A SIGNIFICANT INCREASE IN LOCAL RATES. IT IS NOW UNKNOWN WHAT THE JOINT BOARD WILL DECIDE. SEVERAL PARTIES, INCLUDING SOUTHWESTERN BELL AND THE KANSAS COMMISSION HAVE ARGUED FOR CONTINUED USE OF SPF (WITH SOME MODIFICATIONS) FOR A TEMPORARY PERIOD UNTIL THE RESULTS OF DIVESTITURE AND THE SYSTEM OF ACCESS CHARGES ARE EVALUATED. OTHER PARTIES, HOWEVER, HAVE ARGUED THAT ALL NTS COSTS--NOT JUST INTERSTATE COSTS--SHOULD BE DIRECTLY RECOVERED FROM THE END USER.

UNLESS THAT LATTER SUGGESTION IS ADOPTED, WHICH IS HOPEFULLY UNLIKELY, STATE COMMISSIONS WILL NEED TO DETERMINE THEIR OWN SYSTEM OF ACCESS CHARGES FOR COMPANIES WHICH PROVIDE

INTER-LATA INTRASTATE SERVICES. THE CONSENT DECREE DOES NOT AFFECT REGULATORY JURISDICTION SO THAT THE KANSAS COMMISSION WILL CONTINUE TO REGULATE INTRASTATE SERVICES, INCLUDING ACCESS CHARGES FOR THOSE LATAs. ONE QUALIFICATION TO THIS, HOWEVER, IS THAT LEGISLATION COULD BE INTRODUCED IN CONGRESS WHICH WOULD TAKE AWAY INTER-LATA JURISDICTION FROM THE STATES AND GIVE IT TO THE FCC.

IT MUST BE NOTED THAT THE CONSENT DECREE ONLY APPLIES TO AT&T AND THE BOCs. IT DOES NOT EXPLICITLY AFFECT INDEPENDENT TELEPHONE COMPANIES. THERE ARE, HOWEVER, MANY CONSEQUENCES FOR THE INDEPENDENT COMPANIES WHICH FOLLOW FROM THE CONSENT DECREE AND FCC ACTIONS.

THE LATAs WHICH ARE ESTABLISHED IN ACCORDANCE WITH THE DECREE ONLY INCLUDE THE EXCHANGES SERVED BY THE BOCs AND NOT THE AREAS SERVED BY INDEPENDENTS. UNDER THE DECREE THE INDEPENDENTS SEEM TO HAVE THREE CHOICES WITH REGARD TO ARRANGEMENTS FOR PROVIDING INTEREXCHANGE SERVICE. THEY CAN JOIN THE BOC LATA AND SHARE IN THE ACCESS CHARGES; THEY CAN BE CONSIDERED SEPARATE LATAs AND ESTABLISH THEIR OWN ACCESS CHARGE ARRANGEMENTS WITH THE INTER-LATA CARRIERS; OR THEY COULD TREAT THE BOC AS AN INTEREXCHANGE CARRIER. IT IS UNCLEAR AT THIS POINT HOW THE FCC ORDER ON ACCESS CHARGES RESOLVES THESE PROBLEMS ALTHOUGH ITS DECISION APPLIES TO ALL EXCHANGE COMPANIES AND NOT JUST THE BOCs. WHAT IS CLEAR IS THAT THE CURRENT ARRANGEMENT, KNOWN AS SETTLEMENTS, BY WHICH THE INDEPENDENTS AND THE BOCs DIVIDE UP TOLL REVENUES WILL BE CHANGED.

THESE CHANGES IN SETTLEMENTS AND TO ACCESS CHARGES MAY RESULT IN THE DEAVERAGING OF TOLL RATES, WHICH ARE NOW UNIFORM FOR INTRASTATE SERVICE THROUGHOUT KANSAS AND FOR INTERSTATE SERVICE THROUGHOUT THE COUNTRY. THE COMMISSION IS CONCERNED THAT THIS RESULT, CAUSED BY THE INTRODUCTION OF COMPETITION INTO LONG DISTANCE SERVICES, WILL ADVERSELY AFFECT THE RURAL SMALLER COMMUNITIES AND AREAS IN KANSAS, JUST AS COMPETITION IN THE AIRLINE INDUSTRY HAS ADVERSELY AFFECTED LESS TRAVELED ROUTES.

IN ADDITION, THERE IS A FEAR THAT THE BASIC TELEPHONE RATES IN RURAL, LESS DENSELY POPULATED AREAS MAY RISE SIGNIFICANTLY BECAUSE OF THEIR RELATIVELY HIGHER COSTS PER SUBSCRIBER LINE. ALTHOUGH THE JOINT BOARD IS CONSIDERING A HIGH COST FACTOR WHICH WOULD ADDRESS THIS PROBLEM, AND THE FCC ACCESS CHARGE SYSTEM REPORTEDLY PROVIDES FOR SUCH A FACTOR, IT IS UNKNOWN AT THIS POINT WHETHER THE PROBLEM WILL BE SATISFACTORILY RESOLVED.

