the level of carrier access. The result would be a price squeeze.

If increased intra-LATA competition is authorized, it should be done on an equitable basis. The only way to ensure that result is to require the LECs to impute to its own price of toll service the same carrier access rate charged to other carriers. This imputation will prevent monopoly leveraging by the LECs and ensure that the contribution from access is not lost or shifted to other monopoly offerings. As a result, we conclude that the minimum price to be charged by the LECs for toll service include the LECs' tariffed rates for carrier common line, end office and traffic sensitive access charges, plus the costs for such non-access functions as interoffice transmission and billing. Access rates charged to other carriers are not required to be imputed in the prices of calls within the 40 mile local calling area because these are local and not toll calls.

4. Equalization of access charges

The Small Company Committee submitted two proposals in this Docket which would have the effect, over time, of equalizing intrastate access charges for the LECs operating in the State. The original proposal would have established South Central Bell's access charges as the target level and then each LEC would identify the degree, if any, to which its access charges exceeded those levels. Any difference in the levels would be made up from a statewide surcharge. (Pre-filed Dir. Test. M. Czerwinski).

The Small Company Committee believes that the following advantages would be realized through the adoptions of such a proposal:

> Such a reform in access rate design would: (1) increase incentives of alternate IXCs to offer competitive services in the independent companies' territories, (2) decrease incentives to geographically deaverage toll rates, (3) decrease incentives to bypass the independent companies' local networks, and (4) address the concerns raised by AT&T regarding the disparity in access charges vis a vis the competing IXCs, because AT&T is more prevalent in the rural independent company exchanges.
>
> (Alternative Compromise Proposal Submitted by the Small Company Committee at 3).

In response to various reactions and criticisms of the proposal, the Small Company Committee submitted an "Alternative Compromise Proposal." Under this plan a two part process would be established. Under the interim portion of the plan, any LEC which has a switched access rate level greater than 120% of the LECs interstate tariff or South Central Bell's intrastate tariff would be required to restructure its rates. Essentially, any required reduction in usage sensitive access charges would be translated into a flat rate per access line per month which would be included in the intrastate carrier access tariff as a new rate element. This new flat rate charge would be allocated to all IXCs based on each carrier relative percentage of total terminating minutes for intrastate switched access.

The second part of the plan, for "permanent" relief, essentially adopts the proposal of Dr. Kahn for the establishment of an intrastate high cost fund. The fund would be designed to

ameliorate (but not necessarily eliminate) the differences in the cost of providing access service and thereby reduce the disparities in access rates. (Id.) at 5-7). Dr. Kahn described the eligibility requirements for access to the fund as follows:

> To be eligible for assistance, three criteria will have to be met. First, the company's access charges will have to be no lower than Bell's charges or the company's interstate charges, whichever are higher. Second, the company's charge for local flat rate service can be no lower than Bell's charges in comparably sized exchanges. Third, the company will have to demonstrate that it is a high cost company in need of support.
>
> (Dir. Test. M. Kahn, p. 32).

The proposal of the Small Company Committee does have merit. Large disparities in access charges can have a chilling effect on IXCs and resellers originating traffic in independent LEC territories. In addition, high access charges do provide greater incentive for bypass. Further, South Central Bell on September 12 announced its agreement to the Small Company Committee's proposal.

The plan for "interim" relief offered by the Small Company Committee will be adopted but with one significant modification. It will be voluntary, not mandatory. That is, an independent LEC may choose to restructure its access charges on an interim basis, but will not be required to do so. Revised access tariffs filed pursuant to the plan for interim relief will be presumed reasonable.

Regarding permanent relief to reduce the disparity in access, we believe that the high cost fund proposal by Dr. Kahn

strikes a balance between the need to move toward uniform access rates and the concerns expressed by South Central Bell concerning its subsidization of LEC rates and those of some IXCs. However, we do not believe that it is necessary to absolutely equalize access charges. First, there may be differences in the cost of providing access that are not inappropriate to reflect in rates. Second, most states do not require uniform access charges, nor are they mandated at the federal level.

Under the high cost fund plan any independent LEC which believes that it is in need of assistance, has a vehicle to apply for it. Mr. Czerwinski, on behalf of the Small Company Committee, testified that in order to receive relief from the high cost fund, a company would have to apply to the Commission for general rate relief. We agree with the concept that a company would at least have to demonstrate the inadequacy of its total revenues before receiving relief -- whether or not is a rate case.

There are still a few details to be worked out regarding the high cost fund. The largest single issue is precisely how the fund will be financed. In addition, since we do not believe that it is necessary to reach absolute parity in access charges, we must determine to what level those charges should move if the high cost fund is accessed (i.e., 105% of the target level, 110%, etc.). Therefore, representatives of the IXC's, South Central Bell, the independent LECs and resellers are directed to meet and report back to the Commission within 60 days

with a joint recommendation if possible, as to how the high cost fund should be implemented.

5. Statewide average toll rates

Currently toll rates on an intra-LATA basis for South Central Bell and the LECs and on an intrastate inter-LATA basis for the IXCs, are offered on an averaged basis. This averaging provides the benefits of more affordable toll services to all toll subscribers in the State. The Commission must now determine whether intra-LATA toll rates should remain averaged in light of the increased competition recommended in this report. For a number of reasons we believe that requiring average rates on a statewide basis is appropriate.

