7. Advanced Telecommunications Corporation ("ATC") and Cable & Wireless Communications ("Cable and Wireless")

ATC and Cable & Wireless are both resellers operating in Louisiana. In this Docket, ATC and Cable & Wireless filed joint testimony, and also jointly filed a post-hearing brief. Currently, ATC and Cable & Wireless are authorized to compete with South Central Bell in the intra-LATA toll market.

ATC and Cable & Wireless support a policy framework entitled "Consumer Sovereignty" which would allow the consumer to designate its choice of carrier. Consumer Sovereignty would entail wide open intra-LATA competition, with each interexchange carrier having "1+" and "0+" authority. (Pre-filed Dir. Test. of J. Gillan at 4; Br. of ATC and Cable and Wireless at 3-7). Additionally, ATC and Cable & Wireless are in favor of requiring the imputation of the tariffed cost of access in the rates of the Local Exchange Companies. (Pre-filed Dir. Test. J. Gillan pp. 8-13).

8. Louisiana Payphone Association

The Louisiana Payphone Association is an organization composed of a majority of the operators of customer-owned coin operated telephones ("COCOTs") in the State. In Order No. U-16462-E the Commission decided a number of issues raised by the COCOTs in separate proceedings pending before the Commission. The Commission determined that although the COCOTs had been completing intra-LATA toll calls, they had never been authorized to do so. The Commission decided to reserve the "0+" intra-LATA

toll traffic to the local exchange companies and to deny the COCOTs any compensation for this "loss of the LATA."

The COCOTs seek to have the Commission approve expanded intra-LATA competition. To the extent that the LATA is opened up to further competition the COCOTs are seeking authority to complete intra-LATA "0" calls.

9. Intellicall, Inc.

Intellicall is a manufacturer of COCOT instruments. It provides (via lease or sale) the vast number of COCOT instruments used by Louisiana's largest COCOT provider, Coin Call, Inc. In addition, a subsidiary of Intellical provides alternate operator services. Intellical's principal interest in this Docket is to have the Commission approve expanded intra-LATA competition and to obtain Commission authorization for the COCOTs to complete "0" intra-LATA calls.

10. The Secretary of Defense, through the United States Department of Defense and All Federal Executive Agencies ("Department of Defense")

The Department of Defense also participated in these proceedings, and is in favor of expanding the intra-LATA market to allow intra-LATA facilities-based toll competition. The Department of Defense does not request that the interexchange carriers be granted authority to handle 1+ dialed MTS and 0+ dialed intra-LATA services. (Br. of Dept. of Defense at 1.) The Department of Defense states that:

> the record in this subdocket supports the conclusion that a policy of intra-LATA facilities-based toll competition would be viable and in the public interest. Generally, DOD/FEA agrees with most parties that effective competition could exist in

> the intra-LATA market and that such competition would not materially impact either universal service or the financial viability of South Central Bell.
>
> Br. of Dept. of Defense at 1.

The Department of Defense cited numerous benefits that would occur if facilities based intra-LATA competition were allowed, including price reductions, increases in product choices and variety, and more innovation. Br. of Dept. of Defense at 3.

Regarding implementation of increased competition, the Department of Defense would be in favor of a plan which would guard against the Local Exchange Carrier using dominant market power to disadvantage competitors. (Br. of Dept. of Defense at 10-11.) Additionally, the Department of Defense is in favor of requiring South Central Bell to impute access charges in its intra-LATA toll rates. It stated that "imputation is necessary to prevent South Central Bell from obtaining an unfair price advantage." (Br. of Dept. of Defense at 11.)