THE CORPORATION COMMISSION HAS INITIATED PHASE IV OF ITS GENERAL INVESTIGATION TO ADDRESS THE ISSUES I HAVE MENTIONED. IN THE PAST, MANY OF THE ARRANGEMENTS BETWEEN THE INDEPENDENTS AND THE BELL SYSTEM HAVE BEEN ACQUIESCED IN BY THE REGULATORY AUTHORITIES, SIMPLY BECAUSE THEY APPEARED TO WORK SATISFACTORILY. WE NO LONGER HAVE THAT LUXURY BUT MUST ACTIVELY HELP SHAPE THE FUTURE STRUCTURE OF TELECOMMUNICATIONS SERVICES IN KANSAS, TO THE EXTENT THAT THAT AUTHORITY IS OURS.

ATTACHMENT "B" IS A COPY OF THE ORDER ON PHASE IV. IN ADDITION TO ADDRESSING LATAs, ACCESS CHARGES AND SETTLEMENTS,

THE COMMISSION WILL NEED TO MAKE DECISIONS WITH REGARD TO PROVISION OF EXTENDED AREA SERVICE, REGULATION OF OCCs AND RESALE AND SHARING OF TELECOMMUNICATIONS SERVICES. WE HAVE JUST RECEIVED COMMENTS ON SOME OF THOSE ISSUES AND WILL RECEIVE ANOTHER SET, AFTER THE FCC ACCESS CHARGE ORDER IS RELEASED.

CPE

AS MENTIONED PREVIOUSLY, THE TWO STAGE APPROACH FOR DEREGULATION OF CPE BEGAN AS OF THE FIRST OF THIS YEAR. "NEW" CPE IS NO LONGER PROVIDED UNDER TARIFF WHILE "EMBEDDED" CPE IN TELEPHONE COMPANY INVENTORIES IS EXPECTED TO LAST FROM THREE TO SIX MONTHS. THE COMMISSION IS CONCERNED THAT AFTER THE INVENTORY IS DEPLETED, CUSTOMERS IN SOME AREAS OF THE STATE MAY HAVE DIFFICULTY IN READILY ACQUIRING CPE. THIS IS ESPECIALLY TRUE OF PARTY LINE CPE IN AREAS WHERE A TELEPHONE COMPANY MAY DECIDE NOT TO PROVIDE SUCH EQUIPMENT ON A DEREGULATED BASIS, BECAUSE THE SPECIAL TELEPHONES NECESSARY FOR PARTY LINE SERVICE ARE NOT BEING SOLD BY OTHER FIRMS SUCH AS RADIO SHACK.

THE FCC HAS NOT YET DETERMINED WHAT TO DO ABOUT THE EMBEDDED CPE IN INVENTORY AND CUSTOMERS OFFICES AND HOMES. IT HAS, HOWEVER, INDICATED SUPPORT FOR THE SALE OF THAT CPE TO CUSTOMERS WHO WISH TO PURCHASE IT. THE CORPORATION COMMISSION, AFTER HEARINGS ON THE MATTER, HAS DECIDED THAT COMPANIES, AT THEIR OPTION, SHOULD OFFER TO SELL THE EMBEDDED CPE TO CUSTOMERS. THIS WILL HOPEFULLY GIVE CUSTOMERS A DESIRABLE OPTION IN COPING WITH THE CHANGES THAT ARE OCCURRING.

ALTHOUGH THE EMBEDDED CPE IS STILL REGULATED, THERE ARE IMMEDIATE CONSEQUENCES FOR LOCAL RATES. BEGINNING JANUARY 1, 1983, THE COSTS ASSOCIATED WITH THE EMBEDDED CPE WHICH ARE ALLOCATED TO INTERSTATE BEGAN TO DECLINE AT THE RATE OF 1/60TH PER MONTH. THUS, UNLESS THE EMBEDDED CPE IS ACTUALLY REMOVED FROM REGULATED RATE BASES AT THE SAME OR FASTER RATE, THOSE COSTS WHICH ARE PHASED OUT OF THE INTERSTATE JURISDICTION COULD HAVE TO BE RECOVERED IN INTRASTATE JURISDICTIONS. THIS IS AN ADDITIONAL REASON TO ENCOURAGE SALE OF EMBEDDED CPE.

THE OTHER MAJOR PROBLEM ARISING FROM THE FCC'S DECISION IN COMPUTER II IS THE NEED FOR TELEPHONE UTILITIES TO KEEP THE COSTS OF REGULATED OPERATIONS SEPARATE FROM UNREGULATED OPERATIONS, IF THE COMPANY DECIDES TO PROVIDE "NEW" CPE. ALSO, BECAUSE SOUTHWESTERN BELL IS TEMPORARILY PROVIDING INSTALLATION AND MAINTENANCE SERVICES FOR THE AT&T SEPARATE SUBSIDIARY, AMERICAN BELL, INC., (ABI), THE COMMISSION MUST INSURE THAT SOUTHWESTERN BELL IS FULLY RECOVERING ITS COSTS.

