

RdO Binder

STATE OF MISSOURI
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held at its office
in Jefferson City on the 9th
day of June, 1989.

In the matter of Southwestern Bell Telephone
Company's application for classification of
its nonbasic services.

)
) Case No. TO-89-56
)
)

ORDER CONCERNING STAFF'S MOTION
TO CLARIFY SCOPE OF DOCKET

On May 12, 1989, Commission Staff filed a motion requesting the Commission clarify the scope of this case in certain particulars and establish a procedural schedule to allow time for additional filings. Staff is seeking a clarification that the classification of certain of Southwestern Bell Telephone Company's (SWB's) services as transitionally competitive requires an examination of costing and accounting treatment for those services. Staff contends that Section 392.400.4, R.S.Mo. (Supp. 1988), requires the expansion of this case beyond the classification sought by SWB.

Public Counsel filed a response supporting Staff's motion, as did MCI Telecommunications Corporation (MCI). SWB filed a response to Staff's motion opposing any change in the scope or procedural schedule. SWB proposed an alternative schedule which would allow the classification issues to proceed as scheduled and would establish separate filing and hearing dates for the costing and accounting issues in 1990.

In its petition to classify services SWB stated it was "merely asking for classification of the services at this time." SWB proposed that once the services were classified, questions concerning costing, pricing and tariff provisions would be addressed. SWB stated that Section 392.361 did not require the Commission to

consider these questions prior to classification and so proposed a two-step process: first classification, then costing and pricing.

Staff now wants to modify this schedule to require SWB to file additional testimony containing costing and accounting treatment of the services for which SWB seeks a transitionally competitive classification. To accommodate this additional filing and to allow Staff and other parties an opportunity to address these additional issues. Staff has requested a modification in the procedural schedule.

Staff's motion rests mainly on the requirements of Section 392.400 as it relates to classification under Section 392.361. Section 392.361 allows a telecommunications company to file a petition to have certain of its services classified as transitionally competitive or competitive. SWB has chosen to request transitionally competitive classifications. If after hearing the Commission determines that a lesser degree of regulation for the service is consistent with the protection of ratepayers and promotes the public interest, it may classify the service as transitionally competitive.

Section 392.400.1 prohibits a company from recovering, through rates for noncompetitive services, expenses, investment, incremental risk or increased cost of capital associated with competitive or transitionally competitive services. Section 392.400.2 requires the Commission to establish procedures, such as accounting procedures, for all noncompetitive and transitionally competitive companies to ensure the noncompetitive service rates do not recover costs associated with transitionally competitive or competitive services. Section 392.400.3 requires the Commission establish appropriate methods for calculating the costs of providing any telecommunications service by a noncompetitive company and for determining whether the rates for the service are at a level equal to or greater than costs. The Commission may order a cost study be conducted for any service. Finally, Section 392.400.4 allows the Commission to take into account revenues generated by a transitionally competitive service in setting just and reasonable rates for a noncompetitive service offered by

a local exchange company, such as SWB, if the total revenue exceeds total costs of all transitionally competitive services plus a reasonable return attributable to those services. The Commission must take into account all revenues and all costs associated with all transitionally competitive and competitive services of a company unless, in the order classifying the service, the Commission determined that the inclusion of the costs associated with the particular service would not be in the public interest.

Staff contends that the provisions of Subsection 392.400.4 are the only opportunity that the Commission will have to determine the ratemaking treatment of SWB's individual services. Unless specifically exempted, services, once classified, must either be included in the aggregate, or not included in the aggregate, in setting noncompetitive rates. Staff states that even though SWB has not proposed below-the-line treatment of any of the services to be classified, Staff or some other party may wish to recommend such treatment. Staff contends this is a party's only opportunity to recommend such treatment on a service-by-service basis. The recommendation concerning below-the-line treatment, Staff states, can only be made if costing and accounting treatment are included as a part of this classification docket.

MCI maintains that the costing and pricing issues are within the scope of the current proceeding and agrees that these issues are intertwined with the classification question. Public Counsel stresses the same provision of paragraph 392.400.4 in supporting Staff's motion. Public Counsel also proposes a modified procedural schedule to accommodate the expanded scope of the proceedings.

The Commission has determined that the statutory requirements of Section 392.400 must be implemented before the classification of services pursuant to Section 392.361 can be accomplished. To meet these requirements, the Commission has determined a Cost Accounting Manual (CAM) must be adopted which will allocate costs between the noncompetitive and transitionally competitive, or competitive, services.

The CAM must be in place before the services are classified and before SWB files tariffs setting new rates for the transitionally competitive services.

There seems to be a wide divergence among the parties concerning how to approach the relationship between Sections 392.361 and 392.400. The Commission has determined that a prehearing conference will be set to allow the parties to reach agreement on a procedural schedule in this case. The Commission will require the parties to either present an agreed-to schedule at the end of the prehearing conference or present their positions to the Commission at a hearing. The procedural schedule should have hearings set for a determination of the proper costing method(s) and CAM and, later, hearings for classification based upon cost studies utilizing the cost method(s) and CAM which have been adopted.

The parties should address the following matters at the prehearing:

1. the proper costing methods necessary pursuant to Section 392.400.3;
2. development of a CAM for use in allocating costs;
3. classification of the services proposed by SWB to transitionally competitive.;
4. determination of what services should be treated below the line.

It is, therefore,

ORDERED: 1. That a prehearing conference is now set for July 10-11, 1989, to commence at 10:00 a.m. in the Commission's offices on the fifth floor of the Harry S Truman State Office Building, 301 West High Street, Jefferson City, Missouri.

ORDERED: 2. That the parties shall file an agreed-to procedural schedule by 5:00 p.m. on July 11, 1989, or the Commission will convene a hearing to begin at 10:00 a.m., July 12, 1989, to hear the parties' arguments concerning unresolved matters.

ORDERED: 3. That the current procedural schedule established in this case is hereby canceled.

ORDERED: 4. That this order shall become effective on the date hereof.

BY THE COMMISSION



Harvey G. Hubbs
Secretary

(S E A L)

Steinmeier, Chm., Mueller, Fischer
and Rauch, CC., Concur.
Hendren, C., Not Participating.