11. <u>Commission Staff</u>

The Staff submitted prefiled testimony on both the intra-LATA competition and access issues. The Staff recommends that the Commission open the LATA to competition by both resellers and facilities based carriers on a "10XXX" basis. That is, "1+" and "0+" dialing would remain the exclusive province of the local exchange companies. Staff opposes the suggestion of LDDS that intra-LATA competition be only "retail" and further disagrees with the suggestion that the IXC's be prohibited from

constructing new facilities. Also, because the Staff determined that there would be no significant impact on LEC revenues from this type of competition, it asserted there was no need to "re-balance" rates as suggested by South Central Bell. The Staff opposes South Central Bell's recommendation to adopt a mandatory 40 mile local calling area in which traffic from all potential competitors would be blocked.

The Commission Staff takes the following positions on the access charge issues. First, the Commission has already ordered intrastate access charges to be reduced to interstate levels. Staff supports this position. Second, in the event that the Commission authorizes additional intra-LATA competition, the LECs should be required to include in their intra-LATA toll prices the same access charge assessed to the IXCs and resellers. This will ensure that competition will be fostered on an equitable basis and also prevent the LECs from utilizing their monopoly power to create a price squeeze situation. Finally, the Staff does support a reduction in the disparities in access charges levied by the various LECs. However, it does not believe that absolute equality is required. Staff therefore recommends the use of a high cost fund which would be made available to truly "high cost" LECs. To be eligible to participate in the fund the following criteria would have to be met: (1) the LEC's access charges will have to be no lower than South Central Bell's access charges or the company's own interstate charges, whichever are higher; (2) the local flat rate service charge can be no

lower than South Central Bell's charge in comparably sized exchanges; and (3) the company will have to demonstrate that it is a high cost company in need of support.

E. Findings

All parties are in general agreement that competition for telecommunications services within the LATA already exists, and, particularly given the rapid advancements in technology, will continue to expand. South Central Bell's witness, Mr. John Ebbert, described the situation as follows:

> I think it is the currents of history we are seeing today. Competition is evolving. I can't stop that. I'm not sure I'd want to stop it, but I couldn't if I wanted to. I don't think that the Commission can effectively stop competition in the long-run either. I think technology is going to drive that into being in the marketplace, and it is appropriate.
>
> I think that there are opportunities that should be allowed customers, given fair and equitable treatment for all participants in the marketplace.
>
> (Tr. 7/23/91, Test. J. Ebbert at 60)

Mr. Ebbert further stated:

> We've come to this docket advocating a transition to a competitive marketplace. We see that is going to happen. Every indication in the marketplace says that is what is going to transcend the current environment we have today.
>
> (Id. at 53)

Dr. Kahn, the Staff's expert consultant, expressed similar sentiments.

> There is no dispute among the parties in this proceeding that competition in the market for intra-LATA toll services exists, and even if the Commission wanted, it would be most unlikely that the Commission could reverse that situation. Consequently, the issue before the Commission right now

> is exactly what degree of competition should be allowed, and if additional competition is permitted, how fast should it be permitted to enter, how to structure the entry of it and how it can be done such that it is in the public interest.
>
> (Tr. 7/23/91, Test. M. Kahn at 134-35).

1. Benefits of competition

The participants in this Docket are in agreement that intra-LATA competition would provide benefits to telecommunications users. For example, AT&T contends that increased intra-LATA competition will provide greater choices to Louisiana subscribers, encourage price reductions, help stimulate the development of new service offerings and also encourage the rapid deployment of new services within the marketplace. (Pre-filed Dir. Test. of W. Ellison, p. 6; Pre-filed Dir. Test. of D. Ballard, p. 4; Pre-filed Dir. Test. of W. Culbertson p. 3). In addition to the foregoing benefits, MCI believes that expanded intra-LATA competition will also provide incentives for carriers to serve additional markets and incentives for those firms to become more efficient. Furthermore, such competition will increase the number of firms investing in the telecommunications infrastructure in Louisiana, providing a boost to long term economic development in the State. (Br. of MCI at 1).