FUTURE REGULATION

AS EVIDENT, STATE AND FEDERAL REGULATORY BODIES HAVE BEEN AND WILL CONTINUE TO BE VERY BUSY. THE CORPORATION COMMISSION BELIEVES THERE WILL BE INCREASING PRESSURE IN THE FUTURE FOR INCREASES IN KANSAS CUSTOMERS' FIXED MONTHLY RATES. IN ADDITION TO THE POTENTIAL INCREASES IN INTRASTATE ALLOCATED COSTS, INCLUDING THE EFFECTS OF THE CPE PHASE-OUT, AND THE INITIATION OF INTERSTATE FLAT MONTHLY ACCESS CHARGES, THE FCC HAS TAKEN ANOTHER ACTION WHICH MAY MEAN INCREASED RATES. THE FEDERAL

AGENCY HAS PURPORTED TO PREEMPT STATE COMMISSIONS IN ALLOWING THE USE OF TWO DEPRECIATION METHODS WHICH WILL CAUSE GREATLY INCREASED DEPRECIATION EXPENSES. ALTHOUGH WE EXPECT THAT DECISION TO BE APPEALED, IT IS DIFFICULT TO PREDICT THE OUTCOME.

IN ADDITION TO THE ABOVE FACTORS, THE SMALL INDEPENDENT TELEPHONE COMPANIES MAY FACE OTHER CIRCUMSTANCES WHICH RESULT IN RATE CASES FILINGS. DUE TO THE CURRENT SYSTEM OF SEPARATIONS AND SETTLEMENTS, FEW INDEPENDENTS HAVE HAD TO FILE RATE CASES IN THE LAST TEN YEARS. CHANGES IN SEPARATIONS OR SETTLEMENTS MAY CHANGE THAT.

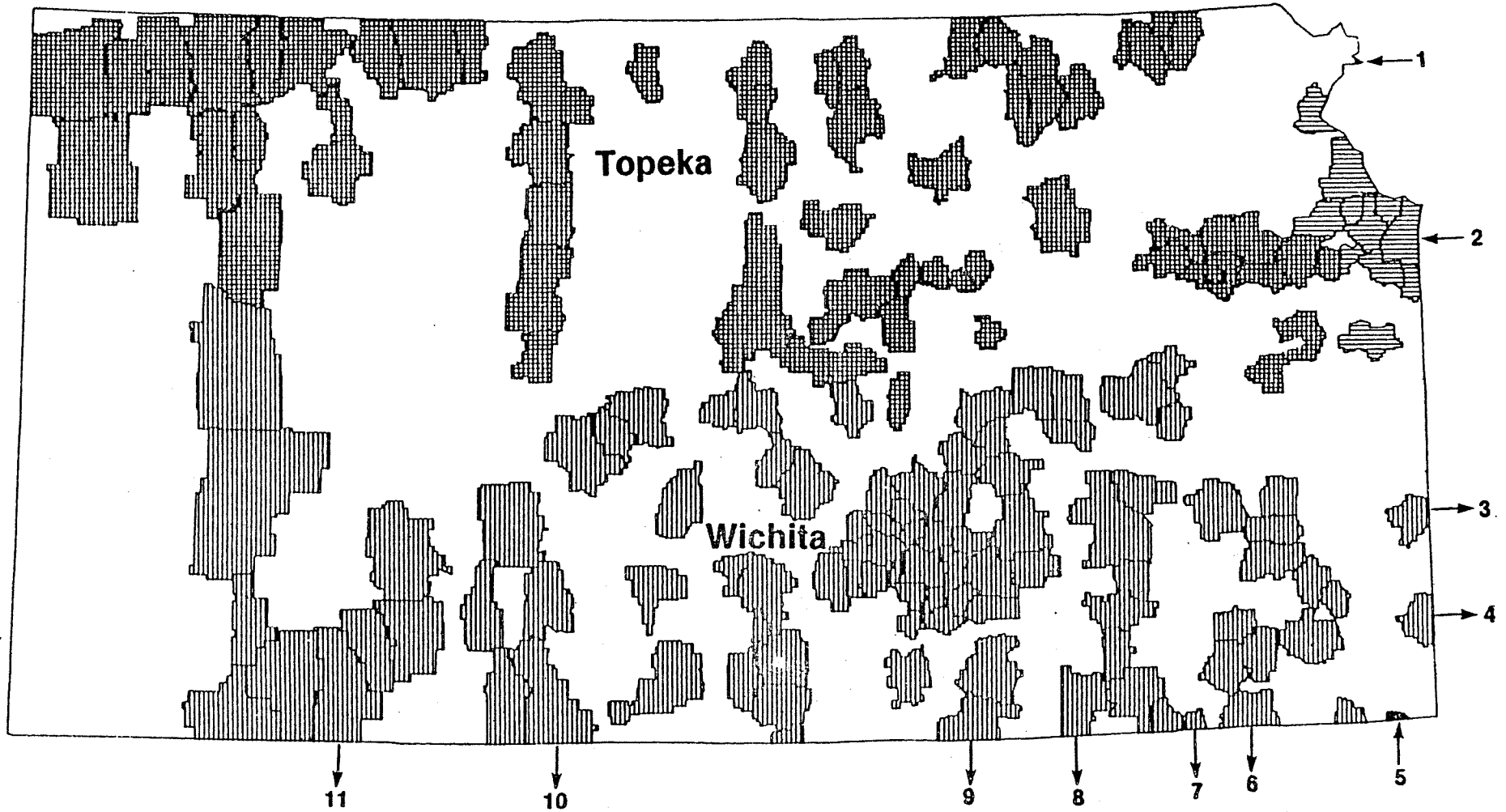
THE COMMISSION IS ALSO ANTICIPATING THE NEED TO REGULATE INTRASTATE SERVICE PROVIDED BY AT&T AND POSSIBLY OTHER COMMON CARRIERS. THESE COMPANIES MAY PRESENT SOME PROBLEMS NOT CURRENTLY FACED IN RATE CASES, PRIMARILY BECAUSE THE PLANT AND OTHER COSTS ASSOCIATED WITH KANSAS INTRASTATE SERVICE MAY NOT BE DISCRETE AND EASILY IDENTIFIABLE SO THAT DIFFICULT ALLOCATIONS WILL BE REQUIRED.