No party has suggested that it intends to deaverage its rates. The IXCs assert that it would be uneconomic to deaverage rates but do not want the Commission to mandate that rates be averaged. Statewide intra-LATA toll rates are appropriate. As Dr. Kahn points out, intra-LATA toll rates are not likely to evolve equally across the State. Mandated average rates will guarantee that the benefits of increased intra-LATA toll competition will accrue to all ratepayers, not those in the low cost areas. (Dir. Test. M. Kahn, p. 30). For this reason we order that intra-LATA toll rates be required to be averaged.

6. COCOT authority to complete Intra-LATA toll calls

The final issue to be resolved is whether the COCOTs should be permitted to complete intra-LATA "0" calls within the LATA. As discussed previously, approximately a year ago the

Commission denied this authority to the COCOTs. (Order No. U-16462-E). In this Docket, however, it is appropriate to revisit this issue.

Both the LPA and Intellicall urge the Commission to grant the COCOTs the authority to complete all "0" calls using both the carrier (i.e., South Central Bell, a reseller or an IXC) and operator service company of their choice. South Central Bell has opposed this authority, asserting that any revenue lost to the COCOTs as a result of such competition will simply be revenue not available for contribution to the local loop.

Our decision to permit expanded intra-LATA competition on a 10XXX basis does not necessarily mean that the COCOTs should be granted the expanded authority they seek. "10XXX" competition simply does not fit the way the COCOTs operate. COCOTs are not "carriers." Since the Commission requires COCOTs to permit a customer to access its carrier of choice via 10XXX, <u>at no charge</u>, the effect of granting 10XXX competition would further exacerbate what the COCOTs consider to be their most significant problem - i.e., use of their sets without compensation. In addition, the record reveals that the impact on South Central Bell of allowing the COCOTs to complete "0" intra-LATA calls is far smaller than originally thought when the Commission issued Order No. U-16462-E.

For these reasons, we believe that it is appropriate to permit COCOTs to complete intra-LATA toll calls. This authority

should be granted. In addition, basic service shall be provided to the COCOTs on a flat rate, IFB basis.

There are a number of additional issues regarding COCOT operations which still must be resolved. Currently, AOS providers do not have authority to operate within the LATA. They currently are operating based on interim authority previously granted by this Commission. The issue relating to AOS providers will be addressed in the next phase of this Sub-Docket. Therefore, to the extent that a COCOT can complete "0" calls without the use of a live operator, it should be permitted to do so. In addition, if a call requires a live operator, that call may continue to be handled by the AOS companies currently authorized to operate in the State. No new AOS companies will be granted authority to operate until the Commission decides Phase II of this subdocket. When Phase II is completed the Commission will also determine whether existing AOS companies will be permitted to continue operations.

III. CONCLUSION

Considering the foregoing:

IT IS ORDERED that:

1) The interexchange carriers be permitted to offer toll service within the LATAs in Louisiana on a "10XXX" or other access code basis. The IXCs shall be permitted to offer intra-LATA call services they are currently offering on an inter-LATA basis. The IXCs shall be required to file for permission to offer any new services.

2) For all non-local, non-LOS intra-LATA toll calls, the LECs shall be required to impute in their prices for such toll calls the access rates charged the IXCs and resellers.

3) There be established a 40 mile 7 digit local calling area for all Louisiana customers and all calls made within such calling area shall be local calls. The current prices for calls being made in this zone shall remain the same.

4) There shall be no change in the LOS programs currently offered.

5) There be established a high cost fund to reduce the disparity in access charges among the local exchange companies. The parties shall present to the Commission the remaining details of such a plan within 60 days.

6) Non-Bell local exchange carriers may voluntarily restructure their access rates according to the interim plan proposed by the SCC and such rate restructures will be presumed reasonable.

7) All toll rates in the State will be averaged.

8) COCOTs shall be permitted to complete "0" intra-LATA calls and may utilize currently authorized AOS providers to handle operator-assisted calls until Phase II of this subdocket is completed.

9) Basic service to the COCOTs shall be provided by the LECs on a 1 FB or other flat line basis.

10) Nothing in this Order shall be construed as granting authority to alternate access vendors to offer service in Louisiana.

11) In granting limited intraLATA authority to the interexchange carriers in this docket, we do not intend to authorize the interexchange carriers to provide local service, and nothing in this Order shall be construed as granting them such authority. Further, the construction of facilities which duplicate LEC facilities used to provide local service is prohibited.

12) We do not believe it would be efficient for the interexchange carriers to construct facilities which duplicate the local exchange carriers facilities. Accordingly, nothing in this Order shall be construed as granting the interexchange carriers such authority.

13) All parties to these proceedings shall take all other actions called for in this order.

14) Unless otherwise specified, all action required to be taken by any party shall be completed within sixty (60) days from the date of this Order.

BY OTHER OF THE COMMISSION:
BATON ROUGE, LOUISIANA

October 18, 1991

/s/ LOUIS J. LAMBERT, JR.
DISTRICT III
CHAIRMAN LOUIS J. LAMBERT, JR.

/s/ KATHLEEN B. BLANCO
DISTRICT II
VICE CHAIRMAN KATHLEEN B. BLANCO

/s/ JOHN F. SCHWEGMANN
DISTRICT I
COMMISSIONER JOHN F. SCHWEGMANN

/s/ THOMAS E. POWELL
DISTRICT IV
COMMISSIONER THOMAS E. POWELL

Marhaec B Zwilg
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DISTRICT V
COMMISSIONER DON OWEN