Sprint's witness identified the benefits of increased intra-LATA competition as reductions in toll prices, increases in product choice and variety, increased innovation and the introduction of new products and technology. (Pre-filed Dir. Test. of B. Albery at 5). Dr. Kahn, the Commission Staff's

expert witness, stated that competition should provide a stimulus for improvements in service offerings, efficiency and pricing. Firms may seek out market segments going unserved or underserved. Less costly methods of production should be developed. Dr. Kahn stated that:

> [W]hile competitive firms seek methods to cut costs in an attempt to improve profits, competition forces many of these cost saving to be passed through to customers. Competition, if successfully implanted, will result not only in lower costs, but also in lower prices.
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> (Pre-filed Dir. Test. of M. Kahn at 10).

Finally, even South Central Bell recognizes the benefits that should be realized from competition:

> Generally speaking . . . economic theory indicates that competition, with the introduction of additional service providers, generally is accompanied by an increase in the choices of service offerings as well as a reduction in rates for competing services. Coincident with the creation of an increasingly competitive intra-LATA market, all LECs' rates for local, toll and carrier access services will be driven toward the cost of providing those services. In addition, competition will stimulate all providers to minimize cost. The combined impact of these benefits should be to bring telephone consumers more choices at a lower total price.
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> (Ex. 1, Pre-filed Dir. Test. of J. Ebbert at 8).

Further, South Central Bell witness Dr. Lewis Perl testified that if the Commission orders the rate rebalancing and other relief sought by the company, intra-LATA competition may produce benefits to ratepayers, including:

1) rates being driven toward incremental cost;

2) stimulation of producer operating efficiency;

3) reduction of regulatory costs; and

4) reduction of risk to consumers of incorrect or inappropriate investment decisions.

(Pre-filed Dir. Test. L. Perl at 22-24; Br. of South Central Bell at 2.)

The experiences in the interstate and inter-LATA market also demonstrate the likely benefits which should accrue as a result of increased competition within the LATA. Since the introduction of meaningful competition in the interstate and inter-LATA markets, the industry has witnessed an increase in service offerings, and the availability of those offerings to subscribers, the introduction of innovative new products, and a decline in both the cost and price of services.

The Commission believes that an expansion of intra-LATA competition is in the public interest and will likely provide benefits to ratepayers. Two questions still remain to be answered. First, what form will this competition take, and second, what will be the likely impact of such competition on the level of revenues (and therefore contribution) that toll traffic currently provides to the LECs. Depending upon the projected impact on contribution, we have the option of implementing some of the rebalancing adjustments suggested by South Central Bell or providing a mechanism to track contribution loss and compensate the LECs if that loss exceeds a certain level.

2. Level of Intra-LATA competition

Having determined that expanded intra-LATA competition provides an opportunity to provide significant benefits to rate-payers, the Commission must determine exactly how extensive that competition will be. Four basic approaches were sponsored by various parties in this Docket.

a) "Retail Competition"

One reseller, LDDS, has proposed that the current authority which permits resellers to compete with the LECs for intra-LATA toll traffic should be continued. However, if the Commission determines that the facilities based carriers should be permitted to compete for the intra-LATA toll traffic, LDDS recommends that only "retail" competition be permitted. Under such an arrangement, any calls handled by the facilities based IXCs would have to be carried over the facilities of the local exchange companies. LDDS believes that this approach would cause the least potential harm to the revenues of the LECs. In addition, it asserts that if the IXCs are permitted to utilize their own transmission facilities the possibility exists of having inefficient duplication of transmission facilities and/or stranded LEC transmission plant. LDDS is also opposed to the IXCs constructing facilities which could be used to compete with the LECs.

LDDS is the only party to this proceeding that has advocated having all intra-LATA traffic carried over the LEC transmission facilities. When questioned, the LDDS witness could

provide no study supporting his claim that inefficient duplication of transmission facilities would result. Neither could LDDS point to this result in other jurisdictions in which facilities-based intra-LATA toll competition is permitted. It is also curious that LDDS believes that there have been significant benefits to ratepayers as a result of intra-LATA toll competition but opposes any additional competition. The record is void of any empirical evidence which would support LDDS's predictions. Therefore, there is no reason to adopt this limit on intra-LATA competition at this time.