IT SHOULD ALSO BE NOTED THAT WE EXPECT SOUTHWESTERN BELL TO BE FILING A RATE CASE LATER THIS SPRING. THIS RATE CASE WILL PRESENT UNIQUE DIFFICULTIES BECAUSE IT WILL NEED TO BE BASED ON THE COMPANY'S CIRCUMSTANCES AFTER DIVESTITURE IN 1984. IN ADDITION TO NEEDING TO PROJECT THE EFFECTS OF A NEW ACCESS CHARGING SYSTEM, WHICH THIS COMMISSION WILL DETERMINE, AND CHANGES IN SEPARATIONS AND SETTLEMENTS, THE COMMISSION WILL NEED TO DETERMINE WHETHER IT HAS THE SAME CONCERNS ABOUT THE BOCs

ARRANGEMENTS WITH THEIR CENTRALIZED STAFF ORGANIZATION AS IT DID WITH REGARD TO THE LICENSE CONTRACT ARRANGEMENT WITH AT&T. ALSO, THIS RATE CASE IS SUPPOSED TO INCLUDE REIMBURSEMENT BY AT&T OF PRE-OPERATIONAL COSTS OF ABI. THIS WILL NEED TO BE EXAMINED.

FINALLY, THE COMMISSION STAFF IS ATTEMPTING TO DEVELOPE MEANS OF ADDRESSING SOME GENERAL CONCERNS ARISING FROM THE CHANGES IN TELECOMMUNICATIONS. IN ADDITION TO INSURING REASONABLE RATES FOR TELEPHONE SERVICE, THE COMMISSION IS CHARGED WITH INSURING REASONABLY EFFICIENT AND SUFFICIENT SERVICES. WE HOPE TO DEVELOPE MORE SYSTEMATIC WAYS OF MONITORING THE QUALITY OF SERVICE PROVIDED SO THAT IT DOES NOT DETERIORATE. AT THE SAME TIME WE WANT TO INSURE THAT ADDITIONAL INVESTMENT IN FACILITIES IS REALLY REQUIRED TO PROVIDE ADEQUATE SERVICE.

KANSAS



The LATA boundaries on this map make no assumptions regarding the participation (or non-participation) of any Incipendents for purposes of complying with the proposed 1982 Consent Decree.