There is, however, a portion of the LDDS proposal which does have merit. No party to this proceeding is advocating competition for local service. We agree that such competition should not be permitted. We believe that it would be inefficient for the IXCs to construct facilities utilized for local service. Therefore, nothing in this order shall be construed as granting such authority.

b) Intra-LATA Competition Preceded By Rate Rebalancing And An Extended Local Calling Area

As discussed previously, South Central Bell supports the introduction of intra-LATA toll competition if and only if certain actions are taken prior to the implementation of that competitive environment. Specifically the company wants to reprice its intra-LATA toll charges to set the rate levels at 15 per cent below those of the lowest priced facilities based carriers, greatly reduce intra-State access charges, recover those

lost revenue through increases in local and/or LOS rates, and establish a mandatory 40 mile 7-digit local calling area. The company believes that only if these actions are taken will the local exchange companies have an opportunity to effectively compete for this intra-LATA toll traffic, over 95% of which they handle today.

The asserted need for the rebalancing and related relief is based almost exclusively on a Louisiana intra-LATA toll contribution study. This was a survey conceived by representatives of BellSouth Services, Southern Bell Telephone Company and South Central Bell. All of the questions in the survey were drafted by an employee of BellSouth Services. The questions were then given to a market research group which the BellSouth companies use on a regular basis when conducting these studies. At that point, South Central Bell gave the research firms the names and addresses of the customers to call and the surveyors called the customers. When the calls were completed, BellSouth Services' Market Research section analyzed the raw data and came up with "Study Findings." A total of 607 residential customers and 600 business customers were polled. Based on the results of this survey, South Central Bell has predicted losses of contribution ranging from $25.1 to $43.4 million and losses of subscribers as high as 82% of residence, 89% of business and 100% of WATS and 800 subscribers.

Virtually every party in this proceeding that addressed the company's study found it flawed. For example, Mr. Don Wood,

who testified on behalf of MCI, pointed out the following infirmities in the study. First, the subscribers who were surveyed were not representative of the group of consumers of intra-LATA toll services in Louisiana. Therefore, the results would not be representative. (Reb. Test. D. Wood p. 12). Mr. Wilkerson, the South Central Bell witness who sponsored the study, testified that the sample of customers used did not represent the "demographics" of South Central Bell customers. (Tr. 7/8/91, Test. James Wilkerson at 151). Rather, the company attempted to "adjust" for the fact that the survey population was not representative by "weighting" the results. (Id.) Second, significant bias exists in the wording of the questions themselves.

Third, South Central Bell improperly interpreted the results of the survey. For example, when a customer responded that he did not know whether he would use South Central Bell or another carrier for intra-LATA calling needs, the company assumed that the customer would leave South Central Bell. This is an assumption that is not realistic.

Fourth, South Central Bell improperly equated one lost toll minute with one gained access minute. In fact, for every toll minute it loses, South Central Bell will gain more than one access minute because access minutes are billed to the interexchange carriers whether or not calls are completed. Finally, South Central Bell's study fails to take into account stimulation, which is likely to occur in the more open competitive environment.

There are additional, more significant reasons which suggest that South Central Bell's predictions of massive erosion of contribution must be rejected. Dr. Lewis Perl, one of South Central Bell's witnesses, testified that facilities-based intra-LATA competition exists in some form in at least 26 states. In some states, that competition has existed since divestiture. Notwithstanding this experience, in performing its analysis on the potential impact that intra-LATA toll competition would have on contribution to the local exchange companies, South Central Bell made no effort to obtain information from those other jurisdictions in order to make its predictions. (Tr. 7/8/91, Test. J. Wilkerson, at 159-160). Instead, the company simply chose to select 1200 of its own customers, ask them a limited number of questions, and then determine the amount of revenue it would lose if intra-LATA competition were permitted.