A

N
H

BOC: Southwestern
STATE: Kansas

ALPHABETICAL LIST OF
BELL EXCHANGES AND LOCALITIES
AND ASSOCIATED LATAs

<u>Exchange</u>	<u>LATA</u>	<u>Exchange</u>	<u>LATA</u>
Abilene	Topeka	Erie	Wichita
Almena	Topeka	Eudora	Topeka
Andale	Wichita	Eureka	Wichita
Anthony	Wichita	Florence	Wichita
Arkansas City	Wichita	Fort Scott	Wichita
Atchison	Kansas City, Mo.	Fowler	Wichita
Attica	Wichita	Frankfort	Topeka
Atwood	Topeka	Garden City	Wichita
Baileyville	Topeka	Garden Plain	Wichita
Basehor	Kansas City, Mo.	Goodland	Topeka
Belleville	Topeka	Great Bend	Wichita
Beloit	Topeka	Greensburg	Wichita
Bird City	Topeka	Gypsum	Topeka
Blue Rapids	Topeka	Halstead	Wichita
Bucklin	Wichita	Hamilton	Wichita
Burns	Wichita	Hanover-Hollenberg	Topeka
Caney	Wichita	Harper	Wichita
Canton	Wichita	Hartford	Wichita
Cedar Vale	Wichita	Hays	Topeka
Chanute	Wichita	Herington	Topeka
Chapman	Topeka	Herndon	Topeka
Chase	Wichita	Howard	Wichita
Cheney	Wichita	Hoxie	Topeka
Cherryvale	Wichita	Humboldt	Wichita
Chetopa	Wichita	Hutchinson	Wichita
Clay Center	Topeka	Independence	Wichita
Clinton	Topeka	Iola	Wichita
Coffeyville	Wichita	Jewell	Topeka
Colby	Topeka	Kansas City	Kansas City, Mo.
Coldwater	Wichita	Kingman	Wichita
Concordia	Topeka	Kinsley	Wichita
Cottwood Falls	Wichita	La Crosse	Topeka
De Soto	Kansas City, Mo.	Larned	Wichita
Dodge City	Wichita	Lawrence	Topeka
Douglass	Wichita	Leavenworth	Kansas City, Mo.
El Dorado	Wichita	Leon	Wichita
Ellsworth	Topeka	Liberal	Wichita
Elwood	Kansas City, Mo.	Lincoln	Topeka
Emporia	Wichita	Lindsborg	Topeka
Enterprise	Topeka	Lyons	Wichita

BOC: Southwestern
STATE: Kansas

ALPHABETICAL LIST OF
BELL EXCHANGES AND LOCALITIES
AND ASSOCIATED LATAs

<u>Exchange</u>	<u>LATA</u>	<u>Exchange</u>	<u>LATA</u>
Manhattan	Topeka	Seneca	Topeka
Mankato	Topeka	Severy	Wichita
Marion	Wichita	Smith Center	Topeka
Marquette	Topeka	Solomon	Topeka
Marysville	Topeka	Spivey	Wichita
McDonald	Topeka	Stafford	Wichita
McPherson	Wichita	Stockton	Topeka
Meade	Wichita	Sublette	Wichita
Medicine Lodge	Wichita	Tonganoxie	Kansas City, Mo.
Minneapolis	Topeka	Topeka	Topeka
Minneola	Wichita	Towanda	Wichita
Moline	Wichita	Treece	Tulsa, Ok.
Mount Hope	Wichita	Washington	Topeka
Neddesha	Wichita	Waterville	Topeka
Newton	Wichita	Wellington	Wichita
Nickerson	Wichita	Wichita	Wichita
Norcatour	Topeka	Williamsburg	Topeka
Norton	Topeka	Winfield	Wichita
Oakley	Topeka	Yates Center	Wichita
Oberlin	Topeka		
Ottawa	Topeka		
Paola	Kansas City, Mo.		
Parsons	Wichita		
Pawnee Rock	Wichita		
Peabody	Wichita		
Penalosa	Wichita		
Phillipsburg	Topeka		
Pittsburg	Wichita		
Plains	Wichita		
Plainville	Topeka		
Pratt	Wichita		
Protection	Wichita		
Reading	Wichita		
Sabetha	Topeka		
Saint Francis	Topeka		
Saint Paul	Wichita		
Salina	Topeka		
Scandia	Topeka		
Scott City	Wichita		
Sedan	Wichita		

THE STATE CORPORATION COMMISSION
OF THE STATE OF KANSAS

BEFORE COMMISSIONERS: RICHARD C. (PETE) LOUX, CHAIRMAN
JANE T. ROY
PHILLIP R. DICK

[N THE MATTER OF A GENERAL)
INVESTIGATION INTO THE RATES,)
TARIFFS, POLICIES AND PRACTICES) DOCKET No. 127,140-U
OF PUBLIC TELEPHONE UTILITIES) (PHASE IV)
RELATING TO CUSTOMER PREMISES)
EQUIPMENT.)

ORDER

THE ABOVE-CAPTIONED MATTER COMES BEFORE THE STATE CORPORATION COMMISSION OF THE STATE OF KANSAS ON ITS OWN MOTION. HAVING REVIEWED ITS FILES AND RECORDS AND BEING DULY ADVISED IN THE PREMISES, THE COMMISSION FINDS AND CONCLUDES AS FOLLOWS:

1. THIS DOCKET WAS INITIATED IN MARCH OF 1981 BY THE COMMISSION AS A VEHICLE FOR ADDRESSING MANY OF THE CHANGES OCCURRING IN THE REGULATION OF TELECOMMUNICATIONS. THE IMMEDIATE IMPETUS WAS THE DECISION OF THE FCC IN ITS SECOND COMPUTER INQUIRY (COMPUTER II) TO DEREGULATE CUSTOMER PREMISES EQUIPMENT (CPE), BUT WE HAVE IN THIS DOCKET ADDRESSED SEVERAL OTHER MATTERS.

WE HAVE HAD HEARINGS SO FAR ON EXPENSING OF STATION CONNECTIONS, ELG AND REMAINING LIFE DEPRECIATION, AND DISPOSITION OF EMBEDDED CPE. AN ORDER ON THE FIRST MATTER HAS BEEN ISSUED AND ORDERS ON THE LATTER TWO WILL BE ENTERED SOON.

2. IT IS EVIDENT, HOWEVER, THAT MANY OTHER MATTERS REQUIRE THIS COMMISSION'S ATTENTION. THE ENTRY OF A MODIFIED FINAL JUDGMENT (MFJ) IN THE DEPARTMENT OF JUSTICE'S ANTITRUST SUIT AGAINST AT&T, THE DEVELOPMENT OF AN INTERSTATE ACCESS CHARGE SYSTEM BY THE FCC, AND GROWING COMPETITION IN THE PROVISION OF INTEREXCHANGE SERVICE IN KANSAS WILL HAVE CONSEQUENCES WHICH CANNOT BE IGNORED. WE THEREFORE INTEND IN THIS FOURTH PHASE OF THIS GENERAL INVESTIGATION TO ADDRESS THE ISSUES DISCUSSED BELOW AND ISSUE THIS ORDER TO SOLICIT COMMENTS FROM INTERESTED PARTIES ON THE APPROPRIATE ACTIONS TO BE TAKEN AND THE PROPER PROCEDURES FOR RESOLVING THESE MATTERS.

3. AT&T AND THE BELL OPERATING COMPANIES (BOCs), INCLUDING SOUTHWESTERN BELL TELEPHONE COMPANY (SWB), HAVE FILED WITH THE COURT PROPOSED CONFIGURATIONS FOR LOCAL ACCESS AND TRANSPORT AREAS (LATAs). THIS COMMISSION HAS FILED COMMENTS GENERALLY SUPPORTING THE PROPOSED LATAs FOR SWB KANSAS EXCHANGES. WE HAVE, HOWEVER, EXPRESSED RESERVATIONS ABOUT THE IMPLICATIONS OF LATAs WITH REGARD TO INCLUSION OR EXCLUSION OF INDEPENDENT TELEPHONE COMPANIES (INDEPENDENTS).

FIRST, WE ARE CONCERNED THAT REQUIREMENTS IMPOSED BY THE MFJ WITH REGARD TO EQUAL ACCESS TO INTEREXCHANGE (INTER LATA) CARRIERS COULD DISRUPT EXISTING TELEPHONE NETWORK FACILITIES OR OTHERWISE CAUSE INEFFICIENCIES IN PROVISION OF TELEPHONE SERVICE. FOR EXAMPLE, SOME SWB EXCHANGES CURRENTLY HOME ON INDEPENDENT CLASS 4 SWITCHES WHICH MIGHT HAVE TO BE DUPLICATED BY SWB IF THOSE INDEPENDENTS' SWITCHES CANNOT BE USED FOR ACCESS TO SWB LATAs.

SECOND, THE INDEPENDENTS AND SWB CURRENTLY PROVIDE INTRASTATE (AND INTERSTATE) MTS AND OTHER INTEREXCHANGE SERVICES AS A JOINT SERVICE THROUGH VARIOUS AGREEMENTS WHICH ARE BASED ON A PROCEDURE KNOWN AS SEPARATIONS AND SETTLEMENTS. IT WOULD SEEM THAT SETTLEMENTS AS CURRENTLY IN EXISTENCE WILL NOT SURVIVE THE CHANGES REQUIRED BY THE ANTITRUST JUDGMENT. THE FINANCIAL CONSEQUENCES FOR INDEPENDENTS ARE THEREFORE UNCERTAIN, BUT WOULD SEEM TO DEPEND ON THE MANNER IN WHICH INTEREXCHANGE CARRIERS ARE REQUIRED TO COMPENSATE EXCHANGE COMPANIES AND THE MANNER IN WHICH DIFFERENT EXCHANGE COMPANIES DIVIDE UP SUCH ACCESS CHARGE REVENUES.

THIS COMMISSION CLEARLY HAS JURISDICTION TO DETERMINE THE MANNER IN WHICH INTRASTATE INTEREXCHANGE SERVICES ARE PROVIDED. K.S.A. 66-107. FURTHER, IT WOULD SEEM THAT WE HAVE AUTHORITY TO DETERMINE ARRANGEMENTS BETWEEN AND AMONG DIFFERENT JURISDICTIONAL UTILITIES IN THE PROVISION OF JOINT SERVICES. ALTHOUGH WE HAVE HISTORICALLY EXERCISED ONLY LIMITED AUTHORITY OVER SUCH ARRANGEMENTS, SEE E.G. DOCKET NOS. 130,263-U (CHANGE FROM AVERAGE TO COST BASED SETTLEMENTS) 112,733-U (PROVISION OF

OPERATOR OFFICE SERVICES) WE BELIEVE IT MAY BE NECESSARY TO FULLY EXERT OUR AUTHORITY TO INSURE EFFICIENT PROVISION OF INTER- EXCHANGE SERVICE AND INSURE EQUITABLE ARRANGEMENTS BETWEEN JURISDICTIONAL UTILITIES.