Dr. Kahn, the Commission's expert consultant, summed up the infirmities in using such an approach:

> The credibility of the study must be further questioned because it totally ignored all available information from other jurisdictions on the impact of facilities-based competition on toll volumes, toll revenues and market share. In fact, the results of this assessment differ substantially and significantly from all empirical examinations, including those prepared by or for South Central Bell.
>
> (Pre-filed at Dir. Test. M. Kahn, at 19).

Dr. Kahn did contact regulators in those jurisdictions where intra-LATA competition has existed and also reviewed the data available on the loss of toll traffic in those states. The

empirical evidence indicates that in those states where intra-LATA toll competition exists, the impact on the local exchange companys' share of the intra-LATA toll market has been minimal. The LECs continue to retain in excess of 90% of the intra-LATA toll market.

In addition to this evidence, in discovery, the Staff obtained two reports, one prepared by South Central Bell and one by its witness Dr. Perl, which reviewed the impact of open entry into the intra-LATA toll market on the volume of South Central Bell-provided toll services. The results of these studies indicate that if facilities based competition were permitted, the Bell operating companies' intra-LATA toll volumes would only be reduced by 8 to 15 per cent. This is a far cry from the loss predicted in the survey performed on South Central Bell's Louisiana subscribers.[3]

South Central Bell's predictions for loss of traffic and revenue are inconsistent with the results achieved in other jurisdictions which have already experienced intra-LATA competition. The Commission does not accept the results of South Central Bell's study and therefore does not see any need to

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3 It should also be noted that virtually the identical survey was conducted in Kentucky in connection with a proceeding almost identical to this Docket (i.e. studying the question of whether to authorize intra-LATA toll competition). In re: An Inquiry Into Intra-LATA Toll Competition, And Appropriate Compensation Scheme For Completion Of Intra-LATA Calls By Interexchange Carriers And WATS Jurisdiction Analogy, A.D. Case No. 323, Phase I (Ky. Pub. Serv. Com'n. 1991). In its Order, the Kentucky Commission rejected the results of that study for many of the same reasons which are set forth on the record in this proceeding.

undertake the massive rate rebalancing sought by the company prior to implementation of intra-LATA toll competition.

There are two aspects of South Central Bell's request for relief that do have merit. Every party to this proceeding that took a position on the issue asserted that the level of intrastate access charges in Louisiana is excessive. The parties also were in agreement that those access charges should move downward, toward cost, but that it is appropriate for access charges to contain a component for contribution to support local service. Finally, most parties were in agreement that at least as an interim step, access charges should move to the interstate level.

For a number of years, we have recognized that the level of access charges in Louisiana is too high. In the initial rate investigation of South Central Bell, which determined that South Central Bell's rates were excessive by over $35 million, the Commission ordered that $16 million of the rate reduction should be applied to reduce intrastate access charges. (Order No. U-17949-B). Similarly, when certain revenues were made available as a result of the repeal of the telecommunications gross receipts tax, South Central Bell's intrastate access charges were lowered. Finally, in Order No. U-17949-G, which determined that South Central Bell's rates were excessive by approximately $69 million, the Commission required intrastate access charges to be reduced to the interstate level. In Order No. U-17949-M the Commission lowered the $69 million rate

decrease to $55 million. (Both the $16 million reduction associated with Order No. U-17949-B and the $55 million reduction associated with Order No. U-17949-G and U-17949-M are currently on appeal and their implementation has been enjoined). Therefore, if the Commission is successful in defending against South Central Bell's challenges to these Orders, intrastate access rates will be reduced to the interstate level.[4] The interexchange carriers have been ordered to pass through South Central Bell's access charge reductions in their Louisiana intrastate toll rates.