INTERESTED PARTIES ARE THEREFORE INVITED TO SUBMIT PRELIMINARY COMMENTS ON THE FOLLOWING ISSUES. WE RECOGNIZE THAT THEY ARE INTERRELATED AND THAT A GREAT DEAL OF UNCERTAINTY EXISTS. HOWEVER, WE BELIEVE THAT THE COMMISSION MUST BEGIN TO ADDRESS THESE ISSUES.

A. THIS COMMISSION WILL NEED TO ESTABLISH INTRASTATE ACCESS CHARGE TARIFFS FOR SWB PURSUANT TO THE MFJ. IT WOULD SEEM THAT WHATEVER SYSTEM AND METHODOLOGY IS DEVELOPED AND APPROVED FOR SWB SHOULD BE EQUALLY APPLICABLE TO INDEPENDENTS UNLESS THERE ARE DIFFERENT CONSIDERATIONS INVOLVED. WE THEREFORE REQUEST COMMENTS ON WHETHER SUCH DIFFERENT CONSIDERATIONS DO EXIST. FURTHER, WE REQUEST COMMENTS ON WHETHER, IN THE INTEREST OF CONSISTENCY, THIS COMMISSION SHOULD ADOPT WHATEVER SYSTEM IS ADOPTED BY THE FCC IN ITS DECISION. IF NOT, WHAT SYSTEM AND METHODOLOGY IS MOST APPROPRIATE FOR KANSAS INTRASTATE ACCESS CHARGES? WITH REGARD TO THIS QUESTION, WE ALSO REQUEST COMMENTS CONCERNING THE PROSPECTS OF THE DEVELOPMENT OF THE PHENOMENON KNOWN AS "BY-PASS" IN KANSAS.

B. IT MAY BE DESIRABLE FOR INDEPENDENTS TO BE INCLUDED IN SWB LATAs TO PROMOTE NETWORK EFFICIENCY AND FINANCIAL VIABILITY OF INDEPENDENTS. WE REQUEST COMMENTS ON THIS QUESTION AND, IF IT IS DESIRABLE, WHETHER THIS COMMISSION HAS AUTHORITY TO REQUIRE SUCH ARRANGEMENTS. EVEN IF SUCH ARRANGEMENTS CANNOT BE REQUIRED, WE ANTICIPATE THAT SOME WILL OCCUR VOLUNTARILY. WE REQUEST COMMENTS ON WHAT ARRANGEMENTS SHOULD BE REQUIRED FOR DIVISION OF ACCESS CHARGE REVENUES BETWEEN COMPANIES WITHIN THE SAME LATA, IF ANY, AND THE PROCEDURES FOR ADMINISTRATION AND MONITORING OF SUCH ARRANGEMENTS.

C. BECAUSE OF THE UNCERTAINTY REGARDING THE IMPLICATIONS OF LATAs AND ACCESS CHARGES FOR INTEREXCHANGE SERVICES, THE

COMMISSION HAS PLACED A MORATORIUM ON THE ESTABLISHMENT OF EXTENDED AREA SERVICE (EAS) ARRANGEMENTS. WE REQUEST COMMENTS ON WHETHER SUCH ARRANGEMENTS WILL BE DESIRABLE IN THE FUTURE AND, IF SO, WHETHER THE PROCEDURES ADOPTED IN DOCKET NO. 115,653-U CAN CONTINUE TO BE APPLIED AT THE CURRENT TIME OR WHETHER MODIFICATIONS ARE NECESSARY NOW OR IN THE FUTURE.

IN PARTICULAR, WE WISH COMMENTS ON HOW EAS AFFECTS ACCESS CHARGES AND ANY SHARING OF ACCESS REVENUES.

D. IN DOCKET NO. 82U181, THIS COMMISSION APPROVED OF AN EXPERIMENTAL OFFERING OF OPTIONAL LOCAL MEASURED SERVICE. UNRESOLVED IN THAT DECISION WAS THE QUESTION OF WHETHER LOCAL MEASURED CHARGES SHOULD APPLY TO CALLS TERMINATING AT THE CONNECTING SWITCH OF AN OTHER COMMON CARRIER. WE REQUEST COMMENTS ON THAT ISSUE AND MORE BROADLY, THE QUESTION OF THE RELATIONSHIP OF LOCAL MEASURED SERVICE TO ACCESS CHARGES.

4. THIS COMMISSION HAS THUS FAR NOT EXERCISED JURISDICTION OVER INTEREXCHANGE CARRIERS KNOWN AS OTHER COMMON CARRIERS (OCCs). WE ARE AWARE, OF COURSE, THAT COMPANIES SUCH AS MCI ARE OFFERING AND PROVIDING COMMUNICATIONS SERVICES BETWEEN EXCHANGES WHOLLY WITHIN KANSAS. IT IS UNCLEAR WHETHER SUCH TRAFFIC IS SWITCHED OUTSIDE OF KANSAS. ALTHOUGH WE HAVE RECEIVED FEW COMPLAINTS ABOUT OCC SERVICES, WE BELIEVE THERE ARE NUMEROUS QUESTIONS WHICH SHOULD BE ADDRESSED.

A. WHAT IS THE PROPER DETERMINING FACTOR AS TO WHETHER INTEREXCHANGE SERVICE IS INTRASTATE SERVICE SUBJECT TO OUR JURISDICTION?

B. IF SOME OR ALL OF THE OCC SERVICES ARE SUBJECT TO OUR JURISDICTION, IS IT LEGALLY NECESSARY FOR THE COMMISSION TO EXERCISE JURISDICTION?

C. IF THE COMMISSION IS NOT REQUIRED TO EXERCISE JURISDICTION, IS IT NONETHELESS DESIRABLE TO DO SO?

D. WHAT FORM OF REGULATION OF OCCs IS NECESSARY OR DESIRABLE--FULL RATE REGULATION, SIMPLE REPORTING REQUIREMENTS OR SOME OTHER FORM OF REGULATION.

5. SOMEWHAT RELATED TO THE QUESTION OF REGULATION OF OCCS IS THE MATTER OF RESALE AND SHARING OF INTEREXCHANGE SERVICES, INCLUDING MTS, WATS AND PRIVATE LINE SERVICES. THE FCC IN ONE OF ITS DECISIONS HAS DETERMINED THAT ALL RESTRICTIONS ON RESALE AND SHARING OF MTS AND WATS SERVICES SHOULD BE REMOVED AND THAT IT SHOULD NOT BE REGULATED. WE THEREFORE REQUEST COMMENTS ON WHETHER SIMILAR RESTRICTIONS ON INTRASTATE SERVICES SHOULD BE REMOVED, THE REVENUE IMPACT OF SUCH ACTION, AND WHETHER THE COMMISSION SHOULD REGULATE, DIRECTLY OR INDIRECTLY, THE RATES FOR SUCH RESALE AND SHARING. FURTHER, WE NOTE THAT THE FCC IS INVESTIGATING THE ECONOMIC AND COST BASIS FOR WATS SO THAT THERE MAY BE SOME QUESTION WHETHER RESALE AND SHARING OF WATS WILL BE VIABLE IN THE FUTURE. WE REQUEST COMMENTS ON THIS ASPECT OF THE RESALE AND SHARING ISSUE.

6. FINALLY, WE REQUEST SUGGESTIONS ON THE PROPER PROCEDURES AND DESIRABLE TIMETABLES FOR ADDRESSING THESE ISSUES. ALTHOUGH WE HAVE INCLUDED THREE SETS OF ISSUES FOR COMMENT IN THIS ORDER, WE BELIEVE THAT THEY CAN AND SHOULD BE ADDRESSED SEPARATELY. FOR INSTANCE, THE ISSUES RELATING TO RESALE AND SHARING ARE RELATIVELY SIMPLE AND CAN PROBABLY BE RESOLVED FAIRLY EXPEDITIOUSLY. WE THEREFORE WILL REQUIRE COMMENTS ON EACH SET OF ISSUES SEPARATELY.

IT IS, THEREFORE, BY THE COMMISSION ORDERED THAT:

1. INTERESTED PERSONS MAY COMMENT ON THE ISSUES AND QUESTIONS SET FORTH ABOVE CONCERNING RESALE AND SHARING OF INTEREXCHANGE SERVICES (PARAGRAPH 5) ON OR BEFORE JANUARY 21, 1983.


2. INTERESTED PERSONS MAY COMMENT ON THE ISSUES AND QUESTIONS SET FORTH ABOVE CONCERNING REGULATION OF SERVICES PROVIDED BY OTHER COMMON CARRIERS (PARAGRAPH 4) ON OR BEFORE JANUARY 21, 1983.

3. INTERESTED PERSONS MAY COMMENT ON THE ISSUES AND QUESTIONS SET FORTH ABOVE CONCERNING LATAS AND ACCESS CHARGES (PARAGRAPH 3) ON OR BEFORE JANUARY 31, 1983.

PURSUANT TO A PREVIOUS ORDER IN THIS DOCKET, AN ORIGINAL
AND NINE COPIES OF ANY COMMENTS SUBMITTED SHOULD BE FILED WITH
THE EXECUTIVE SECRETARY OF THE COMMISSION.

DATED: December 28, 1982

LOUX, CHMN.; ROY, COM.; DICK, COM.



ACTING EXECUTIVE SECRETARY

DAL:TW