The second portion of South Central Bell's proposal that has merit concerns the establishment of a 40 mile local calling area. In 1989 in Order No. U-17949-B, the Commission established a local optional calling plan for all LECs which became known as "LOS." Currently there are two LOS offerings, basic LOS and "LOS B." Generally, LOS provides a mechanism for rural Louisiana telephone subscribers to complete what formerly were toll calls at greatly reduced rates. At its greatest distance LOS provides reduced rate calling out to 40 miles from a subscribers home wire center. LOS is offered on a completely optional basis.

In this proceeding, South Central Bell proposed the establishment of a 40 mile mandatory 7-digit local calling area. Under the company's plan, all calls within the 40 mile radius

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4 In addition, even if one were to accept South Central Bell's complete rate rebalancing plan, there would be sufficient revenues available from the Commission's last two rate reduction orders to accomplish that rate rebalancing.

would be defined and priced as local calls and a subscriber would only have to dial 7 digits to complete the call. Rates for local service would have to be adjusted for the loss of toll revenue within the 40 mile band. In addition, unlike LOS this plan would not be optional. Finally, under the South Central Bell proposal, no interexchange carrier or reseller would be permitted to complete calls within the 40 mile local calling area.

For a number of reasons, we find this proposal unacceptable. First, by making the program mandatory, massive restructuring of local rates would be required for <u>all</u> customers, whether or not they reap potential benefits. Second, because about three-quarters of all intraLATA toll calls are forty miles or less, blocking interexchange calls within the forty-mile zone would continue the customer inconvenience which interexchange carrier customers are currently experiencing. It is important, however, to define a forty-mile local calling area in which rates will be set by this Commission on the basis of subscriber need instead of imputed cost and competition. One way of accomplishing this would be to move the LEC forty-mile calls into the LEC local tariffs where no competition is intended. Failing to do so could lead to the demise of the price plan which we have adopted for LOS and which has been so needed in certain areas of the state. Calls by IXC customers will not be blocked within this forty-mile area so that the expressed concerns of the IXC's in regard to customer convenience can be met.

Although AT&T throughout this proceeding took a lead role in opposing the 40 mile plan, AT&T announced at the Commissions's business meeting of September 12, 1991 that it supports the concept, as did a number of other parties. At the same Commission business meeting South Central Bell indicated that it no longer required blocking of 10XXX calls by the IXCs within the 40 mile area.

Strong measures must be taken to ensure consumers are not confused into believing seven digit calls outside the base area may be made for free.

Therefore, we will adopt a 40-mile 7 digit local calling area under the following guidelines:

1) All calls within 40 miles of a customers central office shall be local calls to be completed with 7 digit dialing.

2) The rates and services and conditions associated with these calls shall be moved into the local tariffs of the LECs.

3) The prices for these calls (as well as those classified as "local" today) shall be unchanged.

4) The establishment of the 40 mile 7 digit local calling area shall not be construed as endorsing measured service for basic exchange calling and all basic exchange service being offered on a flat rate basis shall remain in effect.

5) All customers may continue to subscribe to LOS or LOS-B on an optional basis.

6) 10XXX calls within the 40 mile band shall <u>not</u> be blocked by the LECs.

7) South Central Bell and any LEC adopting the 40 mile plan shall inform customers in recordings used to advise them of the implementation of seven digit dialing that calls outside the base rate area will still be charged on a measured rate basis and shall otherwise inform customers of this fact in bill inserts and advertisements; if any of these actions appear impractical, the companies may apply for a waiver of this requirement by filing a request with the Commission.

These requirements were agreed to by South Central Bell, the independent local exchange companies, and AT&T, except the companies sought more flexibility regarding how to advise

consumers that calls would continue to be billed at the same rates.

c) "1+", "0+" intra-LATA competition

At least two parties to the proceeding, MCI and Cable and Wireless, have advocated that the Commission expand intra-LATA competition to its fullest degree, i.e., "1+"/"0+" competition. This form of competition would permit a telecommunication subscriber to dial "1" plus a seven digit number and access the intra-LATA toll carrier of his choice. Such an arrangement could be accomplished either via balloting (as was done after divestiture in those inter-LATA areas that had equal access) or simply by having subscribers notify the local exchange company who they prefer to have as their "1+" intra-LATA toll carrier.

There is no question that "1+" intra-LATA toll competition would be the most complete competition available. The local exchange companies would lose their monopoly on "1+" seven digit calling within the LATA. There is little dispute that having a monopoly on "1+" seven digit dialing is a significant advantage to any company and that loss of that monopoly would result in a significantly greater erosion in the local exchange companys' share of the intra-LATA toll market. However, from the perspective of an intra-LATA toll user (as opposed to a local exchange user) full intra-LATA competition, on a "1+" basis, theoretically should provide the maximum advantage.

After reviewing the evidence in the record we are at this time unwilling to order implementation of "1+"/"0+" intra-

LATA toll competition. This is not to say that such competition may not be beneficial to Louisiana telecommunication subscribers in the future. It simply recognizes that inadequate information is available on the impact of such competition. Moreover, certain technological and networking difficulties still exist which make it appropriate to study the impact of "10XXX" competition for a specified period of time and then decide whether to begin implementation of "1+" intra-LATA competition.

The evidence indicates that Iowa is the only state in which full intra-LATA competition exists. In two other states, Minnesota and Kentucky, the Commissions have ordered full intra-LATA competition but that arrangement has not yet been implemented. (Pre-filed Dir. Test. of Dr. Kahn, p. 7). Additionally, the switch manufacturers who would have to provide the equipment necessary to accomplish full intra-LATA competition have yet to develop the required systems. Apparently, implementation in Minnesota has been delayed for this reason.

Furthermore, one would expect that the first state or states to order the implementation of "1+" intra-LATA competition and require the LECs to install the switching equipment necessary to accomplish that arrangement might end up paying a disproportionate share of the research and development costs associated with that technology. In addition, because this technology is in its infancy, it is likely that some time will be required to work out the "bugs" in the system.

Finally, because full scale intra-LATA competition currently only exists in parts of a single state, it is virtually impossible to fully gauge the impact of that competition on the local exchange companies, determine what benefits it has produced, and make an ultimate determination of whether it is in the public interest. For these reasons, we will not order the implementation of "1+" "0+" intra-LATA competition at this time. However, depending upon the results produced by the increased competition which we do authorize (see section "F" below) the Commission may well authorize full intra-LATA competition in the future.

d) <u>10XXX Competition</u>

The final alternative to be considered is permitting competition within the LATA on a 10XXX basis. Under this alternative, the LECs would retain the exclusive right to complete all "1+"/"0+" calls but that a subscriber could use the carrier of his choice to complete intra-LATA toll calls by dialing a 10XXX code or a similar dialing arrangement. Resellers currently have this authority and this alternative would open up competition to the IXC's for the same traffic. South Central Bell on September 12, 1991 announced its agreement to the Commission adopting this alternative.

The Commission will approve implementation of 10XXX competition. As previously discussed, all parties to this Docket recognize the potential benefits to subscribers which may result from increased competition. The principal concern expressed by

South Central Bell is that increased competition will cause such an erosion in toll revenue as to threaten the contribution to local service. However, the ability to retain "1+"/"0+" calling exclusively to the LECs is a tremendous advantage in retaining intra-LATA traffic. As discussed, the experience in other jurisdictions suggests that South Central Bell is likely to retain the vast majority of the intra-LATA toll market. The level of retention of the intra-LATA toll market is likely to be 90% or more. This strongly suggests that the LECs will not suffer the loss of revenue contribution they fear. Furthermore, our approval of an expanded 40 mile 7 digit local calling area is likely to cause customers to complete their intra-LATA toll calls with their local exchange companies.

In addition, to the extent that the LECs lose toll traffic, they gain access revenues. If competition, as expected, leads to lower prices and/or new and different service offerings, toll traffic should be stimulated. This stimulation will provide the LECs with either greater toll or greater access revenue. It is the absolute level of contribution that the Commission is concerned with and not the percentage of any particular market retained by the LECs. Therefore, even if the LEC loses a portion of the intra-LATA toll market, if the related revenues are offset by stimulated traffic and/or increased access, no contribution loss will be suffered.

Permitting 10XXX facilities-based intra-LATA toll competition provides a unique opportunity. The Commission can

study the impact of intra-LATA competition to determine what benefits it yields with little risk of any adverse impact on local ratepayers. If the expected benefits materialize the Commission can decide whether to go further and begin implementation of "1+"/"0+" competition. If the benefits are not evident the Commission can reconsider its decision.

Although we believe South Central Bell's prediction of significant contribution loss is unfounded, it is possible to protect against contribution loss. MCI's witness, Mr. Don Wood proposed a "make whole" provision which would provide such protection. (Dir. Test. D. Wood, p. 15, App. "A") The Commission's expert consultant, Dr. Kahn, also recommended the use of such a mechanism. Therefore, the Commission will track the impact of intra-LATA competition on the LECs' revenues from toll traffic. If we determine that the authorized competition is negatively impacting contribution to local rates (after taking into account any increased revenues from access, stimulation and other sources) the Commission will then have the opportunity to increase intrastate access charges to make up for any shortfall in compensation.

3. Access charge levels

Three basic issues have been raised regarding access charges. The first is the general level of intra-LATA access charges. As discussed, most parties to this proceeding, including South Central Bell and the Commission Staff, have advocated that intrastate access rates be reduced to interstate levels.

The Commission has already ordered that intrastate access rates be reduced to interstate levels. The resolution of South Central Bell's appeals from our Orders will determine whether and when such access reductions occur. The interexchange carriers are to required to pass through all access resolutions to consumers through corresponding reductions in their Louisiana intrastate toll rates.

The second access charge issue is whether the Commission should order the LECs to include in their intra-LATA toll rates the same level of access charges assessed to the IXCs and resellers. Access represents the largest single component of the cost of an intrastate toll call. With the exception of South Central Bell, all parties in this Docket who addressed this issue recommended that the LECs be required to impute access charges in the intra-LATA toll rates they will be permitted to charge. Even South Central Bell witnesses acknowledged that it would be appropriate for the LECs to impute at least the level of contribution from access in setting rates. (Tr. 7/8/91, Test. L. Perl, at 88-89).

As Dr. Kahn, the Commission's expert explained, two issues are raised by the proposal to impute access charges. The first is the revenue impact on contribution to the local loop which will be caused by a Commission decision to expand intra-LATA competition. (Pre-filed Dir. Test. of Dr. Kahn at 25 et seq.) South Central Bell has predicted a massive erosion in its intra-LATA toll share if further competition is permitted. Thus,

the company proposes pricing its intra-LATA toll offerings at a level 15 per cent below that of the lowest price intra-LATA facilities-based carrier for the same offerings. Putting aside the question of whether this approach is necessary to protect the company's market share, there is no question that such an arrangement would improve its competitive position in the marketplace.

South Central Bell's justification for this proposal is that it is necessary for it to retain that market share because intra-LATA toll provides contribution to the local loop. However, it must be recognized that access charges also provide a significant contribution. To the extent that South Central Bell retains intra-LATA toll traffic at reduced prices, it sacrifices the contribution it would receive from the sale of switched access to long distance carriers and resellers. To maximize this contribution, as Dr. Kahn states, "[t]he minimum acceptable price for toll charges would be equal to the access services. Stated differently, the contribution from access services will be imputed as a cost of toll service." (Id. at 26).

The third issue is an anti-competitive concern. Switched access is a monopoly offering. If all carriers other than the LECs are assessed access charges, but the LECs are relieved of any imputation requirement, the IXCs would have to charge prices reflecting both their cost of access plus all other costs related to completing the toll calls while the LECs could price their toll offerings at levels above toll costs but below